REPUBLIC OF ALBANIA

MINISTRY OF FINANCE

FISCAL RISK STATEMENT FOR 2025

Tirana 2026

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Abbreviations

NACP	National Civil Protection Agency
NWSSA	National Water Supply and Sewerage Agency
NAPA	National Agency of Protected Areas
WB	World Bank
BoA	Bank of Albania
DBM	Directorate of Budget Management
GDB	General Directorate of Budget
FRS	Fiscal Risks Statement
IMOF	International Monetary Fund
CGF	Green Climate Fund
ECoHR	European Court of Human Rights
BI	Budgetary Institutions
INSTAT	Institute of Statistics
KESH	Albanian Electricity Corporation
DLMC	Debt and Liquidity Management Committee
MFF	Macroeconomic-fiscal framework
MoF	Ministry of Finance
MoIE	Ministry of Infrastructure and Energy
LM	Line Ministries
MTRS	Medium-Term Revenue Strategy
FPRS	Fire Protection and Rescue Service
LSGUs	Local Self-Government Units
SOE	State-owned Enterprise
OSHEE	Power DistrBIution Operator
OST	Transmission System Operator
MTBP	Medium-Term Budget Program
GDP	Gross Domestic Product
PPP	Public-Private Partnership
CG	Central Government
LG	Local Government
MTRS	Medium-Term Revenue Strategy
SASPAC	State Agency for Strategic Programming and Assistance Coordination
MTDMS	Medium-Term Debt Management Strategy
SIFQ	Government Financial Information System
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

Fiscal Risk Statement is an essential component of the fiscal transparency framework, aiming at the systematic identification, assessment, monitoring and reporting of key risks that may affect the fiscal position of the general government. Fiscal risk analysis is essential for ensuring sound fiscal management and safeguarding the sustainability of public finances. It enables the government to identify, assess, and monitor potential fiscal exposures arising from economic shocks, contingent liabilities, and other uncertainties that may affect fiscal stability. Fiscal risk analysis also enhances accountability and supports informed policymaking, while facilitating earlier and smoother policy responses to emerging challenges. The document has been drafted in accordance with the Instruction of the Minister of Finance no. 35, dated 29.12.2022 and is in line with the IMF's international fiscal transparency practices (IMF Fiscal Transparency Code), especially in terms of fiscal risk analysis and management. The performance of the main fiscal risks for 2025, according to the respective areas, is presented as follows:

Fiscal Indicators

During 2025, fiscal realization has recorded moderate deviations from the initial forecasts, reflecting a more cautious performance on both the revenue and expenditure sides. Budget revenues were lower than planned by ALL 2.4 billion (-0.1% of GDP), while total expenditures were lower by ALL 23.4 billion (-0.89% of GDP).

Deviation in revenues was mainly driven by the performance of VAT, which recorded a net under-realization of ALL 9.5 billion (about -0.36% of GDP). This development was mainly caused by the performance at the expected level of VAT on imports (-ALL -11.5 billion), which was partially offset by the more favorable performance of domestic VAT (+ALL 2 billion). Additional negative pressures were also identified in profit tax, personal income tax, as well as in some items of non-tax income and special fund contributions.

At the same time, several structural developments have partially supported revenue performance, including progress in the implementation of the Medium-Term Income Strategy and the effects of the wage growth reform, which have contributed to the improvement of the tax base in certain categories.

On the expenditure side, the under-realisation was mainly explained by the reduction in interest and capital expenditures, reflecting the more favourable financing conditions and the pace of public investment execution.

For 2026, the Budget Framework envisages a further increase in both revenues and expenditures, with a particular focus on increasing capital investments and strengthening social and health insurance systems, in line with the medium-term fiscal policy objectives.

Macroeconomic developments

The fiscal policy framework remains anchored in the objective of fiscal consolidation, in order to maintain macroeconomic stability and support sustainable economic growth in the medium term. In this context, the aim is to gradually reduce the public debt-to-GDP ratio and maintain a positive primary balance, in line with the fiscal rules in force.

However, the short-term macroeconomic environment presents an increase in uncertainties, mainly related to geopolitical tensions, which may negatively affect the real economic activity and the performance of budget revenues. These developments increase exposure to cyclical and external risks which may adversely affect budget revenue performance and increase pressures on fiscal balances in the short term.

At the same time, public debt dynamics remain sensitive to exchange rate fluctuations and financial market conditions, including the increase in borrowing costs. These factors contribute to the increase of interest expenditures and the narrowing of the fiscal space, reinforcing the need for the continuation of a prudent fiscal policy oriented towards medium-term debt stability.

Over the period 2026–2028, the economy is projected to maintain stable growth, with nominal GDP expected to increase by an average of 5.3 percent annually and real growth projected at 4.0 percent, while inflationary pressures are expected to remain moderate, reflected in an average GDP deflator of 1.3 percent. Nevertheless, uncertainties in the domestic and external macroeconomic environment may lead to moderate short- to medium-term deviations from baseline projections, particularly in the event of adverse external developments. While the conservative macroeconomic assumptions strengthen fiscal resilience and support prudent budget planning, the materialization of persistent forecast underestimations could affect the efficient allocation of public resources and medium-term development objectives.

General Expenditures

Budget expenditure planning is based on the methodology of budgeting on the basis of program and performance, in order to effectively allocate resources in order to finance new policies, in line with the strategic and political priorities of the country. The budget formulation process is conditioned by macroeconomic projections, the target level of the budget deficit, as well as fiscal policy decisions related to sensitive categories of public expenditures.

For 2025, public investments are planned at 6.0% of GDP, or ALL 157.03 billion, which includes the reconstruction fund in the amount of ALL 5 billion. In this context, all existing contractual obligations for domestic and foreign funded projects have been taken into consideration. Continuing in 2024, the priority for financing ongoing projects has been maintained throughout 2025, in order to guarantee the sustainability of the implementation of public investments.

The implementation of the budget is oriented towards monitoring the performance of the implementation of the annual plan, including the objectives and products approved in the framework of the Medium-Term Budget Program 2026-2028 (MTB), as the first year of the planning cycle. Total budget expenditures for 2025 amounted to about ALL 801.7 billion, with current expenditures continuing to constitute the main weight of the total, mainly influenced by special funds, social policies and personnel expenditures.

With regard to the management of arrears, the Ministry of Finance has continued the reinforced monitoring and periodic reporting, with the aim of consolidating the settlement process and preventing the accumulation of new liabilities. At the end of 2025, the stock of arrears amounted to about ALL 5.58 billion, marking a decrease of about 20.2% (ALL 1.48 billion) compared to 2024, as a result of the measures undertaken to repay them and strengthen the control over budget commitments.

Public Debt and Available Funds

The public debt during 2025 has been managed in accordance with the macro-fiscal objectives and the Medium-Term Debt Management Strategy, ensuring the financing of the budget deficit needs and the refinancing of existing liabilities. In this context, gross borrowing amounted to ALL 454.0 billion, mainly based on domestic resources.

The public debt structure has improved through the increase in the weight of medium- and long-term fixed-rate instruments, contributing to the reduction of refinancing risk, the reduction of exposure to interest rate fluctuations and the mitigation of foreign exchange risk. Overall, debt portfolio risk indicators have improved compared to 2024, while debt servicing costs have been kept at controlled levels and within the projected budget limits.

At the same time, measures have been undertaken to mitigate fiscal risks, including the use of budget contingency instruments, the strengthening of the debt portfolio structure, as well as the improvement of the management of state guarantees.

Local Finances

During 2025, local government finances have shown a generally positive performance, with revenue realization exceeding the plan, reaching 100.3% of the projected level. At the same time, an improvement in the liquidity position of local units has been identified, reflected in the reduction of the stock of arrears by ALL 0.3 billion, as a result of the measures undertaken to improve fiscal discipline and strengthen budget monitoring.

However, the profile of fiscal risks at the local level continues to be present. These risks are mainly related to the accumulation of arrears in some units, the challenges in the full implementation of the approved budgets, as well as the impact of demographic changes in the distribution formula of the unconditional transfer, which may create structural pressures on the fiscal capacity of local self-government units.

In this context, the Ministry of Finance continues to implement a structured framework of measures to strengthen fiscal consolidation at the local level, including improving the monitoring of budget execution, the gradual reduction of arrears and the increase of financial management capacities in local units, in order to mitigate risks and strengthen medium-term fiscal sustainability.

Concessions/PPPs

During 2025, the Ministry of Finance has continued the monitoring of 11 concessionary/PPP contracts with budget support, in the framework of strengthening the framework for the management of fiscal risks related to contingent liabilities and medium-term budget commitments, The actual payments made for these contracts amounted to about ALL 13.68 billion, or 2.03% of the tax revenues of the previous year, remaining significantly below the legal limit of 5%.

The monitoring of these commitments has been further strengthened through the standardization of reporting processes and the increase of institutional follow-up discipline, in order to improve fiscal transparency and timely assessment of budget exposure. This framework has contributed to increasing the capacity for early identification of potential pressures on the budget and more prudent management of PPP-related risks.

For 2026, the planned payments for concessionary/PPP contracts are projected to remain within the established fiscal limit, continuing to maintain budgetary sustainability and limiting the exposure to potential medium-term fiscal risks stemming from these commitments.

State-owned Enterprise Sector

State-owned public enterprises continue to represent an important source of exposure to fiscal risks for the state budget, reflecting significant heterogeneity in financial performance and different levels of operational sustainability. During 2025, developments in this sector have been dynamic, where, in addition to entities that maintain relatively stable financial indicators, enterprises with financial difficulties have also been identified, mainly influenced by external factors and specific sectoral conditions, especially in terms of liquidity pressures.

The energy sector continues to constitute the main component of the fiscal exposure of state-owned enterprises, contributing about ALL 5.28 billion to the overall fiscal impact, while other sectors show more pronounced structural weaknesses, mainly related to the management of cash flows and short-term financial stability.

Taking into account these developments, the Ministry of Finance has continued to strengthen the framework for monitoring and evaluating the performance of state-owned enterprises, through the periodic monitoring of financial indicators and the use of the SOE HCT instrument, with the aim of improving the early identification of fiscal risks and strengthening the capacities for their management and mitigation.

Contingent liabilities

The contingent liabilities of the state budget consist mainly of judgments of the European Court of Human Rights (ECtHR) and international arbitration cases, which continue to represent a significant source of fiscal uncertainty and pressure on the budget. The Ministry of Finance has continued to implement the final decisions, respecting the legal deadlines and applying mechanisms for gradual repayment, adapted to the available fiscal space.

During 2025, payments were made in the amount of approximately EUR 113,834 for ECtHR judgments and EUR 1.47 million for international arbitration cases. In this situation, the need to further strengthen the repayment planning, improve the predictability of these liabilities and increase the negotiating capacity is highlighted, in order to minimize their impact on the state budget and mitigate liquidity risks in the medium term.

Natural disasters

Albanian's vulnerability to natural disasters continued to increase in 2025, mainly reflecting the growing frequency of extreme climate-related events, including fires, floods and seismic activity, which resulted in human casualties and damage to infrastructure, housing and the agricultural sector. Although efforts to strengthen the institutional framework for disaster risk management have continued, important challenges remain in prevention measures and the coordination of response resources. Against this background, natural disasters remain a significant macro-fiscal risk, with the potential to place additional pressure on public finances through higher reconstruction needs, infrastructure rehabilitation and emergency-related expenditures, despite the limited availability of comprehensive fiscal impact data. Overall, the fiscal risk analysis for 2025 indicates a manageable risk profile, although exposure to external and structural risks remains elevated. These developments underline the importance of maintaining prudent fiscal policies and further strengthening fiscal risk monitoring and assessment, as well as integrating these risks more effectively into medium-term budget planning and public debt management strategies, in order to preserve macro-fiscal stability and the long-term sustainability of public finances.

INTRODUCTION

The Albanian economy has demonstrated a significant level of resilience in the face of successive shocks of external origin, including the COVID-19 pandemic, the energy crisis, rising inflationary pressures and geopolitical uncertainties. Through the implementation of prudent macroeconomic and fiscal policies, it has been enabled to maintain macroeconomic stability, gradually recover economic activity and strengthen the main economic and financial indicators.

In this context, fiscal consolidation continues to be one of the fundamental objectives of the fiscal policy for 2026 as well, with the aim of guaranteeing fiscal sustainability, gradually reducing the level of public debt and creating the necessary fiscal space to support sustainable and inclusive economic growth. Fulfilling this objective requires further strengthening the fiscal risk management framework, through the consolidation of institutional mechanisms for identifying, assessing, monitoring and addressing in a timely manner risks with potential impact on fiscal and macroeconomic stability.

Macroeconomic and fiscal forecasts are based on the analysis of the developments of economic activity, the performance of financial markets, inflation expectations, as well as the assessment of risks and uncertainties that may affect the economic and fiscal outlook of Albania. Taking into consideration the high level of uncertainty that characterizes the international economic environment and its impact on the baseline assumptions used in the drafting of the annual budget and the Medium-Term Budget Program (MTB), it is intended to further strengthen the fiscal reporting framework through the periodic assessment of macro-fiscal projections and the analysis of deviations between projections and actual realizations. This process is expected to contribute, in the medium and long term, to increasing institutional capacities for effective fiscal risk management and improving the quality of fiscal planning and policymaking.

The Albanian economy has continued to show resilience and adaptability to a challenging external environment, characterized by high uncertainties and inflationary pressures. Through prudent macroeconomic policies, the maintenance of the main economic and financial balances has been supported, enabling the continuation of economic growth and strengthening of macroeconomic stability. Despite the unfavourable international context, the Albanian economy has maintained a positive performance, exceeding the initial expectations in some respects and confirming a favourable development trajectory in the medium-term horizon as well.

