



REPUBLIC OF ALBANIA
MINISTRY OF FINANCE

FISCAL RISK STATEMENT

YEAR **2024**

Tirana 2025

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Abbreviations

NACP	National Civil Protection Agency
AKUK	National Agency of Water Supply and Sewerage
WB	World Bank
BoA	Bank of Albania
DBM	Directorate of Budget Management
GDB	General Directorate of Budget
FRS	Fiscal Risk Statement
IMF	International Monetary Fund
ECtHR	European Court of Human Rights
BI	Budgetary Institutions
INSTAT	Institute of Statistics
KESH	Albanian Electric Power Corporation
MFF	Macro-Fiscal Framework
MoF	Ministry of Finance
MoIE	Ministry of Infrastructure and Energy
LM	Line Ministries
MTRS	Medium Term Revenue Strategy
LSGUs	Local Self-Government Units
SOE	State Owned Enterprise
OSHEE	Power Distribution Operator
OST	Transmission System Operator
MTBP	Medium-Term Budget Program
GDP	Gross Domestic Product
PPP	Public Private Partnership
CG	Central Government
LC	Local Government
SASPAC	State Agency for Strategic Programming and Aid Coordination
MTDMS	Medium-Term Debt Management Strategy
SIFQ	Financial Information System of the Government
WSS	Water Supply and Sewerage
OBL	Organic Budget Law no. 9936, dated 26.06.2008 "On the Management of the Budget System in the Republic of Albania", as amended
TSA	Treasury Single Account
DCM	Decision of the Council of Ministers

Executive Summary

The Fiscal Risk Statement is a document of the Ministry of Finance that includes the collection, processing, analysis, mitigation (where applicable) and reporting of the key fiscal risks in a systematic and comprehensive manner, as a tool to assist the Government's decision-making. This document is prepared and published, in compliance with the provisions of Instruction no. 35, dated 29.12.2022 "*On standard reporting and monitoring procedures of fiscal risks from Central Government units and other public sector units*", issued by the Minister of Finance. The development of the main fiscal risks for 2024 according to the respective areas is presented below:

Fiscal Indicators

In 2024 budget revenues exceeded the initial budget plan by ALL 34.2 billion (+1.37% of GDP), while expenditures were lower by ALL 8.8 billion (-0.35% of GDP). The increase in revenues is attributed mainly to domestic VAT, corporate income tax, personal income tax, as well as non-tax revenues and contributions to special funds. The main positive deviations are attributed to factors such as the implementation of the Medium-Term Revenue Strategy and the public sector wage reform. On the expenditure side, reductions were observed in interest payments and capital expenditures. The plan for 2025 foresees further growth in both revenues and expenditures, with particular emphasis on capital investments and the strengthening of the social insurance system.

Macroeconomic developments

In recent years, the domestic economy has shown substantial resilience and adaptability in the face of major crises. In 2024, real GDP grew by about 4.0 percent, largely supported by strong domestic demand and a robust tourism sector, while inflation declined to 2.2 percent, considerably lower than in the region and the European Union. The fiscal deficit for 2024 stood at 0.7 percent of GDP, while the primary balance recorded a surplus of 1.4 percent. Fiscal policy aims at the gradual reduction of public debt and the preservation of macroeconomic stability. However, the main risks stem from commodity price shocks, exchange rate fluctuations, and the possibility of a recession in Europe.

General Expenditures

Budgetary expenditure planning is conducted within a program and performance-based framework, prioritizing the financing of existing policies before considering new proposals in line with strategic priorities and available fiscal space. The planning process is influenced by macroeconomic indicators, revenue performance, the fiscal deficit, and social policy objectives, and is often guided by more conservative assumptions than those incorporated in the approved budget. The 2023 wage reform and the Western Balkans Growth Plan contributed to deviations from the fiscal projections for 2024–2025. Public investment planning has remained aligned with ongoing projects and key government priorities. However, implementation in 2024 has faced a number of challenges, including difficulties in applying newly introduced procedures, limited in-depth analysis of project proposals, reallocation of funds, and the accumulation of arrears. Meanwhile, budget execution has been carried out with an emphasis on performance monitoring and the comparison of actual outcomes against planned targets, with the aim of identifying deviations and implementing mitigating actions to ensure the efficient and transparent use of public funds.

Public debt and Available Assets

In 2024, public debt was managed in alignment with the macro-fiscal targets and the medium-term debt strategy, facilitating the refinancing of existing liabilities and the financing of the budget deficit. Gross borrowing reached ALL 404.2 billion, primarily financed from domestic sources. Pursuant to the Debt Management Strategy, the issuance of long-term fixed-rate instruments have increased, leading to notable improvements in refinancing risk and interest rate risk indicator. By the end of end-2024, foreign currency-denominated debt accounted for 41.9 percent of total debt, contributing to a further reduction in exposure to exchange rate fluctuations. Ongoing risk mitigation measures include the maintenance of budgetary contingencies and a focus on sustainable long-term instruments to ensure costs stability. Liquidity management in 2024 remained adequate and effective, supported

by timely debt service payments and enhanced accuracy in daily and monthly cash flow forecasting. Diverse financial instruments were employed to secure liquidity, and operational risks were proactively identified and mitigated. Additional recommendations have been proposed to further enhance forecasting accuracy and increase transparency in budget execution.

Local Finances

In 2024, local government finances demonstrated a positive performance, with revenues exceeding the planned level by 103% and a significant reduction in the stock of arrears by ALL 1.58 billion. However, key risks persist, including the accumulation of arrears, budget execution challenges, and the impact of demographic changes on the allocation of the unconditional transfer. The Ministry of Finance is proceeding with the implementation of structured measures aimed at fiscal consolidation and the enhancement of risk management at the local level.

Concessions/PPPs

In 2024, the Ministry of Finance proceeded the monitoring of 11 concession/PPP contracts with budgetary support, for which actual payments amounted to approximately ALL 13.29 billion, or 2.22% of the previous year's tax revenues, well below the legal ceiling of 5%. The institutional oversight of these contracts has been enhanced through the adoption of standardized reporting frameworks. Planned payments for 2025 are projected to remain within the fiscal threshold, ensuring the continued sustainability of public finances.

State Owned Enterprises

State-owned enterprises (SOEs) with government capital remain a source of significant fiscal risks to the budget. The financial performance of these entities in 2024 reflects a mixed outlook, with certain enterprises demonstrating stability while others encounter difficulties largely attributable to external factors such as adverse weather conditions. The energy sector remains the major component of the overall SOE portfolio, with a fiscal impact of ALL 6.05 billion in 2024. Meanwhile, the financial performance of enterprises in other sectors varies, largely affected by liquidity risks. The Ministry of Finance has consistently conducted quarterly monitoring of state-owned enterprises performance, further strengthening analysis through the implementation of the SOE HCT tool.

Contingent Liabilities

Contingent liabilities primarily arise from judgments issued by the European Court of Human Rights (ECHR) and international arbitration tribunals, posing a significant burden on the state budget. The Ministry of Finance has proceeded with the enforcement of final court judgments in accordance with legal deadlines, while also proposing mechanisms for the gradual settlement of obligations, in line with available budgetary resources. In 2024, payments amounting to approximately €288,749 were executed for ECHR judgements, and €4.88 million for international arbitration cases. The importance of scheduling repayments and strengthening the government's negotiating position remains critical in order to mitigate the adverse fiscal impact of contingent liabilities on the state budget.

Natural Disasters

Throughout 2024, Albania encountered multiple emergency situations resulting from diverse natural hazards, most notably a severe wildfire season involving 168 incidents that destroyed approximately 46,534 hectares of land, primarily due to deliberate arson. The country also experienced 28 earthquakes with magnitudes ranging from 3.0 to 4.5 on the Richter scale were recorded, though none caused structural damage. Although the National Agency for Civil Protection (NACP) has strengthened risk management through enhanced legal frameworks and operational capabilities, considerable challenges persists-particularly in preventing arson-related wildfires and in ensuring the effective coordination of financial and human resources. A total of 1,676 natural disaster incidents were recorded in 2024, resulting in 50 fatalities and extensive damage to housing, agriculture, and livestock holdings. As climate change continues to intensify disaster risk, the NACP and the Ministry of Finance are reinforcing institutional collaboration with risk modeling experts to assess future exposure and vulnerabilities.

INTRODUCTION

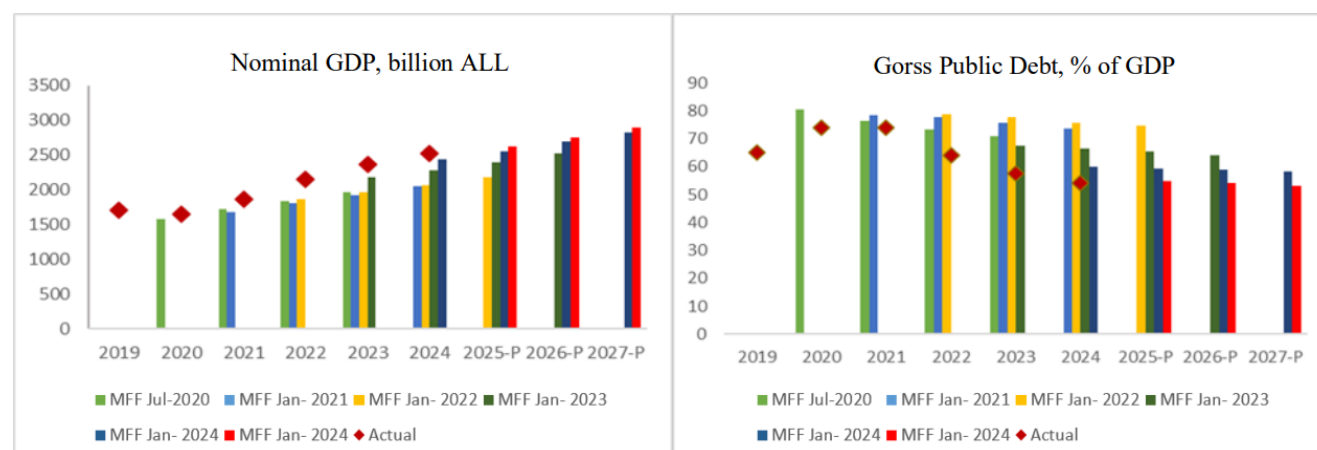
The forecasts and assumptions used in the preparation of the annual budget and the Medium Term Budget Program (MTBP) are subject to uncertainty. Through a systematic assessment of economic and fiscal indicators forecasts and understanding of the reasons for any deviation between the forecasted and actual indicators, the government aims to strengthen and improve the existing fiscal reporting framework in Albania. The aim of this process is to strengthen the capacities of fiscal risk management over time.

In recent years, the Albanian economy was hit by a series of shocks with severe consequences on its fiscal position. Overall, the Albanian economy withstood these shocks and emerged in a stronger position than expected, and the government will continue to pursue specific fiscal objectives for the year 2025. Meeting these objectives will require greater attention to understanding, identifying and managing fiscal risks.

Macroeconomic projections are derived from a comprehensive range of data, including estimates of economic developments, inflation expectations, financial markets trends as well as an assessment of the risks and uncertainties surrounding these projections.

The charts below illustrate how the events in recent years such as the 2019 earthquake, the COVID-19 pandemic in 2020 and 2021, and the war in Ukraine from 2022 and onward, impacted the economy, reducing its size and leading to higher deficit and public debt, compared to the forecasts made in January 2019.

Chart 1. Gross Domestic Product and Gross Public Debt to GDP ratio, 2019-2027



*The reference month for forecasts in year 2020 is July, as the original Macro-Fiscal Framework 2020 was revised in July.

Source: Ministry of Finance (2025)

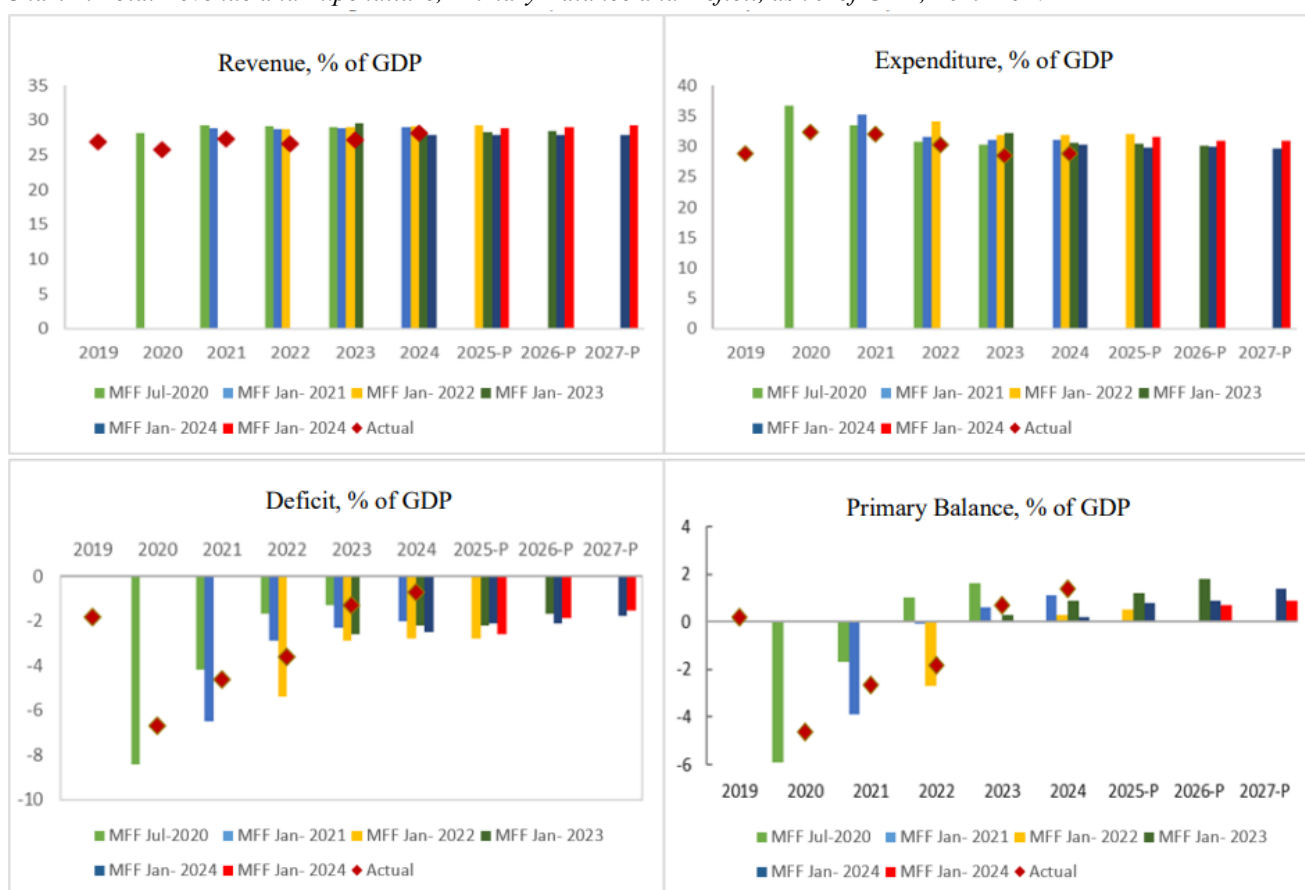
The economy continued to grow during 2024, showing a stabilization of economic activity. The data showed that the economy grew by 4.0 percent compared to 2023. This growth was primarily driven by strong performance in the tourism sector and domestic demand through private consumption, which increased by 2.5%. Additionally, investments grew by 1.1% compared to 2023. Net foreign demand had a slightly negative contribution to economic growth in 2024, at -0.1%, influenced by a faster increase in imports of goods and services alongside a decline in goods export. From a sectoral perspective, economic growth was primarily driven by expansion in the services sector and net tax revenues. The public administration sector contributed approximately 1.2 percentage points, largely reflecting wage increases in the public sector. The trade, transport, and accommodation sector was the second-largest contributor, adding 1.1 percentage points, followed by the construction sector with a contribution of 0.8 percentage points. Conversely, the industrial sector maintained a negative contribution, declining by approximately 0.7 percentage points, primarily driven by a downturn in the manufacturing sub-sector. This decline was also reflected in a decrease in goods exports. Furthermore, the agricultural sector contributed negatively to growth, with a reduction of 0.2 percentage points.

1. Review of Fiscal Indicators

In recent years, until the onset of the Covid-19 pandemic, public finances were on a safe and optimal trajectory of fiscal consolidation, materialized in the most crucial parameters of sustainability. Firstly, the overall budget deficit decreased from 5 percent of GDP in 2013, to less than 2 percent of GDP in 2019. In 2020 and 2021, a highly expansionary fiscal policy was undertaken as the main counter response to the negative shocks (from the earthquake and especially the pandemic). Consequently, in 2021 the overall budget deficit reached to 4.6 percent of GDP and the public debt surged to around 74.1 percent of GDP, i.e. about 9.1 percentage points higher than at the end of 2019. During these periods the necessary fiscal space was created to accommodate different components, in order to mitigate the impact of the crisis on different social and economic aspects. In 2024, the economy continued to grow, showing a stabilization of economic activity. The data showed that the economy grew by 4.0 percent compared to 2023.

The charts below help to illustrate the overall impact of the events in recent years such as the 2019 earthquake, the COVID-19 pandemic in 2020 and 2021, and the war in Ukraine starting in 2022 and ongoing, on the deviation of the actual revenues and expenditure from the forecasts.

Chart 2. Total Revenue and Expenditure, Primary Balance and Deficit, as % of GDP, 2019-2027



Source: Ministry of Finance (2025)

The following table presents data on the main items of the budgetary revenue and expenditure for the year 2024, and their deviation (actual/budget), percent of the nominal GDP¹.

¹ Based on the latest MFF published for 2026-2028, Nominal GDP in 2024 amounted at ALL 2,494,208 million.

Table 1. Revenue and expenditure main items, for 2024

Revenue					Expenditure				
Revenue main items (in million ALL)	Budget 2024 (original budget)	Actual 2024	Deviation Actual- Budget 2024	Deviation, % of GDP	Expenditure main items (in million ALL)	Budget 2024 (original budget)	Actual 2024	Deviation Actual- Budget 2024	Deviation, % of GDP
Value Added Tax	211,203	213,999	2,796	0.11%	Personnel expenditures	119,836	112,699	(7,137)	-0.29%
Profit Tax	53,679	56,995	3,315	0.13%	Interest	66,177	54,459	(11,718)	-0.47%
Excise Tax	63,602	63,437	(164)	-0.01%	Operational and maintenance	67,058	80,208	13,151	0.53%
Personal income tax	65,206	66,163	957	0.04%	Subsidies	1,850	1,794	(56)	0.00%
National and other tax	44,292	47,418	3,127	0.13%	Other social expenditure	30,450	30,931	481	0.02%
Custom duties	9,021	8,973	(48)	0.00%	Expenditure for the local budget	71,249	74,407	3,157	0.13%
Revenue from special funds including*:	157,625	161,780	4,156	0.17%	Expenditure for special funds including:	248,877	251,791	2,914	0.12%
<i>Social insurance</i>	136,239	139,404	3,165	0.13%	<i>Social insurance</i>	178,038	188,626	10,588	0.42%
<i>Health insurance</i>	20,481	21,543	1,062	0.04%	<i>Health insurance</i>	58,052	58,771	719	0.03%
<i>Revenue for Owners' Compensation Fund</i>	905	833	(72)	0.00%	<i>Expenditure for owners' compensation</i>	5,000	4,394	(606)	-0.02%
Revenue from local government	29,114	40,331	11,217	0.45%	Capital expenditure	129,381	115,433	(13,948)	-0.56%
Non-tax revenue	25,401	43,694	18,293	0.73%	Others	2,500	6,850	4,350	0.17%
Grants	16,957	7,797	(9,159)	-0.37%					
Total	676,098	710,587	34,489	1.38%	Total	737,378	728,572	(8,806)	-0.35%

* Collection of social and health contributions, including F.S.K.D.Sh and I.S.Sh

Source: Ministry of Finance (2025)

Some of the main factors that have impacted the tax revenue components leading to the actual/budget deviations for year 2024, shown in the above table, are as follows:

- The deviation (actual /budget 2024, as a percentage of GDP) in VAT was positive due to increased revenue collections from domestic VAT, as a result of the implementation of the Medium-Term Revenue Strategy (MTRS) and the 2024–2027 Action Plan. Specifically, this increase stemmed from higher-than-targeted VAT payments in the construction and accommodation sectors, the expansion of the taxpayer base within the tourism sector, as well as the overall growth in the number of taxpayers subject to VAT across all sectors.
- The positive deviation in the “National and Other Taxes” category was attributed to the one-off recognition of specific national taxes collected by the customs administration—such as the tax on fuel used for recreational and tourism vessels operating outside Albanian territorial waters, the powdered milk tax, and the tax on homogenized beverages. Additionally, the increase was supported by higher revenues from the circulation tax, the annual vehicle tax, and the carbon tax, as a result of higher reported levels of carbon output.
- The positive deviation in the item “Revenues from Special Funds” was primarily driven by growth in the services sector, as well as expansion in the manufacturing and trade sectors.
- The positive deviation in the item “Personal Income Tax” was mainly driven by wage increases in the public sector, growth in employment within the private sector, and higher revenues from “Income Tax on Interest”.

Detailed information on local actual budget expenditures and their deviation can be found in Chapter 5 “Risks related to Local Finances”, while the actual budget expenditures and their deviation from the approved annual budget can be found in Chapter 3 “Risks related to Total Expenditures and Arrears”.

The following table presents data on the main items of the actual revenues and expenditures for year 2024 and the forecasted (planned) revenues and expenditures in the approved budget of year 2025, and their deviation (budget 2025/actual 2024), percent of the nominal GDP².

² Based on the latest MFF published for 2026-2028, Nominal GDP projected for 2025 amounted at ALL 2,620,732 million.

Table 2. Main items of income and expenditure (Actual 2024/Budget 2025)

Revenue					Expenditure				
Revenue main items (in million ALL)	Actual 2024	Budget 2025	Deviation Budget 2025 - Actual 2024	Deviation, % of GDP	Expenditure main items (in million ALL)	Actual 2024	Budget 2025	Deviation Budget 2025 - Actual 2024	Deviation, % of GDP
Value Added Tax	213,999	236,784	22,785	0.87%	Personnel expenditures	112,699	127,929	15,230	0.58%
Profit Tax	56,995	65,749	8,754	0.33%	Interest	54,459	68,552	14,093	0.54%
Excise Tax	63,437	67,620	4,183	0.16%	Operational and maintenance	80,208	75,684	(4,525)	-0.17%
Personal income tax	66,163	70,705	4,542	0.17%	Subsidies	1,794	1,950	156	0.01%
National and other tax	47,418	49,637	2,219	0.08%	Other social expenditure	30,931	28,150	(2,781)	-0.11%
Custom duties	8,973	11,078	2,105	0.08%	Expenditure for the local budget	74,407	89,911	15,505	0.59%
Revenue from special funds including*:	161,780	169,893	8,113	0.31%	Expenditure for special funds including:	251,791	263,838	12,047	0.46%
<i>Social insurance</i>	139,404	146,343	6,939	0.26%	<i>Social insurance</i>	188,626	192,338	3,712	0.14%
<i>Health insurance</i>	21,543	22,645	1,102	0.04%	<i>Health insurance</i>	58,771	63,132	4,361	0.17%
<i>Revenue for Owners' Compensation Fund</i>	833	905	72	0.00%	<i>Expenditure for owners' compensation</i>	4,394	3,000	(1,394)	-0.05%
Revenue from local government	40,331	40,774	443	0.02%	Capital expenditure	115,433	162,374	46,941	1.79%
Non-tax revenue	43,694	25,800	(17,894)	-0.68%	Others	6,850	6,700	(150)	-0.01%
Grants	7,797	18,995	11,198	0.43%					
Total	710,587	757,036	46,449	1.78%	Total	728,572	825,088	96,517	3.68%

* Collection of social and health contributions, including F.S.K.D.Sh and I.S.Sh

Source: Ministry of Finance (2025)

Some of the main factors that have been taken into consideration in the forecasted (planned) tax revenues for the year 2024, shown in the above table, are as follows:

- The forecasted growth of revenues from 'VAT' is based mainly on the higher VAT revenue generated by stronger economic growth and the price index, focusing on increasing the revenues from expanding sectors (such as tourism, accommodation and all other sectors of the tourism supply chain) as well as the improvement in VAT administration expected from the fiscalization system and the consolidation of electronic invoicing.
- The 'Profit tax' forecast has taken into consideration the effects of the 2024 fiscal package and the strengthening of the statements control, based on risk criteria.
- The forecasted revenue from 'Excise tax' is based on the effects of fiscal measures, economic growth and improvement in administration.
- The forecasted revenue from 'Tax on personal income' takes into consideration the effects of the salary reform in the public sector, the increase in the number of employees and the average salary in the private sector, the revenue growth from other tax categories and improvement in administration.
- The forecasted revenue from National and other taxes" includes the expected effects from the growth of the whole economy, the new taxes on gambling licensing, the increase in fuel consumption generated by the circulation and carbon taxes.
- The forecasted revenue from 'Social Insurance' and 'Health Insurance' contributions is based on the effects of the projected economic growth on employment and contributions, the increase in wages and contributions as a result of the implementation of the wage reform in the administration as well as the enhancing the control to tackle undeclared work, underreporting of wage and its deviation from the real wages received.