According to the latest estimates of INSTAT, during 2025 the real Gross Domestic Product increased by 3.8 percent compared to the previous year. Economic growth was mainly supported by the dynamics of domestic demand, especially by private consumption and investments, which contributed by 2.0 and 1.4 percentage points, respectively, to the expansion of economic activity.

The performance of exports of services, in particular the tourism sector, continued to provide a significant contribution to the economic growth, supporting the expansion of activity in the services and construction sectors. On the other hand, net foreign demand had a negative impact on economic growth in 2025, contributing -0.8 percentage points, mainly as a result of faster growth in imports and contraction of exports of goods.

From a sectoral perspective, economic growth during 2025 was mainly supported by the expansion of activity in the services and construction sector. The main contribution was made by the public administration sector, with about 1.8 percentage points, followed by the construction sector with 0.6 percentage points. Positive contributions were also made by real estate activities, by 0.5 percentage points, as well as by the trade, transport and accommodation sector, by 0.4 percentage points. In contrast, industry and agriculture continued to have a dampening impact on economic growth, with a negative contribution of about -0.3 percentage points each.

Overall, economic developments during the period under analysis reflect the support of economic growth, mainly in domestic sources of demand and in the service sectors. However, significant challenges remain related to strengthening the contribution of manufacturing sectors, increasing the competitiveness of the economy and improving the external balance, in order to guarantee a more sustainable development model and more resilient to future shocks.

1. Fiscal Indicators

Public finances during the period 2022–2024 have followed a stable trajectory of fiscal consolidation, reflected in the gradual improvement of the main indicators of fiscal sustainability, despite the negative shocks faced by the economy. Through a careful management of public revenues and expenditures, the progressive reduction of the level of public debt has been enabled, which in 2024 dropped to 54.2 percent of GDP, while the total budget deficit improved to about 0.7 percent of GDP.

In 2025, public finances continued to be characterized by a positive performance, with public debt continuing to follow a downward trajectory, reaching 52.9 per cent of GDP, while the total budget deficit was recorded at 1.8 per cent of GDP. At the same time, the Albanian economy continued to expand its economic activity, with a real growth rate of 3.8 percent compared to 2024.

The following charts illustrate the impact of exceptional shocks, including the COVID-19 pandemic and geopolitical developments related to the war in Ukraine, on deviations between initial fiscal projections and actual outcomes. Although these shocks were predominantly negative in nature, fiscal indicators proved relatively resilient, supported by stronger nominal GDP growth, inflationary effects on revenues and the recovery of economic activity during 2023–2025. As a result, deviations in key fiscal aggregates gradually narrowed, contributing to an improvement in deficit and primary balance indicators compared to earlier projections. In this context, the analysis of forecast errors provides useful insights into the sensitivity of fiscal aggregates to macroeconomic developments and supports the forward-looking assessment of macroeconomic risks.

Chart 1. Total income and expenditures as % of GDP, Primary balance as % of GDP and Deficit as % of GDP for 2021-2028 (plan 2026-2028)

Source: Ministry of Finance (2026)

The table below presents data on the main budget revenue and expenditure items for 2025 (fact/plan) as well as their deviation as a percentage of nominal GDP [1].

Table 1. Main items of income and expenditures, for 2025

Revenue					**Expenses**				
Main Revenue Items (in million ALL)	Plan 2025 (initial budget)	Fact 2025	Fact-Plan Difference 2025	Difference in % to GDP	Main items of expenditure (in million ALL)	Plan 2025 (initial budget)	Fact 2025	Fact-Plan Difference 2025	Difference in % to GDP
Value Added Tax	236,784	227,261	-9,522	-0.36%	Personnel expenses	127,929	125,694	(2,235)	-0.08%
Profit Tax	65,749	58,547	-7,202	-0.27%	Interests	68,552	54,692	(13,860)	-0.53%
Excise duty	67,620	69,599	1,979	0.07%	Operating and maintenance expenses	75,684	83,670	7,986	0.30%
Personal income tax	70,705	82,532	11,827	0.45%	Subsidies	1,950	2,364	414	0.01%
National and other taxes	49,637	48,799	-838	-0.03%	Other social expenditure	28,150	29,046	896	0.03%
Customs Duty	11,078	9,486	-1,592	-0.06%	Expenditures for the local budget	89,911	87,793	(2,118)	-0.08%
Income from special funds including*:	**169,895**	**179,148**	**9,253**	**0.35%**	Expenses for special funds including:	263,838	270,271	6,433	0.25%
Social Security	*146,344*	*154,666*	*8,322*	*0.31%*	*Social Security*	*192,338*	*204,060*	*11,722*	*0.45%*
Health insurance	*22,646*	*23,543*	*897*	*0.03%*	*Health insurance*	*63,132*	*63,927*	*795*	*0.03%*
Owners Compensation Fund	*905*	*939*	*34*	*0.00%*	*Expenses for compensation of owners*	*3,000*	*2,284*	*(716)*	*-0.03%*
Income from local government	40,774	40,911	137	0.01%	Capital expenditures	162,374	131,577	(30,797)	-1.18%
Non-tax income	25,800	30,941	5,141	0.19%	Other	6,700	16,587	9,887	0.37%
Aid income	18,995	7,383	(11,612)	-0.44%					
Total	**757,036**	**754,608**	**(2,428)**	**-0.09%**	**Total**	**825,088**	**801,695**	**(23,393)**	**-0.89%**

** Collection of social and health contributions including F.S.K.D.Sh and I.S.Sh*
Source: Ministry of Finance (2026)

Based on the data presented in the table above on the fact/plan deviations for 2025 in relation to nominal GDP, it is evident that some tax revenue items have shown underperformance, influenced by a combination of macroeconomic and sectoral factors.

In particular, the item of Value Added Tax (VAT), considered in a consolidated manner (VAT on imports and domestic VAT), has recorded a negative net deviation of about -9.5 billion ALL, or -0.36% of GDP compared to the initial planning for 2025, being identified as one of the main sources of risk in the realization of budget revenues. This underperformance was mainly influenced by VAT on imports, which resulted in a lack of realization of about -11.5 billion ALL. The determining factors are mainly related to external and out-of-control developments of fiscal policy, including the devaluation of the domestic currency against the euro (about -3%) and the US dollar (about -6%), with a direct effect on the reduction of the tax base of imports (estimated effect of about -9.5 billion ALL). Also, there has been a significant contraction of imports of vehicles, especially used ones (-43% in quantity), as well as a decrease in imports of new vehicles (-11%). At the same time, the reduction of international prices for some categories of goods with a high fiscal weight has affected the reduction of the taxable value on imports.

In contrast to the developments in imports, domestic VAT has recorded a positive realization of about ALL 2 billion, mainly supported by the expansion of the tax base and the increase of the declared economic turnover, as a result of the advancement of the fiscalization process (about ALL +241.5 billion). This development has also been accompanied by improvements in tax administration, increased effectiveness of tax risk management measures, as well as the implementation of SAA measures and the action plan for 2025.

With regard to Profit Tax, this item has shown a negative deviation of about -7.2 billion ALL, or -0.27% of GDP, compared to the 2025 plan, also constituting an important source of risk for budget revenues. The underperformance is mainly related to the contraction of profits in the manufacturing sector (estimated effect of about -3 billion ALL), as well as to the significant decline in contributions from several key sectors of the industry, including electricity, transmission and materials industry. At the same time, a general decline in the financial result has been identified in 28 industrial sub-sectors, which signals a broad weakening of industrial performance.

[1] *Based on the latest published MOFF for the period 2027-2029, the nominal GDP estimated for 2025 is ALL 2,642,509 million.*

Although an increase in contributions from the services, trade and construction sectors has been observed, this increase has not been sufficient to compensate for the underperformance of the industrial sector, thus predominantly determining the negative deviation of the Profit Tax and increasing the exposure to fiscal risk in budget revenues.

Excise revenues recorded a net positive deviation of ALL 2 billion, or about 0.07% of GDP, for the reference period, compared to the actual realization of 2025. The positive performance of this item was mainly supported by quantitative and normative factors, in particular by the increase in the consumption of excisable products and the implementation of the excise duty increase calendar. Specifically, the increase in fuel consumption (+78 thousand tons) and the increase in the amount of cigarettes in circulation (+210 tons) directly contributed to the expansion of the excise base, while the update of taxation levels according to the approved calendar had a positive impact on revenues. However, these effects were partially cushioned by the decline in tobacco and beer imports, as well as by the decrease in international prices for some products, without being able to reverse the positive net result of this item.

Personal income tax recorded a positive deviation of ALL 11.8 billion, or about 0.45% of GDP, for the reference period, compared to the actual realization of 2025, significantly contributing to the improvement of budget revenues. This result was mainly supported by the expansion of the tax base, as a result of the increase in salaries in the public and private sectors, the increase in the level of employment, as well as the improvement of the real declaration of wages.

Administrative measures also had a positive impact, including inspections focused on sectors with high risk of informality, especially in tourism and construction, expansion of the base of contributors and SAA measures in function of formalization and risk analysis. Although some sub-items of the group, including rental income, bank interest and gambling, showed sub-plan performance, the positive impact of the wage base proved dominant, determining the net positive result of this item.

Revenues from customs duties recorded a negative deviation of -1.6 billion ALL, or about -0.06% of GDP, compared to the realization of 2025, reflecting an underperformance of this item. This under-realization was mainly dictated by structural changes in the composition and origin of imports, which directly affected the taxable base and the collection potential. Specifically, the change in the origin of cigarette imports led to a decrease in the level of customs duties payable for this item, while the decrease in imported quantities of sugar and beverages contributed to the narrowing of the basis on which customs duties are calculated. Moreover, the shift in the structure of imports towards goods benefiting from exemptions or lower customs burden reduced the collection potential compared to initial forecasts, predominantly determining the negative deviation of this item.

Positive deviation in the item Revenues from special funds for social and health insurance contributions recorded a positive deviation of +ALL +9.2 billion, or about +0.35% of GDP, compared to the actual realization of 2025, reflecting a good performance. This over-realization is related to the combined impact of structural and administrative factors, which have contributed to the expansion of the contribution base and to the increase of the level of declaration and compliance of liabilities. Specifically, the positive outcome was supported by the wage reform in the public sector, which led to a significant increase in the total wage fund, as well as by the increase in wages and employment in the private sector, as a result of the improvement of labor market conditions and the advancement of the formalization process. At the same time, the expansion of the number of active businesses increased the base of contributing entities, while the increase of declared employees in the payroll reflected the effects of the measures against informality and more realistic declaration of wages.

Administrative measures, including the fiscalization process, the implementation of the selected risk analysis in the framework of the SAA and the action plan for 2025, which significantly improved the compliance and reporting of contribution obligations, also had a significant positive impact. These factors created a broader and more formalized base of contributions, enabling the positive realization of this item and reducing the exposure to fiscal risk. The Medium Term Revenue Strategy (MTRS) 2024–2027, approved by DCM no. 847, dated

26.12.2024, projected for 2025 an increase in revenues of ALL 15.96 billion, or 0.62% of GDP. The actual realization of additional revenues amounted to ALL 19.64 billion, or 0.76% of GDP, exceeding the Strategy's target by ALL 3.68 billion, or 0.14% of GDP. The main contribution to exceeding the target came from Pillar 2 – Good Tax Administration, with ALL 17.43 billion, followed by Pillar 1 – Tax Policy, with ALL 0.86 billion, while Pillar 3 – Customs Good Administration realized ALL 1.35 billion, slightly below the projected target. Revenues from taxes and customs (excluding contributions) amounted to ALL 496.2 billion (+8.6% compared to 2024), while insurance contributions amounted to ALL 178.2 billion, with an increase of 10.7%.

During 2025, the strategy made significant progress, especially with the addition of 27 thousand new contributors to the contribution scheme in September 2025 compared to the same period of 2024, reaching 3.6% of employees against the initial target of 1.6%. At the same time, a salary increase was recorded for 83,046 employees or for 10.9% of the total employees. Overall, 2025 is assessed positively for the achievement of the MTRS objectives and the effective implementation of the planned measures, based on the reference GDP of ALL 2,557,740 million. More detailed information on the positive deviations in local government revenues and expenditures is found in Chapter 5 "Fiscal Risks Related to Local Finances", while on the realization of budget expenditures and their deviation from the annual plan is found in Chapter 3 "Risks related to General Expenditures and Arrears".

The table below presents data on the main budget revenue and expenditure items for 2025 and the planning for 2026, as well as their deviation as a percentage from the nominal GDP projected for 2026[2].

Table 2. Main items of income and expenditure (Actual 2025/Plan 2026)

Revenues					**Expenses**				
Main Revenue Items (in million ALL)	Actual 2025	Plan 2026	Difference Plan 2026 – Fact 2025	Difference in % to GDP	Main items of expenditure (in million ALL)	Actual 2025	Plan 2026	Difference Plan 2026 – Fact 2025	Difference in % to GDP
Value Added Tax	227,261	242,546	15,285	0.55%	Personnel expenses	125,694	140,140	14,446	0.52%
Profit Tax	58,547	65,078	6,531	0.23%	Interests	54,692	64,206	9,514	0.34%
Excise duty	69,599	74,672	5,073	0.18%	Operating and maintenance expenses	83,670	84,605	935	0.03%
Personal income tax	82,532	88,339	5,807	0.21%	Subsidies	2,364	2,450	86	0.00%
National and other taxes	48,799	49,590	791	0.03%	Other social expenditure	29,046	28,700	(346)	-0.01%
Customs Duty	9,486	10,912	1,426	0.05%	Expenditures for the local budget	87,793	97,767	9,974	0.36%
Income from special funds including*:	179,148	197,966	18,818	0.68%	Expenses for special funds including:	270,271	286,573	16,302	0.59%
Social Security	*154,666*	170,621	*15,955*	*0.57%*	*Social Security*	*204,060*	*204,088*	*28*	*0.00%*
Health insurance	*23,543*	26,345	*2,802*	*0.10%*	*Health insurance*	*63,927*	*67,332*	*3,405*	*0.12%*
Owners Compensation Fund	*939*	*1000*	*61*	*0.00%*	*Expenses for compensation of owners*	*2,284*	*3,500*	*1,216*	*0.04%*
Income from local government	40,911	43,932	3,021	0.11%	Capital expenditures	131,577	179,823	48,246	1.73%
Non-tax income	30,941	29,773	(1,168)	-0.04%	Other	16,587	2,500	(14,087)	-0.51%
Aid income	7,383	20,249	12,866	0.46%					
Total	**754,608**	**823,057**	**68,449**	**2.46%**	**Total**	**801,695**	**886,764**	**85,069**	**3.06%**

Source: Ministry of Finance (2026)

Based on the data presented in the table above, the main factors taken into consideration for the planning of tax revenue items for 2026 are as follows:

The planning of the VAT item for 2026 is based on the expansion of the tax base as a result of economic growth and the price index, the performance of the expanding sectors (tourism, construction, services), as well as the improvement of administration through fiscalization and Selected Risk Analysis measures. The forecast also reflects the effects of the 2026 tax policies, revenues from the forgiveness law, as well as fiscal risks mainly related to the performance of imports and customs revenues.