Albania has drawn up the Medium-Term Revenue Strategy (MTRS) and Action Plan 2024-2027 which present a series of comprehensive reforms in the areas of tax policy alongside improvements in tax and customs administration aimed at generating an additional ALL 64.85 billion in revenues over the period 2024-2026. The projected increase in revenues is expected to result from the following components: i. Tax policy measures: ALL 9.28 billion (0.33% of GDP); ii. Strengthened tax administration: 51.0 billion (1.96% of GDP); iii. Enhanced customs administration: ALL 4.5 billion (0.17% of GDP).

Consequently, the tax to GDP ratio is anticipated to rise from 25.9% in 2023 to 27.7% by 2027, making an improvement of 1.8 percentage points.

2. Fiscal Risks Related to Macroeconomic Developments

2.1. Macroeconomic developments in the country

The country's economy has shown considerable resilience in the face of successive shocks over the last years. The country's resilience has been challenged by three consecutive major shocks: the earthquake, the global pandemic, and supply chain disruptions of essential goods resulting from the war in Ukraine. Despite these challenges, prudent macroeconomic policies have supported a strong economic recovery. Consequently, key economic and financial fundamentals, as well as overall macroeconomic stability, have remained robust. In a challenging context of elevated prices, heightened uncertainty, and increased financing costs, the economy has sustained a stable growth trajectory, exceeding initial expectations. Economic performance during this period has been robust, following an encouraging trend that is projected to continue over the medium term.

The economy continued to expand in 2024 reflecting a consolidation of economic activity. In 2024 the real GDP grew by about 4.0 percent annually which is very close to the GDP growth rate of 3.9 percent previously projected in the economic and fiscal program for 2024. The growth was supported by domestic demand, both by private consumption and investments, and especially by the very positive performance of the tourism sector. The contribution of net foreign demand was slightly negative compared to 2023, driven by the faster growth of imports of goods and services combined with a decline in merchandise exports.

The labor market continued to demonstrate positive performance and steady recovery throughout 2024. From a supply perspective, employment growth was largely supported by a sustained increase in both the labor force participation rate and the employment rate, which rose to 75.7% in 2024 (from 75.4% in 2023) and 68.6% (from 67.7% in 2023), respectively, for the 15–64 age group. Evidences indicate a growing interest in entering the workforce, largely driven by the upward trend in wages, thereby reinforcing positive dynamics in labor supply. The unemployment rate declined to its lowest level on record, continuing the downward trajectory of recent years, reaching 8.5% in 2024 compared to 9.5% at the end of 2023 (population aged 15 and over).

Inflation has continued its rapid downward trend during 2024, reflecting both the sustained appreciation of the domestic currency, particularly against the euro, the main trading currency and the positive external supply shocks, visible in the decline of food prices, commodity prices, and supported further by the proactive monetary policy strategy. According to the latest available data, the annual change in the consumer price index was 2.1 percent in December 2024, compared to 4.0 percent in the same month of the previous year. The average annual inflation rate for the period January–December 2024 stood at 2.2 percent. Importantly, inflation in Albania has been significantly lower than in other countries of the region, as well as below the average of the European Union, which is in favor of the overall economic developments and prospects. The adjustment of inflation toward the 3 percent objective is expected to be driven by more stable international price developments, the preservation of exchange rate stability, and the continued impact of the monetary policy normalization cycle.

Medium term forecasts

During the medium term, growth is expected to be supported mainly by domestic demand, due to further growth in consumption and investments. Private consumption is projected to remain the main driver of GDP growth, supported primarily by the improvement in consumer confidence and labor market conditions. These developments are expected to contribute to a gradual increase in wages, thereby supporting real net income growth, particularly as inflation stabilizes at moderate levels throughout 2024. Net external demand is expected to have a moderate positive contribution. Exports of both goods and services are expected to continue to have a very good performance, in the medium term and is the primary factor to offset the negative contributions from the rising imports. Simultaneously, the gradual increase in investment is projected to be supported by more efficient utilization of existing production capacities, the acceleration of economic activity over the forecast horizon and an improved business outlook regarding medium and long term economic prospects. In addition, the sustained

improvement in financial conditions, together with the gradual easing of lending standards over the medium term, is expected to represent an important stimulus for private investment.

Fiscal consolidation continues to be the fundamental objective of fiscal policy, directly contributing to ensuring the macroeconomic stability of the country, as an essential premise a sustainable and inclusive economic growth. With the purpose of maintaining the integrity and credibility of public finances in the perception of financial market. Fiscal policy will target an annual downward trajectory of public debt, whereas the primary balance will return to a positive level from 2024 onwards, in accordance with the fiscal rules set out in the OBL. At the same time, in addition to fiscal consolidation, we aim to maintain a prudent balance between the current and capital budget expenditures, where capital expenditures (public investments) will be targeted at an annual average of around 6.1 percent of GDP for each budget year throughout the 2025-2027 period.

In 2024, the fiscal deficit was reduced to 0.7 percent of GDP, compared to 1.3 percent in 2023. The primary balance registered a surplus of 1.4 percent of GDP in 2024 and is projected to average around 0.5 percent of GDP over the medium term (2025–2027). This target has now become a legal requirement, as stipulated in the Organic Budget Law, which mandates that starting from the 2024 fiscal year and for every subsequent year, the primary balance may not be negative, and must therefore be at least balanced or in surplus.

2.2. Risks identified during the preceding budget year

➤ *Risk: “Commodity price shock” as a consequence of regional conflicts*

Characteristics: A combination of persistent supply disruptions (due to conflicts and export restrictions) as well as negative demand shocks cause persistent volatility in commodity prices, leading to rising inflation and slowdown of the economic activity.

Impact: (*high*) Further increase in food and electricity prices would hit the most vulnerable groups in society as well as low-income households, leading to a decrease in purchasing power. Therefore, economic growth would slow down and the budget deficit would increase.

Measures taken (risk mitigation):

In 2024, the consumer price index (inflation) in our country was 2.2 percent, significantly lower than in the countries of the region and of the EU, which helped to maintain the overall macroeconomic balance in the country. The harmonization of fiscal and monetary policy helped to mitigate the impact of the significant increase in inflation, through the following measures:

- *During the period 2022–2023, the Bank of Albania implemented a gradual and well calibrated increase of the policy interest rate, as a response to the accelerated increase in global and domestic price levels. This tightening cycle was subsequently followed by a phase of monetary policy easing in the second half of 2024. The monetary policy has been successful in anchoring inflation expectations, while preserving the positive trajectory of economic growth.*
- *Approval of additional targeted support for low-income individuals as well as the most vulnerable groups of society.*
- *The gradual process of normalization of the monetary policy has, throughout 2024, decreased the policy interest rate from 3.25 percent to 2.75 percent which remains at the same level. This decision making serves to maintain price stability which represents the primary precondition for supporting the return of inflation to its target in 2025.*

➤ *Risk: Exchange rate volatility*

Characteristics: The rapid appreciation of the exchange rate in 2023 may be followed by a sudden depreciation, but nevertheless the appreciation of the local currency against the euro, helps curb the transmission of imported inflation to the domestic economy

Impact: (*high*) Rapid appreciation presents competitive challenges for export-oriented firms, while a sudden depreciation would adversely impact the financial sector and individuals given the large weight of foreign currency loans.

Measures taken (risk mitigation):

- *Strengthened macro-prudential regulations to reduce the risk of a systemic shocks within the financial sector.*
- *Designing temporary measures to ease liquidity problems for exporting firms.*
- *The progress of economic activity is closely related to macroeconomic indicators and the Ministry of Finance (MF) has been prudent to maintain macroeconomic balances and move towards fiscal consolidation, in order to cope with any situation in the future that may affect the economy.*

➤ *Risk: “Unexpected global slowdown or recession in Europe”*

Characteristics: The consequences of deepening geoeconomic fragmentation, broader conflicts, inward-oriented policies measures, and weakened international cooperation may result in a less efficient organization of trade and foreign direct investments (FDI), supply chain disruptions, increased transportation and input costs, financial instability, systemic breakdowns, and slower growth of international capital flows, ultimately causing a recession within the European Union.

Impact: (*medium*) A recession in Albania's main export destinations may bring a decline in external demand and remittances, leading to slower growth in Albania. Due to the non-direct linkages with Russia and Ukraine, the war in Ukraine would indirectly affect the Albanian economy, through higher commodity prices, lower economic growth in trading partners, tighter financial conditions as well as weaker confidence.

Measures taken:

Maintaining fiscal consolidation within a medium-term consolidation plan based on revenue growth as well as on new measures undertaken in tax policy. On the expenditure side, the budget foresees continued support to mitigate the impact of still high energy prices on households and businesses. Fiscal support while maintaining fiscal consolidation is based on:

- *Specific policies aimed at reducing the budget deficit and public debt;*
- *Monitoring and risk management of the fiscal and financial sector;*
- *Improving the business environment to support growth and investment through fiscal policies.*

Short/ medium term risks

The annual growth of the nominal GDP is projected to be 5.1 percent (on average) in the medium-term forecast of GDP for 2025-2027. For the same period, the real GDP growth rate is projected at 3.9 - 4 percent, and the GDP deflator at around 1.2 percent. There is a risk that the estimated nominal GDP growth rate will be higher or lower than the forecasted rate, but taking into account the above conclusions about the trend of the GDP estimations in the recent years, the expectation is for the variation margin to be small and the forecasted rate to be very close to the actual growth rate in the medium-term period. This conclusion is valid only in the absence of major external shocks to the economy. On the one hand, a more conservative projection leads to a more cautious estimation of revenues in the medium term, without any major impact on the budget if faced with external shocks, but on the other hand, the underestimation of budget indicators hampers the efficient appropriation of resources for economic and social development purposes.

2.3. Analytical data

Medium-term macroeconomic projections are developed through financial programming methodologies and analytical modeling techniques. To enhance the assessment of macroeconomic risks, the Ministry of Finance also considers alternative scenarios, both pessimistic and optimistic, which are detailed in Annex A. This annex provides a detailed explanation of the forecasting methodology, presents sensitivity analysis, and provides a comprehensive set of macroeconomic indicators. A selection of these indicators, based on the scenario projections, is presented below:

Table 3. Underlying assumptions of alternative scenarios

	2020	2021	2022	2023	2024	2025	2026	2027
					Actual	Money.	Money.	Money.
Real GDP growth (%)								
<i>Baseline</i>	-3.3	9.0	4.8	3.9	4.0	3.9	4.0	3.9
<i>Pessimistic</i>						2.4	2.5	2.4
<i>Optimistic</i>						4.4	4.5	4.4
Nominal GDP growth (%)								
<i>Baseline</i>	-3.3	12.7	15.2	10.2	6.8	5.1	5.2	5.1
<i>Pessimistic</i>						3.2	3.4	3.3
<i>Optimistic</i>						5.6	5.7	5.6
Nominal GDP (billion ALL)								
<i>Baseline</i>	1,656	1,867	2,150	2,370	2,530	2,621	2,757	2,898
<i>Pessimistic</i>						2,575	2,662	2,750
<i>Optimistic</i>						2,633	2,783	2,940
Effective interest rate of Public Debt (%)								
<i>Baseline</i>	3.2	3.0	3.0	3.6	4.0	4.7	4.6	4.5
<i>Pessimistic</i>						4.7	4.6	4.5
<i>Optimistic</i>						4.7	4.6	4.5
Nominal Exchange Rate, average (ALL/Euro)								
<i>Baseline</i>	123.8	122.5	119.0	108.8	100.7	100.0	100.0	100.0
<i>Pessimistic</i>						100.0	100.0	100.0
<i>Optimistic</i>						100.0	100.0	100.0
Total Revenue (% GDP)								
<i>Baseline</i>	25.7	27.4	26.6	27.2	28.1	28.9	29.0	29.3
<i>Pessimistic</i>						28.4	28.5	28.8
<i>Optimistic</i>						28.9	28.9	29.3
Total Expenditure (% GDP)								
<i>Baseline</i>	32.4	31.9	30.3	28.5	28.8	31.5	30.8	30.8
<i>Pessimistic</i>						30.6	30.4	30.8
<i>Optimistic</i>						31.4	30.7	30.7
Fiscal Balance (% GDP)								
<i>Baseline</i>	-6.7	-4.6	-3.6	-1.3	-0.7	-2.6	-1.9	-1.6
<i>Pessimistic</i>						-2.2	-2.0	-2.0
<i>Optimistic</i>						-2.4	-1.7	-1.4
Primary Balance (% GDP)								
<i>Baseline</i>	-4.6	-2.7	-1.8	0.7	1.4	0.0	0.7	0.9
<i>Pessimistic</i>						0.5	0.5	0.5
<i>Optimistic</i>						0.2	0.8	1.0
Gross Public Debt (% GDP)								
<i>Baseline</i>	73.9	74.1	64.1	57.5	55.2*	54.8	54.0	53.2
<i>Pessimistic</i>						55.0	54.6	54.4
<i>Optimistic</i>						54.1	52.8	51.6

* The gross debt level for 2024 is in line with the projections outlined in the "Macroeconomic and Fiscal Framework 2026–2028". The current debt level for 2024 stands at 54.0% of GDP.

Source: Ministry of Finance (2025)

3. Risks Related to Total Expenditures and Arrears

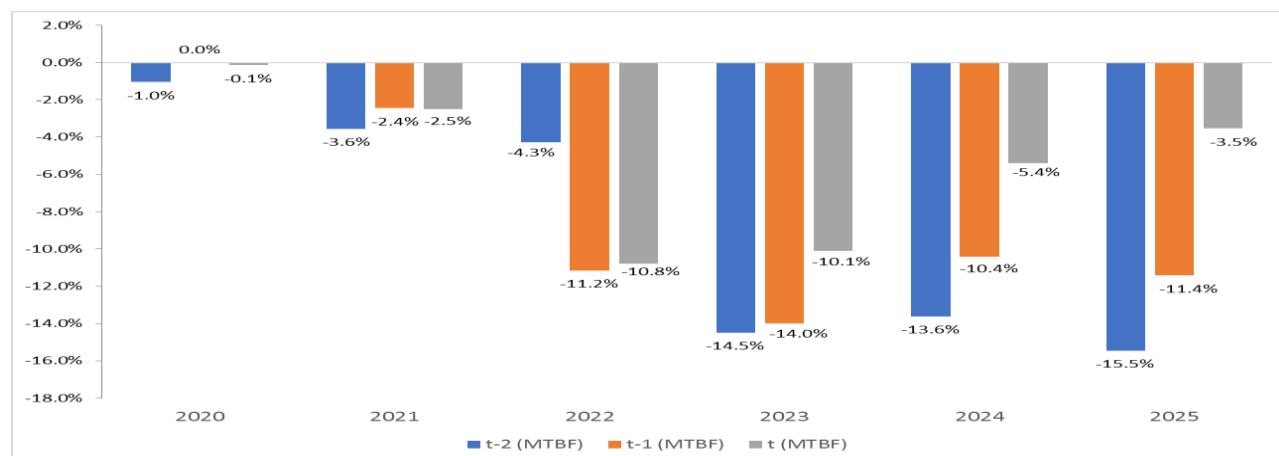
3.1. Budget expenditures planning

3.1.1. A narrative overview of the preceding budget year

The budget planning of expenditures is done on a program and performance-based budgeting methodology, ensuring that within the 3-year expenditure ceilings, priority is given first to the financing of expenditures linked to all the existing policies and commitments undertaken in previous years, policies on social protection, salaries, investments, and then, in case of a sufficient fiscal space, to the financing of new policy proposals based on the country's strategic and political priorities. The budget planning of expenditures is affected by the projections of macroeconomic indicators, revenue projection, the level of the deficit and policy decisions related to sensitive expenditures such as personnel expenditures, expenditures for pensions or other social policies.

The frequent and significant changes in this direction contribute to inconsistent estimations of budget expenditure and consequently to instability in the financing of public policies. The analysis of the projections of aggregate expenditure (in nominal terms) with the approved budget during the last eight years, highlights a stable deviation between the expenditure projections made in the Medium Term Budget Program (MTBP) and expenditures in the approved annual budget. The difference is negative, which means that the expenditure projections in the MTBP are more conservative than the expenditures in the approved annual budget, with the latter being higher than the corresponding ceiling projections in 90 percent of cases. The deviation of the approved ceilings in MTBP from the original approved annual budget is especially high in the years 2021-2023, with a gap varying from -2.5 percent to -10.1 percent (for year t), but an improvement in forecasts is observed in 2024, narrowing the gap to -5.4 percent, with further improvement in 2025 reaching -3.5 percent.

Chart 3. Deviation of expenditure in MTBP projections from the original annual budget



Source: Ministry of Finance (2025)

In general, the expenditure estimates are derived from the estimation of budget resources (revenues and sources of financing the budget deficit). Meanwhile, the differences in the forecasts for 2024 are partially explained by the wage growth policy undertaken by the Government throughout the year 2023. The financial effects of this policy were forecasted to spread over two budget years, i.e. 2023-2024, materializing the reform full cost of ALL 39.1 billion from 2025 onwards. The undertaken wage reform affected the budget forecasts for 2024, with the aim of accommodating its financial effects in the budget. The deviations observed in 2025 stem from the integration of updated projections associated with the Western Balkans Growth Plan and the National Reform Agenda, both of which were finalized subsequent to the preparation of the medium-term projections under the Macroeconomic and Fiscal Framework.

3.1.2. Potential fiscal risks

The risks that can impact the budget plan resulting in high deviations from the original approved budget, are:

- *Fiscal risk - Changes in tax policy (The forecasting of tax revenue is affected by the relationship between taxes and the established tax base). The change of the planned amount of the revenue to be collected directly impacts the overall public expenditure ceiling.*
- *Political risk - The risk of policies undertaken by the Council of Ministers (Request for unplanned expenditure that may change expenditure ceilings).*
- *Forecasting Risk - Poor forecasting of expenditure ceilings resulting from not taking into consideration the recommendations and findings of the monitoring carried out during the previous year.*

3.1.3. Mitigation of identified risks

Measures taken for potential fiscal risks:

- *The updated Public Financial Management Strategy includes revisions to the secondary budget legislation during the medium-term period 2025–2027, aimed at enhancing managerial accountability in the preparation of budget requests.*
- *By the end of 2025, a dedicated guideline will be finalized to include, as part of the budget documentation, a reconciliation statement outlining deviations between the MTBF ceilings and those approved by Parliament.*
- *Work is underway to establish a methodology for sector specific expenditure reviews, aimed at strengthening the oversight and optimization of public spending.*
- *The implementation and continuous oversight of the new Public Investment Management Decision No. 887, issued on 27 December 2022, seek to enhance the procedures for planning and approving new public investment projects as an integral part of the MTBF preparation process.*

Measures for the future:

- *The Ministry of Finance, in cooperation with the Line Ministries and Central Government Institutions, will be engaged in identifying the causes that lead to poor expenditure planning, submitting them as part of budget analysis and recommendations in order to improve their planning process.*
- *Increasing the awareness of policy-making structures on the inclusion and full engagement in the medium term budget planning process.*

3.1.4. Analytical data

The following table presents the total expenditure, in million ALL, as approved in phase II of the MTBP and in the corresponding original annual budget for the 2020-2027 period, allowing a comparison of the deviation in the relevant expenditure levels.

Table 4. Total expenditures in MTBP and the original annual budget, 2019-2027

Total expenditures in million ALL	2019-2027	2021	2022	2023	2024	2025	2026	2027
MTBP 2021-2023 (forecasted in 2020)		578,008	566,546	596,899				
MTBP 2022-2024 (forecasted in 2021)			568,951	600,484	636,970			
MTBP 2023-2025 (forecasted in 2022)				627,636	660,606	697,567		
MTBP 2024-2026 (forecasted in 2023)					697,585	730,883	759,266	
MTBP 2025-2027 (forecasted in 2024)						795,833	826,177	853,341
Initial budget approved		592,801	637,694	698,117	737,378	825,088		

Source: Ministry of Finance (2025)

3.2. Budgetary Expenditures for Public Investments

3.2.1. A narrative overview of the preceding budget year

In 2024, the planned public investments were at 5.4 percent of GDP or ALL 132.2 billion (including ALL 9 billion for the reconstruction fund). The investment planning for 2024 has taken into consideration all the contractual obligations for domestically and externally financed investment projects. In 2024, as in the previous year, priority was given to the financing of ongoing projects. The criteria used for investment planning were:

- *Priorities of the Government Program for 2021 - 2025;*
- *European integration priorities;*
- *Ongoing projects and;*
- *Domestic financing and VAT support for externally financed projects.*

Budget funds allocated for investments have affected essential areas of the economy. The main priorities of the 2023 budget for capital expenditures were for investments in infrastructure, water supply and sewerage, road transport, health, defense, etc. The actual total expenditures for investments was high, especially for domestically funded investments, and the execution process of capital expenditures for investments has not encountered crucial problems that affect the financial sustainability of the budget.

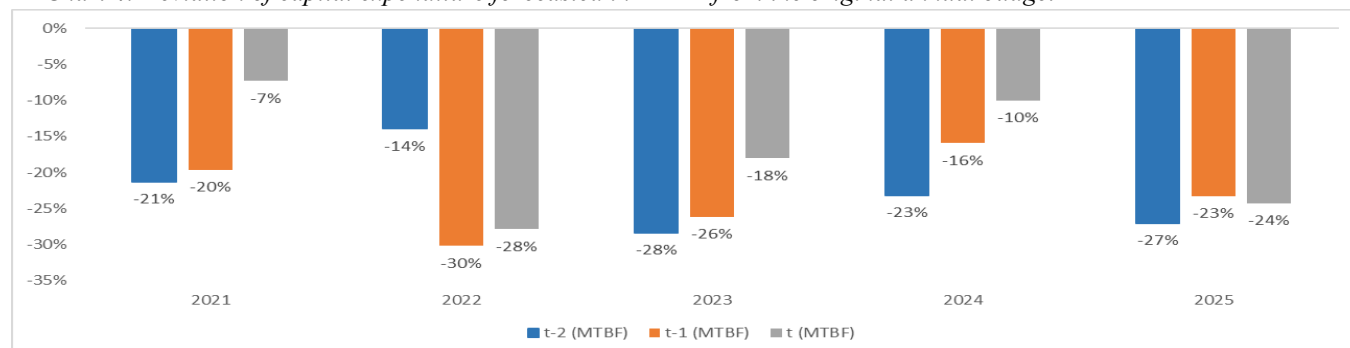
3.2.2. Risks identified during the preceding budget year

The planning of public expenditures to finance investment projects for the year 2024 has been carried out based on the methodology approved by DCM no. 887, dated 27.12.2022 "On public investment management procedures". The financing of public investments is carried out in compliance with the budget preparation methodology, according to the definitions in the standard budget preparation instruction, which differentiates between investment expenditures for existing policies and investment expenditures for new policies. Financing was provided initially for the costs of:

- *capital investment projects that have not been completed and are expected to be completed;*
- *capital investment projects that have not yet started, but for which legal commitments have been undertaken and which have been approved in the previous MTBP process;*
- *capital investment projects that have been financed in the current fiscal year.*

Public investment planning is based on macroeconomic indicators such as revenue, deficit, decisions related to wage policies, etc. The budget forecasts for capital expenditures have been adjusted several times through normative acts during 2024. These deviations between the forecasted amounts in the draft budget, the original approved budget and the final approved budget have brought risks to the state budget during the recent years, generating arrears or increasing the number of years of project durations. The chart below shows the deviations between capital expenditures forecasted in phase II of MTBP, the original budget and the final budget.

Chart 4. Deviation of capital expenditure forecasted in MTBP from the original annual budget



Source: Ministry of Finance (2025)

During year 2024, several issues have been identified in the budget planning and implementation related to investment projects, which have led to the increased costs of projects, requests for supplementary funds not forecasted in the MTBP and increased number of years for project completion, such as:

- *Difficulties in fully implementing the new public investment procedures as a result of changes in Public Investment Management (PIM) procedures;*
- *The lack of in-depth analysis of project proposals by the beneficiary institutions;*
- *Redistributions between public investment components by LM/BI, which may create conditions for generation of arrears;*
- *Untimely updating of the Unique List of Projects of National Importance, including for PPPs*

3.2.3. Mitigation of identified risks

Based on the identified risks, the Ministry of Finance with the support of international partners has undertaken a number of measures to strengthen the procedures of identification, proposal, approval and monitoring of public investment projects. Consequently, DCM no. 887, dated 27.12.2022 "On public investment management procedures", approved several measures to mitigate the identified risks, including the most important measures shown below:

- *New public investment projects exceeding the financial threshold set by an instruction of the minister responsible for finance, are classified as investment projects of strategic importance and are subject to the evaluation process for their inclusion in the National Single Project Pipeline. The National Single Project Pipeline includes public investment projects that have strategic importance in terms of the country's economic and social development, regardless of their funding source. This list serves as an instrument for supporting the policies and priorities of the Albanian government, in line with the National Strategy for Development and Integration (NSDI), and sectoral and cross-sectoral strategies.*
- *Proposals for capital expenditures for emergencies that exceed ALL 200 million before being included in the MTBP, are submitted for approval to the Council of Ministers.*
- *Pursuant to decision No. 887, dated 27.12.2022, proposals for new investment projects that exceed the financial threshold set by the instruction of the Minister of Finance and meet the criteria to be classified as projects of strategic importance will, without exception, be submitted simultaneously to the Ministry responsible for finance and to the institution responsible for strategic programming.*
- *One of the most important new provision of the DCM is related to multi-year budget commitments, specifying that during the implementation of these projects in the budget of the central government unit, it is not allowed to allocate, to the budget of the relevant unit of the central government unit, less than 20 percent of the total cost of the relevant project during the first year, less than 30 percent of the total cost of the relevant project during the second year and less than 30 percent of the total cost of the project during the third year, unless otherwise stated in the feasibility study document and the new projects approved in the MTBP for 2024-2026*
- *Decision No. 887/2022 encompasses comprehensive revisions to all project proposal forms, aimed at enhancing the procedures for project submission, conceptualization, detailed analysis, and the quality of information required from proposing entities. The updated forms reflect the requirements of international institutions, including the evaluation of investment alternatives, integration of environmental and climate indicators, inclusion of gender-related metrics, project risk assessments, and alignment with strategic frameworks.*
- *Throughout 2024, in cooperation with the World Bank and ASPA, training sessions were conducted with line ministries and budgetary institutions to promote effective public financial management and ensure the accurate implementation of the amended Decision No. 887, dated 27 December 2022.*

Pursuant to the provisions of DCM no. 887, dated 27.12.2022, monitoring of public investments, in contrast to previous reports, includes also reporting on performance indicators at the project level, implementation of procurement procedures, cases of generation of new arrears including the relevant reasons, problems encountered during the project implementation, and on the non-implementation of projects including the relevant reasons. The Ministry of Finance has implemented the new public investment procedures during 2024. The investment projects proposed for the 2025 budget have also followed the new procedures on identification, proposal and approval for budgeting. During 2024, the preparation and the approval of the National Single Project Pipeline was finalized with the approval of DCM no. 553, dated 12.08.2024 regarding an amendment to Decision no. 161, dated 20.03..2024, “On the approval of the Priority Policy Document 2025-2027”.

3.2.4. Analytical data

The following table presents the capital expenditures ceilings as approved in phase II of MTBP and in the original annual budgets, for the 2021-2027.

Table 5. Capital expenditure in the MTBP and in the original annual budgets, 2019-2027

Capital expenditures for the period 2020-2028 (million ALL)	2021	2022	2023	2024	2025	2026	2027
MTBP 2021-2023 (forecasted in 2020)	112,192	83,353	88,747				
MTBP 2022-2024 (forecasted in 2021)		86,153	91,447	99,363			
MTBP 2023-2025 (forecasted in 2022)			101,577	108,743	118,437		
MTBP 2024-2026 (forecasted in 2023)				116,443	124,537	130,010	
MTBP 2025-2027 (forecasted in 2024)					122,980	127,822	134,952
MTBP 2026-2028 (forecasted in 2025)						154,678	148,112
Buxheti fillestar i miratuar	121,032	119,445	123,908	129,381	162,374		

Source: Ministry of Finance (2025)

The capital expenditure deviation of about ALL 13 billion between the MTBF 2024–2026 and the initial budget for 2024 is attributed to GDP growth, which resulted in increased revenues for the state budget, reflected in higher financing for public investments. Capital expenditures increased in the following components: domestically financed expenditure rose by about ALL 12 billion, externally financed expenditure decreased by about ALL 6 billion, and reconstruction funds were approved at ALL 7 billion.

3.3. Budgetary Expenditure Management

3.3.1. A narrative overview of the preceding budget year

Budget execution management aims to monitor the implementation of the budget, objectives and products approved in the annual budget as the first year of the MTBP. The monitoring of the budget implementation is conducted through a performance-based monitoring process, which is an assessment of the comparison between the actual and the targeted performance indicators. The purpose of monitoring is:

- *To pursue the achievement of the intended goal and objectives, defined in the program policy statement for the first year of the medium-term budget program, by comparing the target performance indicators with their actual outturn.*
- *To highlight whether the realization of the products is in accordance with the plan, and if not to propose/recommend the undertaking of corrective actions by changing the allocation of resources. In case of reallocation of resources, to identify the possible impact on the performance of the related objectives.*
- *To provide information that can be used to improve the budget planning and management proces.*

3.3.2. Risks related to the performance of budget execution

The risk of deviation of the actual values of the budget indicators from those approved in the original budget law for Ministries and Central Institutions is related to:

- *Changes of the planned expenditures due to the allocations from the reserve and contingency fund, and other in-year reallocations.*
- *Changes of the originally approved budget indicators because of budget law amendments through Normative Acts caused by "need" and "emergency".*
- *Lack of timely identification of potential problems during budget implementation.*
- *Poor forecasting of expenditure ceilings during the planning process, as a result of the lack of consideration of the recommendations and findings of the monitoring undertaken during the previous year.*

The initial budget plan for current expenditures for 2024, as well as the actual expenditures for ministries and institutions, changed as a result of the allocation of the Reserve and Contingency Fund, which is provided for in the Budget Law to be allocated by Decisions of the Council of Ministers for unforeseen cases. In the Original Budget Law, the Reserve Fund was approved at ALL 2.5 billion, which was increased to ALL 3.5 billion by Amendment No. 3/2024 and then reduced to ALL 3.25 billion by Amendment No. 5/2024. The fund for wages increases in the Original Budget Law No. 97/2023 "On the Budget of 2024" was approved at ALL 11 billion.

The originally approved annual budget was adjusted by three Normative Acts during 2024, specifically:

- *Normative Act No. 1, dated 21 February 2024 - This Act was driven by the need to reflect in the annual budget the restructuring of new ministries according to their respective functional responsibilities. Alongside adjustments to several revenue and expenditure items, the amendments aimed to enhance the budget execution parameters for the year 2024.*
- *Normative Act No. 3, dated 28 August 2024 - Following the first half of the year, this second Normative Act was enacted to incorporate revisions in revenue items, resulting in an increase of ALL 3.44 billion in total current expenditures. The primary expenditure adjustments included additional funding for cybersecurity systems, food allowances for police personnel, support for the new farmers' scheme, among other areas.*
- *Normative Act No. 5, dated 19 December 2024 - The final budget revision aimed to support vulnerable social groups, including recipients of Economic Assistance, persons with disabilities, and pensioners. Furthermore, supplementary funding was allocated to defense, culture, sports, and other sectors.*

Detailed information on the 2024 budget revisions is available in the explanatory reports attached to the respective Normative Acts, published on the official Ministry of Finance website.³

3.3.3. Mitigation of identified risks

Regarding the measures taken in relation to the risks mentioned above, which have contributed to deviations between actual budget execution indicators and those approved in the Original Budget Law for 2024, it is noted that:

- *Revisions to the current expenditure plan, compared to the Initial Budget Law, resulted from the allocation of the Reserve and Contingency Funds for wage-related adjustments. These revisions were anticipated in the original budget framework, while the disbursement procedures were carried out in accordance with the respective Decisions of the Council of Ministers.*
- *The analysis of budgetary performance, along with the improved fiscal outlook and the ongoing assessment of budget execution made it necessary to amend the Budget Law through an increase in current expenditure allocations. This amendment facilitated the allocation of additional funds for the*

³ Normative Act no. 1, dated 21.02.2024: <https://financa.gov.al/akti-normativ-nr-1-date-21-02-2024/>
 Normative Act no. 3, dated 28.08.2024: <https://financa.gov.al/akti-normativ-nr-3-date-28-08-2024/>
 Normative Act no. 5, dated 19.12.2024: <https://financa.gov.al/akti-normativ-nr-5-date-19-12-2024/>

settlement of outstanding obligations owed by line ministries and public institutions to employees, as well as to third-party service providers.

- Regarding adjustments to the pensioners' support fund, an initial allocation of ALL 7.78 billion was foreseen in the 2024 Budget Law. However, through Normative Act No.5, primarily focused on strengthening support for the most vulnerable social groups, the fund was increased to ALL 11.6 billion. In addition to that, a financial support was granted in the form of one-off bonuses amounting to approximately ALL 2.2 billion

It is important to emphasize, that deviations in current expenditure execution should be assessed within the broader context of developments in other components of the State Budget, including the performance of *revenue collection*, the implementation of *capital expenditures*, and changes in the *budget deficit*.

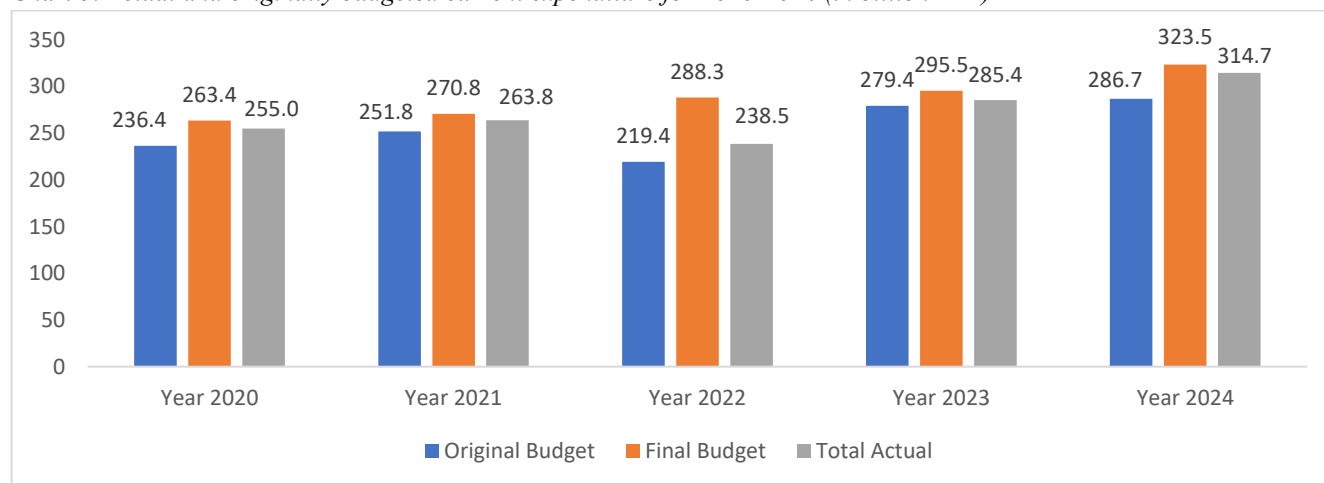
To further mitigate risks in the future, the following actions should carry on:

- *Budget execution monitoring and management for timely identification of potential problems, in order to take measures for timely mitigation and inclusion of the relevant financial effects in the budget planning process.*
- *Improving the performance analysis of all budget indicators, including key performance indicators and products, by Line Ministries and Budgetary Institutions, with the aim of identifying and timely reporting any issues encountered during budget implementation, as well as submitting appropriate proposals for addressing such issues and reducing the risks that may affect the achievement of budgetary targets.*

3.3.4. Analytical data

The chart below shows the amounts of the current expenditures for ministries and central institutions, during the years 2020-2024, the actual realization as well as the deviations of the realization of the budget over the plan approved in the initial budget law no. 972023 "On the 2024 budget", as amended".

Chart 5. Actual and originally budgeted current expenditure for 2020-2024 (in billion ALL)



Source: Ministry of Finance (2025)

The above chart shows that the actual amount of current expenditures by ministries and central institutions reached ALL 314.62 billion, compared to ALL 286.65 billion approved in the original 2024 budget, equivalent to 109.7 percent of the initial budgeted amount.

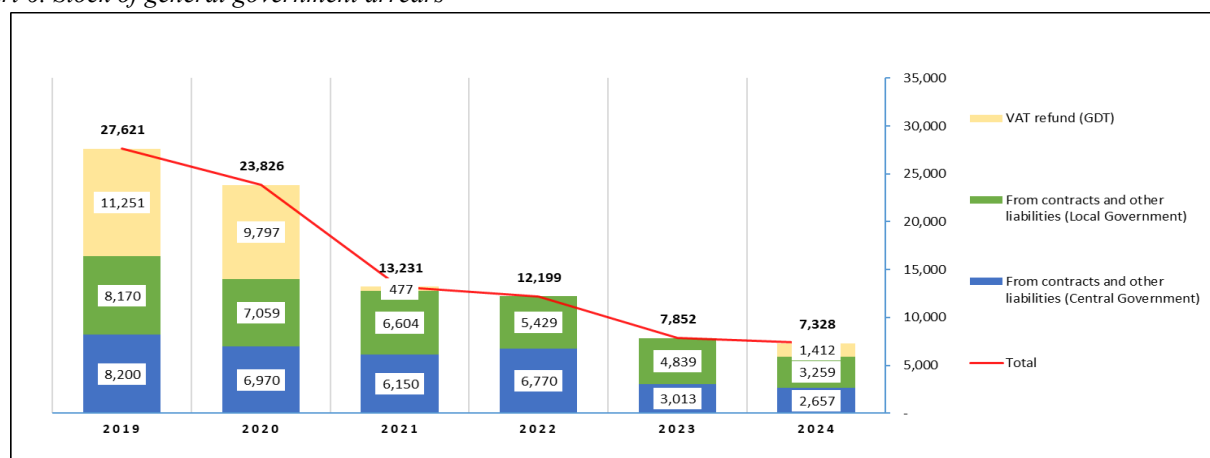
A more detailed information on the above changes and broken down by ministries and independent institutions is also provided in the "Report on budget execution for year 2024".

3.4. Arrears

Based on DCM no. 50, dated 05.02.2014 "On the approval of the Strategy and the action plan for the prevention and settlement of arrears", the Ministry of Finance has undertaken some concrete steps in terms of monitoring, reporting and prevention of arrears. It is worth noting that the monitoring of arrears is now a consolidated process in time and quality, through intensive periodic monitoring of all unpaid obligations of budgetary institutions. Starting from December 2020, this monitoring and reporting, which was previously carried out on a quarterly basis through the institutions' written reporting, is now automatically generated by the Government's Financial Information System (AGFIS) in accordance with the provisions of Instruction no.37, dated 06.10.2020 "On monitoring and periodic publication of the stock of arrears of the general government". This arrears reporting format, in addition to increasing accuracy and ensuring timely data, is also a comprehensive format by unifying the reporting modality for all units of general government.

The chart below illustrates the progress of general government arrears for the years 2019 - 2024:

Chart 6. Stock of general government arrears



Source: Ministry of Finance (2025)

More specifically, as of the end of December 2024, the recorded stock of accumulated arrears from general government units was ALL 7.33 billion⁴, of which:

- ALL 2.66 billion from the central government;
- ALL 3.26 billion from local government.

Comparing to the stock of arrears reported for the same period of 2023, it shows that:

- The total stock of arrears is about ALL 524 million lower, or a decrease of 6.7 percent.
- Specifically, the arrears from the central government have decreased by about ALL 355 million and the arrears from the local government have decreased by about ALL 1.58 billion, compared to the same period a year ago.
- VAT refund arrears have increased by approximately ALL 1.41 billion compared to 2023, during which no such arrears were recorded.

3.4.1. Arrears management

The main priority of the Ministry of Finance in the medium term remains the reduction of the stock of arrears and the prevention of their accumulation. In recent years this objective has been achieved as shown by the downward trend of the stock, although factors such as the earthquake, the pandemic, the global energy crisis, the war in Ukraine and the fluctuations in the prices of raw materials have negatively affected the liquidity of central and local institutions.

⁴ Not including arrears from Water-Sewage utilities and Universities.

A key measure in the management of arrears was the issuance of Order No.177 dated 21 July 2020, which established a dedicated working group for monitoring arrears. This group, chaired by the First Authorizing Officer and coordinated by the Ministry of Finance's Harmonization Unit, is mandated to:

- *Monitor the underlying factors and evolution of arrears;*
- *Produce comprehensive quarterly reports detailing the status of arrears for submission to the Minister of Finance;*
- *Propose remedial actions and necessary procedural reforms to minimize and prevent the accumulation of arrears.*

Quarterly summary reports of the arrears analysis, detailed by categories and respective institutions, are also published on the official website of the Ministry of Finance.⁵

On the other hand, setting specific targets over the years (e.g. PEFA Assessment, Good Governance, and ERP) have helped to keep under control and reduce the stock of arrears in recent years. Specifically: These objectives specify the acceptable limits for the stock level indicator, detailed as follows:

PEFA rating – (A score)

- *The stock of expenditure arrears does not exceed 2 percent of total expenditures in at least two of the last three fiscal years. This target has been reached for 2022, 2023 and 2024.*

ERP

- *The target for general government arrears as a percentage of total actual expenditures for the year 2024 shall not exceed 2 percent on an annual basis. This target was achieved in the years 2022, 2023, and 2024.*

Regarding the arrears of LGUs, the Directorate of Local Finances in the Ministry of Finance, pursuant to instruction no. 26 dated 27.09.2019 "*Procedure for the management of financial difficulties for local self-government units*", annually prepares the report on the status of the financial condition of local self-government units based on the official data of arrears consolidated and registered in the system of the treasury. More detailed information regarding arrears of Local Government Units is presented in the chapter on Local Finance Risks.

Furthermore, the Ministry of Finance has suggested to all internal audit units in the public sector that in the "*Strategic and annual audit activity plan for the years 2021-2023*" include audit engagements for analyzing and evaluating the state of the obligations of arrears of budgetary institutions. This, as long as arrears are defined as high-risk and should be treated with priority by the internal audit of budgetary institutions, in order to present a situation as reliable as possible and to give the most valuable recommendations for their reduction in time.

These and other measures undertaken by the Ministry of Finance have helped to keep the stock of arrears under control and to achieve all the objectives set at the beginning of year 2023.

⁵ The quarterly summary reports on arrears can be found at the following link: <https://financa.gov.al/detyrimet-e-prapambetura/>

4. Fiscal Risks Related to Public Debt and Available Liquidity

4.1. Public Debt

4.1.1. A narrative overview of the preceding budget year

The public debt during 2024 was generally characterized by a positive performance, being in line with the macro-fiscal objectives, the planned budget for year 2023 and the objectives of the Medium-Term Debt Management Strategy (MTDMS). Borrowing in 2024 was carried out in accordance with the annual budget for 2024 and in accordance with the Annual Borrowing. The borrowing enabled the refinancing of the current debt, and the partial financing of the planned deficit for 2024. Gross borrowing amounted to ALL 466 billion, of which 80.3 percent (or ALL 374.1 billion) was financed from domestic sources and 19.7 percent (or ALL 91.9 billion) from external sources. Government securities issued by the Ministry of Finance in the domestic market amounted to ALL 378.4 billion, of which ALL 196.7 billion were Treasury Bonds and ALL 181.7 billion were Bonds. The net borrowing for the year 2024 amounted to ALL 49.9 billion. Government securities issued by the Ministry of Finance in the domestic market amounted to ALL 374.1 billion, of which ALL 225.6 billion were Treasury Bonds and ALL 148.5 billion were Bonds. The net borrowing for the year 2024 amounted to ALL 25.8 billion.

During 2024, the structures of the Ministry of Finance responsible for debt management have continued their efforts in the direction of reducing exposure to risks, keeping the cost at the lowest possible level. During this period, the debt portfolio risk management has evolved towards medium-term strategic objectives, showing an improvement in all risk indicators compared to the end of 2022. The main focus of debt management will remain the further improvement of the debt structure, mainly in terms of lowering exposure to refinancing risk and interest rate risk, so that these risk indicators are further improved in the following periods.

4.1.2. Risks identified during the preceding budget year

The General Directorate of State Debt in the Ministry of Finance prepares and publishes the Medium-Term Debt Management Strategy (MTDMS), which aims to further improve the debt structure (mainly the structure of the domestic debt portfolio), in terms of reducing exposure to risks, as well as keeping costs at the lowest possible levels. The debt portfolio risk management includes a number of key medium term objectives, which aim to reduce or keep the risks under control in the medium term.

The risks that have been identified in the state debt portfolio are as follows:

➤ *Market risks*

- *Domestic Debt Refinancing Risk*

One of the main objectives of the MTDMS is to reduce the refinancing risk mainly in the domestic debt portfolio, since the external debt portfolio is exposed to lower risk as it is composed of securities with long-term maturity and amortization profiles extended over time. During 2024, in accordance with MTDMS, the Ministry of Finance has increased the share of medium and long-term instrument issuances in the domestic market and as a result, refinancing risk indicators have shown a significant improvement compared to the end of 2023. More specifically, the average time to maturity of domestic debt has increased by 88 days, from 835 days at the end of 2023 to 923 days at the end of 2024. At the same time, the share of debt maturing within a year has marked an improvement compared to the end of year 2023, with this indicator decreasing from 44.7 percent in December 2023 to 39.0 percent in December 2024. As for the maturity profile in the debt portfolio, the domestic debt consists of instruments with maturities from 3 months to a maximum of 15 years⁶. Meanwhile, external debt has a maturity profile that extends to 2053, with some Italian loans allowing such a long-term to maturity, followed by a number of loans from the EIB, IBRD and IFAD.

⁶ Until December 2024, the longest-term instrument in the domestic market was the 15-year bond. In 2025, the 20-year bond was introduced for the first time.

- *Domestic Debt Interest Rate Risk*

The interest rates risk indicators have also shown improvements during 2024, which was due to the increased use of medium and long-term securities and the issuance in the domestic market of only fixed interest rates securities. More specifically, the share of the debt re-fixing the interest rate within one year has decreased significantly from 45.4 percent at the end of 2023 to 39.3 percent at the end of 2024. Also, the average time to re-fixing has increased from 2.33 years in December 2023 to 2.58 years in December 2024.

- *The Exchange Rate Risk*

The exchange rate risk has been kept under control, staying below the ceiling defined in the strategy. More specifically, the foreign currency debt to total debt ratio was 41.9 percent at the end of 2024, decreasing by 3.8 percentage points compared to the end of 2023, and by 7.9 percentage points compared to the end of 2021, which is a significant improvement. During 2024, this indicator was mostly affected by the depreciation of the majority of foreign currencies, mainly Euro and USD, against the Albanian Lek and as a result of the new borrowing, which has been carried out almost entirely in the domestic market and as a result of the new borrowing, which has been carried out almost entirely in the domestic market.

The above risk key indicators and medium-term objectives in 2020-2023, are presented in Table 6.

➤ *General risks*

- *The risk of exceeding the planned interest expenses for state debt*

During 2020-2023, interest expenses accounted to 2 percent of GDP on average, varying from ALL 34.4 billion to ALL 54.5 billion. At the same time, the deviation of the actual interest expenses from the forecasted interest expenses is estimated to be low and in every year the actual expenditure has been within the forecasted ceilings in the budget. Furthermore, in order to minimize the fiscal risk from the increase in interest expenditure beyond the forecasted fund in the budget, contingencies are included in the forecasts of interest expenditure to cope with any significant increase in interest rates or potential effects of exchange rate, which have not materialized in recent years.

- *The risk from the calling of state guarantees*

The potential risk arising from guaranteed debt relates to possible payments from the state budget for obligations that cannot be met by the borrowing entities. At the end of 2024, the guaranteed debt portfolio is estimated at ALL 33.6 billion, or EUR 342.2 million (1.3% of GDP), marking a decrease of ALL 7.8 billion compared to the end of 2023. Guarantees issued in favor of foreign creditors account for approximately 57.8% of the total guaranteed debt stock, or ALL 19.4 billion, while guarantees in the domestic market represent 42.2% of the guaranteed debt stock, or ALL 14.2 billion. Over 75% of the total stock of state guarantees is attributable to the energy sector, reflecting government policies aimed at supporting the energy sector.

4.1.3. Mitigation of identified risks

In order to mitigate the identified risks of the state debt portfolio, several measures have been taken, which are intended to continue to be implemented in the following year:

- *Projection of contingencies within the forecasted interest expenditure for the subsequent fiscal year.*

In recent years, exposure to interest rate risk has been progressively mitigated, primarily due to the restructuring of the domestic debt portfolio towards long-term fixed-rate securities. Furthermore, since 2017, in compliance with the legal requirement established in the Budget Law (LOB), specific contingencies have been programmed

within the state budget to absorb potential effects arising from interest rate fluctuations. For the year 2025, contingencies amounting to ALL 5.78 billion have been allocated in the budget.

- *Enhancement of risk indicators aligned with the targets set forth in the Public Debt Management Strategy (SAMB).*

To reduce portfolio risks, the current strategy adopts more ambitious medium-term goals, with a focus on: (i) issuance of government securities with fixed interest rates to mitigate interest rate risk; (ii) increasing the proportion of long-term securities to lower refinancing and interest rate risks; (iii) lowering the foreign currency debt ratio ceiling from 55 percent to 50 percent of total debt over the medium term. Furthermore, the responsible entity for drafting SAMB continuously monitors financial market conditions to identify potential funding sources, ensuring risk levels remain within acceptable limits while addressing central government borrowing requirement.