The planning of excise revenues for 2026 is mainly based on the positive trend of consumption of excisable products, especially fuels and tobacco products, as well as on the impact of economic growth on the taxable base. The forecast also reflects the effects of previous tax policies, including the periodic indexation of excise duty levels according to legal provisions, as well as the implementation of the excise duty increase calendar for cigarettes. An additional contribution to the performance of this item is expected to come from the implementation of the forgiveness law, as well as from the administrative measures envisaged in the framework of the Selected

[2] *Based on the latest published MOFF for the period 2027-2029, the nominal GDP projected for 2026 is ALL 2,781,433 million.*

Risk Analysis (SAA), which aim to strengthen compliance and collection. The performance of excise revenues remains sensitive to developments in domestic consumption and international prices of excisable goods.

The Profit Tax revenue planning for 2026 is mainly based on the improvement of tax administration through the implementation of the Selected Risk Analysis measures in the framework of the SAA for 2026, the expected collections from the implementation of the forgiveness law, as well as the effects of the tax policies adopted in previous years. An important element of the forecast is related to the broadening of the tax base as a result of changes in the tax treatment of specific sectors, including the application of the standard profit tax rate for the information technology sector. The performance of this item remains sensitive to sectoral economic developments and corporate earnings performance.

The forecast of Personal Income Tax revenues for 2026 is based on the broadening of the tax base as a result of economic growth and improvements in the labor market, as well as on the impact of the budgetary and tax policies in force. An important role is played by the increase of salaries in the public and private sectors, the increase of employment, as well as the improvement of the real declaration of salaries, especially in the private sector, following the measures of the tax administration for formalization and risk control. The forecast also reflects the effects of previous tax policies, including the implementation of relief measures for households and tax exemptions for the basic level of labour income, which partially reduce the tax base. A positive impact is also expected from the good governance of the labour market and the expansion of the tax on rental income, as measures foreseen in the framework of the Selected Risk Analysis. The forecast also includes the expected collections from the implementation of the pardon law. The performance of this item remains sensitive to developments in the labor market and the sustainability of wage growth.

The planning of National Tax and other revenues for 2026 relies on the effects of tax measures related to gambling legislation, as well as the impact of previous tax policies, including the implementation of the carbon tax increase calendar during the year. The forecast also includes the expected collections from the implementation of the pardon law. The performance of this item remains sensitive to changes in the regulatory framework and the level of compliance of taxpayers.

The planning of Customs Duty revenues for 2026 is based on the expansion of trade volume as a result of economic growth and on the effects of indexation according to the legal framework in force. The forecast also includes the expected collections from the implementation of the pardon law. The performance of this item remains sensitive to the structure of imports and changes in the composition of taxable goods.

Planning of the items 'Social Insurance' and 'Health Insurance' The forecast of income from contributions for 2026 is based on the improvement of macroeconomic indicators with an impact on employment and the salary fund, as well as on the effects of the budgetary measures related to the increase of the minimum wage and the indexation of salaries in the public administration. An additional contribution is expected from improving compliance through the implementation of Selected Risk Analysis measures and from the effects of previous policies. The forecast also includes the expected collections from the implementation of the forgiveness law, while the performance of this item remains sensitive to developments in the labor market and the level of formalization.

Albania has adopted the Medium Term Revenue Strategy (MTRS) and the Action Plan 2024-2027 which presents a series of detailed reforms in the field of tax policies as well as in tax and customs good administration, with the aim of increasing tax revenues by a total of ALL 64.85 billion during the period 2024-2026. This increase is projected to come from: i. Fiscal policies: +ALL 9.28 billion (0.33% of GDP); ii. Good tax administration: +51 billion ALL (1.96% of GDP); iii. Customs good administration: +4.5 billion ALL (0.17% of GDP).

As a result, the tax revenue-to-GDP ratio is expected to increase from 25.9% in 2023, to 27.7% by 2027, representing an increase of 1.8 percentage points.

2. Fiscal Risks Related to Macroeconomic Developments

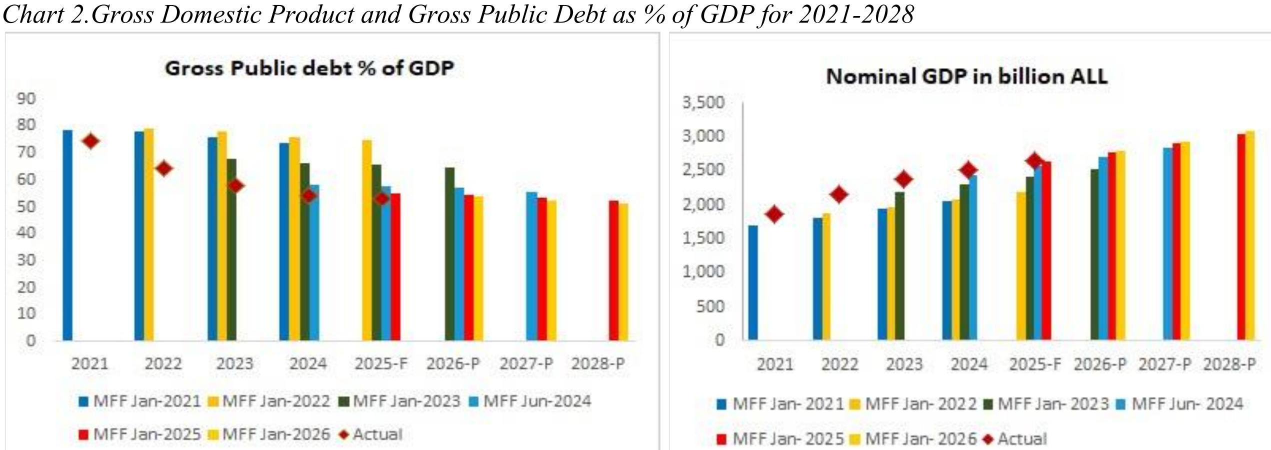
2.1. Macroeconomic developments in Albania

The economy of Albania over the last years has been characterized by a stable level of performance and resilience, supported by prudent macroeconomic policies, which have contributed to maintaining macroeconomic stability and key economic and financial fundamentals. In an economic environment still accompanied by high uncertainties, relatively high prices and tighter financing conditions, the economy has continued to maintain stable growth rates. However, the medium-term outlook remains exposed to upside risks, including the slowdown in external demand, the deterioration of international financial conditions, pressures on financing costs and geopolitical uncertainties, which may negatively affect economic growth dynamics and macrofiscal balances in the future.

The charts below illustrate the impact of extraordinary shocks, including the COVID-19 pandemic and the geopolitical developments since 2022, which have led to deviations from the initial projections. Deviations in nominal GDP growth forecasts are closely linked to public debt dynamics, as lower-than-expected nominal growth may reduce fiscal revenues and worsen the public debt-to-GDP ratio, thereby signalling the materialisation of macroeconomic risks.

However, following the economic contraction of 2020, the Albanian economy has experienced a positive recovery and growth trajectory throughout the period 2021–2025. At the same time, public debt has continued its downward trend, in line with the fiscal rules established under the Organic Budget Law (OBL).

Chart 2.Gross Domestic Product and Gross Public Debt as % of GDP for 2021-2028



Source: Ministry of Finance (2026)

During 2025, the economy continued to grow, showing a stabilization of economic activity. According to the latest estimates, GDP in real terms for 2025 has increased by about 3.8 percent compared to 2024, remaining very close to the projections previously calculated in the economic and fiscal program for 2025 at the level of 3.9 percent of GDP. This growth was mainly generated by domestic demand, both from private consumption and investments, as well as especially from the very positive performance of the tourism sector. Meanwhile, net foreign demand is estimated to have had a slightly negative effect (-0.8 percent) compared to 2024, influenced by the faster growth of imports of goods and services and the decline in exports of goods.

Developments in the labor market have been positive and continuously recovering during 2025. From the supply side, employment growth can be attributed mainly to the steady growth in the labor force participation rate and the employment rate, reaching 76.3 percent in 2025 (compared to 75.7 percent in 2024) and 69.3 percent (compared to 68.6 percent in 2024), respectively, for the 15-64 age group. Evidence shows that there is a growing general interest in participation in the labour market, driven by the upward trend of wages, thus intensifying the positive trends in the labour supply. At the same time, the unemployment rate continued the downward trend of recent years to 8.4 percent in 2025, from 8.5 percent at the end of 2024 (for those aged 15 and over).

Consumer price inflation has shown a stable performance during 2025, consolidating around the same average rate as in 2024. This stability results from the continuous appreciation of the lek, especially against the euro, the main currency of trade exchanges, as well as from the positive shocks to the external supply, reflected in the decline in food price inflation and beyond, as well as the decline in commodity prices and the proactive monetary policy. As for the latest available data, the average inflation for the period January-December 2025 is 2.2 percent. It is also important and in favor of the economic developments and prospects that inflation in our country has been significantly lower than in the countries of the region (at the average annual rate of 2.2 percent for 2025), or than the average of the European Union countries. The stability of inflation around the 3 per cent target will be supported by the price performance in the international markets, the stability of the exchange rate, as well as the effects of the monetary policy normalisation.

Medium-term forecasts

Over the medium term, economic growth is expected to be generated mainly by domestic demand, both consumption and investment. Private consumption is expected to remain the main contributor to GDP growth, supported by improved consumer confidence and positive developments in the labour market. These factors are projected to be reflected in a gradual increase in wages, further boosting the expansion of households' real disposable incomes, especially in the context of inflation normalization during 2024. Meanwhile, net foreign demand (export-import) is expected to have a slight positive effect. The weakening of goods exports in recent years is mainly estimated to be temporary and related to cyclical factors, while a gradual return towards their positive historical trajectory is expected in the following period.

Exports of services, especially tourism services, are also expected to have a positive performance in the medium term and to be the main element to compensate for the negative contribution from the increase in imports. Meanwhile, the gradual increase in investments is expected to be driven by a more intensified utilization of the existing production capacities, as well as by the acceleration of economic activity during the projected period and the improved perception of the business on the medium- and long-term economic outlook. At the same time, the gradual normalisation of financial conditions and the cautious easing of lending standards in the medium term are expected to create a more supportive environment for private investment growth, despite the persistence of external uncertainties and still relatively high financing costs.

The fiscal policy remains oriented towards maintaining the medium-term sustainability of public finances and strengthening its credibility in the face of the financial markets. In this regard, the main focus is on supporting an improved public debt dynamic, through a stable, neutral or positive primary balance, which serves as the operational anchor of the fiscal policy in the medium and long term, in line with the fiscal regulatory framework set out in the Organic Budget Law.

At the same time, in addition to fiscal consolidation, it is intended to maintain a balanced and stable ratio of current and capital budget expenditures, where capital expenditures (public investments) for the period 2026-2028 will be targeted to average around 6.4 percent of GDP in each budget year.

The budget deficit for 2025 stood at 1.8 percent of GDP, from -0.7 percent for 2024. The primary balance stood at 0.3 percent of GDP for 2025 and is expected to remain around the average level of 0.6 percent over the medium term 2026-2028. This target is already legally binding, provided for in the LOB, where it is determined that starting from the budget year 2024 and for each subsequent year, the primary balance cannot turn out to be negative, i.e. it must be at least balanced or positive (primary surplus).

2.2. Risks identified during the previous budget year

- *Risk: "Commodity price shock" as a result of regional conflicts*

Characteristics: A combination of continuous supply disruptions (due to conflicts and increases in trade barriers) as well as negative demand shocks, cause continuous instability of commodity prices, leading to an increase in inflation as well as dampening pressure on economic activity.

Impact: (high) The increase in food and electricity prices would hit economic activity, leading to a decrease in purchasing power. In this way, economic growth would slow down and the budget deficit would increase.

Measures taken (risk mitigation):

During 2025, the consumer price index (inflation) in our country was 2.2 percent, significantly lower than the countries of the region as well as the EU, which helped to maintain the overall macroeconomic balance in the country. The alignment of the fiscal policy with the monetary policy helped to mitigate the impact of the increase in inflation and its return towards the target, through the following measures:

- The gradual and well-calibrated monetary policy tightening undertaken by the Bank of Albania during the period 2022–2023, in response to the rapid increase in inflation driven by price shocks in the international and domestic markets, has had its full effects on the stabilisation of the price level. This orientation was followed by a cautious easing of monetary conditions in the second half of 2025 in the reduction of the policy rate from 2.75 per cent in 2024 to 2.5 per cent as of July 2025, at which level it has been maintained until the end of 2025. This monetary policy stance has been consistent with the objective of maintaining price stability, constituting the main precondition for ensuring a sustained return of inflation towards the target in 2025.

- Fiscal policy during 2025 was clearly oriented towards fiscal consolidation, realizing:
- Consolidation of the fiscal balance through gradual reduction of the budget deficit and improvement of the primary balance;
- Shift away from broad subsidy measures towards targeted support for vulnerable groups;
- Prudent public debt management and enhanced fiscal credibility, with a positive impact on financing conditions and macroeconomic expectations.

- *Risk: Exchange rate volatility*

Characteristics: The increase in the exchange rate in 2025 may be followed by a sudden decline, but nevertheless the appreciation of the domestic currency against the euro helps by curbing the transmission of imported inflation to the domestic economy.

Impact: (high) Rapid valuation poses competitive challenges for export-oriented firms, while a sudden depreciation would negatively affect the financial sector and households given the large share of foreign currency loans.

Measures taken (risk mittigation):

- Tightening macroprudential regulation to reduce the risk of a systemic shock to the financial sector.
- Drafting of temporary measures to alleviate liquidity problems for exporting firms.
- The performance of economic activity is closely related to macroeconomic indicators and the Ministry of Finance (MoF) has been careful to maintain macroeconomic balances and move towards fiscal consolidation, in order to cope with any situation in the future that may affect the economy. As a result, real GDP growth stood at 3.8 percent for 2025, staying close to the expectations of the MoF and international institutions.

- The budget deficit during 2025 was kept under control at 1.8% through a consolidation approach that focused on good expenditure management, targeting of support measures and strengthening revenue collection. Prudent debt management and adherence to the fiscal framework helped to reduce deficit risks and maintain coherence with the monetary policy stance.

➢ *Risk: "Unexpected global slowdown or recession in Europe"*

Characteristics: Consequences from deepening geoeconomic fragmentation, broader conflicts, inward-oriented policies, and weakened international cooperation can result in a less efficient trade and FDI setup, supply disruptions, increased transportation and input costs, financial instability, a system breakdown, and lower growth in international money, which causes an EU recession.

Impact: (high) A recession in Albania's main export destinations may lead to a decline in foreign demand and remittances, leading to slower economic growth in Albania. Geopolitical tensions and increasing trade barriers would indirectly affect the Albanian economy, through higher commodity prices, lower growth of trading partners, tighter financial conditions, and weaker confidence.

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

- Measures taken: Maintaining fiscal consolidation within a medium-term consolidation plan based on revenue growth, as well as new measures taken in tax policy. On the expenditure side, the budget foresees continuous support to mitigate the impact of the still high energy prices on households and businesses. Fiscal support while maintaining fiscal consolidation is based on.
- Monitoring and managing fiscal and financial sector risks
- Improving the business environment to support growth and investment through fiscal policies.
- Diversifying growth sources and improving competitiveness, through structural reforms envisaged in the Economic Reform Programme 2025–2027, with a focus on the business climate, productivity and integration in EU markets.
- Coordination with monetary policy, to support macroeconomic stability and maintain the confidence of financial markets.

2.3. Analytical Data

Macroeconomic forecasts in the medium term are built on modeling and analytical methods of financial programming. In the framework of this methodology and in order to assess macroeconomic risks, the Ministry of Finance also considers alternative scenarios, including the pessimistic and optimistic scenario, which are accompanied by the relevant sensitivity analysis. This analysis presents the expected impacts on the fiscal framework and the possible adjustments of fiscal and budgetary policies under each alternative scenario. The full description of the methodology, the sensitivity analysis and the macroeconomic indicators are presented in detail in Annex A. Some of the economic indicators, based on these forecast scenarios, are presented as follows:

Table 3. Alternative predictions for each scenario

	2020	2021	2022	2023	2024	2025 Fact.	2026 Pred.	2027 Pred.	2028 Pred.
Real GDP growth (%)									
Basic	**-3.3**	**9.0**	**4.8**	**4.0**	**4.0**	**3.8**	**4.0**	**3.9**	**4.1**
Pessimist							**1.5**	**2.4**	**2.6**
Optimist							**4.5**	**4.4**	**4.6**
Nominal GDP growth (%)									
Basic	**-3.3**	**12.7**	**15.2**	**10.0**	**6.5**	**5.3**	**5.3**	**5.2**	**5.4**
Pessimist							**2.2**	**3.3**	**3.5**
Optimist							**5.8**	**5.7**	**5.9**
Nominal GDP (billion ALL)									
Basic	**1,656**	**1,867**	**2,150**	**2,364**	**2,518**	**2,651**	**2,781**	**2,925**	**3,082**
Pessimist							**2,701**	**2,791**	**2,890**
Optimist							**2,795**	**2,953**	**3,127**
Public Debt Effective Interest Rate (%)									
Basic	**3.2**	**3.0**	**3.0**	**3.6**	**4.1**	**4.1**	**4.2**	**4.3**	**4.4**
Pessimist							**4.2**	**3.9**	**3.9**
Optimist							**4.2**	**4.4**	**4.5**
Nominal Exchange Rate, average (Lek/Euro)									
Basic	**123.8**	**122.5**	**119.0**	**108.8**	**100.7**	**97.8**	**98.3**	**98.3**	**98.3**
Pessimist							**98.3**	**98.3**	**98.3**
Optimist							**98.3**	**98.3**	**98.3**
Total Revenue (% of GDP)									
Basic	**25.7**	**27.4**	**26.6**	**27.2**	**28.2**	**28.5**	**29.6**	**29.8**	**29.9**
Pessimist							**28.8**	**29.3**	**29.4**
Optimist							**29.6**	**29.3**	**29.9**
Total Expenditure (% of GDP)									
Basic	**32.4**	**31.9**	**30.3**	**28.5**	**28.9**	**30.2**	**31.9**	**31.3**	**31.1**
Pessimist							**31.0**	**31.2**	**31.1**
Optimist							**31.9**	**31.4**	**31.1**
Fiscal balance (% of GDP)									
Basic	**-6.7**	**-4.6**	**-3.6**	**-1.3**	**-0.7**	**-1.8**	**-2.3**	**-1.6**	**-1.3**
Pessimist							**-2.3**	**-1.9**	**-1.7**
Optimist							**-2.3**	**-1.6**	**-1.2**
Primary Balance (% of GDP)									
Basic	**-4.6**	**-2.7**	**-1.8**	**0.7**	**1.4**	**0.3**	**0.0**	**0.8**	**1.0**
Pessimist							**0.1**	**0.3**	**0.5**
Optimist							**0.0**	**0.8**	**1.2**
Gross public debt (%GDP)									
Basic	**73.9**	**74.1**	**64.1**	**57.6**	**54.2**	**52.9**	**53.6**	**52.2**	**51.0**
Pessimist							**54.0**	**53.9**	**53.8**
Optimist							**53.4**	**51.8**	**50.2**

** The level of gross debt for 2025 is in line with the forecasts in the "Macroeconomic and Fiscal Framework 2026-2028". The current debt level for 2025 stands at 54.0% of GDP.*

Source: Ministry of Finance (2026)

3. Risks Related to General Expenditures and Arrears

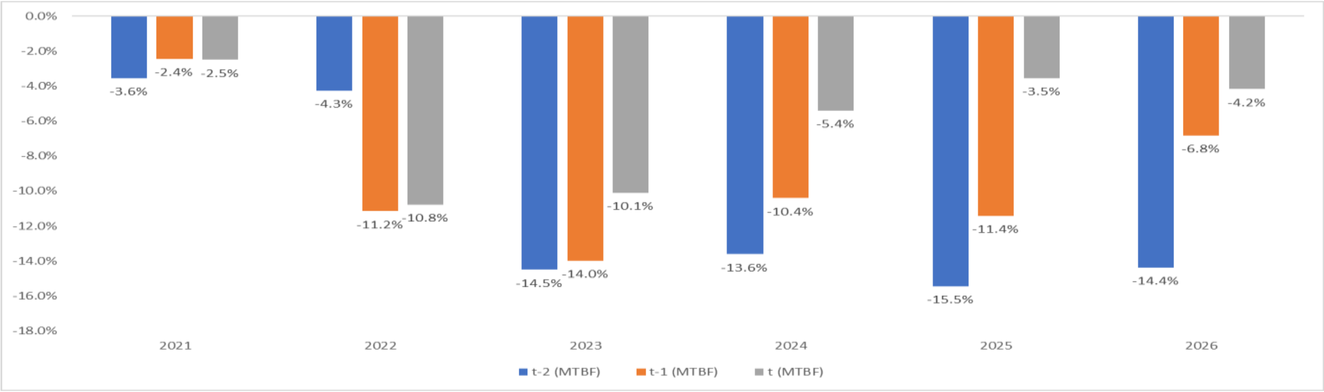
3.1. Budget Expenditure Planning

3.1.1. An overall narrative overview of the previous budget year

The planning of budget expenditures is based on the methodology of budgeting on the basis of program and performance, ensuring that within the expenditure ceilings with a frequency of 3 years, the expenditures related to all existing policies and commitments undertaken in previous years, social, salary, investment policies are initially financed and, in case there is sufficient fiscal space, the new policy proposals based on the priorities are financed strategic and political aspects of the country. Budget expenditure planning is influenced by projections of macroeconomic indicators, revenue projection, deficit level and policy decisions related to sensitive expenditures such as personnel expenditures, pension expenditures or various social policies.

Frequent and significant changes in this regard contribute to the instability in the assessment of budget expenditures and consequently to the instability in the financing of public policies. The analysis of the aggregate expenditure projections (in nominal value) compared to the approved budget developed during the last eight years highlights a stable difference between the budget estimates made in the PBA and those of the approved annual budget. The differences are mostly negative, which shows that the expenditure projections made during the drafting of the PBA have been more conservative compared to the approved budget, which in about 90% of cases is higher than the ceiling projections. The gap between the approved ceilings and the initial budget is particularly pronounced in 2021–2023, fluctuating from -2.5% to -10.1% for the year t. In 2024, there is an improvement in the accuracy of forecasts, with a gap of -5.4%, a trend that continues in 2025, when the difference is reduced to -3.5%. However, in 2026 there is a rebound of the widening of the gap, which reaches the level of -4.2%.

Chart 3. Deviation of expenditures according to MTBP compared to the initial annual budget



Source: Ministry of Finance (2026)

In general, the expenditure estimate is a result derived from the assessment of budget resources (revenues and sources of financing of the budget deficit). The differences in the forecasts for 2026 are partly explained by the full financing of the effect of the increase in the minimum wage of ALL 50 thousand per month, as well as the indexation of salaries for the public administration at the rate of 2.5% starting from January 1, 2026. In addition to this policy, the necessary resources were planned in the budget expenditures for the period 2026-2028 to achieve the Government's commitment to increase the minimum pension to the level of 200 Euros per month and the average pension to the level of 400 Euros per month, which materialized after the medium-term forecasts of the PBA were made.

3.1.2. Potential risks

The risks that may impact the budget forecasts resulting in high deviations between them and the approved initial budget are:

- Fiscal risk – Changes in tax policy (The forecast of tax revenues is affected by the relationship between taxes and the established tax base). The change in the level of revenues planned to be collected directly impacts the ceiling of general public expenditures.
- Political risk – Risk of policies undertaken by the Council of Ministers (Request for unplanned expenditure that may change expenditure ceilings).
- Risk in planning - Poor forecast of expenditure ceilings as a result of not taking into consideration the recommendations and findings of the monitoring that took place during the previous year.

3.1.3. Mitigation of identified risks

Measures taken to mitigate the risks identified during the previous budget year:

- The new Public Finance Management Strategy foresees revisions of the secondary budget legislation during the medium-term period 2026-2028, which aims to address issues related to increasing managerial accountability in the preparation of budget requirements.
- The Guideline on the Analysis of Deviations of Medium-Term Budget Forecasts has been approved and, for the first time, it is expected that at the end of April 2026, the first report that systematically analyses deviations during the medium-term budget planning phases will be published. This guideline is an important step towards increasing and strengthening budget transparency, as it aims to identify, analyze and make public the main causes of the differences between the forecasts during the planning cycle.
- The drafting of the expenditure review methodology has been completed and the guideline that will approve this methodology is in the finalization phase. The aim is to further improve the planning and management of public expenditures.
- To follow and correctly implement the Public Investment Management Decision no. 887, dated 27.12.2022 which, among other things, aims to strengthen the process of planning and approval of new public investment projects as part of the PBA preparation cycle.

Measures for the future:

- The Ministry of Finance, in cooperation with the Line Ministries and Central Institutions, should systematically identify and analyze the causes that lead to poor expenditure planning, reflecting them in the budget analyses and relevant recommendations, in order to improve the quality of the medium-term budget planning process.
- The full involvement and engagement of policy-making structures should be institutionalized as a measure of responsibility in the medium-term budget planning process, especially in the phases of adoption of ceilings and sectoral priorities. This commitment is essential to ensure that deviations identified through the gap analysis report are addressed in a timely manner, ensuring coherence between policy objectives, fiscal framework, and budget allocations.

3.1.4. Analytical Data

The table below presents data on the PBA approved in phase II for the period 2020-2027, in million ALL, as well as the respective initial budget, to make it possible to compare the deviation of expenditures.

Table 4. Total expenditures according to MTBP for the period 2021-2028 and initial budget

Total Expenditures for the period 2019-2027 in million ALL	2021	2022	2023	2024	2025	2026	2027	2028
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	
MTBP 2026-2028 (forecasted in 2025)						849,803	893,338	914,343
Initial budget approved	592,801	637,694	698,117	737,378	825,088	886,764		

Source: Ministry of Finance (2026)

3.2. Budget Expenditures for Public Investments

3.2.1. An Overall Narrative Overview of the Previous Budget Year

Public investments for 2025 were planned at 6.0 percent of GDP or ALL 157.03 billion (including the reconstruction fund in the amount of ALL 5 billion). In the investment planning for 2025, all contractual obligations for investment projects with foreign and domestic financing have been taken into account. As in 2024, and in 2025, priority has been given to financing ongoing projects. The following criteria were followed for the planning of the investments:

- *Priorities of the Government Program for the period 2021 – 2025;*
- *European integration priorities;*
- *Ongoing projects and*
- *Support with local costs and VAT for projects with foreign funding.*

The budget funds allocated for investments have affected important areas of the economy. The priorities of the 2025 budget for capital expenditures were mainly in the field of infrastructure, water supply and sewerage, road transport, health, defence, etc. The execution of expenditures on investments in total has been at high levels, especially for those with domestic financing, and the performance of capital expenditures has not been accompanied by substantial problems affecting the financial sustainability of the budget.