- *Adoption and enforcement of the fiscal rule as stipulated in the Budget Law (LOB): “The public debt-to-GDP ratio shall be planned to remain below the level recorded in the preceding year until the debt level reaches and remains under 45 percent of GDP.” This rule excludes adjustments in the nominal debt stock value due to foreign exchange rate fluctuations.*
- *Regarding the risk associated with state guarantees, budgetary planning includes provisions for potential payments arising from called guarantees. These estimates are derived from historical credit data and are incorporated within the budget lines for principal repayments and interest on external debt.*
- *Furthermore, to mitigate risks related to guarantee calls, the SAMB establishes specific issuance criteria for guarantees, namely: (i) guarantees issued to state-owned enterprises engaged in reform initiatives aimed at improving their financial standing; (ii) guarantees supporting investment project financing; (iii) guarantees facilitating measures during financial system crises; (iv) guarantees issued for the restructuring of the state guarantee portfolio. The authorization and approval processes for guarantees, as well as enforcement measures in cases of borrower default, are governed by the provisions of Law No. 9665, dated 18.12.2006 “On State Borrowing, Public Debt and State Guarantees of the Republic of Albania,” as amended.*

4.1.4. Analytical data

Table 6. Risk indicators

Risk Indicators	2020	2021	2022	2023	2024	Medium term target 2026
Interest rate risk						
Debt re-fixing within 1 year	46.7%	48.0%	49.0%	45.4%	39.3%	Max 43%
Average Time to Re-fixing	2.14	2.19	2.17	2.33	2.58	Min 2.5
Refinancing risk						
Debt maturing within 1 year	44.8%	46.6%	47.9%	44.7%	39.0%	Max 40%
Average Time to Maturity	2.18	2.20	2.17	2.32	2.56	Min 2.5
Exchange Rate Risk						
Foreign Currency Debt/Total	47.4%	49.8%	46.8%	45.6%	41.9%	Max 50.0%

Source: Ministry of Finance (2025)

Table 7. Foreign Guarantees Payments and Returns

Foreign Guarantees (in million ALL)	2020	2021	2022	2023	2024
Paid by MoF	2,712.30	2,202.88	4,108.74	2,905.30	2,643.38
Paid by Beneficiary institution	1,274.78	2,966.99	1,290.10	3,488.05	3,649.91
Returned Beneficiary institution	81.56	154.30	629.05	1,289.99	612.11
Paid net MoF for the period	2,630.74	2,048.58	3,479.69	1,615.31	2,031.27
Stock of outstanding liabilities	16,241.35	17,809.81	20,059.65	19,531.97	20,294.50

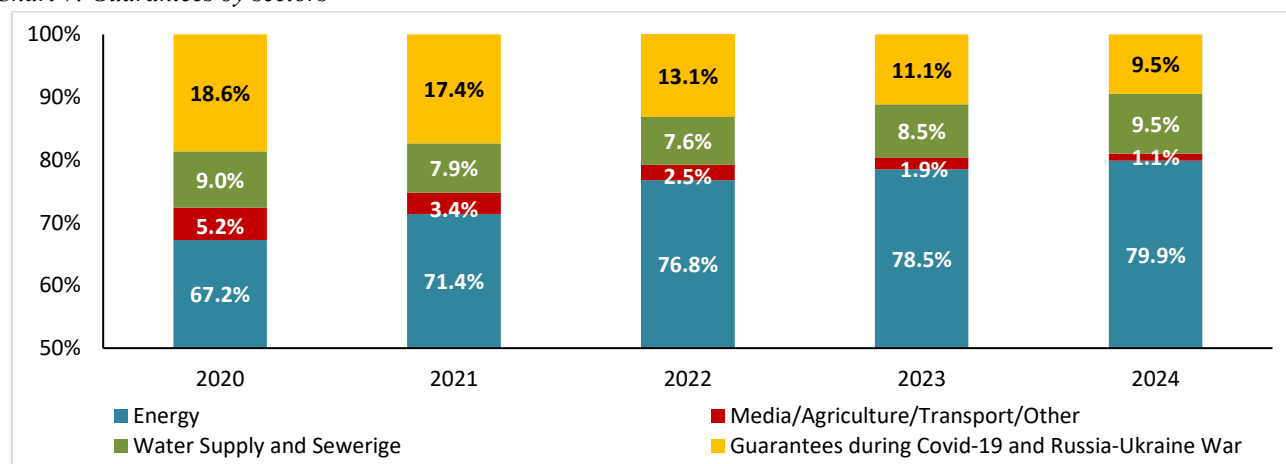
Source: Ministry of Finance (2025)

Table 8. Domestic Guarantees Payments and Returns

Domestic Guarantees (in million ALL)	2020	2021	2022	2023
Paid principal MoF	0.00	0.00	0.00	6.54
Paid principal institution	960.04	5,894.44	5,071.60	3,291.33
Paid interest institution	0.00	21.41	220.13	635.13

Source: Ministry of Finance (2025)

Chart 7. Guarantees by sectors



Source: Ministry of Finance (2025)

4.2. Monetary assets

4.2.1. A narrative overview of the preceding budget year

During 2024, the government's liquidity has been sufficient to make the payments of the bills of the general government unit and the domestic and external debt service payments. Payments are made on time and according to the FIFO method. The liquidity forecasting and management process has been improved. The TSA cash flow forecast is mapped on a daily/weekly/monthly basis. The forecasts are updated daily on the basis of the Bank of Albania's data on incoming and outgoing transactions from the TSA. The monthly forecast accuracy rate for 2024 results in 90% from 91% that was targeted and 88% that was in 2023. The projected values (KMBL) of the cash flow to the TSA as a monthly average were ALL 90.80 billion, while the current values were ALL 100.85 billion.

The government's monthly revenue in 2024 was close to forecasts. Expenditures have followed similar performance to previous years. In the period January-November, actual expenditures are significantly lower than forecasts, while in December a very large part of the planned expenditures for the budget year are carried out. In

January 2025, ALL 57 billion of the previous year's bills were paid, the highest amount ever paid in January of previous years.

The instruments have been different to ensure the active management of money to meet government obligations, such as:

- *SWAP (2 contracts of EUR 120 million each, signed in 2023 and maturing in 2024),*
- *Outright (EUR 60 million converted to ALL currency),*
- *Outright (ALL 10 billion converted into Euro currency),*
- *Temporary over-status deposits with the TSA.*

In the Supplementary Instruction No. 2, dated 24.01.2025 “On the implementation of the 2025 budget” (drafted in 2024) was included *for the first time* the determination of the “buffer” level of the TSA situation in all currencies (ALL, EUR, USD and SDR), according to paragraphs 79-80 of the Directive, cited below:

79. The cash "buffer" level of the Treasury single account is determined by the combination of two components:
- The transactional buffer level, the minimum of which is set at 1% of the previous year's GDP;
 - The "buffer" level of security, the minimum of which is determined in the amount of servicing of external and internal debt for the next three months;
 - The overall buffer level is determined to be between 1% - 2% of the previous fiscal year's GDP.
80. As defined above, the “buffer” level can be flexible during implementation to adapt to the current circumstances. The defined levels serve as orientation, but they are not mandatory and can be adapted according to need and various unforeseen situations

During 2024, two new instruments were used as follows:

- *Deposits in euro, without limitation as a result of the revision of the joint agreement with the Bank of Albania.*
- *The conversion of ALL currency from the TSA balance sheet to the foreign currencies USD and SDR, was used for the first time as a result of the revision of the agreement with the Bank of Albania on the instruments provided for liquidity management of the Ministry of Finance (dated 20 January 2015, as amended), i.e. (i) Protocol no. 3293 of the Ministry of Finance, dated 11.03.2024) and (ii) Protocol no. 12574 of the Ministry of Finance, dated 27.06.2022 (the investment available to MoF is the deposit with the BoA in the maximum value of 20 billion ALL and a 2-month term).*

4.2.2. Risks identified during the preceding budget year

- *Advances of monthly treasury plans from December to previous periods of the year due to incorrect forecasting by central and local government spending units;*
- *Considerable unforecasted outflows in ALL or foreign currency;*
- *Non-realization of borrowing auctions;*
- *Non- execution of budget supports;*
- *Advance funds for contracts of strategic importance.*

4.2.3. Mitigation of identified risks

- *Applying advances of monthly treasury plans only between expenditure categories of a spending unit or within dependent units of a budgetary institution, without impact on the approved monthly limits;*
- *Performance indicator no. 10 “Limitation of the advance of the monthly cash plan”, which determines the amount of the advances made during the year by the spending units in proportion to the total of the annual cash plan, has been reported for about 10 percent of the spending units.*
- *Obligation of "pilot" budgetary institutions (Ministry of Education, Ministry of Agriculture and Rural Development and Municipality of Tirana) in the submission of monthly cash plan forecasts.*

- *The liquidity forecasting will take into account the possible non-realization of borrowing auctions and budget supports (preparation of a pessimistic scenario);*
- *Improving the information presented for review to DLMC, which aims to prepare information on government debt and liquidity management for efficient decision-making.*

Proposals for new measures:

- *Designing guidelines and other incentive mechanisms for budget institutions through measuring their performance.*
- *Drafting and monitoring of key performance indicators (KPIs) for liquidity forecasting and their presentation to KMBL.*
- *Extending the scope of the obligation to submit cash plan forecasts to the Ministry of Finance on a monthly basis to the main central and local budgetary institutions.*
- *Operation of the mechanism of prior notification by the budgetary institutions in the Ministry of Finance for the execution of large unforeseen payments through the "shared folder" to be informed in real time as soon as the need arises.*

4.2.4. Analytical data

Table 9. January-December 2024 deviance of TSA status

State of the TSA	January	February	March	April	May	June	July	August	September	October	November	December
KMBL Plan	63.00	60.39	77.28	85.11	89.75	105.90	110.08	109.71	112.28	116.36	131.54	28.15
Actual	56.18	59.17	80.83	86.70	100.19	110.01	111.93	113.31	123.23	119.26	134.34	115.04
% Actual/KMBL	89%	98%	105%	102%	112%	104%	102%	103%	110%	102%	102%	409%

Source: Ministry of Finance (2025)

Table 10. Performance indicator according to the PFM strategy 2023-2030

Performance Indicator	Formula	Base	Fact 2023	Target 2024	Fact 2024	Target 2025
Monthly Forecast Accuracy Rate	Estimated Cash Flow Values/Current Cash Flow Values	88%	88%	91%	90%	93%

Source: Ministry of Finance (2025)

5. Fiscal Risks Related to Local Finances

5.1. A narrative overview of the preceding budget year

Local government finances showed positive performance during 2024. Local government revenues accounted for 1.7 percent of GDP, while actual expenditures reached about 3.1 percent of GDP. Actual total revenues and actual total expenditure, at 103 percent and 90 percent, respectively, exceeded annual budget forecasts for 2024. Significant steps have also been taken towards fiscal consolidation at the local level. Increased attention is put to the continued implementation of the new methodology for the preparation of the medium-term budget program for local government units, with the methodology being implemented in 3 other pilot municipalities in 2024. In addition, an official annual report on the financial situation of 73 LGUs was recently finalized by the Ministry of Finance, as part of the continuous efforts to improve financial management of local self-government units. Finally, in 2024, as in the previous years, the Ministry of Finance has closely monitored the fiscal indicators of the annual budget implementation. A more detailed overview on the performance of the quantitative indicators and the processes that have influenced such performance is presented in the annual report of local public finances⁷.

5.2. Risks identified during the preceding budget year

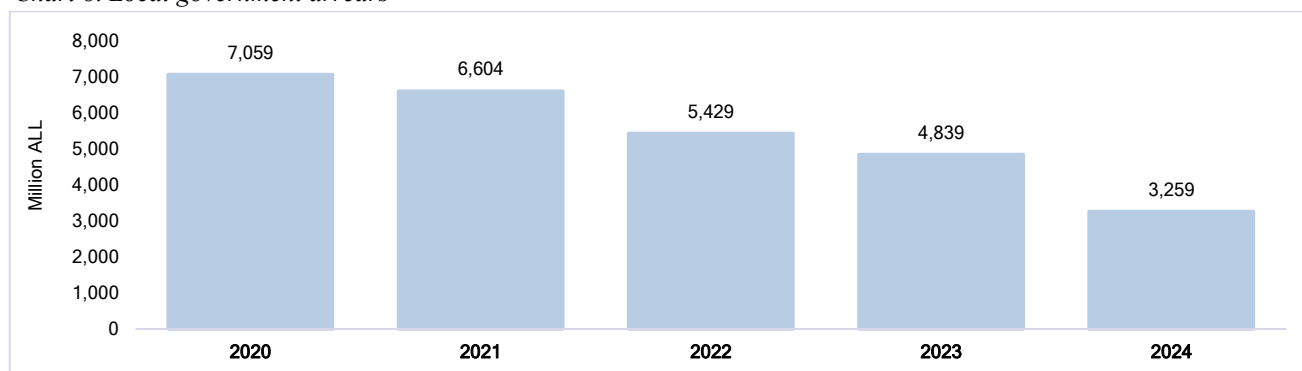
The main risks faced by local units are the accumulated stock of arrears, the level of unconditional transfers, revenue performance and local budget.

➤ *Arrears*

Arrears constitute one of the most potential risks for local government. The high level of arrears may be associated with potential liquidity issues for local units. In this context, the Albanian government is urging local governments to repay their stock of accumulated arrears, as one of its main priorities.

The Ministry of Finance, in cooperation with the local government units, draws up every year an action plan for the repayment of local government arrears. By end of December 2024, the stock of arrears which is expected to be repaid in the medium term based on the repayment plan delivered to municipalities by the Ministry of Finance, was about ALL 3.26 billion. The value of the stock of arrears has decreased by about ALL 1.58 billion compared to the stock of arrears at the end of 2023.

Chart 8. Local government arrears



Source: Ministry of Finance (2025)

The Ministry of Finance prepares every year an annual assessment report on the financial situation of local government units, for the purpose of identifying those units that face financial issues/difficulties. More specifically, in 2024, the Ministry of Finance published the Report on the Status of Financial Difficulty of Local

⁷Annual report on local public finances is available on: <https://financa.gov.al/buxheti-i-pushtetit-vendor/>

Government Units for 2023⁸, which found that 7 local units have encountered financial issues while 8 local units were currently experiencing financial difficulties. In 2025, the Ministry of Finance is expected to publish the report on the Status of Financial Difficulty of LSGUs for 2024.

➤ *General Unconditional Transfer*

A general unconditional transfer is a fund granted by the state budget to local government units, without any associated requirements, with regard to the intended use, interest or return. Its use is approved by decision of local government councils to cover expenses for fulfilling functions and providing basic services to the community.

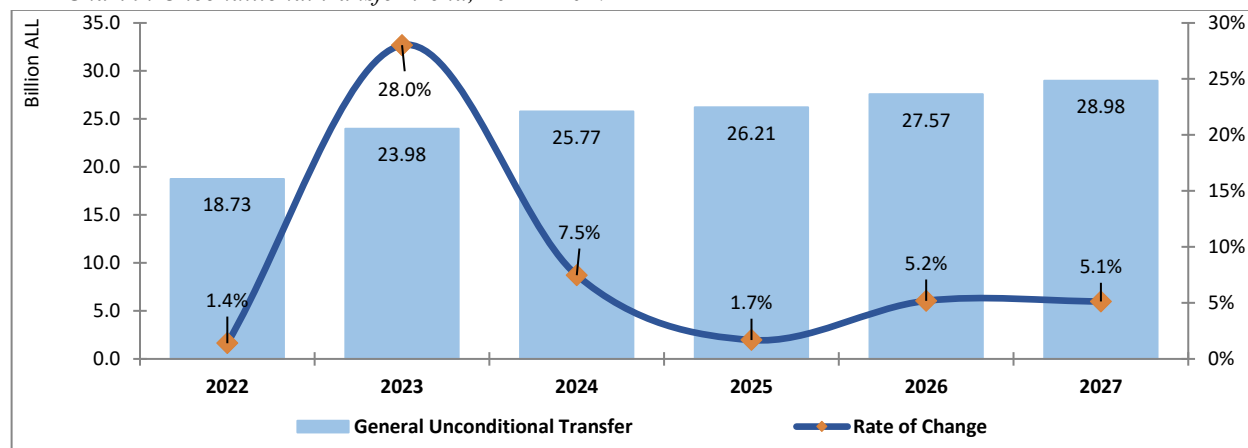
Pursuant to the Law no. 68/2017 “On Local Self-Government Finances”, the unconditional transfer must not be:

- *less than 1 percent of the gross domestic product, provided for in the macroeconomic assessment and forecast report approved by the Council of Ministers;*
- *less than the total amount allocated in the previous budget year.*

The general conditional transfer, being a guarantee based on the above-mentioned legal principles, as a potential risk for the local government, is mostly related to the change of the number of the population in the local unit, as the number of the resident population is one of the main elements of its distribution. However, the formula for the allocation of the unconditional transfer that is defined in Article 24 of Law no. 68, dated 27.04.2017 “On Local Self-Government Finances”, contains other elements such as population density, the actual number of children in kindergartens and pupils in 9-year and secondary schools in each municipality, as well as the elements of equalization that is done through the density component, but also the equalization of fiscal capacity, which are defined in detail in Annex 1 of the annual budget law, for 2024 in the law no. 97/2023, “On the 2024 Budget”.

The following data shows the level of fulfilment of these conditions in the distribution of the general unconditional transfer:

Chart 9. Unconditional transfer trend, 2022 - 2027



Source: Ministry of Finance (2025)

Since the general unconditional transfer is directly related to the level of the Gross Domestic Product, its growth from 2023 to 2024 by 7.5% is precisely related to the continuous growth of GDP, as well as the additions that were made by normative act during 2024. In 2025, the growth compared to 2024 results at about 1.7% and the forecast so far for the next two years is that this transfer will increase by 5.2% and 5.1% in nominal values.

➤ *Local government revenues and expenditures*

The table presents the data on local government revenues and expenditures according to the macroeconomic forecast during the period 2022 - 2027.

⁸ The annual report on the financial difficulty status of LSGUs is available at: <https://www.fvv.al/reports?category=2>

Table 11. Local government revenues and expenditures, 2022 - 2027

<i>In Million ALL</i>	2022	2023	2024	2025	2026	2027
Revenue from Local Government - Actual	27,638	31,686	40,331	40,774	42,931	46,573
Share to GDP	1.29%	1.37%	1.66%	1.56%	1.56%	1.61%
Rate of change of revenues from local gov.	3.6%	14.6%	27.3%	1.1%	5.3%	8.5%
Revenue from Local Government - Budget	27,632	27,742	39,314	40,774	42,931	46,573
Deviation (actual-budget)	6	3,944	1,017	0	0	0
Local budget Expenditure - Actual	58,694	68,841	74,407	89,911	93,077	97,733
Share to GDP	2.74%	2.98%	3.06%	3.43%	3.38%	3.37%
Rate of change of revenues from local gov.	11.6%	17.3%	8.1%	20.8%	3.5%	5.0%
Local budget Expenditure - Budget	61,460	66,473	82,750	89,911	93,077	97,733
Deviation (actual-budget)	-2,766	2,368	-8,343	0	0	0

Source: Ministry of Finance (2025)

During 2022 - 2024, local government revenues have significantly exceeded macroeconomic forecasts, mainly due to the increase in taxes from new construction, real estate and cleaning fees. In 2023, revenues exceeded the plan by ALL 3.9 billion and were 4.05 billion higher than in 2022.

In 2024, local government revenues again exceeded expectations. Initially, the macroeconomic forecast approved by the law no. 97/2023, "For the 2024 budget", was ALL 29.1 billion, but during the year it was revised to ALL 39.3 billion with the Normative Acts, due to the high pace of implementation. By the end of the year, revenues exceeded this level as well, by about ALL 1 billion more than planned and 27.3% more than in 2023, reflecting a much higher growth than GDP growth of 5.3%. Local income in 2024 represented 1.7% of GDP, a level higher than the historical average of 1.3-1.5% of GDP, as well as higher compared to the share of less than 1% they had before the 2016 territorial reform.

The increase was recorded in all main categories of revenue: i. "Infrastructure Impact Tax" had the largest increase, with ALL 5.5 billion or 42% more; ii. "Real estate tax" increased by 24%; iii. "Cleaning and hygiene fees" increased by ALL 1.1 billion, or 24%; iv. "Hotel accommodation tax" increased by 53% from last year.

In terms of expenditures, in 2024 the actual local budget was 8.1% higher than in 2023, but lower than the revised plan, due to the significant increase in revenues. The fact-plan deviation reflects the use of legal provisions that allow the inheritance of unused funds, showing flexibility in local budget management.

5.3. Mitigation of identified risks

Measures undertaken to mitigate the risk:

- Regarding the risk of arrears, one of the measures taken during 2024 was the policy for their reduction to local self-government units, through the addition of the general unconditional transfer of ALL 1.43 billion for the settlement of liabilities, according to the Normative Act no. 5, dated 19.12.2024 "On some amendments and additions to the law no. 97/2023, "On the 2024 Budget", as amended".
- In this context, the revision of the law no. 68, dated 27.04.2017 "On local self-government finances" regarding the use of actual expenses in the formula for calculating the financial difficulties of local self-government units, as well as the use of uncommitted inherited funds for the settlement of arrears and sub-loans of local self-government units, has given its results for the reduction of the arrears of local government units.

- *Regarding the risk of general unconditional transfer, as a potential risk for local government, which may come from the reduction of the number of population in the local unit, given that the number of resident population is one of the main elements of its distribution, the formula for sharing unconditional transfer, contains other elements, as well as the elements of balancing that is done through the density component, but also the balancing of fiscal capacity, (which are defined in detail in Annex 1 of the annual budget law), which enable the unconditional transfer to be not less than the total amount allocated in the previous budget year, Not only in its entirety but also for every local unit as well.*

Future risk mitigation measures:

- *Periodic monitoring of the budget process for the 61 municipalities and 12 districts. Improvement of the annual budget preparation reports, monitoring and medium-term budget program by focusing on the effective and efficient use of public funds.*
- *Based on the Law No. 139/2015 “On Local Self-Government”, as amended, the Law No. 68/2017 “On Local Government Finances” as amended and the Law No. 9632, dated 30.10.2006 “On the Local Tax System”, as amended, local self-government units, within their autonomy of action in the field of tax collection, take measures to support the increase of their own revenues and the diversification of local revenue sources, by: *increasing the quality of services for which taxes and fees are imposed; *by increasing the space covered by service in the territory of the municipality; *increasing the effectiveness of tax collection through strengthening the directorate/sector of revenue collection and administration or training and qualification of employees of this directorate/sector; etc.*
- *Improvement of the Monitoring reports of the implementation of the budget and the Medium-Term Budget Program, focusing on the settlement of arrears and the prevention of their creation.*
- *In the framework of transparency, the preparation of the fiscal table for the local government, where the funds from local revenues and intergovernmental transfers plan/fact will be detailed.*
- *Publication of the report “On the status of the financial situation of local self-government units”, for 2024, which will identify entities with problems, financial difficulties, serious financial difficulties and insolvency.*
- *Regarding arrears, MoF following the publication of the report “On the status of the financial situation of local self-government units” will request local self-government units with financial problems/difficulties to:*
 - *To identify the causes that lead to the accumulation of arrears of financial obligations for the municipality.*
 - *Determine the reaction/decisions of the senior management (Mayor, Municipal Council), during the reporting period, for the prevention or treatment of the risk of creation/increase of arrears, in order not to aggravate the financial situation of the municipality.*
 - *To highlight the difficulties that the municipality has encountered in repaying the arrears of financial obligations.*
 - *To draft the plan of measures for future risk management, named in the instruction as the plan for the settlement of financial arrears. The plan of measures includes the repayment of liabilities in the amount of each year as well as the corresponding measures that lead to the amount allocated for repayment.*

6. Fiscal Risks Related to Concessions/PPPs with Budget Support

6.1. A narrative overview of the preceding budget year

The Ministry of Finance, through its Directorate of Concessions, prepares every year the Annual Summary Report, which is an integral part of the annual budget execution report. The 2024 report is published as an annex to the annual budget execution report, in accordance with the legislation in force for the budget system management and the legal framework for concession contracts/ PPP. It presents an overview of the current Concession/PPP portfolio, concession contract performance, information on the progress and implementation of investments, planned and actual payments made from the state budget, as well as the fiscal implications arising from such concession contracts/PPPs. To ensure greater transparency on the implementation of concessions/PPP projects, strengthen financial discipline, monitor fiscal and budgetary risks arising from concession/PPP contracts, Law No. 50, dated 18.07.2019 “On some additions and changes to Law No. 125/2013 “On concessions and public private partnerships”, as amended, and Instruction no. 35, dated 12.12.2019 “On determining the rules and standards on reporting and monitoring the financial and non-financial progress of the concession contracts/public private partnerships by the Contracting Authorities” were approved.