3.2.2. Risks identified during the previous budget year

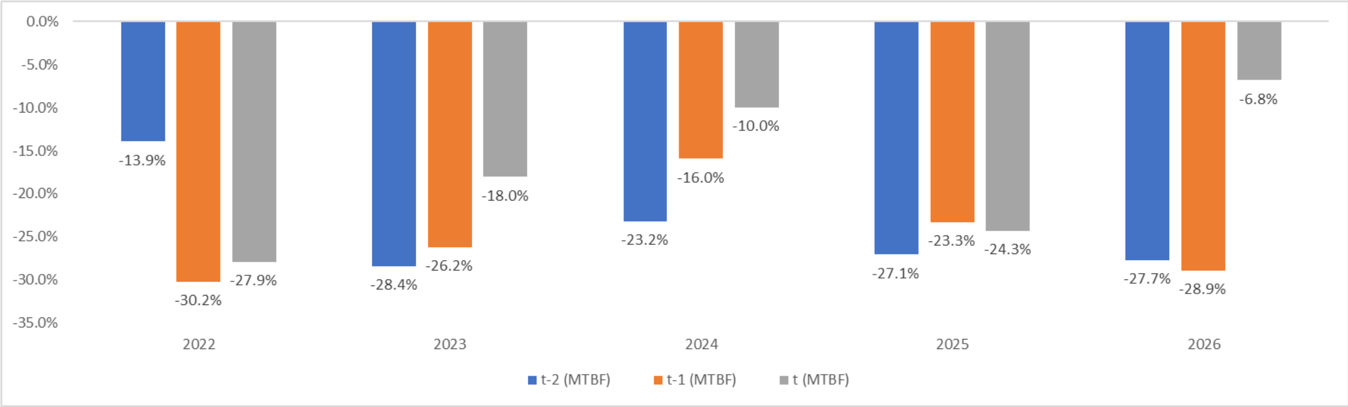
The planning of public expenditures for investment projects for 2025 has been carried out based on the methodology approved by DCM no. 887, dated 27.12.2022 "On public investment management procedures", as amended. The financing of public investments has been carried out in accordance with the budget preparation methodology, according to the provisions of the Standard Budget Preparation Guidelines, which differentiates between expenditures for investments in existing policies and expenditures for investments for new policies. Initially, the following were financed:

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

Public investments for 2025 in the PBA 2025 - 2027 were planned in the amount of 122.98 billion Lek (not including the reconstruction fund), in the initial 2025 budget they were approved in the amount of 162.4 billion Lek (including 5 billion in the reconstruction fund), according to A.N. no. 11, dated 19.12.2025 in the amount of 157 billion Lek in the final budget (including 5 billion in the reconstruction fund). Public investment planning is based on data on macroeconomic indicators such as revenues, deficit, decisions related to wage policies, etc. The budget plans for capital expenditures have been revised several times through normative acts during 2025. During the last years, these changes between the plans in the draft budget, the initial budget and the plans in the final budget have brought risks to the state budget, creating arrears or extending the completion of projects for years.

The graph below shows the deviations in capital expenditure planning in the Phase I PBA, the initial budget and the final budget.

Chart 4. Deviation of capital expenditures according to MTBP compared to the initial budget



Source: Ministry of Finance (2026)
Note: For 2026, only the deviation of the initial budget with the PBA has been calculated.

During 2025, several problems have been identified in the planning and implementation of the budget for investment projects, which have led to the increase of project costs, the demand for additional funds not foreseen in the PBA and the increase in the years for the completion of projects, such as:

- *Difficulties in the full implementation of new public investment procedures as a result of changes in Public Investment Management (PIM) procedures);*
- *Lack of in-depth analyses by the beneficiary institutions on project proposals;*
- *Redistributions among the items of public investments by ML/IB, which may create conditions for the creation of arrears;*

3.2.3. Mitigation of identified risks

Based on the identified risks, the Ministry of Finance, with the support of international partners, undertook several measures to strengthen the procedures for the identification, proposal, approval and monitoring of public investment projects. For this purpose, through DCM no. 887, dated 27.12.2022 "On public investment management procedures", as amended, several measures were adopted to mitigate the identified risks, where among the main measures we can mention:

- New public investment projects above the threshold value set by the 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 Unique List of Projects of National Importance. The Unique List of Projects of National Importance contains public investment projects, which are of strategic importance, in terms of the economic and social development of the country, regardless of their source of financing. This list serves as an instrument to support the policies and priorities of the Albanian government, in line with the National Strategy for Development and Integration (NSDI), as well as sectoral and cross-sectoral strategies.

- Capital expenditures, for the purpose of evaluation and programming of public investment projects, are classified as follows:

  - Administrative capital expenditures;
  - Capital expenditures for emergencies;
  - Expenses for investment projects.

- We emphasize that the proposals for capital expenditures for emergencies which exceed the value of 200 million ALL before they are planned in the PBA, are forwarded for approval by decision of the Council of Ministers.

- Pursuant to DCM no. 887/2022, proposals for new investment projects which are above the limit value
- determined by the instruction of the Minister of Finance and meet the criteria to be classified as projects of strategic importance will be submitted simultaneously to the Ministry responsible for finance and to the institution responsible for strategic programming at any time.
- The Ministry responsible for finance conveys its position to the institution responsible for strategic programming, which evaluates and consults each proposal in the Strategic Planning Committee, on a case-by-case basis.
- Pursuant to DCM no. 887/2022, investment projects above the limit value will follow, in addition to the project proposal forms, the feasibility studies in the Ministry of Finance and SASPAC. Instruction no. 22, approved on 15.09.2025, defines the methodology of feasibility studies, standardizing the process of preparing projects before their approval. Only mature projects, with complete feasibility studies, are included in the budget. The study contains complete information on the project and is aligned with the feasibility studies that are being prepared for the project proposals in the European Union.
- Any proposal for a public investment project, which has a full value above the limit set according to Link No. 1 of Directive no. 11, dated 28.05.2025 "On determining the financial limit of the full value of the project in accordance with the specifics of the sector, on the basis of which the method and procedure of evaluation of the public investment project is determined" should be subjected to a full evaluation process, before the start of the budget process.
- One of the most important points of the approved DCM is related to the multi-year budget commitments, where it is determined that during their implementation in the budget of the central government unit, it is not allowed to allocate less than 20 percent of the total value of the respective project to the budget of the respective unit of the central government unit during the first year, less than 30 percent of the total value of the respective project during the second year and less than 30 percent of the total value of the project during the third year, unless otherwise specified in the feasibility study document and new projects approved in the 2025-2027 PBA.
- Intervention in all project proposal forms in the framework of strengthening the procedures of proposal, conception, in-depth analysis and information that their proposers should convey. Also, in these forms, all the requirements of international institutions are taken into consideration, such as: possible investment alternatives, inclusion of environmental and climate indicators in assessments, inclusion of gender indicators in projects, project risks, links with strategies, etc.
- During 2025, in cooperation with the World Bank and ASPA, training sessions were held with the Line Ministries and Budget Institutions with the aim of good public finance management and meticulous implementation of DCM No. 887/2022, as amended.

Regarding the monitoring, in implementation of DCM no. 887/2022, as amended compared to the previous reports, reports are also made on the performance indicators at the project level, on the implementation of procurement procedures, on cases of creation of arrears accompanied by the relevant arguments, on the problems created in the implementation of projects, as well as on the non-implementation of projects accompanied by the relevant arguments. The Ministry of Finance has implemented the new public investment procedures during 2025. The proposed investment projects for the 2026 budget have also followed the new procedures in identification, proposal and approval to be budgeted. During 2025, it continued simultaneously with the approval of the Single List of Projects of National Importance, which was finalized with the approval of DCM no. 703, dated 26.11.2025 for an amendment to the decision No. 91, dated 12.02.2025 "On the approval of the Priority Policy Document 2026-2028”.

3.2.4. Analytical Data

The table below presents data on the ceilings for capital expenditures approved in the PBA of phase II and of the initial budget, for the years 2021-2029.

Table 5. Capital expenditures for the period 2021-2029 and initial budget

Capital expenditures for the period 2021-2029 (million ALL)	2021	2022	2023	2024	2025	2026	2027	2028	2029
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)						167,564	176,226	169,548	
MTBP 2027-2029 (forecasted in 2026)							185,127	193,580	179,281
Initial budget approved	121,032	119,445	123,908	129,381	162,374	179,823			

Source: Ministry of Finance (2026)

For 2025, the deviation of about ALL 39 billion in capital investments between the 2025-2027 PBA and the initial budget is related to GDP growth, resulting in an increase in revenues in the state budget, thus translating into an increase in financing of public investments. Specifically, capital expenditures increased in items: domestic financing increased by about ALL 41 billion, foreign financing decreased by about ALL 5 billion, and reconstruction funds were approved in the amount of ALL 5 billion.

3.3. Budget Expenditure Management

3.3.1. An Overall Narrative Overview of the Previous Budget Year

Budget implementation management aims to monitor the implementation of the budget plan, objectives and products approved in the annual budget plan as the first year of the medium-term budget program (MTBP). The monitoring of the implementation of the budget is carried out through the performance monitoring process, which is an evaluation process that is carried out through the comparison of the targeted performance indicators with the actual indicators realized. Monitoring aims to:

- To pursue the achievement of the target goal and objectives, set out in the program policy statement for the first year of the medium-term budget program, through the comparison of the target performance indicators with their actual indicators.
- To identify 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 potential impact on the performance of the related objectives.
- To provide information which can be used to improve the budget planning and management process.

3.3.2. Risks related to budget implementation performance

The risks in deviating the implementation of the budget indicators from those approved in the Law on the Initial Annual Budget for Ministries and Central Institutions are related to:

- Changes in the plan due to the distribution of the Reserve Fund and Contingency, etc., as well as from the redistribution of the plan.
- Amendments to the budget indicators adopted as a result of the amendments to the Budget Law through Normative Acts within the criteria of "need" and "urgency".
- Failure to identify potential problems during the implementation of the budget in time.
- Poor forecasting of expenditure ceilings during the planning process, as a result of not taking into account the recommendations and findings of the monitoring that took place during the previous year.

The initial budget plan for 2025 as well as the actual expenditures for ministries and institutions have changed as a result of the distribution of the Reserve Fund, a fund which is provided in the Budget Law to be distributed by Decisions of the Council of Ministers for unforeseen cases. In the Initial Law, the Reserve Fund was envisaged in the amount of ALL 3 billion, which with AN no. 6/2025 was increased to ALL 4.2 billion and with AN no. 10/2025 it was reduced to ALL 2.9 billion. From this fund, a fund of 2.43 billion Lek was allocated to ministries and central institutions, of which 2.33 billion Lek for current expenditures and 98.6 million Lek for investments. Also, in the Initial Law, a reserve fund "To cover the cost of the general elections for 2025" was provided for in the amount of 2.5 billion ALL, which was granted by DCM to the CEC in the amount of 2.46 billion ALL for current expenditures and 40 million ALL for investments.

The law of the initial budget 2025 has been amended through four Normative Acts, such as:

- Normative Act no. 3 dated 29.04.2025 - The need and urgency of this Normative Act is related to the reflection in the annual budget of the allocation to the MEI program "Support for Innovation and Technology" of the fund in the amount of 1 billion ALL. (Expenditure on investments).
- Normative Act no. 6 dated 11.06.2025 - The need and urgency of this Normative Act is related to the need for a revision of the budget parameters in order to harmonize them with the real progress of implementation, as well as to guarantee a more efficient use of public funds in the remaining part of the year. This Normative Act provided for a total volume of funds to be allocated/reallocated, of about ALL 11.8 billion, which consisted of the reallocation of savings identified during 5M 2025, in current and capital expenditures, and the accommodation through them of a series of additional priority requirements, in the same amount, as well as approved a new Sovereign Guarantee scheme for the Agriculture sector, for a value of about 3 billion ALL.
- Normative Act no. 10 dated 8.10.2025 - The need and urgency of this Normative Act was related to the reflection in the annual budget of the reorganization of the new ministries, according to the respective functional areas of responsibility. This, in addition to some changes in the budget revenue and expenditure items, which have aimed to improve the parameters of the execution of the 2025 budget. This Normative Act ensures the increase of the planned level of total revenues by ALL 12.1 billion, the update of the state debt items, the increase of total expenditures by about ALL 5.7 billion, as well as the reduction of the budget deficit to the level of ALL 61.6 billion or 2.4% of GDP, from 2.6% of GDP approved in the initial budget 2025.
- Normative Act no. 11 dated 19.12.2025 - After the 11-month assessment and annual expectations of the fiscal indicators, the Government prepared the scenario of the last revision of the 2025 budget, which aimed at keeping the budget revenues unchanged at the total level, the redistribution with neutral effect to the deficit, of about 30 billion ALL of savings identified at the level of 11M, with the aim of realizing public expenditures as fully as possible on an annual level. This Normative Act keeps the 2025 budget deficit unchanged, at the planned level of ALL 61.64 billion.

More detailed information regarding the budget revisions for 2025 can be found in the Report "On the Implementation of the Actual Budget for 2025".

3.3.3. Mitigation of identified risks

On the measures taken regarding the above-mentioned risks which affect the creation of deviations of the realized budget indicators compared to the indicators approved in the Law on the Initial Annual Budget, for 2025 it is noted that:

- The amendments to the expenditure plan from the initial Budget Law due to the use of the Reserve Fund have been envisaged in the initial Budget Law, while the forms and ways of distribution of these funds have followed the provisions of the relevant DCMs.
- The analysis of the budget performance, as well as the increasing fiscal situation, made it necessary to revise the Budget Law in terms of increasing the revenue plan as well as the expenditure plan. Through this increase, it became possible to allocate additional funds for the liquidation of the liabilities of ML/State Institutions to the employees, as well as for the liabilities to third parties for the services performed. It was also possible to change the fund for the pensioners' bonus, from ALL 3.75 billion provided in the Initial Law to ALL 9.7 billion with AN no. 10/2025.

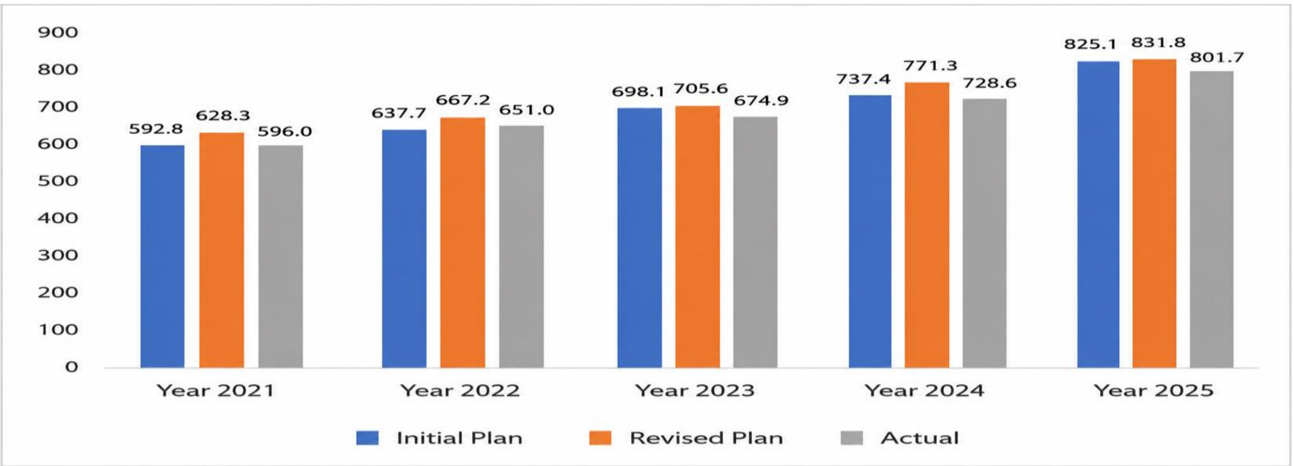
For further mitigation of risks in the future, it should follow:

- Monitoring and managing the implementation of the budget in order to identify potential problems in a timely manner, in order to take measures to avoid and include in a timely manner the relevant financial effects in the budget planning process.
- Improvement and deepening of the performance analysis of all budget indicators, including key performance indicators and products, by ML/Budgetary Institutions, in order to identify and present in a timely manner the problems encountered during the implementation of the budget and to submit relevant proposals for the avoidance of these problems and the reduction of risks affecting the implementation of the budget indicators.

3.3.4. Analytical Data

For 2025, the total budget expenditures amounted to about ALL 801.7 billion, with a realization of 97.2% of the initial plan and 96.4% of the amended plan through the Normative Act no. 11, dated 19.12.2025. Compared to 2024, budget expenditures are about 10% higher, or about ALL 73.1 billion more.

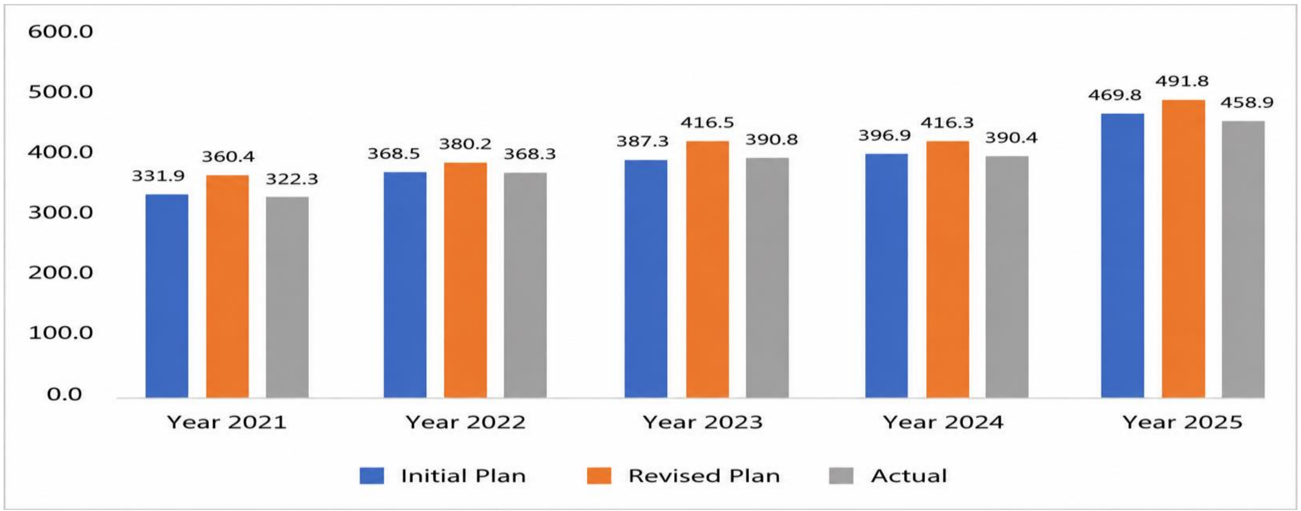
Chart 5. Plan and fact of budget expenditures for the years 2021 - 2025 (in billion ALL)



Source: Ministry of Finance (2026)

Below are the data on the amendments to the current budget expenditure plan for Ministries and Central Institutions (Total according to Table 1 of the Budget Law), during the years 2021 - 2025, the actual implementation as well as the deviations of the budget implementation on the plan approved in the Initial Budget Law no. 115/2024 "On the 2025 budget, as amended".

Chart 6. Plan and fact of expenditures for the years 2021 - 2025 (in billion ALL)



Source: Ministry of Finance (2026)

From the above data for 2025, the actual realization for the Total Expenditures for Ministries and Central Institutions has been realized in the amount of ALL 458.8 billion out of ALL 469.9 billion planned in the Initial Budget Law for 2025 or in the amount of 98% of this plan.

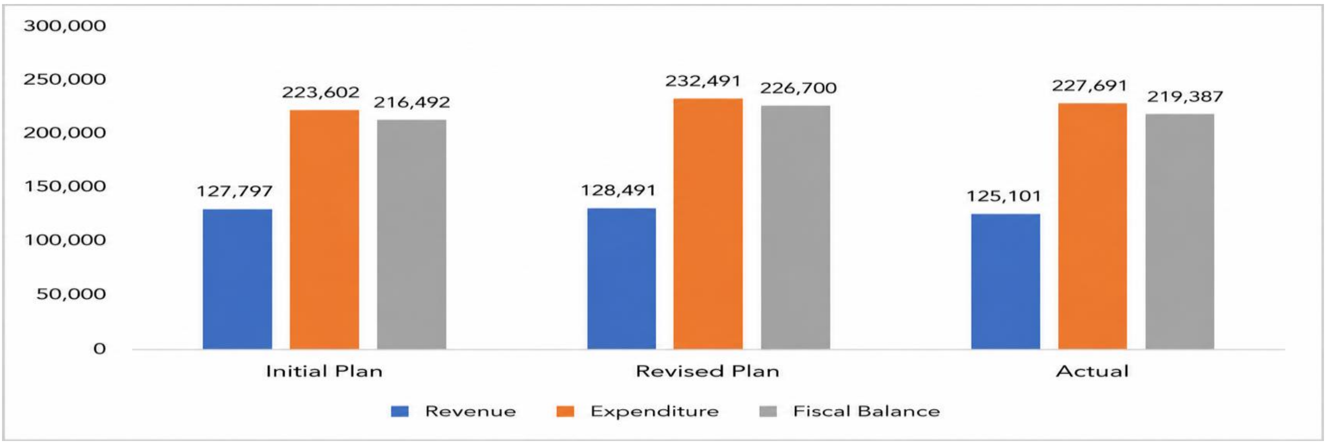
For all amendments to the budget plan, detailed information according to Ministries and Independent Institutions is provided in the Report "On the Implementation of the Actual Budget for 2025".

Out of the total total budget expenditures for 2025, current expenditures account for the largest share of these expenditures with 83.2%, while capital expenditures account for 16.8%.

Current expenditures during 2025 amounted to about ALL 653.5 billion, marking a realization of 99.6% of the initial plan and 97.6% of the amended plan. Compared to 2024, current expenditures are about 7.8% higher, or about ALL 47.2 billion more. The main share of the total current expenditures is made up of special funds and personnel expenses, specifically:

- *Expenditures for special funds for 2025 amounted to about ALL 270.3 billion, with a realization of 102.4% of the initial plan and 99.1% of the amended plan.*
- *Personnel expenditures for 2025 account for about 19.2% of the total current expenditures, with a factual level of about ALL 125.7 billion, resulting in 98.3% of the initial plan and 99.1% of the amended plan.*

Chart 7. Plan and fact of current expenditures for 2025 (in million ALL))



Source: Ministry of Finance (2026)

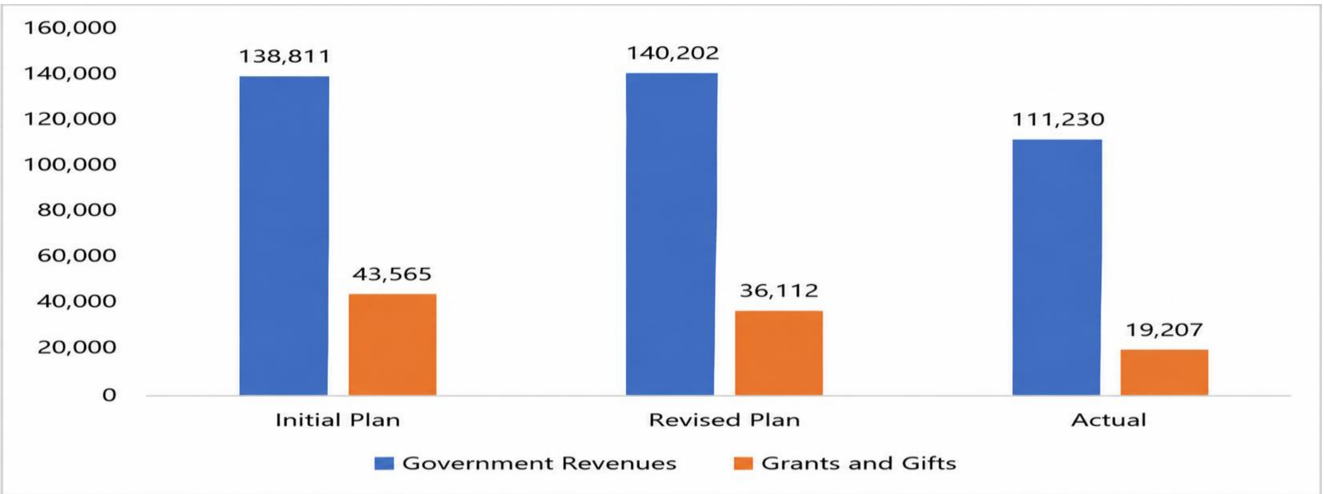
Capital expenditures for 2025 amounted to about ALL 131.6 billion, resulting in 81% of the initial plan and 83.8% of the amended plan. Specifically:

- *Domestic financing (including investments from higher education revenues, capital transfers and the reconstruction fund) reached the level of about ALL 111.3 billion, resulting in 93.7% of the initial plan and 92.6% of the amended plan.*

- *Foreign financing amounted to about ALL 20.3 billion, resulting in 46.6% of the initial plan and 56.2% of the amended plan.*

Compared to 2024, capital expenditures are 13.4% higher or about ALL 15.6 billion more.

Chart 8. Plan and fact of capital expenditures for 2025 (in million ALL)



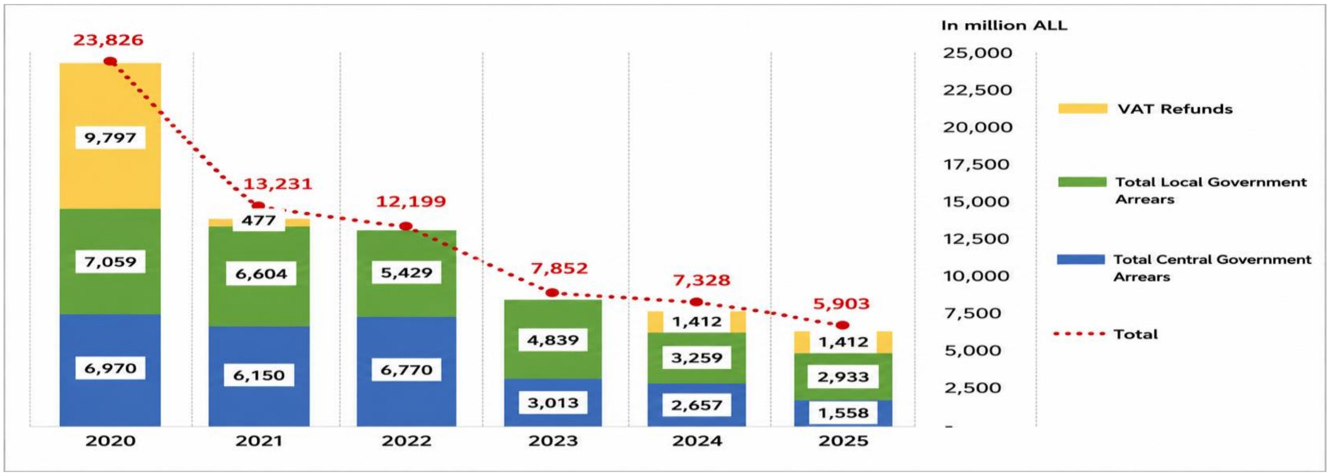
Source: Ministry of Finance (2026)

3.4. Arrears

Based on DCM no. 50 dated 05.02.2014 "On the approval of the Strategy for the prevention and settlement of arrears and the action plan", the Ministry of Finance has undertaken some concrete steps in the direction 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 outstanding liabilities of budget institutions. Starting from December 2020, this monitoring and reporting, which was previously carried out on a quarterly basis through the written reporting of the institutions, is now automatically generated by the SIFQ according to the provisions of the Instruction no. 37 dated 06.10.2020 "On the 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 that unifies reporting for all general government units.