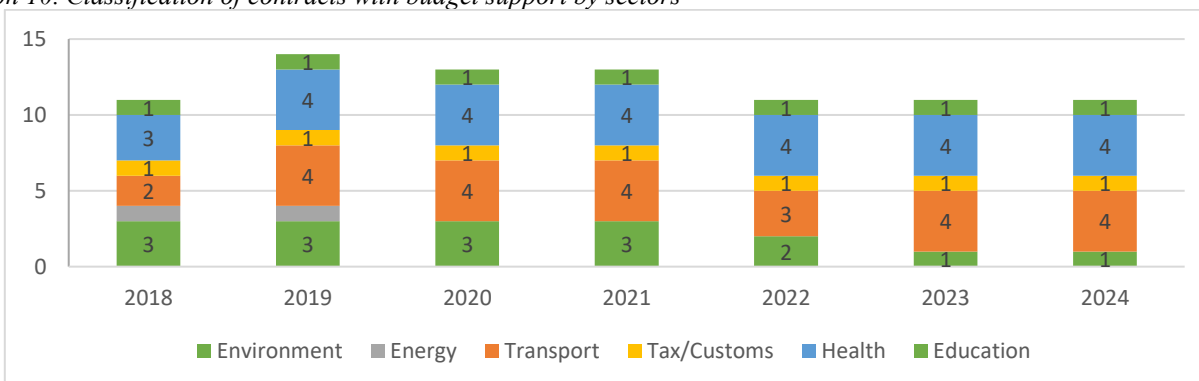
During 2024, MoF has continued to monitor the performance of concession contracts/PPPs with budget support, monitoring the performance of actual budget payments and planned/implemented performance indicators for each concession/PPP contract. Monitoring and reporting on concession/PPP contracts is institutionalized through the inclusion in the Supplementary Instruction no. 1 dated 24.01.2024 “On the implementation of the 2024 budget”, of the mandatory timeline of their reporting by each Contracting Authority and of the respective standard formats, in order to deepen the analysis and increase transparency. This monitoring is carried out on a monthly basis, in order to identify and monitor step by step the potential risks that may materialize from their implementation.

For the year 2024:

- 11 concession/PPP contracts financed by the state budget have been active.
- Only 10 of these concession contracts /PPPs received funds from the state budget.
- Budget funds planned, according to the annual plan, as amended, in support to concession contracts /PPPs reached about ALL 13.64 billion.
- Actual payments made to concessions/PPPs were in the amount of about ALL 13.29 billion or 97.4 percent of the 2024 annual plan, as amended.

The number of PPP contracts with budget support, over the last 6 years, broken down by economic sectors, is given in the graph below. In 2023, the contract with budget support “For the design, construction and maintenance of the “Integrated Port” in Triport Vlora”, which belongs to the transport sector with a duration of 10 years, came into force. Referring to the financial model of this contract, for the first three years, payments from the state budget are not foreseen.

Graph 10. Classification of contracts with budget support by sectors



Source: Ministry of Finance (2025)

All active concession contracts /PPPs as well as all contracts foreseen for the subsequent year are published in the draft budgetary plan of each relevant year as an annex to the accompanying report. The table below shows the amount of payments made from the state budget to active concession projects in Albania.

Table 12. Active concessions/PPPs with budgetary support

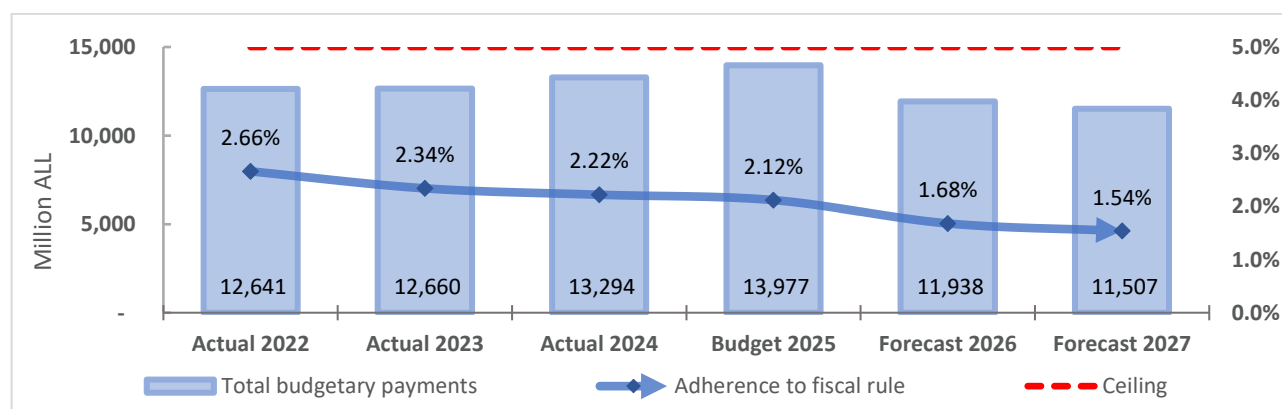
Contracting Authority	No.	PPP/Concession Contract	Starting Year	Completion Year	Program	Type of expenditure	in thousand ALL					
							2022 Actual	2023 Actual	2024 Actual	2025 Planned	2026 Forecasted	2027 Forecasted
Ministry of Infrastructure and Energy		Construction, operation and transfer of the incinerator for urban waste processing of Fier Municipality	2016	2022	06220	Investments	376,385	0	0	0	0	0
	1	Improvement, Construction, Operation and Maintenance of Arbri Road	2018	2031	04520	Investments	2,940,000	2,844,000	3,504,000	3,360,000	3,360,000	3,360,000
	2	Construction, improvement, operation, maintenance and rehabilitation of Milot-Morina highway	2017	2047	04520	Investments	740,978	666,563	608,601	660,000	720,000	720,000
	3	Improvement, Construction, Operation and Maintenance Porti i Jaltëve - Orikun - Dukat Bypass (Ura e Shën Elizës)	2021	2034	04520	Investments	224,698	726,787	786,380	860,000	956,000	956,000
	4	Design, Construction and Maintenance of the "Integrated Port" in Triport, Vlora	2023	2032	04540	Investments	0	0	0	0	0	0
Ministry of Finance	1	Financing, establishment and operation of the scanning service for containers and other vehicles in the Republic of Albania	2013	2030	01150	Current	1,925,903	1,540,310	1,411,985	1,573,698	1,620,909	1,669,537
Ministry of Health and Social Protection	1	Basic health check-up package	2015	2025	07220	Current	876,083	876,083	876,083	876,090	876,090	876,090
	2	PPP /Concession (ovision of personalized sets of surgical instruments, sterile singleuse medical materials in surgical rooms, treatment of biological waste and disinfection of surgical rooms)	2016	2026	07330	Current	1,699,975	1,749,982	1,755,835	1,900,000	500,000	0
	3	Provision of dialysis service	2016	2026	07330	Current	802,583	849,129	894,392	960,000	0	0
	4	Provision of 4 Hospital Laboratory Services	2020	2030	07330	Current	1,612,914	1,718,879	1,802,818	1,900,000	1,950,000	2,000,000
Municipality of Tirana / Ministry of Education and Sports	1	On the improvement of educational infrastructure in the Municipality of Tirana "For the design, financing, construction, refurbishment, maintenance, supervision and commissioning of 5 educational facilities in the area Tirana 1 and 4 educational facilities in the area Tirana 4"	2018	2026	09230	Investments	395,074	698,074	722,121	707,571	685,286	655,426
Ministry of Infrastructure and Energy / Municipality of Tirana	1	Construction of landfill, incinerator and rehabilitation of existing waste disposal sites and electricity generation in Tirana	2017	2047	06220	Current	1,046,397	989,797	931,363	1,180,000	1,270,200	1,270,200
	11	TOTAL					12,640,991	12,659,602	13,293,576	13,977,359	11,938,485	11,507,253
Total Tax Revenues							541,342,220	598,661,930	658,847,210	709,854,478	748,349,269	789,954,889
Adherence to Fiscal Rule (Payments should not exceed 5 percent of actual tax revenues of the previous budget year)							2.66%	2.34%	2.22%	2.12%	1.68%	1.54%

Source: Ministry of Finance (2025)

6.2. Risks identified during the preceding budget year

The Ministry of Finance carries out an ex-ante evaluation and approval of all concession and public private partnership projects, including any modifications made to them, to measure their individual or collective implications on budget expenditures, budget deficit, sustainability of public debt and eventual contingent liabilities. As a rule, the total amount of annual net payments made by the central government units to concession/PPP contracts, should not exceed the limit of 5 percent of the actual tax revenues of the preceding budget year.

Chart 11. Budget expenditure for Government-funded concessions/PPPs



Source: Ministry of Finance, Contracting Authorities (2025)

More specifically, for 2024:

- *The allowed net payment limit for concession/PPP contracts is estimated at about ALL 29.93 billion.*
- *The realized (actual) annual net payments made by the general government units, for concessional/PPP contracts with budget support, for 2024 resulted in the amount of about ALL 13.29 billion and this value constitutes only 2.22 percent of the total actual tax revenues of 2023.*

Whereas, for 2025:

- *The allowed net payment limit for concession/PPP contracts, of 5 percent of the actual tax revenues of 2024, is about ALL 32.9 billion.*
- *With reference to the 2025 budgetary payment plan, reported by the relevant Contracting Authorities, the annual net payments that are expected to be made by general government units for concession/PPP contracts, are estimated at about ALL 13.98 billion. This amount constitutes only 2.12 percent of the total actual tax revenues registered in 2024.*

6.3. Mitigation of identified risks

With regard to the fiscal rule, in 2024, as in the previous years, the Albanian Government has demonstrated compliance with Article 4/2 of Law No. 9936 dated 26.06.2008 “On the management of the budgetary system in the Republic of Albania”, which states that “...the total amount of annual net payments made by the general government units, for concessions or public private partnerships...”. In case of excess to this limit, the Council of Ministers shall undertake corrective measures from the side of budget revenues, necessary and sufficient, to return net payment levels within the allowed limit, during the next two budget years.

Among the fiscal risks faced by the Ministry of Finance in the past few years has been the lack of timely submitted reports as well as insufficient information provided in these reports, according to the annexes of Instruction no. 35, dated 12.12.2019. Therefore, in the context of the amendments to the law on concessions and public private partnerships, the Ministry of Finance has proposed the inclusion of a clause with penalties for Contracting Authorities/responsible persons that fail to provide timely and adequate reporting to the Ministry of Finance in accordance with the applicable legislation. Furthermore, the Ministry of Finance has constantly demanded from the Contracting Authorities to comply with this legal obligation.

7. Fiscal Risks Related to Public Enterprises with State Capital

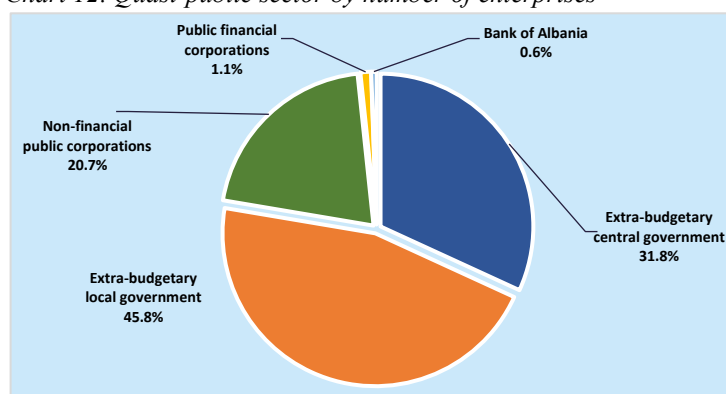
7.1. A narrative overview of the preceding budget year

Pursuant to law no. 7926, dated 20.4.1995 “*On the transformation of state-owned enterprises into commercial companies*”, all state-owned enterprises were transformed into commercial companies, where the right of ownership, pursuant to the relevant legal and sub-legal acts, is exercised jointly by the Ministry of Finance and other central and local institutions according to their area of responsibility. Following this reform, a number of strategic companies in the energy and oil processing sectors came under the ownership of the Ministry of Infrastructure and Energy, which is also the main shareholder in Water Supply and Sewerage companies. Meanwhile, a number of companies are owned by Local Governments, other central institutions or have been privatized.

Referring to the latest Instat publication (*Shtator 2024*) on the public sector in Albania, the total number, of extra-budgetary institutions is 179. They are classified as follows:

- ✓ 57 Extra-budgetary central government
- ✓ 82 Extra-budgetary local government
- ✓ 37 Non-financial public corporations
- ✓ 2 Public financial corporations
- ✓ 1 Bank of Albania

Chart 12. *Quasi-public sector by number of enterprises*



Source: INSTAT (2025)

Based on their legal status, enterprises registered as “*Joint Stock Companies - JSC (sh.a)*” are regulated by Law No. 9901, dated 4.04.2008 “*On Entrepreneurs and Commercial Companies*”. On the other hand, enterprises classified as “*Public Enterprises*” are governed by Law No. 7582, dated 13.07.1992 “*On State-Owned Enterprises*”. In addition, certain enterprises are regulated by special legislation. For example, the Albanian Radio and Television (RTSH) holds the status of a public legal entity and operates under Law No. 97, dated 04.03.2013 “*On Audiovisual Media in the Republic of Albania*”. Similarly, the Durrës Port Authority (APD) is also a public legal entity operating pursuant to Law No. 9130, dated 08.09.2003 “*On the Port Authority*”. A change in legal status is also foreseen for Albcontrol sh.a., which, following the approval of Law No. 40, dated 02.05.2024 “*On the Provider of Air Navigation Services ‘Albcontrol’*”, is expected to transition from a joint stock company to a public legal entity under the supervision of the minister responsible for civil aviation. As of end-2024, this transformation process has not yet been finalized. Meanwhile, the company Albanian Railways sh.a. is undergoing a restructuring process. Pursuant to Law No. 90, dated 01.07.2021 “*On the Division of the Company ‘Albanian Railways sh.a.’*”, as amended, the company is set to be divided into two receiving entities: one responsible for railway infrastructure and the other for passenger and freight transport. This law was amended in December 2024, transferring ownership rights over the enterprise to the ministry responsible for rail transport, whereas previously, these rights were exercised by the ministry responsible for the economy.

With regard to the main SOE portfolios, the Ministry of Finance holds ownership in three state-owned enterprises as of 2024: *Shtypshkronja e Letrave me Vlerë sh.a.* (Securities Printing Press), *Agrokredit sh.a.*, and *Nxitja e Biznesit Social sh.a.* (Social Business Support).

Regarding the Ministry of Economy, Culture and Innovation (MEKI) and the Ministry of Infrastructure and Energy (MIE), the companies in which they own the majority of the shares are presented in the table below:

Table 13. SOEs under the ownership of MEKI and MIE for 2024

Ownership of State-owned Enterprises by Legal Form		MEKI		MIE	
		100% ownership	over 50% ownership	100% ownership	over 50% ownership
Joint Stock Company JSC		5	7	5	14
Strategic	<i>OST sh.a</i>	x			
	<i>Posta Shqiptare sh.a</i> (Albanian Post)	x			
	<i>Albcontrol sh.a</i>	x			
	<i>Albanian Investment Corporation sh.a (AIC)</i>	x			
	<i>Operatori i Blerjeve të Përqendruara sh.a</i> (Centralised Purchasing Operator)	x			
	<i>"Albpetrol" sh.a</i>			x	
	<i>Hekurudha Shqiptare sh.a</i> (Albanian Railways)			x	
	<i>Albgaz sh.a</i>			x	
	<i>"OSHEE" sh.a</i>			x	
	<i>"KESH" sh.a</i>			x	
Non-Strategic	<i>Porti Detar Shëngjin sh.a</i> (Port of Shëngjin)		x		
	<i>Porti Detar Vlorë sh.a</i> (Port of Vlorë)		x		
	<i>Porti Detar Sarandë sh.a</i> (Port of Saranda)		x		
	<i>Regjistri Detar Shqiptar sh.a</i> (Albania Maritime Register)		x		
	<i>Albafilm sh.a</i>		x		
	<i>Trajtimi i Studentëve Korçë sh.a</i> (Student Dormitory Korçë)		x		
	<i>Qendra e Regjistrimit të Aksioneve sh.a</i> (Securities Registrar)		x		
	<i>14 Regional Directorates of Water Supply and Sewerage sh.a.</i>				x
Public Enterprises		1	0	1	0
Strategic	<i>Industrial enterprise No.1 Tiranë</i>	x			
Non-Strategic	<i>Steel Production Enterprise, Elbasan</i>			x	

Source: Ministry of Finance (2025)

Pursuant to the OBL, article 4/2, which states that “..Annual financial plans and quarterly financial statements, of any non-central government unit benefiting from budget funds and/or state guarantees, are submitted to the Ministry of Finance...”, the supplementary instruction no. 1/2024 “On the implementation of the 2024 Budget”, the Ministry of Finance performs regular monitoring, on a quarterly basis, of the financial performance of the main SOEs, along with two other entities (not joint-stock companies) such as RTSH and APD, in order to identify their potential impact on the state budget. The monitoring process aims to analyze the financial and non-financial performance of the main public enterprises. In this context, a list of the main enterprises under monitoring is shown in the table below:

Table 14. SOEs monitored for 2024

No.	Ownership of SOEs under monitoring	MEKI	MIE	Other
1	OSHEE Group sh.a		•	
2	KESH sh.a		•	
3	OST sh.a	•		
4	UKT sh.a		•	
5	UKD sh.a		•	
6	Hekurudha Shqiptare sh.a (Albanian Railways)		•	
7	Posta Shqiptare sh.a (Albanian Post)	•		
8	AlbGaz sh.a		•	
9	Albcontrol sh.a	•		
10	Radio Televizioni Shqiptar (RTSH) (Albanian Radio Television)			•
11	Albpetrol sh.a		•	
12	Autoriteti Portual Durrës (APD) (Durrës Port Authority)			•
TOTAL		3	7	2

Source: Ministry of Finance (2025)

The main economic and financial indicators of SOEs monitored by the MoF are presented below⁹.

Table 15. Economic and financial indicators of main SOEs and two other entities (not JSC) monitored in 2024, million ALL.

Entity	Revenues	Expenses	Loss /Profit	Total Assets	Total Liabilities	Equity	Profit Margin	Current Ratio	(Debt Ratio) Tot Liabilities /Tot Assets
OSHEE Group sh.a	74,717	67,434	7,283	111,673	135,105	(23,431)	0.10	0.59	1.21
KESH sh.a	26,746	27,124	(379)	174,026	81,167	92,859	-0.01	1.39	0.47
OST sh.a	10,880	9,082	1,798	83,022	40,028	42,995	0.17	0.60	0.48
UKT sh.a	4,834	3,853	982	29,344	15,633	13,712	0.20	0.78	0.53
HSH sh.a	890	950	(60)	85,482	9,808	75,674	-0.07	0.27	0.11
AlbGaz sh.a	42	145	(103)	1,432	684	748	-2.48	9.92	0.48
Albcontrol sh.a	3,587	3,567	19	20,218	13,125	7,093	0.01	2.92	0.65
RTSH	2,270	2,816	(546)	3,394	2,072	1,322	-0.24	0.43	0.61
Albpetrol sh.a	6,010	6,503	(494)	51,066	16,196	34,870	-0.08	1.32	0.32
APD	3,016	2,924	92	12,470	1,803	10,667	0.03	1.01	0.14
Posta Shqiptare sh.a	3,229	3,252	(23.5)	-	-	-	-	-	-
Total	136,220	127,651	8,569	572,128	315,620	256,508	-	-	-
% of nominal GDP for 2024	5.46%	5.12%	0.34%	22.94%	12.65%	10.28%	-	-	-

Source: Ministry of Finance (2025)

Referring to the data above, for 2024, it is noted that state-owned enterprises such as OST and UKT rezultojnë had a relatively high profit margin of about 20 percent. Similarly, a positive profit is observed for companies such as OSHEE Group, Albcontrol and APD. Whereas, KESH, AlbGaz, HSH, RTSH and Albpetrol had poor performance, the reasons for which are given below:

⁹ There has been no reporting for 2024 from Durrës Regional Water Supply and Sewerage Company (UKRD). The non-reporting of financial data in a timely manner by the entity is argued with the delays in the approval of their financial statements.

- *KESH sh.a. evidences that the loss recorded in 2024 was mainly affected by the lack of water flows, which significantly affected the reduction of energy production, thus reducing the income from the sale of electricity, while the obligation for energy supply to universal consumers according to the DSHP remained unchanged.*
- *According to the information conveyed by Albغاز sh.a, despite the full realization of the revenue plan, the current financial situation of the company registers losses, due to the high volume of operating expenses.*
- *The poor performance of the Albanian Railways (HSH sh.a.) has mainly come as a result of the investments that are being made in the modernization of the Durrës-Tirana railway line (profitable line for HSH), which is temporarily out of operation.*
- *The non-realization of revenues has had an impact on the financial performance of RTSH mainly as a result of the non-implementation of some planned changes in the service fee for the use of television sets and the reduction of the tax agent's commission, as well as from the obstacles in the realization of capital investments related to the reconstruction of the New Atelier. Also, Revenue from advertising and other alternative sources was not achieved as expected.*
- *The negative financial result (loss) by Albpetrol Sh.A in 2024 is mainly related to the non-realization of revenues from the sale of oil, affected not by the quantity, but by the lower sale price compared to the program, as well as to the lack of production and payment of liabilities by the contractor for gas in the Delvina field.*

On the other hand, given the high level of liquidity, KESH, AlbGaz, Albcontrol and Albpetrol, show good ability to meet their short-term liabilities.

Albanian Railways, APD and Albpetrol, have a low debt ratio (total liabilities to assets), showing a stable financial position. Whereas, Albcontrol and in particular the OSHEE Group have a high debt ratio, indicating their financial inability to meet liabilities.

The table below shows a summary of the obligations such as sub-loans or guarantees that state-owned enterprises owed to the Ministry of Finance for the period 2016-2024.

Table 16. Subloans and guarantees (obligations) from MoF to state-owned enterprises

Year (mln ALL)	Energy*			Water**			Other***			Total		
	Subloan	Guarantee	Total	Subloan	Guarantee	Total	Subloan	Guarantee	Total	Subloan	Guarantee	Total
2016	5,219	4,482	9,701	4,908	1,222	6,130	5	270	275	10,133	5,974	16,107
2017	8,279	7,051	15,330	5,656	1,345	7,001	55	295	350	13,990	8,690	22,680
2018	12,689	9,169	21,858	5,982	1,381	7,363	43	466	510	18,714	11,017	29,731
2019	16,981	11,049	28,030	6,409	1,494	7,903	6	806	812	23,396	13,349	36,746
2020	22,772	13,187	35,960	7,177	1,651	8,828	8	1,191	1,199	29,957	16,030	45,987
2021	27,129	14,291	41,420	7,982	1,742	9,724	9	1,530	1,538	35,119	17,563	52,682
2022	28,779	16,259	45,038	8,600	1,771	10,371	9	1,785	1,794	37,388	19,815	57,203
2023	31,063	15,626	46,689	8,542	1,722	10,264	9	1,938	1,948	39,615	19,286	58,901
2024	35,034	16,213	51,247	8,862	1,733	10,595	314	2,121	2,435	44,211	20,067	64,278

* The Energy Sector includes state-owned enterprises: OSHEE Group sh.a, KESH sh.a and OST sh.a..

** The Water sector includes all Water and Sewerage Utilities sh.a..

*** Other SOEs include state-owned enterprises: ARMO sh.a, Albanian Railways sh.a, Servcom sh.a, Albpetrol sh.a and RTSH.

Source: Ministry of Finance (2025)

The following table shows the budgetary funds in the form of subsidies (Budget/Actual), over the years, which are mainly planned for those state-owned enterprises that fail to cover operation and maintenance costs/expenses. The procedures for the allocation of these funds are set out in Instruction No. 9, dated 20.07.2018 “On Standard Procedures for Budget Implementation”.

Table 17. Subsidies to state-owned enterprises from 2016 to 2024

Year (mln ALL)	Subvention from the budget for:					
	WSS SOEs		Directorate of Government Support Services		Albanian Railways	
	Budget	Actual	Budget	Actual	Budget	Actual
2016	430	429	90	90	390	390
2017	1,000	975	114	111	400	400
2018	1,000	951	275	273	400	400
2019	400	400	275	275	400	400
2020	720	712	294	294	400	400
2021	380	354	270	270	400	400
2022	360	360	328	328	501	501
2023	310	310	308	308	490	490
2024	350	350	312	311	500	500

Source: Ministry of Finance (2025)

7.1.1. Energy Sector

The financial performance of the energy sector has recorded a decline, as a result of: (i) unfavorable meteorological conditions in the country during the last quarter of the year, and as a result, (ii) the decline in flows in the Drini cascade, which has reduced the level of domestic energy production by KESH sh.a. throughout 2024. More specifically, water level in the Fierza basin until December 2024 was at 267.3m. This level is the lowest for the last 10 years for the same period, it is also lower compared to the average quota of the last 30 years of 277.5m.