The chart below illustrates the performance of the general government's arrears during 2020 - 2025:

Chart 9. Stock of arrears of the general government (in million ALL)



Source: Ministry of Finance (2026)

Specifically, by the end of December 2025, a cumulative stock of ALL 5.85 billion[3] of arrears from general government units was recorded, of which:

- Total central government liabilities about 1.56 billion ALL
- The total liabilities of the local government are about 2.93 billion ALL.
- The total liabilities for VAT refund are about 1.41 billion ALL.

Compared to the stock of arrears reported for the same period of 2024, it turns out that:

- *The overall level of arrears is about ALL 1.42 billion lower, or there is a decrease of 19.4%, specifically:*
    - *Arrears from central government have been reduced by about ALL 1.1 billion and arrears from local government have been reduced by about ALL 325.8 million.*
    - *VAT refund liabilities of about ALL 1.41 billion maintain the same level as in the previous year 2024.*

In total, during 2025, about ALL 1.42 billion of arrears from previous periods have been repaid. Considering that the process of repayment of liabilities by institutions is carried out in compliance with the FIFO principle, it turns out that the liabilities that remain to be repaid in the following are characterized by a new "average age" of their creation.

3.4.1. Management and Clearance of Expenditure Arrears

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 evidenced by the downward trend of the stock, even though 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 affected the liquidity of central and local institutions.

Among the main measures undertaken in the framework of the management of the settlement of arrears, is the approval of the Order no. 177 dated 21.07.2020 "On the establishment of the working group for the monitoring of arrears", which has established the working group under the chairmanship of the First Authorizing Officer and with the coordination of the Structure responsible for harmonization in the Ministry of Finance, by assigning the following tasks:

- *Monitoring the cause of creation and the progress of arrears;*
- *Drafting at the end of each quarter a summary report to the Minister of Finance on the results of monitoring the performance of arrears;*
- *Proposing to take actions for the necessary improvement and changes of the systems related to the reduction and prevention of the creation of arrears.*

The quarterly summary reports, detailed by categories of liabilities items as well as by institutions, are also published on the official website of the Ministry of Finance.[4]

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[3] *Not including the arrears of the Water Supply and Sewerage and Universities, as extra-budgetary institutions.*

[4] *The 3-month summary reports of arrears are available at the link::* https://financa.gov.al/detyrimet-e-prapambetura/

4. Fiscal Risks Related to Public Debt and Available Monetary Funds

4.1. Public Debt

4.1.1. An Overall Narrative Overview of the Previous Budget Year

Public debt during 2025 was generally characterized by a positive performance, in line with the macro-fiscal objectives, the planned budget for 2025 and the objectives of the Medium-Term Debt Management Strategy (SAMM). The year 2025 has been a very positive year in terms of providing financing, both in the domestic and foreign markets. The borrowing during 2025 was realized in line with the 2025 budget, as well as in line with the 2025 Borrowing Plan. Through borrowing, the refinancing of the existing debt was enabled, as well as the financing of the deficit for 2025. Gross terms borrowing was realized in the amount of ALL 454.0 billion, of which 78.2% (or ALL 355.2 billion) were financed through domestic sources and 21.8% (or ALL 98.8 billion) through foreign sources. The Ministry of Finance issued government securities in the amount of ALL 355.2 billion in the domestic market, of which ALL 186.2 billion Treasury bills and ALL 169.1 billion in bonds. Net borrowing in the domestic market for 2025 amounted to ALL 49.4 billion. During 2025, the structures of the Ministry of Finance responsible for debt management have continued their efforts to reduce the exposure to risks by keeping the cost at the lowest possible level. During this period, the risk management of the debt portfolio has been able to evolve in terms of medium-term strategic objectives, showing a significant improvement in all risk indicators compared to the end of 2024. Further improvement of the debt structure, mainly in terms of reducing exposure to refinancing risk and interest rate risk, will continue to be the main focus on debt management, so that indicators of these risks show further improvement in the coming periods.

4.1.2. Risks identified during the previous budget year

The General Directorate of Public Debt in the Ministry of Finance prepares and publishes the Medium-Term Debt Management Strategy (SAM), 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. In the framework of debt portfolio risk management, several key objectives for the medium term have been defined, the realization of which aims to reduce or keep risks under control in the medium term.

The risks identified in the government debt portfolio are as follows:

- ➢ *Market Risks*

- *Domestic Government Debt Refinancing Risk*

One of the main objectives of SAMB is to reduce the refinancing risk, mainly in the domestic debt portfolio, as external debt poses less risk as it is composed of instruments with long maturities and long-term amortization profiles. During 2025, in accordance with the SAMB, the Ministry of Finance has increased the share of medium and long-term instrument issuances in the domestic market and as a result, the refinancing risk indicators have shown a significant improvement compared to the end of 2024. Specifically, the life expectancy of domestic debt (average days at maturity) has increased by 79 days, from 923 days at the end of 2024 to 1002 days at the end of 2025. The weight of debt maturing within a year has increased from 39.0% in December 2024 to 39.1% in December 2025.

As regards the maturity profile in the debt portfolio, domestic debt consists of instruments with a maturity of 3 months to a maximum of 20 years[5]. Meanwhile, external debt has a maturity profile that lasts until 2053, with a portion of Italian loans allowing for such a long-term extension, followed by a range of loans from the EIB, IBRD and IFAD.

- *Interest Rate Risk of Domestic Government Debt*

Interest rate risk has also improved in 2025, in the context of the increased use of medium- and long-term securities, as well as the issuance only of securities with fixed interest rates in the domestic market. Specifically, the weight of debt that revalues the interest rate within the year has decreased from 39.3% at the end of 2024 to 39.1% at the end of 2025. Also, the average time in refixation has increased from 2.6 years in December 2024 to 2.8 years in December 2025.

- *Exchange Rate Risk*

Exchange rate risk has been kept under control by staying below the ceiling set out in the strategy. Specifically, the total stock of foreign currency debt to the stock of total debt stood at 40.0% at the end of 2025, decreasing by 1.9 p.p. compared to the end of 2024, as well as a significant improvement by decreasing by 9.8 p.p. compared to the end of 2021. During 2025, this indicator was partly influenced by the depreciation of most foreign currencies, mainly Euros and USD, against the Lek and, as a result of the new borrowing that was almost entirely carried out in the domestic market.

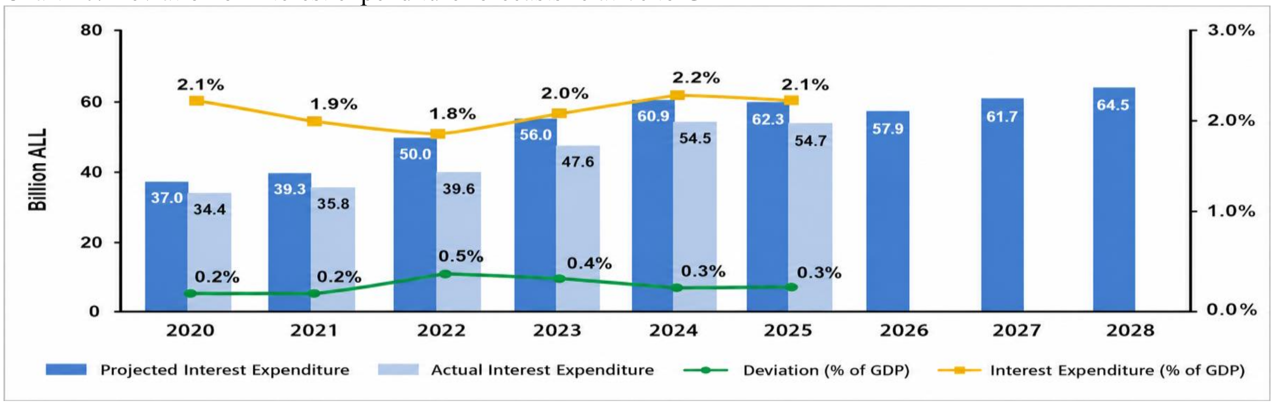
The main indicators of these risks for the years 2020–2024, as well as their medium-term objectives, are presented in Table 6.

➢ *General Risks*

- *Risk of exceeding the expenditure planning for interest on government debt*

During the period 2020-2025, the ratio of interest expenditures to GDP was on average at the level of 2 percent, ranging from ALL 34.4 billion to ALL 54.69 billion (Chart 5). Meanwhile, the deviation of actual interest expenditures from the forecasts of interest expenditures is estimated to be low and in each year the real expenditures have been within the budget forecasts. In addition, in order to minimize the fiscal risk from the increase in interest expenditures beyond the planned fund in the budget, the interest expenditure forecasts include contingencies to withstand any significant increase in interest rates or possible exchange rate effects, which have not materialized in recent years.

Chart 10. Deviation of interest expenditure forecasts relative to GDP



Source: Ministry of Finance (2026)

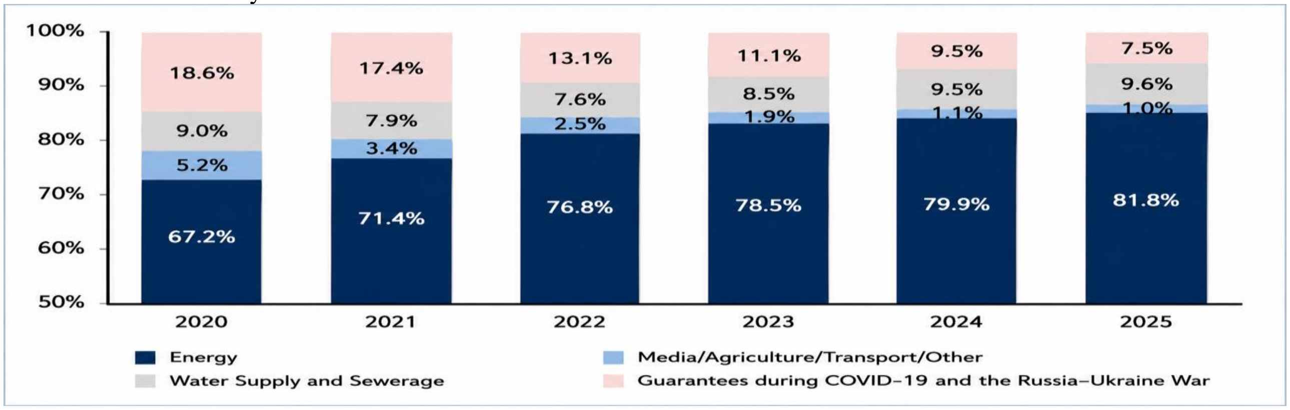
[5] In January 2025, the Ministry of Finance issued the 20-year Bond for the first time.

- *Risk of calling for payment of state guarantees*

The potential risk arising from the guaranteed debt consists of possible payments from the state budget of liabilities that cannot be paid by the borrowing entities. At the end of 2025, the guaranteed debt portfolio is estimated at ALL 29.1 billion or EUR 300.6 million (1.1% of GDP), marking a decrease of ALL 4.5 billion compared to the end of 2024. Guarantees granted in favor of foreign creditors account for about 70.5% of the total stock of guaranteed debt or ALL 20.5 billion, while guarantees in the domestic market represent 29.5% of the stock of guaranteed debt or ALL 8.6 billion.

Of the total stock of guarantees, over 80 percent of the total state guarantees belong to the energy sector, reflecting the government's policies in terms of supporting the energy sector (Chart 10).

Chart 11. Guarantees by Sector



Source: Ministry of Finance (2026)

4.1.3. Mitigation of Identifyed Risks

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

- *Forecast of contingencies in the forecast of interest expenditures of the following budget year.*

Over the past few years, until the end of 2021, the exposure to interest rate risk has been easing, mainly due to the recomposition of the domestic debt portfolio towards long-term fixed-rate securities. In the short term, this impact has been mitigated by the existing structure of interest rates, where almost 99 percent of the domestic debt stock consists of fixed-rate instruments, and in the external debt portfolio, over 60 percent of the weight is held by fixed-rate debt. Also, starting from 2017, in implementation of the legal obligation set out in the LOB, special contingencies have been programmed in the state budget to absorb the increase in debt service that may stem from the increase in interest rates beyond expectations. Specifically, in the 2026 budget, contingencies of ALL 6.3 billion are foreseen, a level sufficient to cope with an increase in interest rates compared to the assumed rates in the calculations made by the Ministry of Finance.

- *Improvement of risk indicators in line with the objectives set out in the SAMB.*

Regarding the reduction of debt portfolio risks, the current strategy targets several more aggressive indicators for the medium term by focusing specifically on: (i) Issuance of government securities with fixed interest rates to reduce interest rate risk; (ii) Increasing the weight of long-term securities in order to reduce refinancing risk and interest rate risk; (iii) Reduction of the ceiling for the ratio of foreign currency debt to total debt for the medium term from 55 percent to 50 percent of the total. Also, in the framework of servicing the existing debt by maintaining an acceptable level of risks and in the framework of meeting the central government's borrowing needs, the structure responsible for drafting the SAMB assesses the domestic market and international capital market conditions, determining the potential sources of financing which at the same time maintain risks at acceptable levels.