Compared to 2023, it is observed that:

- Overall domestic net production, has decreased by about 11.6 percent compared to the same period a year ago. Specifically, during 12M 2024, net domestic production stands at 7.84 TWh, compared to 8.80 TWh realized in the same period of the previous year.
- Net electricity produced by KESH sh.a reached about 4.37 TWh during 12M 2024, compared to 5.13 TWh in the same period of previous year, resulting in a decrease of about 14.8 percent.
- Losses in the electricity distribution grid declined further in 2024, reaching to 17.9 percent, as compared to 18.9 percent in 2023.
- Revenue collection rate of OSHEE Group sh.a. for 2023 reached up to 99.4 percent, marking an increase from 98.0 percent in the same period of the previous year, indicating the company's stable position.

In the context of fiscal risk, the impact of the sector on public finances in terms of costs or forgone revenue is estimated at around ALL 6.05 billion, from around ALL 5.29 billion in 2023, indicating an increase in the sector's impact on public finances. This situation was affected by the not very favorable atmospheric conditions that significantly reduced the level of domestic energy production by KESH sh.a and the financial performance of this company. Foreign-financed investment projects for the energy sector for 2024 were approved at the level of ALL 2 billion according to the initial budget approved by Law no. 97/2023 "On the 2024 Budget", and there were no revisions during the budget year.

Exposure to the risk from the electricity sector and the current magnitude of contingent liabilities related to this sector are presented in the following tables:

Table 18. Budgetary support to the energy sector (budget/actual) for the period 2022-2024

	2022		2023		2024	
	Budget	Actual	Budget	Actual	Budget	Actual
Funding from the state budget (in million ALL)	30,100	28,474	14,000	873	2,000	308
<i>Loan to the Energy Sector</i>	8,000	7,907	-	-	-	-
<i>Budgetary support to the energy sector</i>	20,000	20,000	12,000	-	-	-
<i>Foreign financing to the energy sector</i>	2,100	567	2,000	873	2,000	308

Source: Ministry of Finance (2025)

Table 19. Data on the impact of the energy sector on public finances¹⁰

	2020	2021	2022	2023	2024
The overall impact of energy sector on public finances (in million ALL):	5,240	5,504	33,017	5,286	6,045
1. Guarantees and sub-loans paid by the MoF	5,240	5,407	32,973	5,285	6,045
<i>Energy sector guarantees paid by MoF</i>	2,069	1,504*	2,989	1,149	1,631
<i>Sub-loaned foreign funded projects</i>	3,172	3,903	2,077	4,136	4,414
<i>Loans given to the energy sector</i>	-	-	7,907**	-	-
2. Direct budget support related to the energy sector			20,000**	0***	-
3. Tax obligations (outstanding)	0.1	97.3	43.4	0.1	0.5

Source: Ministry of Finance (2025)

7.1.2. Mutual arrears of the Energy SOEs to MoF/GDT and LM/BI

In the context of the energy sector reform, the Ministry of Finance and the Ministry of Infrastructure and Energy, co-signed the Joint Order no. 379/2021 dated 30.09.2021 “On the implementation of the plan of measures for the reduction of arrears in the electricity sector”, requiring all state-owned enterprises that operate in the energy sector to regularly report, on a monthly basis, on the payment of mutual arrears between the energy companies and other public entities. In 2023, in accordance with the above-mentioned instruction, the Ministry of Finance regularly monitored, on a monthly basis, the mutual arrears reported by the energy companies and other public entities. State-owned companies of the energy sector reported that part of the mutual arrears have been repaid according to the plan of measures for their reduction.

Despite a slight overall decline in the financial performance of the energy sector during 2024, a reduction in the total stock of mutual liabilities was achieved compared to 2023. A factor that has affected the current situation is the delays of U-K enterprises in the settlement of mutual obligations.

However, the enterprises of the energy sector confirm that their commitment remains maximum in terms of successful fulfillment of the agreements for the complete liquidation of the stock of mutual arrears.

Table 20. Mutual Arrears between the Energy SOEs, LM/BI, MoF and GDT

As of December 2024 (in billion ALL)	KESH	OST	OSHEE	MoF	GDT	Total
KESH to:		0*		40.15		40.15
OST to:	10.81*		0.30	8.32		19.43
OSHEE to:	46.9**	8.4**		2.78	4.28	62.37
WSS Utilities to:			32.60	10.60		43.20
LM/BI			6.10			6.10
Total	57.71	8.40	39.00	61.85	4.28	171.24

* The amount of mutual arrears is in the range of ALL 0-0.10 billion for KESH to OST and in the range of ALL 10.81-14.67 billion for OST to KESH, due to non-reconciliation between the companies' accounts.

** The amount of mutual arrears varies in the range of ALL 46.9-53.05 billion for OSHEE to KESH and in the range of ALL 8.4-17.11 billion for OSHEE to OST, due to non-reconciliation between the companies' accounts.

Source: MoF, KESH, OST, OSHEE Group, AKUK (2025)

¹⁰ *Sovereign Guarantee for the Energy Sector (OSHEE Group sh.a.) in the sum of 10,000 million for the year 2021 through Normative Act no. 31, dated 27.10.2021.

***“Loans for the energy sector” are planned in the sum of ALL 8,000 million for the year 2022 (Actual realization is in the amount of ALL 7,907 million) and “Budget Support for the Energy Sector” are planned ALL 20,000 million for the year 2022 (Actual realization ALL 20,000 million).

***Budgetary Budget Support for the Energy Sector planned in the amount of ALL 12,000 million for the year 2023, was revoked through Normative Act nr.5 dated 18.10.2023, and redistributed to other public expenditure items, based on the stable situation of the sector for the current year.

7.1.3. Energy sector risks

- **Market Risk:** From a short-term non-systemic risk, energy market risk has turned into a systemic risk due to prolonged geopolitical instability and fragmentation of fuel supplies. Despite a temporary stabilization during 2023, rising tensions in the Middle East and the continuation of the Russia-Ukraine conflict significantly increased uncertainties in international markets, leading to price volatility and increased exposure to import costs, compared to initial planning.
- **Hydrological Risk:** Deepened by the effects of climate and the almost total dependence of KESH on hydro production, it is transforming from a non-systemic risk to a systematic and structural risk for power generation. During 2024, although the preceding year has marked a significant improvement in the water situation, the lack of flows in the coming months has significantly increased the exposure to this risk, negatively affecting energy production and forcing revisions of the financial plan within the year.
- **Production Portfolio Risk:** This risk is related to exposure to the lack of diversification of energy production sources and the almost total dependence of KESH and the entire energy sector on hydro sources, creating a seasonal imbalance between production and consumption that often turns the country into a net energy importer.
- **Liquidity Risk:** All three enterprises report a currently improved liquidity situation, but the risk continues to be present in a medium-term perspective, especially if negative scenarios related to energy prices or domestic production occur. For OSHEE Group sh.a., the liquidity risk is conditioned by the liabilities inherited from the period of poor performance (2009–2014), while it remains sensitive to delays in collections from end customers and the performance of losses in the network. KESH sh.a. It also signals potential risk in covering liabilities for strategic investments in the event of a decline in revenues. OST sh.a. identifies as an additional factor the exposure to the exchange rate for foreign currency loans and delays in disbursements for externally financed investments.

7.1.4. Mitigation of identified risks

Being exposed to the above risks, the SOEs operating in the energy sector, under the auspices of the Albanian government and approved action plans, undertook concrete measures for the management of these risks, as follows:

- **Energy Market Risk:** In order to reduce the impact of materialization of the energy market risk and to minimize the dependence on imports during 2024, the contracting for the lease of thermal generating assets with a capacity of 110 MW has been carried out. This additional capacity is an important guarantee for the optimization of domestic production, especially during periods with a lack of rainfall. Another important measure has been the provision of energy from the Karavasta Solar photovoltaic plant with a capacity of 140 MW, already in operation, which guarantees supply at a significantly lower regulated auction price compared to the current prices of regional energy exchanges, such as HUPX index.
- **Hydrological Risk:** The efficient management of the operation of the Cascade during the year, for the maximization of hydro production and at the same time the good management of the water reserve, is the main measure for mitigating the water risk. Also, work is being done to diversify production sources, activating alternatives such as thermal generators and photovoltaic plants, to ensure supply during periods of lack of natural flows.
- **Production Portfolio Risk:** Work on the diversification of energy sources will continue with the progress of photovoltaic projects, such as the construction of the PV plant Zadeja Dam-Vau i Dejës with a capacity of 8.25 MW and a floating PV plant in Lake Vau i Dejës with a capacity of 13.8 MW. These projects, together with the Belsh PV plant, will significantly increase the photovoltaic generating capacities.

- **Liquidity Risk:** Energy trading for 6kV/10kV and 20kV consumers through the ALPEX energy exchange has impacted the timely provision of liquidity, turning this mechanism into an important tool for reducing liquidity risk. This has a positive impact on the provision of liquidity to the companies in the sector, contributing to lower exposure to this risk. Also, the transition of 10kV voltage consumers to the free market and the deepening of the energy sector reform are long-term steps aimed at stabilizing collections and reducing KESH's exposure to payment delays, through increased transparency and market efficiency.

7.2. Water Supply and Sewerage (Utilities)

In the context of improving SOEs performance, the Ministry of Finance has monitored a set of main financial indicators of Water Supply and Sewerage companies. The main performance indicators for 2024, for the WSS utilities analyzed, point to a continuity of the existing financial situation and difficulties in paying liabilities and collecting revenues, signaling potential liquidity problems in the short term. Factors such as the effects of the COVID-19 pandemic, the global energy crisis, the war in Ukraine, fluctuations in energy, fuel and input prices have significantly affected the financial performance of WSS utilities.

In 2024, a subsidy worth ALL 350 million was allocated from the state budget to the budget structure of the Ministry of Infrastructure and Energy, which is detailed by AKUK/MoIE based on the criteria defined in the Instruction “*On the approval of the methodology regarding the criteria and procedures for the distribution and utilization of state subsidies for water supply and sewerage joint-stock companies...*”, approved by the Minister responsible for Infrastructure and Energy. This subsidy goes mainly to state-owned enterprises that are unable to cover operation and maintenance costs.

In terms of the stock of arrears accumulated from WSS utilities to the energy sector, it is worth noting that the energy sector reform has contributed to strengthen the relationships and collaboration between main institutions and key actors. The water sector is also part of the mutual obligations settlement process contained in the action plan for the reduction of arrears in the energy (electricity) sector, approved by the Joint Order MoIE/MoF no. 304/2020 “*On the approval of the action plan for the reduction of arrears in the electricity sector*”.

In order to ensure the successful implementation of this action plan, MoIE and MoF co-signed the second Joint Order no. 379/2021 “*On the implementation of the action plan for the reduction of arrears in the electricity sector*”, which charges AKUK (in addition to energy sector companies) with the monthly reporting on the progress of the mutual arrears clearance process.

Accumulated arrears from Water Supply and Sewerage utilities, reported by OSHEE Group sh.a. up to December 2024, amounted to about ALL 32.9 billion. Of these, nearly ALL 16.6 billion are unpaid electricity bills and nearly ALL 16 billion are interest payments. Based on total liabilities (principal), only the U-K Durrës sh. a (Durrës WSS) has ALL 5.62 billion of liabilities accumulated over the years. The table below lists five WSS utilities with the highest stock of accumulated arrears (principal) to OSHEE Group sh. a, as of December 2024.

Table 21. Water Supply and Sewerage utilities with the highest stock arrears (principal) to OSHEE Group, for 12M 2024

<i>(in billion ALL)</i>	
<u>5 WSS utilities with the largest stock of arrears to OSHEE Group</u>	<u>9.93</u>
WSS Unit sh.a Durrës	5.62
WSS Unit sh.a Vlorë	1.86
WSS Unit sh.a Patos	0.87
WSS Unit sh.a Fier	0.83
WSS Unit sh.a Kavajë	0.77

Source: AKUK (2025)

The water sector is undergoing a reforming and reorganization process in accordance with the National Strategy on Water Supply and Sewerage 2020-2030. Pursuant to DCM no. 302, dated 11.05.2022 “*On the national policies for the reorganization of the sector of water supply and wastewater removal, treatment and processing*”, this reform intends to restructure the 58 existing WSS utilities municipality-based into 15 regional WSS-JCE companies (Joint Competence Entities). The purpose of the restructuring is to improve WSS governance and financial performance, which will in turn bring more revenue to ensure their operational efficiency and especially help them clear arrears or prevent their accumulation in the future.

By December 2024, agreements have been reached for the transfer of service activity between 52 WSS utilities and as a result 14 regional WSS-JCE companies have been created out of 15 envisaged according to the reform. The cooperation agreement for the establishment of the regional company WSS-JCE Tirana has not yet been signed.

7.3. Other

Detailed information on state-owned enterprises under MoF monitoring, including the risks identified and the measures taken to mitigate them, is presented in Annex B of this Report.

During 2024, the monitoring process has been further advanced compared to 2023, through the use of the analytical tool "SOE Health Check Tool" (SOE HCT), which has enabled a more structured and comparable assessment of the financial performance of public enterprises. The results of the analysis for 2024, generated by this tool, are presented in Annex C.

8. Fiscal Risks Related to Contingent Liabilities

8.1. Judgements of the European Court of Human Rights in Strasbourg (ECtHR)

These judgements are mostly delivered for cases related to property restitution and compensation of former owners. The Ministry of Finance has continuously complied with the ECtHR judgements, through the implementation of the relevant DCMs approved for the execution of these judgements, making the compensation payments correctly and within the strict deadlines set by this body. Timely execution of these decisions is important, because of if compensation payments do not take place within three months from the date of the final judgement, Albanian Government is burdened with the obligation to pay default interests for each day of delay. However, in order to guarantee the timely execution of the Court's judgements, the MoF has consistently recommended the use of all possible institutional and procedural channels, within the legal provisions of the legislation in force, suggesting a scheduled payment (in installments) of the financial obligation, based on the financial ability of the state budget and in negotiation with the beneficiaries.

The amount paid for ECtHR judgements in 2024 is about EUR 288,749 (about ALL 29.46 million), of which nearly ALL 19.02 million were financed by the reserve fund of the 2024 state budget and nearly ALL 10.44 million by the funds of Ministry of Finance

The following table present the obligations arising from ECtHR judgements, of end of 2024:

Table 22. Obligations arising from ECtHR judgements (in euro), as of end of 2024

Judgements Date	ECtHR Judgements	Obligation from ECtHR decision/DCM	Contingent liabilities	Total Obligation
14.09.2015	Delijorgji versus Albania	15,600 €		15,600 €
17.03.2016	Rista and others versus Albania (Application: Dhimërtika and Nika v. Albania)	4,417,750 €		4,417,750 €
11.01.2018	Sharxhi versus Albania	13,447,300 €		13,447,300 €
05.03.2024	Iliria s.r.l versus Albania	10,800 €		10,800 €
11.06.2024	Zela versus Albania	60,000 €		60,000 €
16.07.2024	Meli and Swinkels Family Brewers versus Albania	17,200 €		17,200 €
05.09.2024	Ndreka versus Albania	3,600 €		3,600 €
24.10.2024	Sovjani versus Albania		3,600 €	3,600 €
10.12.2024	Ramaj versus Albania		14,000 €	14,000 €
17.12.2024	Gaba versus Albania		7,100 €	7,100 €
	Total	17,972,250 €	24,700 €	17,996,950 €

Note: Obligation from ECtHR judgement/DCM is the relevant obligation arising from a final ECtHR judgement/DCM, which, at the time of reporting, has not been paid yet.

Note: Contingent liability is the expected/potential liability from a pending decision of the ECtHR, reported by the State Advocate's Office.

Source: Ministry of Finance, State Advocate's Office (2025)

8.2. Decisions of the International Court of Arbitration

The decisions of the International Court of Arbitration are related to final decisions for the resolution of conflicts in bilateral or multilateral disputes, against Albania. Considering the inherent financial effects that usually accompany these decisions, they are estimated to pose a significant risk to the state budget. The Ministry of Finance has continuously recommended to the budgetary institutions and the State Advocate's Office to strengthen their negotiating role in such matters, and to streamline the process for the financial settlement of beneficiaries. This is done with the ultimate aim of facilitating, reducing and avoiding the financial burden on the state budget.

In 2024, the total value of legal, representation, defense, court costs or other costs related to International Arbitration decisions, paid by the state budget, amounted to EUR 4.88 million. The table below presents a summary of the obligations due to the decisions of the International Court of Arbitration, until the end of 2024.

Table 23. Liabilities from cases lost in International Court of Arbitration (in Euro)

Line Ministries	Description of Arbitration Decisions	Repayment 2024	Outstanding amount from Arbitration decisions / legal costs (A)	Contingent liabilities (B)	Total Liability (C=A+B)
MoIE /ARA	ICC Case no. 23998/MHM (c-24011/MHM/HBH). <i>JV Copri-Aktor vs ARSSH.</i>	0	42,472,629	0	42,472,629
	Legal costs and court expenses ICC Case no. 23998/MHM (c-24011/MHM/HBH)	0	225,000	0	225,000
MoIE/ AKUK	ICC Case 24140/MHM	0	13,492,241	0	13,492,241
	Administrative costs, representation and legal costs for the ICC Case no. 24140/MHM/HBH <i>Construzioni DONDI S.P.A.</i>	0	28,500	0	28,500
MIE	ICC Case No. 20564/EMT/GR <i>Hydro srl</i>	0	142,976	0	142,976
	Legal costs for RSH representation and defense procedures for the rejection of the request to review decision dated 04.06.2019 ICC Case no. 22919/GR.	0	0	111,150	111,150
APD	Administrative and legal costs for the ICSID Case no. ARB/20/37 (<i>Durrës Kurum Shipping and other versus Albania</i>)	851,000	0	0	0
MIE/APD	Legal costs for ICSID Case EMS Shipping & Trading GmbH. vs Republic of Albania	1,050,000	0	0	0
	Administrative costs for ICSID Case EMS Shipping & Trading GmbH. vs Republic of Albania	330,000	0	0	0
MIE/ NARN/ Albpetrol Sh.a	ICC Case no. 22676/GR GBC Oil Company LTD vs MIE, AKBN and Albpetrol	0	12,241,533	0	12,241,533
	Legal costs for MIE/NARN representation procedures in ICC Case 21349/EMT/GR (<i>BPAL vs MIE/AKBN and Albpetrol</i>)	904,528	41,110	0	41,100
Albpetrol Sh.a	Representation costs in ICC Case Phoenix Petroleum Sha versus Albpetrol Sh.a	156,868	0	0	0
MF	Preliminary and legal costs for the case SCC Arbitration 2021/155 <i>IVICOM Holding Gmbh</i>	1,013,489	0	0	0
	Representation of Albania in the arbitration case <i>Mimoza Ndroqi versus RoA</i>	0	250,000	395,000	645,000
	Legal costs for legal advice and consultancy services in international disputes and arbitrations	150,000	0	0	0
	Arbitration ICSID no. ARB/15/28 " <i>Hydro and others versus Albania</i> "	0	0	108,000,000	108,000,000
	Legal costs related to the Arbitration ICSID no. ARB/15/28 " <i>Hydro and others versus Albania</i> "	224,500	548,295	1,999,780	2,548,075
MARD	Administrative and legal costs for the PCA Case 2018-49 <i>Valeria Srl vs RoA</i>	200,000	0	0	0
	Total	4,880,384	69,442,284	110,505,930	179,948,204

We clarify that, for contracts that are terminated before the expiration date of the contracted the service, the subject is paid only for the services performed under the contract provisions. Consequently, the whole value specified in the contract is not exhausted.

Note: The above information is based on the most recent data (April 2025) reported to MoF by the State Advocate's Office and by LM/BI. Therefore, the accuracy of our estimates depends on the extent to which the information is made available to us. The State Advocate's Office is the only body that has the prerogative to validate them.

Note: The above table includes obligations arising from final decisions of the Court of Arbitration and obligations arising from contracts concluded between the Albanian state and law firms/independent experts, etc. (mainly for procedures of representation and defence, opposition/review/annulment of an arbitration award or other administrative/application/translation costs, etc.).

Note: The remaining obligation from International Arbitration decisions/legal costs is the unpaid obligation from a final decision of the International Court of Arbitration or the remaining (unpaid) obligation from the contracts signed between the Albanian state and law firms/independent experts, for the part of the obligation that has been invoiced by the State Advocate's Office and which is unpaid or the obligation which, based on the contract, must be paid in accordance with the schedules defined in the relevant article on "fees and method of payment" of the contract.

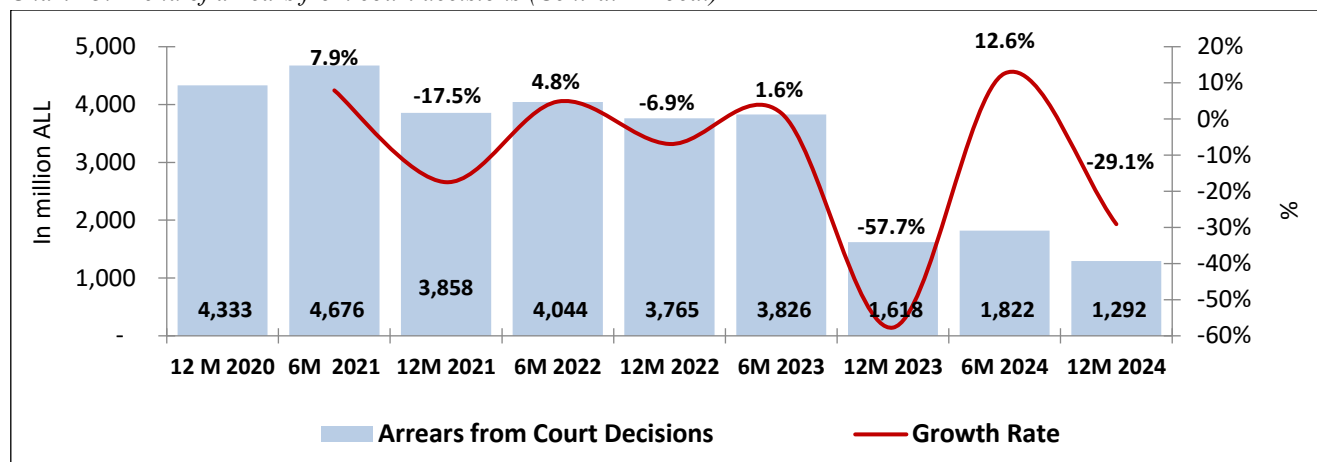
Note: Contingent liability is the expected/potential obligation which is likely to materialize in the future, specifically for decisions of the International Court of Arbitration which are subject to legal procedures of appeal/revision/suspension/cancellation or expected obligations from contracts signed between the Albanian state and law firms/ independent experts, for the procedural stages defined in the contract which continue in those cases where the court finds jurisdiction and service continues to be provided in the other stages defined in the contract, which involve financial costs.

Source: Ministry of Finance, State Advocate's Office, Line Ministries/Budgetary Institutions (2025)

8.3. Final administrative court decisions (Central + Local)

The following chart shows the trend of arrears arising from court decisions on a six-month basis until December 2024.

Chart 13. Trend of arrears from court decisions (Central + Local)



Source: Ministry of Finance (2025)

Arrears from court decisions are mainly related to the unfair dismissal of former employees, which, in any case, involve unforeseen budget costs. These obligations are monitored and reported by the Ministry of Finance, within the general arrears monitoring framework.

To prevent the accumulation of arrears, the Ministry of Finance, in addition to a periodic monitoring, has constantly urged budgetary institutions to manage arrears by applying scheduled repayment (in installments) for the beneficiaries or other relief instruments and/or displacement in time of their budget burden.

9. Fiscal Risks Related to Natural Disasters

9.1. A narrative overview of the preceding budget year

In 2024, Albania experienced a series of emergency situations of various natural phenomena, highlighting the country's sensitivity to climate-related events and the further need for increased preparedness and resilience to disasters. Specifically, the country faced one of the most devastating fire seasons in more than a decade. According to the European Forest Fire Information System (EFFIS), 168 fires destroyed approximately 46,534 hectares of land, surpassing the previous record set in 2012. The most affected regions were Gjirokastra, Vlora, Fier, Shkodra where the widespread loss of vegetation has increased the risk of soil erosion and subsequent flooding during the winter months, especially in the western lowlands. However, the facts reported by LGUs and officially recorded refer to deliberate and irresponsible arson by human hand, and not by heat due to high temperatures.

Regarding seismic events, a total of 28 earthquake tremors with a magnitude of about 3.0 to 4.5 on the Richter scale were recorded, which were easily felt around the epicenters, but without causing problems in infrastructure and the community. In this context, during 2024, the National Civil Protection Agency (AKMC) has focused on further strengthening the governance of disaster risk management through the completion of the sub-legal framework in implementation of Law 45/2019 “On Civil Protection”, the collection and analysis of data at the central and local level of institutional activity on behalf of DCM 168/2023, the implementation of DCM 94/2023 on the Action Plan 2023 - 2027 of the National Risk Reduction Strategy (SKZRF) 2023 - 2030, the drafting of key strategic documents at the local level, in order to fulfill its obligations in view of disaster risk reduction, as a member country of the European Civil Protection Mechanism (EUCPM) and a candidate country for membership in the European Union. Efforts to strengthen civil protection are focused on infrastructure improvements in the framework of preventive, mitigation and rehabilitation measures, strengthening operational capacities, increasing knowledge and professional training of civil protection personnel at local and central level, raising awareness and awareness among the population. Financially, the government increased the emergency fund to ALL 5.4 billion for 2024, allocating resources for disaster prevention projects, dam maintenance, and disaster recovery efforts. More than 15 programs/projects are being implemented in implementation of national strategic priorities with concrete measures and activities that intersect between line ministries, central agencies and other responsible structures.

However, the World Bank's Country Climate and Development Report highlighted the need for Albania to invest USD 6 billion over the next decade to protect against climate-induced disasters, highlighting the potential economic benefits of proactive adaptation measures.

The challenges facing the country underline the importance of continuous investments in the framework of the ZRF Strategy and climate adaptation, the completion of the legal framework and the installation of the multi-risk approach to protect communities and foster sustainable development.

9.2. Hazards identified during the preceding budget year

In accordance with point 2 of Article 48 of Law No. 45/2019 “On Civil Protection”, as well as DCM No. 345, dated 26.05.2022, “On Determining the Method of Collection and Administration of Disaster Loss Data”, in October 2024, AKMC enabled the establishment of the Disaster Loss Database. In cooperation with the National Agency for Information Society (AKSHI), the system was integrated into the group of State Electronic Systems, with a dedicated digital environment hosted on AKSHI servers. The procedures of the Disaster Loss Database system are organized, operated, and defined in accordance with the Internal Regulation on the Organization and Functioning of the State Disaster Loss Database. The User Manual, dated 28.05.2025, summarizes the roles of all system users, ensuring the full implementation and use of the functionalities provided by this platform.

Due to increased security measures, such as a state database, the Loss Data system can only be accessed by registered users through the 2-factor security system.

Data retention is an essential and comprehensive service, where through analysis it gives users the opportunity to achieve an immediate understanding of the impact of disasters in a country or region, the possibility of comparative research and is a supporting basis for decision-making.

The database will serve for the preparation of various reports, including study or historical ones, for inclusion in various projects for reconstruction or compensation of damages from disasters, investments from the state budget, to fulfill the legal obligations for the revision of strategic civil protection documents, taking measures and reporting on the fulfillment of the objectives of the Sendai Framework and in the framework of Albania's membership in the UCPM.

After the establishment of the system, trainings were carried out initially with the staff of the AKMC itself and then with the persons assigned by the municipalities and 12 prefectures, according to the training module no. 10 "Using the Disaster Loss Database". Currently, the preparation of the list of users by the Ministries and other central institutions for training is continuing. The receipt of data up to this moment has been carried out in writing or by e-mail. This year, the electronic Disaster Loss Data system will be applied.

The table below contains information on the main natural disaster events recorded in 2024 and the damages associated to them. From the data, it is clear that the highest number of disasters is due to fires both in homes and in forest areas.

Table 24. Natural disasters recorded in Albania during 2024

Event	Data card	Fatalities	Injured	Houses destroyed	Houses damaged	Agriculture damaged (Ha.)	Livestock injured (No.)
FIRE	1624	10	22	81	313	6867.15	154
STORMS	11	0	2	2	464	0	72
ACCIDNETS	10	16	15	0	0	0	0
OTHER	31	24	81	1	1	0	0
TOTAL	1676	50	120	84	778	6867.15	226

Source: DesInventar Sendai (2025)

Table 25. An Overview of Losses for the Comparative Period 2023-2024

Year	Data card	Fatalities	Injured	Houses destroyed	Houses damaged	Agriculture damaged (Ha.)	Livestock injured (No.)
2024	1676	50	120	84	778	6867.15	226
2023	974	19	77	30	152	2187	77
Difference	702	31	43	54	626	4680.15	149

Source: DesInventar Sendai (2025)

In the management of emergencies that occurred during 2024, requests and offers for international assistance have been sent. To the Emergency Response Coordination Center (ERCC), 2 helicopters and 4 Canadair of the Greek government, 2 Canadair of the Italian Government, as well as 2 aircraft of the Romanian Government, as well as an ERCC expert, have responded with committed means to extinguish the fires, in the municipalities of Dropull, Vlora, Lezha, Skrapar, Bulqiza, Pustec, Shkodra, Kukes and Mirdita.

From Albania, 159 Armed Forces with 27 firefighting vehicles have been activated to help Greece, and we have also responded to the call for humanitarian aid to Bosnia and Herzegovina during the floods in October 2024. On the other hand, in response to requests for support from the local government:

- 9 "Bailey" type bridges have been built/repared, where a total of 758 forces and 255 vehicles have been engaged.
- 325 forces and 88 vehicles have been engaged in operations for the destruction of rock massifs.
- 1619 forces and 358 vehicles have been engaged in 72 operations for the disposal of ammunition.
- The Municipality of Vlora has been supported with 300 food packages during the floods of October 2024.

9.3. Mitigation of identified risks

Pursuant to Law no. 45/2019 "On Civil Protection" and the annual budget law, the necessary financial resources or financial instruments have been approved to support the national policy on disaster prevention and management at both regional and local level, such as:

- *The Civil Emergencies Fund, foreseen in the budget of the Ministry of Defense /National Civil Protection Agency, which serves to cover damages caused by natural disasters and take preventive measures;*
- *The disaster risk reduction and civil protection program, of the Ministries and Budgetary Institutions, according to their area of responsibility, with a projected budget of 2 to 4 percent of the total annual budget;*
- *Municipal funds, equivalent to 4 percent of their total annual budget, deriving from conditional transfers allocated from the state budget to LGUs, in accordance with the provisions of the annual Budget Law;*
- *The Solidarity Fund, which is a civil protection fund established by the National Civil Protection Agency (AKMC) through a second-level bank account, in accordance with the provisions of law no. 45/2019;*
- *The Reserve Fund of the Council of Ministers, which can be used by central government units in case of unforeseen events;*
- *The Contingency Fund of the Council of Ministers which can be used for unforeseen events.*

Pursuant to Law 97/2023 "On the 2024 Budget", Annex no. 6, in the budget of the Ministry of Defense, in the "Civil Emergencies" program, the Fund of ALL 1,000 million has been approved under the "Capital Expenditures" for the prevention and management of natural disasters, which aims to support the national policy of prevention and management of regional and local natural disasters. This fund was allocated to 30 municipalities according to the projects selected by DCM No. 53 dated 01.02.2023. The allocated fund for local government units, amounting to ALL 1,000 million, was executed at a rate of 88%, or ALL 877 million.

The fund of ALL 500 million under the "Capital Expenditures" in the "Civil Emergencies" program of the Ministry of Defense was allocated to 14 projects of the winning municipalities by decision of the Council of Ministers for DIGAT, according to the criteria in Annex 7 of this law. In 2024, the implementation rate of the total amount allocated to local government units was 55%, corresponding to ALL 276 million.

Under the "Civil Emergencies" program, (Article 604) "Other Current Transfers", in 2024, the Ministry of Defense in cooperation with the Ministry of Finance allocated a fund of ALL 800 million in the form of conditional transfers to local government units. The allocation of such fund is based on the specific weight that the budget of each municipality has in relation to the total budget of all municipalities. Pursuant to DCM no. 414, dated 08.07.2021 "On the approval of procedures and criteria for the allocation and use of the Conditional Fund for Civil Protection", as amended by DCM no. 290, dated 17.5.2023, can be used by local government units in accordance with their needs for the compensation of citizens affected by Natural Disasters or for the procurement of goods and services, or special civil protection equipment in the frame of disaster prevention measures. The realization of this fund (article 604) in 2024, is about 76% or ALL 595 million.

Furthermore, through Normative Act No. 3, dated 28.08.2024, a fund of ALL 150 million was allocated for financial compensation of 1,006 families affected by various natural disasters in the municipalities of Selenicë, Poliçan, Bulqizë, Kolonjë, Pogradec, Klos, Dibër, Librazhd, Mat, Kamëz, Peqin, Kurbin, Vorë, Tropojë, Kukës, Elbasan, Mallakastër, Krujë, and Gramsh.

The fund of ALL 200 million under the "Capital Expenditures" budget line within the "Civil Emergencies" program of the Ministry of Defense is intended for addressing the consequences of natural disasters when the expenditure qualifies as an investment. This fund is allocated throughout the budget year based on requests submitted by local self-government units, in response to specific disaster events.

Throughout 2024, Albania continued the implementation of strategic documents in the field of Disaster Risk Reduction (DRR), by deepening data analysis in line with DCM No. 168, dated 24.03.2023, “*On Disaster Risk Assessment at Central Level*”, DCM No. 807, dated 28.12.2023, “*National Civil Emergency Plan*”, as well as the monitoring of the implementation level of these legal and sub-legal acts.

Pursuant to Article 47 of Law No. 45/2019 and Directive (EU) 2018/1972 of the European Parliament and of the Council, which establishes measures to ensure effective access to emergency services through emergency communications to the single European emergency number ‘112’, the draft of Draft Decision “*On the establishment and operation of the Unified Emergency Call System 112 (NUE)*” have been finalized, as the cornerstone for the establishment of the country's early warning system.

Within the framework of international support, the cooperation with UNDP continues, through the project “*Strengthening Renewable Capacities in Albania*” (RESEAL II), which after piloting the Fier Region and its 6 municipalities, will continue with the Shkodra Region and its 5 municipalities for the drafting of the regulatory framework in the field of risk management at the local level, as well as providing operational capacities to the respective structures.

In the framework of the AlbAdapt program “*For a climate-resilient urban development in Albania*”, the 6-year grant agreement of EUR 4 million financed by GCF, signed between AKMC and GIZ on 27.12.2024, is another guarantee that the right steps are being taken for the establishment of the “*National Early Warning System*” against many risks, with national coverage to establish, for the first time, a system fit for early action, based on forecasts, enabling economic sectors and local communities - to take action forward, in anticipation and in response to events. This program is also supported by the co-financing of the Albanian government with a value of EUR 2.5 million.

9.4. Recommendations for further improvement

- *Historical data availability on natural hazard events such as damages, losses and financial costs as an essential element for assessing disaster-related fiscal risks and undertaking adequate mitigation measures. Collaborations with risk modeling experts are also useful in order to assess exposure to future hazards, considering that the risk of natural disasters is increasing, as a result of climate change. NCPA (AKMC) and the Ministry of Finance are currently working on developments in this area.*
- *Continuous efforts in terms of building and strengthening institutional capacities. Therefore, it is important to establish dedicated teams for disaster risk management in both central and local government units, carry out training activities for the staff engaged in disaster risk management and ensure fiscal risk reporting.*
- *Clear reporting formats, by using standard templates to report budget execution for natural disasters, will ensure consistency and comparability by reporting units.*
- *Improved data collection and management, including the use of technology due to their importance in this process. Adequate development and integration of the databases of central and local government units and investments in technology are necessary to have real-time data and other relevant indicators. In addition, it is important to raise community awareness on natural hazards and ensure financial preparedness for risk reduction, management and mitigation through financial instruments, such as insurance policies.*

9.5. Challenges

- *Uncertainty in roles, approval of action procedures, as well as in the implementation of all human, financial and technical capacities by line ministries and structures of the operational civil protection system;*
- *Insufficient budget planning for disaster risk reduction and civil protection, at the rate of 2-4%, as well as the realization results at an average of 1.75%.*
- *Implementation at a very low level of DCM no. 431, dated 15.07.2021 on the establishment of sectors dedicated to civil protection; The central institutions do not have human resources dedicated to civil protection in their structure according to the field of expertise. Some institutions report on the inclusion of positions for civil protection, in sectors for joint functions.*
- *Failure to apply the "Principle of subsidiarity" in the coordination at the district level for the use of the capacities available to the local government structures according to Article 7 of the Law 45/2019 "On Civil Protection" and lack of awareness of the population;*
- *Inadequacy of human and technical tools and resources from municipalities, forestry structures and AKZM;*
- *The need for exercises, training, especially for operational personnel, who participate in extinguishing forest fires and flood relief operations;*
- *Raising awareness among citizens about the protection of the environment, infrastructure, uncontrolled burning, the measures and consequences it brings as an action.*

MINISTER OF FINANCE

PETRIT MALAJ

Appendix A

Macroeconomic Forecasting Methodology and Sensitivity Analysis

Medium-term macroeconomic forecasting, along with the comprehensive set of components constituting the macroeconomic framework, are primarily derived using financial programming methodologies and advanced analytical modeling techniques. The baseline macroeconomic scenario is anchored in the current trajectory of macroeconomic policies, ongoing government economic and structural reforms, and the rational behavior and interactions of economic agents within the context of both domestic and external macroeconomic environments. This scenario is considered the most likely over the medium-term forecast horizon. These projections are based on a comprehensive set of key assumptions and incorporate a wide range of macroeconomic statistical data obtained from reputable institutions including INSTAT, the Bank of Albania, Ministry of Finance, IMF, World Bank, Eurostat, among others the data series utilized are predominantly time series with annual, quarterly, and monthly frequencies, spanning generally from 1996 to the present. By rigorously following established methodological forecasting steps, the baseline scenario strives to provide the most credible macroeconomic outlook possible, while ensuring maximum internal consistency and integration across all economic dimensions.

The core objectives of the fiscal and monetary policy mix over the next three years, aimed at maintaining and further consolidating the country's macroeconomic stability, promoting a conducive environment for sustained high economic growth, and facilitating convergence towards the European Union's average welfare level, are as follows:

- Achieving a downward trajectory in public debt, with an operational annual target to restore the budget to a balanced primary balance or surplus from the 2024 fiscal year onward. This target is legally mandated under the Fiscal Balance Law (LOB).
- Maintaining a level of public investment exceeding the overall fiscal deficit each year, ideally averaging above 5 percent of GDP annually.
- Preserving price stability as the fundamental objective of monetary policy, targeting a medium-term inflation rate of 3.0 percent and anchoring inflation expectations around this level. This includes harmonizing fiscal policy with this primary objective of monetary policy to support the country's long-term economic growth.
- Reducing the current account deficit and improving the external position of the economy by gradually increasing foreign exchange reserves and maintaining a minimum floor sufficient to finance at least four months of imports of goods and services.

These fundamental objectives form the foundational framework of the economic and fiscal program, within which all other macroeconomic and fiscal variables are projected and programmed.

Sensitivity Analysis

The sensitivity analysis assesses the expected fiscal implications under alternative macroeconomic scenarios and outlines the potential adjustments in fiscal and budgetary policies in response to varying economic conditions. This approach is consistent with the two alternative macroeconomic scenarios—pessimistic and optimistic—as illustrated in the table below.

In the “pessimistic” scenario, which assumes a significantly lower annual growth rate compared to the “baseline” scenario, it is reasonable to anticipate a decline in tax collection efficiency across key revenue categories. On the other hand, under the “optimistic” scenario, stronger revenue performance is expected due to improved economic conditions. To estimate the potential changes in revenue collection under each scenario, and to quantify the net overall impact of automatic stabilizers, adjustments are made to the total revenue-to-GDP ratio. Specifically: In the “pessimistic” scenario, this ratio is reduced by one-third of the annual real GDP growth shock (measured in percentage points). In the “optimistic” scenario, the ratio is increased asymmetrically by one-tenth of the corresponding shock.

Across all scenarios, compliance with fiscal rules established under the Organic Budget Law (LOB) is maintained, thereby ensuring that the overall fiscal stance remains prudent and sustainable. Nevertheless, the annual fiscal deficit target is adjusted under each scenario, reflecting a countercyclical response tailored to the projected economic conditions, provided such adjustments remain within the legal fiscal framework.

Specifically, under the “pessimistic” scenario, fiscal policy easing—relative to the baseline—would materialize to the extent that all key public finance indicators (e.g., debt-to-GDP ratio, primary balance, overall balance) remain in compliance with all applicable fiscal rules defined in the LOB. The necessary expenditure adjustments to ensure alignment with these rules would be applied to domestically financed capital expenditures, as well as to operational and maintenance spending.

In the “optimistic” scenario, all discretionary spending items are assumed to remain unchanged in nominal terms compared to the baseline, while any revenue overperformance is reflected entirely in an improved overall fiscal balance (i.e., a lower fiscal deficit) in each year relative to the baseline scenario.

➤ *Risk: Non-Realization/Deviation from the Baseline Scenario*

Risk Characteristics: The Macroeconomic and Fiscal Framework (MFF) defines the government’s strategic priorities and outlines expected macroeconomic developments over the medium-term horizon. It provides projections for aggregate revenue and expenditure levels, considering both domestic and external factors that may influence the country's economic trajectory. Any deviation from these baseline assumptions constitutes a material risk to the accuracy and reliability of fiscal planning.

Impact: (*low*) The baseline scenario, as approved in the MFF document, is assessed to have the highest probability of materialization. Nonetheless, accounting for possible deviations through the incorporation of alternative scenarios is a critical tool in strengthening public financial planning.

Risk Mitigation/Measures:

To enhance the quality of fiscal planning and ensure more efficient public fund management, the Ministry of Finance prepares two alternative budget scenarios for each fiscal year, whenever there is a certain probability of occurrence for specific events. These include a “pessimistic” and an “optimistic” scenario. Each scenario reflects a different set of assumptions: the pessimistic scenario assumes the materialization of a group of downside risks, while the optimistic scenario assumes the realization of upside risks.

This set of risks reflects potential deviations from the assumptions of the baseline scenario regarding key macroeconomic indicators for the medium-term period 2024-2027, including:

- Credit growth to the economy.
- Economic performance of the Eurozone and its spillover effects on exports of goods and services, remittances, and foreign capital inflows.
- Exchange rate developments.
- Interest rate fluctuations.
- The pace and effectiveness of structural policy reforms planned for the medium term.
- Other relevant factors.

Table A1. Underlying assumptions of alternative scenarios

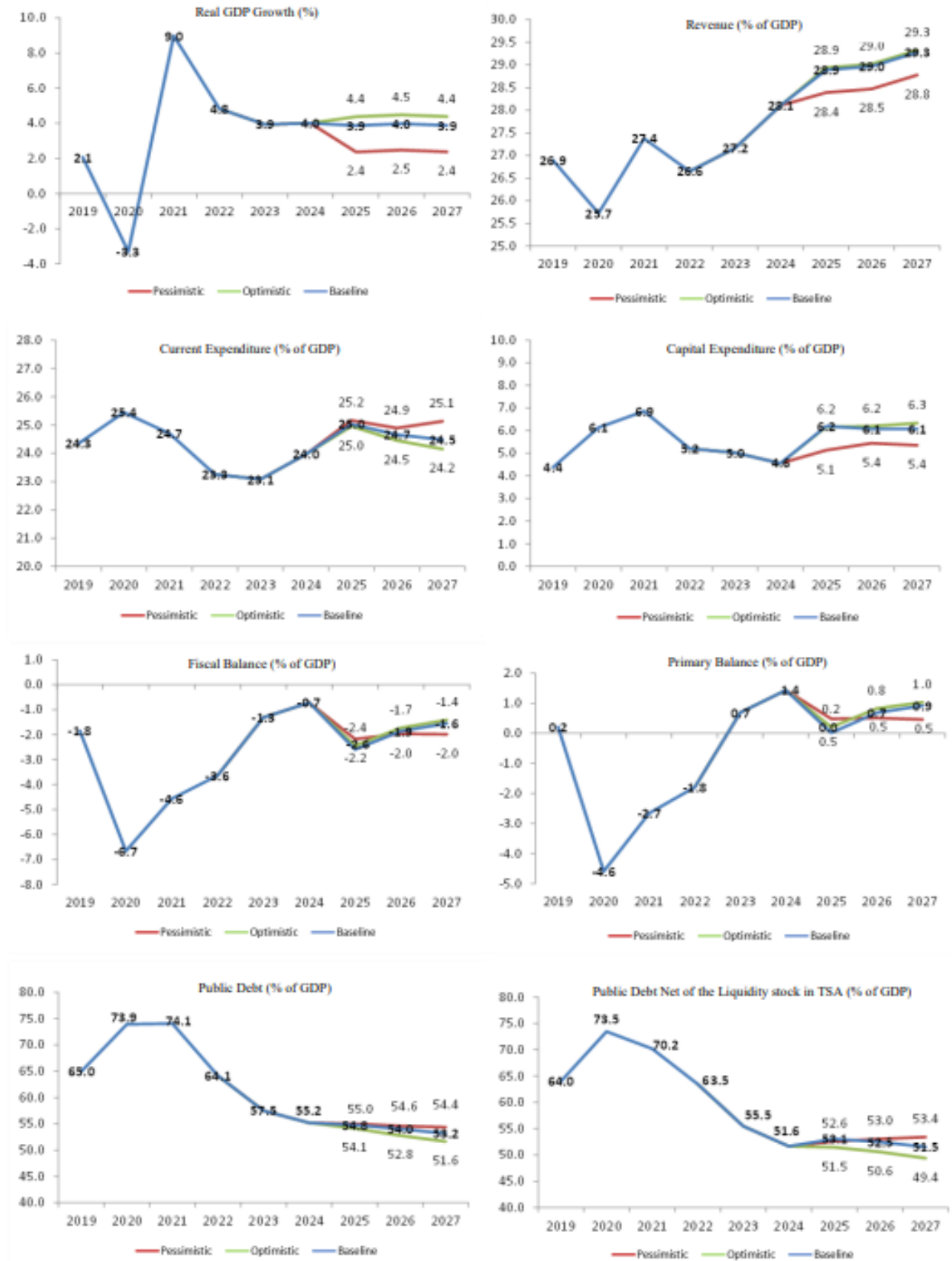
	2020	2021	2022	2023	2024	2025	2026	2027
					Actual	Money.	Money.	Money.
	Real GDP growth (%)							
<i>Baseline</i>	-3.3	9.0	4.8	3.9	4.0	3.9	4.0	3.9
<i>Pessimistic</i>						2.4	2.5	2.4
<i>Optimistic</i>						4.4	4.5	4.4

Nominal GDP growth (%)								
<i>Baseline</i>	-3.3	12.7	15.2	10.2	6.8	5.1	5.2	5.1
<i>Pessimistic</i>						3.2	3.4	3.3
<i>Optimistic</i>						5.6	5.7	5.6
Nominal GDP (billion ALL)								
<i>Baseline</i>	1,656	1,867	2,150	2,370	2,530	2,621	2,757	2,898
<i>Pessimistic</i>						2,575	2,662	2,750
<i>Optimistic</i>						2,633	2,783	2,940
Effective interest rate of Public Debt (%)								
<i>Baseline</i>	3.2	3.0	3.0	3.6	4.0	4.7	4.6	4.5
<i>Pessimistic</i>						4.7	4.6	4.5
<i>Optimistic</i>						4.7	4.6	4.5
Nominal Exchange Rate, average (ALL/Euro)								
<i>Baseline</i>	123.8	122.5	119.0	108.8	100.7	100.0	100.0	100.0
<i>Pessimistic</i>						100.0	100.0	100.0
<i>Optimistic</i>						100.0	100.0	100.0
Total Revenue (% GDP)								
<i>Baseline</i>	25.7	27.4	26.6	27.2	28.1	28.9	29.0	29.3
<i>Pessimistic</i>						28.4	28.5	28.8
<i>Optimistic</i>						28.9	28.9	29.3
Total Expenditures (% GDP)								
<i>Baseline</i>	32.4	31.9	30.3	28.5	28.8	31.5	30.8	30.8
<i>Pessimistic</i>						30.6	30.4	30.8
<i>Optimistic</i>						31.4	30.7	30.7
Current Expenditure (% GDP)								
<i>Baseline</i>	25.4	24.7	23.3	23.1	24.0	25.0	24.7	24.5
<i>Pessimistic</i>						25.2	24.9	25.1
<i>Optimistic</i>						25.0	24.5	24.2
Capital Expenditure (% GDP)								
<i>Baseline</i>	6.1	6.9	5.2	5.0	4.6	6.2	6.1	6.1
<i>Pessimistic</i>						5.1	5.4	5.4
<i>Optimistic</i>						6.2	6.2	6.2
Fiscal Balance (% GDP)								
<i>Baseline</i>	-6.7	-4.6	-3.6	-1.3	-0.7	-2.6	-1.9	-1.6
<i>Pessimistic</i>						-2.2	-2.0	-2.0
<i>Optimistic</i>						-2.4	-1.7	-1.4
Primary Balance (% GDP)								
<i>Baseline</i>	-4.6	-2.7	-1.8	0.7	1.4	0.0	0.7	0.9
<i>Pessimistic</i>						0.5	0.5	0.5
<i>Optimistic</i>						0.2	0.8	1.0
Gross Public Debt (% GDP)								
<i>Baseline</i>	73.9	74.1	64.1	57.5	55.2*	54.8	54.0	53.2
<i>Pessimistic</i>						55.0	54.6	54.4
<i>Optimistic</i>						54.1	52.8	51.6
Public Debt, Net of the liquidity stock in TSA (% GDP)								
<i>Baseline</i>	73.5	70.2	63.5	55.5	51.6	53.1	52.5	51.5
<i>Pessimistic</i>						52.6	53.0	53.4
<i>Optimistic</i>						51.5	50.6	49.4

Source: Ministry of Finance (2025)

* The gross debt level for 2024 aligns with the projections in the “2026-2028 Macroeconomic and Fiscal Framework.” The current debt level for 2024 stands at 54.0% of GDP.

Chart A2. Dynamics of main indicators under different scenarios



Source: Ministry of Finance 2025

Appendix B

Fiscal risks from state-owned enterprises monitored by the Ministry of Finance in 2024, (Description of risks and measures taken/expected measures).

In 2024, the Ministry of Finance regularly monitored, on a quarterly basis, the financial performance of the main SOEs in order to identify their potential impact on the state budget. State-owned enterprises with a positive financial performance include: OSHEE Group, KESH, OST, UKT, Albcontrol, Albpetrol, and APD. Meanwhile, companies such as: HSH, AlbGaz and RTSH had poor financial performance. The table below provides a brief summary of the financial risks identified during 2024 and the measures taken to mitigate such risks.

Table B1. Fiscal risks from state-owned enterprises for the previous year

Enterprises	Description of risks	Measures undertaken/expected
<u>OSHEE Group sh.a</u>	<ul style="list-style-type: none"> Accumulation of a substantial amount of arrears as a result of the company 's poor financial performance during 2009-2014 (when the company was under CEZ a.s. management) and the financial losses incurred in 2021, due to the global energy crisis. Inherited financial problems have greatly increased liquidity risk. 	<ul style="list-style-type: none"> Measures taken by the company to reduce operating expenses have improved overall performance and reduced financial risk. OSHEE plan to reduce arrears. Despite the difficulties regarding liquidity, the company managed to reduce arrears, by paying off suppliers (for investments and materials purchased in the past years) and part of the debts to KESH sh.a.
<u>KESH sh.a</u>	<ul style="list-style-type: none"> Market Risk, due to fluctuations in energy prices on global power exchanges. Hydrological risks, because of climate change and droughts/unfavourable weather conditions in 2019, 2020 and 2022. Production portfolio risk, such as lack of resource diversification. Liquidity risk. 	<ul style="list-style-type: none"> Day-ahead purchase of electricity to ensure water resource management. Construction of a photovoltaic plant on the Qyrmaq Dam in Vau i Dejës HPP, and the addition of new generating capacities through diversified sources, such as the construction of a PV power plant on the Zadeja Dam-Vau i Dejës and a floating solar PV plant on Vau i Dejës reservoir. Intensified cooperation on electricity exchange especially with the Kosovo Energy Corporation (KEK) to ensure mutual energy reserves during crises.
<u>OST sh.a</u>	<ul style="list-style-type: none"> Changes in electricity transmission and distribution tariffs. Changes in market prices for the purchase of electricity needed to cover losses in the transmission network and other costs of electricity. Exchange rate risk. Liquidity risk. 	<ul style="list-style-type: none"> To minimize risk arising from transmission tariffs, OST sh.a. regularly seeks ERE's approval on changes to the transmission fees to reflect the costs of their activity. To minimize market price risk, since the launch of the Albanian Power Exchange, OST sh.a. has taken measures to secure the funding required for the purchase of transmission losses.
<u>UKT sh.a</u>	<ul style="list-style-type: none"> Climate conditions. Damage to distribution lines. Shortage of short-term liquidity. Intersectoral coordination risk in financial and accounting documentation. 	<ul style="list-style-type: none"> Relocation of utility lines, delays in construction works due to adverse weather conditions, and the need for continuous oversight by the respective technical sectors. Development of alternative water supply solutions. Timely management of case files and financial documentation. Preparation and maintenance of the risk register.
<u>Albanian Railways sh.a</u>	<ul style="list-style-type: none"> Liquidity risk and the inability to meet outstanding financial obligations. Risk arising from failure to implement structural reforms and enforce functional separation as required by law. 	<ul style="list-style-type: none"> Approval of the law aimed at accelerating and clarifying the process of functional unbundling of the Albanian Railways (HSH). Adoption of Ministerial Orders No. 286 dated 19.11.2024, and No. 300 and 301 dated 27.11.2024, establishing the

Enterprises	Description of risks	Measures undertaken/expected
	<ul style="list-style-type: none"> Risk of delays and limited capacity to absorb investments in railway infrastructure 	<ul style="list-style-type: none"> regulatory framework for the effective separation of functions between railway operators and the infrastructure manager, in line with EU requirements. Adoption of Decision of the Council of Ministers No. 848/2024 on the approval of the 2025 Combined Nomenclature of Goods
<u>Posta Shqiptare (Albanian Post) sh.a</u>	<ul style="list-style-type: none"> Weaknesses in revenue generation and collection. Financial and liquidity risk. High operating expenditures and lack of investment. 	<ul style="list-style-type: none"> Enhancing transparency and strengthening internal controls. Technological modernization and process automation. Capacity building and promotion of a culture of integrity.
<u>AlbGaz sh.a</u>	<ul style="list-style-type: none"> Underperformance in revenue generation and lack of liquidity. Reliance on dividends as the primary source of income increases exposure to external factors beyond the company's control. 	<ul style="list-style-type: none"> Reduction of operating costs through staff downsizing. Strengthening fiscal discipline by ensuring full realization of planned revenues and efficient use of funds to secure short-term stability.
<u>Albcontrol sh.a</u>	<ul style="list-style-type: none"> Risk of revenue blockage due to the enforcement of two arbitration awards against the Republic of Albania. Liquidity risk, or insufficient capacity to meet financial and developmental obligations. Risk of non-execution of planned expenditures /investments as a result of liquidity constraints. 	<ul style="list-style-type: none"> Active follow-up of court proceedings, with support from the State Advocate and Eurocontrol. Securing financing from the shareholder and assessing other potential funding sources. Temporary postponement of expenditures and investments. Provision of alternative funding for the reporting year.
<u>Albanian Radio and Television (RTSH)</u>	<ul style="list-style-type: none"> Risk of overspending due to unexpected expenses. Delays in revenue collection. 	<ul style="list-style-type: none"> Measures to ensure better planning of annual expenditure. New agreements with debtors for the timely repayment of all debt obligations. Measures to reduce energy consumption and strengthen overall consumption control.
<u>Albpetrol sh.a</u>	<ul style="list-style-type: none"> Liquidity risk. Credit risk. Environmental and technical safety during the exploitation of oil reserves. 	<ul style="list-style-type: none"> Continuous monitoring of current cash flows. Improvements towards credit risk assessment. Ongoing monitoring of environmental risks.
<u>Durrës Port Authority (APD)</u>	<ul style="list-style-type: none"> Risk of delayed commencement of the strategic investment for the New Integrated Port in Porto Romano. Risk of delayed revenue collection. Risk of exceeding the expenditure plan. Concession-related risks stemming from inaccurate reporting of work volumes and generated revenues. Fiscal risks related to natural disasters (e.g. earthquakes). 	<ul style="list-style-type: none"> Reopening of the procurement procedure within the year for the New Integrated Port, in order to minimize delays in the commencement of the strategic investment. Budget reallocations to accommodate additional expenditures arising from arbitration awards. New agreements with debtors to ensure timely settlement of outstanding obligations. Ongoing contract monitoring by APD and the Security Forces. Risk management measures related to natural disasters (e.g. insurance of buildings, contingency fund planning).

Source: Ministry of Finance (2025)

Appendix C

SOE Health Check Tool (HCT)

The SOE HCT is designed to assess the financial performance of state-owned enterprises based on a set of financial indicators such as: liquidity, solvency, profitability, etc., which are classified into 5 categories (**Category 1/Low Risk** - **Category 5/High Risk**).

What does the tool do:

- Assesses the financial vulnerability of up to 40 SOEs.
- Assigns an overall risk rating to each SOE based on a set of financial indicators.
- Provides ratios, charts and risk matrix to enable analysis of individual state-owned enterprises.
- Produces outputs on the financial soundness of state-owned enterprises.

Limitations of the tool:

- Provides annual analyses, thus limiting its use for quarterly financial statements.
- Monitors a set of financial vulnerability indicators, but does not generate financial projections..
- Applies the same risk thresholds across the SOE portfolio, although the level of risk may vary by sector.
- Can accommodate up to 15 years of financial data for 40 SOEs.

Case Study 1. State-owned Enterprises in the Energy Sector

The table below shows an analysis generated by SOE HCT on the financial performance of energy SOEs for the 2020-2024 period.

Table C1. Risk Matrix (2020-2024), according to SOE HCT

Financial Indicators (Weighted Average of the whole portfolio of the Energy Sector)					
	2020	2021	2022	2023	2024
Profitability					
Return on Assets (ROA)	(0.02)	(0.01)	(0.03)	0.04	0.02
Return on Equity (ROE)	(0.04)	(0.03)	(0.09)	0.10	0.08
Cost Recovery	0.97	0.98	0.88	1.24	1.11
Liquidity					
Current Ratio	0.79	0.87	0.86	0.94	0.91
Quick Ratio	0.73	0.80	0.81	0.89	0.85
Solvency					
Liabilities to Assets	0.58	0.60	0.62	0.58	0.70
Debt to Equity	1.36	1.48	1.61	1.37	2.28
Cash Interest Coverage	2.87	2.34	(1.09)	5.99	4.71
Overall Risk Rating	4.15	4.08	4.38	3.15	3.38

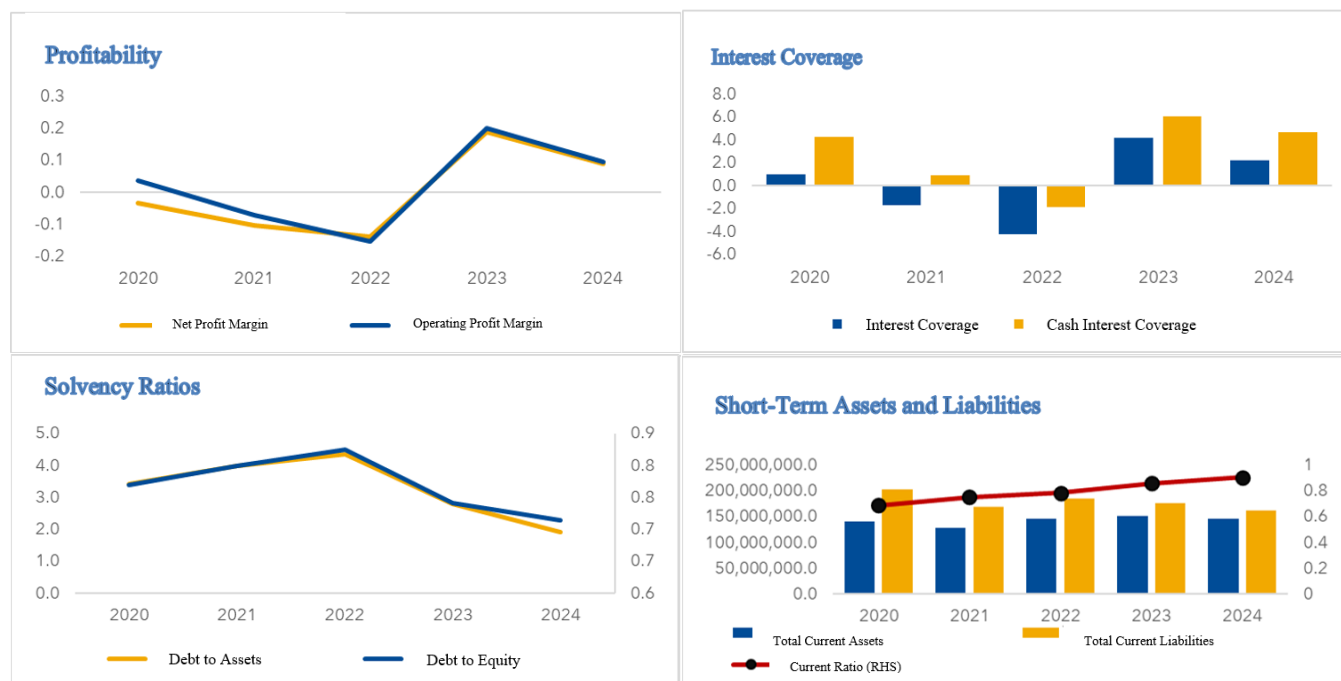
Category 5	↑ ↓	High Risk
Category 4		High Risk
Category 3		High Risk
Category 2		High Risk
Category 1		Low Risk

Source: Ministry of Finance (2025), SOE HCT

The Risk Matrix shows the high level of risk that the Energy Sector has witnessed in the years 2020-2022, with 'Overall risk rating' reaching 4.15-4.38 (**Category 4**). These years coincide with the declaration of the state of emergency for the electricity supply. Meanwhile, for the years 2023-2024, slight improvements in the sector's financial situation are observed, with an overall risk score ranging from 3.15 to 3.38 (**Category 3**), primarily driven by improvements in profitability indicators. For 2024, energy enterprises have reported a positive net profit, albeit lower than in 2023, due to a modest decline in profitability ratios. This decline was mainly driven by unfavorable meteorological conditions in the latter part of the year, which resulted in reduced rainfall and a corresponding drop in revenues. Liquidity remains the most critical risk indicator for the companies, with values below 1, signaling insufficient current assets to cover short-term liabilities. In terms of indebtedness and solvency, the relevant indicators suggest a moderate risk level (**Category 3**).

3). The sector’s portfolio continues to rely on a significant amount of borrowing, and despite a good interest coverage ratio, there is a lack of long-term financial sustainability.

Chart C1. Financial indicators of SOEs in the Energy Sector for 2020-2024, according to SOE HCT



Source: MoF 2025, SOE HCT

The above charts show that for 2024:

- Net profit and operating margins showed an downward trend compared to previous years. This decline is attributed to the revenue performance of KESH sh.a, mainly due to adverse climatic conditions.
- Debt indicators (Solvency) have seen a slight increase, compared to previous years.
- Interest coverage ratios indicate that there is sufficient liquidity to meet current liabilities against external creditors (interests).
- The sector’s ability to cover current liabilities is improving, supported by a slight decline in short-term liabilities and a slight increase in short-term assets.

Case Study 2. Main State-owned Enterprises outside the Energy Sector

The table below shows an analysis generated by SOE HCT on the financial performance of SOEs outside the energy sector for the period 2020-2024.

Table C2. Risk Matrix of the main SOEs monitored outside the Energy sector (2020-2024), according to SOE HCT

Financial Indicators (Weighted Average of the whole portfolio of the main SOEs outside the Energy Sector)					
	2020	2021	2022	2023	2024
Profitability					
Return on Assets (ROA)	(0.03)	0.00	(0.01)	0.01	0.02
Return on Equity (ROE)	(0.04)	0.00	(0.01)	0.01	0.03
Cost Recovery	0.68	1.05	0.97	1.09	1.24
Liquidity					
Current Ratio	1.42	1.25	1.25	1.31	1.35
Quick Ratio	1.24	1.12	1.13	1.20	1.26
Solvency					
Liabilities to Assets	0.23	0.24	0.25	0.29	0.29
Debt to Equity	0.30	0.31	0.34	0.40	0.41
Cash Interest Coverage	(3.52)	16.07	5.05	5.63	(16.33)
Overall Risk Rating	3.00	2.13	2.75	2.13	2.38

Category 5	↑ ↓	High Risk
Category 4		High Risk
Category 3		High Risk
Category 2		High Risk
Category 1		Low Risk

Source: Ministry of Finance (2025), SOE HCT

Table C3. Risk Matrix of main SOEs monitored outside the Energy sector for 2024, according to SOE HCT

Risk rating of SOEs (2024)									
	Profitability			Liquidity		Solvency			Overall Risk Rating
	Return on Assets (ROA)	Return on Equity (ROE)	Cost Recovery	Current Ratio	Quick Ratio	Liabilities to Assets	Debt to Equity	Cash Interest Coverage	
Albpetrol	Category 4	Category 4	Category 4	Category 3	Category 2	Category 2	Category 1	Category 5	Category 3
UKT	Category 2	Category 1	Category 2	Category 5	Category 4	Category 3	Category 3	Category 1	Category 3
Albcontrol	Category 1	Category 1	Category 5	Category 1	Category 1	Category 3	Category 4	Category 5	Category 2
HSH	Category 4	Category 4	Category 4	Category 5	Category 5	Category 1	Category 1	Category 1	Category 3
RTSH	Category 5	Category 5	Category 5	Category 5	Category 5	Category 3	Category 4		Category 5
APD	Category 2	Category 2	Category 3	Category 4	Category 3	Category 1	Category 1	Category 1	Category 2
AlbGaz	Category 4	Category 4	Category 5	Category 1	Category 1	Category 2	Category 2		Category 3

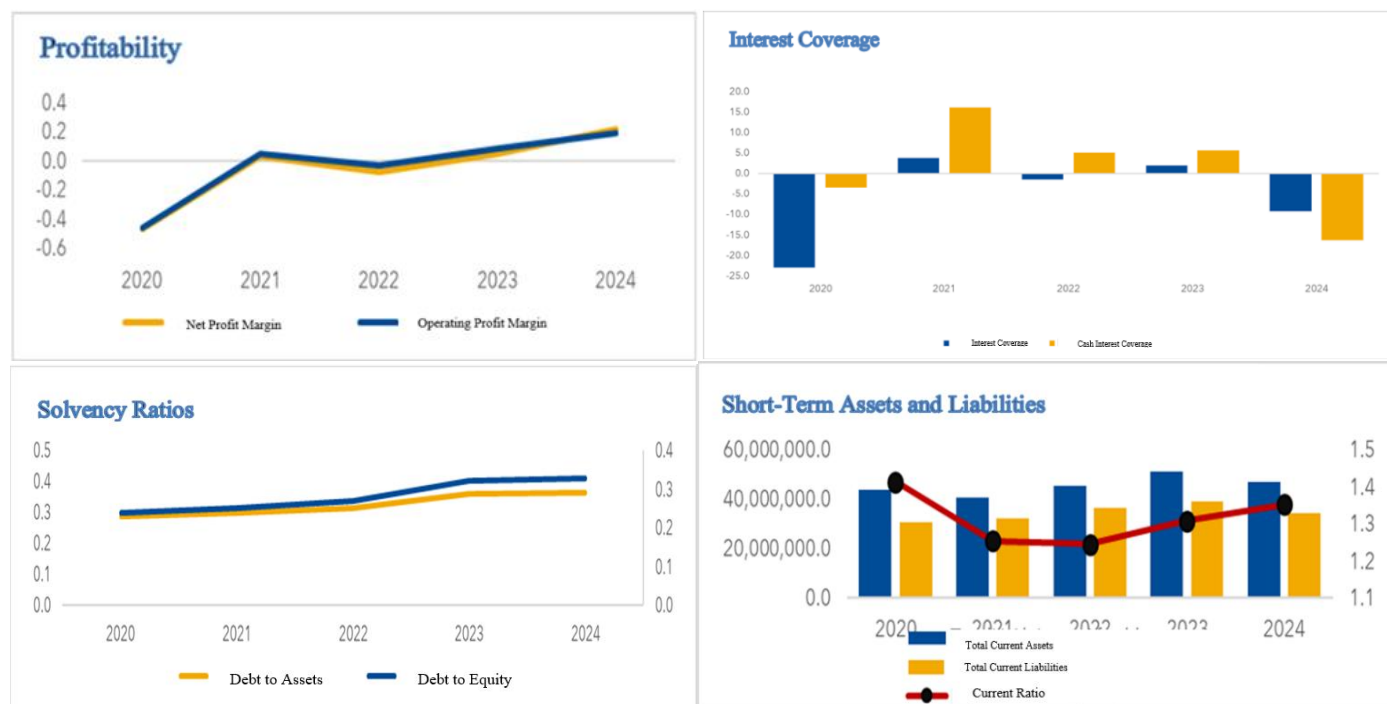
Note: SOEs appear in descending order according to the size of liabilities in their respective balance sheets.

There has been no reporting for 2023 from Albanian Post sh.a. and Durrës Regional Water Utility (UKRD). The inability of the above-mentioned entities to timely report financial information is justified by delays in the approval of their financial statements.

Source: Ministry of Finance (2025), SOE HCT

The Risk Matrix in table no. 2 shows a moderate level of risk for 2020 and 2022, with 'Overall risk rating' varying from 3.00 and 2.75 (Category 3). This period coincides with the outbreak of the Covid-19 pandemic, the negative effects of which were felt throughout 2020, as well as the global energy crisis, the war in Ukraine, fluctuations in energy, fuel and input prices, the negative effects of which were mainly felt in 2022. Meanwhile, a significant amelioration of the financial situation is noted in 2023, resulting in a moderate risk level of 2.13 (Category 2). This positive trend continues into 2024, where, despite a slight increase, the overall risk level remains within Category 2. Across both the energy sector portfolio and other state-owned enterprises (SOEs), liquidity continues to be the most pressing risk indicator, consistently signaling high risk. For the majority of enterprises, 2024 reflects low profitability levels, primarily due to underperformance in revenue generation. However, the analysis should also take into account the individual characteristics of each enterprise, some are in an investment phase, others undergoing restructuring, while some have recorded low activity levels during the reporting period

Chart C2. Financial indicators of the main SOEs monitored outside the Energy Sector for 2020-2024, according to SOE HCT*



Source: MoF 2025, SOE HCT

*(Thousands ALL, Indicator)

The above charts show that for 2024:

- Net profit and operating margins showed an upward trend compared to the previous years. The increase is attributed to a rise in the companies' income from their main financial activities.
- Debt indicators (Solvency ratios) showed a downward trend compared to previous years.
- Interest coverage ratios indicate that there is sufficient liquidity to meet current liabilities against, external creditors (interests).
- The SOEs ability to cover current liabilities is improving, supported by a slight decline in short-term liabilities and a slight increase in short-term assets.

Appendix E

Table D1. The following information presents budget allocation by risk category for each municipality that has reported (in ALL)

No	Municipality	Budget Allocated for Flood Risk		Budget Allocated for Fire Risk		Budget Allocated for Multirisk		Budget Allocated for Landslide Risk		Budget Allocated for Earthquake Risk		Total Municipalities
		Expenditure (602-604)	Investments 231	Expenditure (602-604)	Investments 231	Expenditure (602-604)	Investments 231	Expenditure (602-604)	Investments 231	Expenditure (602-604)	Investments 231	
1	Lezhë	2,920,431		5,498,451		124,986		1,794,480				10,338,348
2	Kukës			2,267,002						19,453,640		21,720,642
3	Dropull		2,477,829					2,266,346				4,744,175
4	Korcë		47,634,285	8,131,853		11,263,560						67,029,698
5	Finiq		18,407	1,745					9,537			29,689
6	Has		47,112,200	2,501,137		490,986						50,104,323
7	Librazhd	5,215,249	15,881,800	1,674,800				1,141,461		299,838		24,213,148
8	Kurbin	15,156,690										15,156,690
9	Maliq		52,278,046	3,000,000		4,562,412						59,840,458
10	Shkodër	2,467,584	21,439,496	15,879,560								39,786,640
11	Pukë		2,008,084	800,000								2,808,084
12	Rrogozhinë	6,000,000										6,000,000
13	Durrës	3,884,500		9,962,577					5,541,743			19,388,820
14	Lushnje			2,160,480								2,160,480
15	Patos			5,215,980					19,844,810			25,060,790
16	Gjirokastër	4,468,404							34,541,507			39,009,911
17	Krujë	27,847,772	11,410,200	3,084,816								42,342,788
18	Tiranë		32,261,028	62,163,235								94,424,263
19	Elbasan	19,089,830	19,766,820	3,652,398		5,165,382		583,000		6,932,602		55,190,032
20	Devoll	3,750,000		430,577								4,180,577
21	Libohovë			320,005								320,005
22	Kolonjë	838,800				1,845,600						2,684,400
23	Përmet	356,944	9,296,664	1,541,610		462,000		601,428				12,258,646
24	Roskovec	2,045,541	17,959,626	300,201				1,503,840				21,809,208
25	Dimal				4,800,000							4,800,000
26	Klos					1,680,701	105,913,248			1,954,612		109,548,561
27	Mirditë	1,572,696		2,369,614								3,942,310
28	Prrenjas	2,665,634	28,248,888	535,179								31,449,701
29	Vau i Dejës		19,518,283	294,918					2,847,585	2,524,367		25,185,153
30	Tropojë	466,900	11,722,209	3,803,512		712,140						16,704,761

31	Gramsh									6,911,898		6,911,898
32	Skrapar							43,611,639	600,000			44,211,639
33	Divjakë	6,223,313										6,223,313
TOTAL		104,970,288	339,033,865	135,589,650	4,800,000	26,307,767	105,913,248	51,502,194	63,385,182	38,076,957		869,579,151

Source: NACP (2025)