- Inclusion and implementation of the fiscal rule in the LOB: "The ratio of public debt to GDP will be planned to be lower than the level estimated for the preceding year, until the debt level reaches and remains below the level of 45 percent of GDP." This rule does not include possible changes in the issued value of the debt stock that come as a result of changes in the exchange rate.
- In order to anticipate the materialization of the risk stemming from the state loan guarantees, the MoF for 2026 and in each budget planning plans within the item of repayments of the external debt, as well as the item of interest, funds that may be needed in case of payments from the guarantees, a forecast supported by the experience and history of loans and borrowing entities. Since the payments made were within the planned funds, this risk has been completely mitigated and there have been no deviations from the planning.
- In order to keep under control and reduce the risk from the issuance of state guarantees, the medium-term debt strategy sets out criteria for their issuance to state-owned enterprises with financial reforms, for financing investment projects, for supporting measures in case of crisis of the financial system and for restructuring the guarantee portfolio through the reduction or exchange of high-risk loans.
- In order to minimize the budgetary effects, the General Directorate of State Debt conducts analyses before the approval of the guarantees, including risk assessment and following the legal procedures for their drafting, signing and approval in accordance with the relevant legal framework.

Also, the process of signing and approving the guarantees, as well as the steps to be followed in case of non-repayment by the borrowers, are regulated through special clauses, part of the Law No. 9665, dated 18.12.2006 "On state borrowing, state debt and state loan guarantees in the Republic of Albania", as amended.

4.1.4. Analytical Data

Table 6. Risk indicators

Risk Indicators	2020	2021	2022	2023	2024	2025	Medium-term target 2026
Interest rate risk							
Debt that is refixed within 1 year	46.7%	48.0%	49.0%	45.4%	39.3%	39.1%	**Max 43%**
Average Time to Refix	2.1	2.2	2.2	2.3	2.6	2.8	**Min 2.5**
Refinancing risk							
Debt maturing within 1 year	44.8%	46.6%	47.9%	44.7%	39.0%	39.1%	**Max 40%**
Average Time to Maturity	2.18	2.20	2.17	2.32	2.56	2.8	**Min 2.5**
Exchange Rate Risk							
Weight of Debt in Foreign Currency/Total	47.4%	49.8%	46.8%	45.6%	41.9%	40.0	**Max 50.0%**

Source: Ministry of Finance (2026)

Table 7. Payments and Returns of Foreign Guarantees

Foreign Guarantees *(in million ALL)*	***2020***	***2021***	***2022***	***2023***	***2024***	***2025***
Paid MF	2,712.30	2,202.88	4,108.74	2,905.30	2,643.38	2,817.28
Paid by the beneficiary institution	1,274.78	2,966.99	1,290.10	3,488.05	3,649.91	2,902.60
Returned Beneficiary Institution	81.56	154.30	629.05	1,289.99	612.11	152.87
Net MF paid for the period	2,630.74	2,048.58	3,479.69	1,615.31	2,031.27	2,664.40
Stock of outstanding liabilities	16,241.35	17,809.81	20,059.65	19,531.97	20,294.50	22,354.84

Source: Ministry of Finance (2026)

Table 8. Payments and Returns of Internal Guarantees

Internal Guarantees *(in million ALL)*	***2020***	***2021***	***2022***	***2023***	***2024***	***2025***
Paid MF principal	0.00	0.00	0.00	6.54	28.77	60.76
Principal institution paid	899.04	4,832.82	3,636.51	2,015.08	1,417.27	965.38
Institution interest paid	255.70	53.78	260.58	460.77	445.36	

Source: Ministry of Finance (2026)

4.2. Available Monetary Funds

4.2.1. An Overall Narrative Overview of the Previous Budget Year

During the period 2025, the government's liquidity has proved to be sufficient to make payments of the bills of the general government unit and domestic and external debt service payments. Payments were made on time and according to the FIFA method.

The process of forecasting and liquidity management has been improved. The TSA's cash flow forecast is drafted on a daily/weekly/monthly basis based on historical data and the expected macroeconomic framework. The forecasts are updated daily on the basis of the Bank of Albania's record on incoming and outgoing transactions from the TSA and the legislation on budget amendments during the year.

The monthly revenues of the government in 202 have been realized 99% compared to the forecasts as a monthly average of the year. Expenditures have followed a similar performance to previous years. In the period September-November, actual expenditures are significantly lower than forecasts, while in April, June and July they have exceeded forecasts. In the complementary period of the year in January 2026, about 58 billion Lek were paid (the highest amount ever paid in January), when the monthly average is 48.9 billion Lek. The monthly forecast accuracy rate was 94% out of 93% that was the target.

In the period September-November, actual expenditures are significantly lower than forecasts, while in April, June and July they have exceeded forecasts. In the complementary period of January 2026, about 58 billion Lek were paid (the highest amount ever paid in January), when the monthly average is 48.9 billion Lek. The monthly forecast accuracy rate was 94% out of 93% that was the target.

During February 2025, the Eurobond of 637 million euros was issued, which resulted in a very high position after the TSA after the issuance. Currently, the only instrument available to the MoF is the investment in deposits in domestic and foreign currencies at the BoA, through which the "buffer" level of the TSA situation is managed. The "buffer" policy has been revised through point 77 of the Supplementary Budget Implementation Instructions no. 2, dated January 24, 2025. The updated policy introduces a two-component structure:

- The transactional buffer level that was set at 1% of last year's GDP,
- The buffer security level that is calculated based on the debt service obligations for the next three months (includes the maturities of the net domestic debt, where applicable).

The overall buffer level is now set to fluctuate between 1% and 2% of the previous fiscal year's GDP, strengthening fiscal sustainability and liquidity planning.

The main purpose of the liquidity buffer level is to ensure that the government can meet its financial commitments, such as paying public salaries, servicing debt, and covering essential public expenditures, even during unexpected events or periods of revenue shortages.

4.2.2. Risks identified during the previous budget year

- Insufficient availability of human resources
- Frequent budget review throughout the year.
- IT Development
- Advancements of the monthly treasury plans from December to the previous periods of the year for not accurately and erroneously forecasting the spending units of the central and local government;
- Non-realization of borrowing auctions;
- Non-realization of budget supports;

4.2.3. Mitigation of identified risks

- Increase the capacity of human resources through periodic trainings as well as filling vacant job positions.
- Carrying out advancements of the monthly treasury plans only between the expenditure categories of a spending unit or within the subordinate units of a budgetary institution, as well as the reduction of the number of advancements, assessed by the performance indicator no. 10 "Limitation of the advancement of the monthly cash register", which determines the value of the advancements made during the year by the spending units against the total annual cash plan, which was reported for about 1% of the spending units (down compared to 2024 by 10%).
- Obligation of the selected "pilot" general government units (members of the GPL) to update the cash plan forecasts with a monthly frequency. In the supplementary Guideline No. 2, dated 24.01.2025 "On the implementation of the 2025 budget", the chapter "Liquidity management" has been improved, which defines the rules, procedures and deadlines to be followed in the submission of the cash plan forecasts with monthly frequency.
- Taking into account in the liquidity forecasts the possible non-realization of borrowing auctions and budget support (drafting a pessimistic scenario);
- Measuring and monitoring deviations of factual liquidity flow data from the updated monthly forecasts and their presentation in KMBL.
- Improvement of the information for review by the Liquidity and Debt Management Committee (KMBL) for efficient decision-making, in terms of the inclusion of graphs, the rate of accuracy of forecasts and the level of "buffer", which was defined for the first time, in point 79 of the Supplementary Instruction No. 2, dated 24.01.2025 "On the implementation of the 2025 budget" (published at the link: https://financa.gov.al/viti-2025-2/), as a combination of two components: transactional buffer and security buffer and is calculated at 1% - 2% of the Gross Domestic Product of the previous fiscal year.
- Prior notification mechanism by the budget institutions in the Ministry of Finance for making large unforeseen payments over 100 million ALL at least 2 weeks before the transaction is carried out. (point 84, in the Supplementary Instruction no. 2, dated 24.01.2025 "On the implementation of the budget of 2025").
- Amendment of the agreement with the Bank of Albania no. 11570, dated 31.07.2025 "On some amendments to the agreement "On the instruments for liquidity management of the Ministry of Finance and Economy, dated 20.01.2015, as amended", which consisted in increasing the maximum amount of investment in deposit in ALL from 15 billion to 30 billion ALL, as well as in remunerating the balance in the TSA account in ALL every day at the daily deposit rate (the amount of interest received on a monthly basis is transferred to the TSA in on the first working day of each month for the preceding month). These changes are intended to improve liquidity management and generate additional revenue from unused money.

Proposals for new measures:

- Drafting guidelines and other incentive mechanisms for budget institutions through measuring their performance.
- Review the drafting process (use of advanced information technology tools) and strengthen the institutional commitment for monthly monthly updates of the cash register plan forecasts at the MoF by GPL members.
- Systematic functioning of the 12-member technical working group representing institutions with significant budgets, in order to ensure consistency of forecast data according to top-down approach with bottom-up approach and reduce risks from forecast inaccuracies and low performance.
- Strengthening the role of the Debt and Liquidity Management Committee (CAPM) in monitoring and evaluating forecast performance.
- Expanding the use of KPIs in forecasting.

4.2.4. Analytical Data

Table 9. January-December 2025 State of the TSA Deviance

State of the TSA	January	February	March	April	May	June	July	August	September	October	November	December
KMBL Forecast	62.19	122.75	126.17	134.23	157.78	145.76	120.51	125.29	133.96	101.06	96.06	47.09
Forecast by performance												117.09
Actual	64.37	121.51	128.48	138.99	144.93	146.60	117.48	132.50	149.73	118.55	135.45	138.25
% Actual/KMBL	104%	99%	102%	104%	92%	101%	97%	106%	112%	117%	141%	118%

Source: Ministry of Finance (2026)

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

Performance indicator	Formula	Base	Target 2024	Fact 2024	Objectiv 2025	Fact 2025
Monthly forecast accuracy rate	Estimated Cash Flow Values/Current Cash Flow Values	88%	91%	90%	90%	94%

Source: Ministry of Finance (2026)

5. Fiscal Risks Related to Local Finances

5.1. An Overall Narrative Overview of the Previous Budget Year

The year 2025 was characterized by a positive performance of local government finances and a stable performance of the main financial indicators. Own local revenues amounted to about 1.6% of GDP, while actual local government expenditures were recorded at about 3.4% of GDP, reflecting their significant impact and contribution to the economic development of the country. Compared to the forecasts, the total revenues of local units were realized at the level of 100.3% of the annual plan for 2025, while the expenditures were realized at the planned amount of 97%.

At the same time, during 2025, attention has remained focused on financial consolidation at the local level. In this context, the Ministry of Finance has undertaken initiatives and commitments for the development of local AFMIS and for the integration of local self-government units into this system. In addition, the process of managing the financial difficulties of LGUs has continued periodically, which is concluded with the official annual report on the financial situation of 73 units.

Also, during 2025, the continuous monitoring of fiscal indicators reflecting the level of implementation and implementation of the local budget has continued. A more in-depth analysis of the performance of these quantitative indicators, as well as of the processes and factors that have influenced this performance, is presented in the Annual Report of Local Public Finances[6].

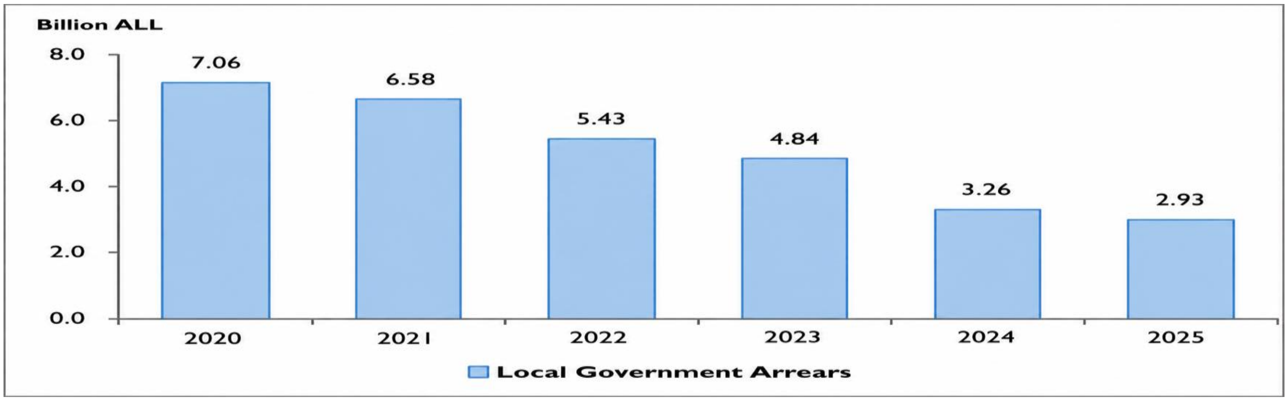
5.2. Risks identified during the previous budget year

The main risks faced by local units are the accumulation of arrears, the level of unconditional transfer and the actual realization of local revenues and budget.

Arrears

Arrears constitute one of the most important fiscal risks for local governments, as their increase may create pressures on the liquidity and financial stability of local units. In this context, the Government, through the Ministry of Finance, pays special attention to the promotion and support of the process of repayment of arrears of local government units. In cooperation with local self-government units, the Ministry of Finance annually drafts an action plan for addressing and repaying arrears. Based on the repayment plans forwarded by all local self-government units, the stock of arrears at the end of December 2025, forecasted to be liquidated in a medium-term horizon, is estimated at about ALL 2.9 billion. Compared to the end of 2024, this stock has been reduced by about ALL 0.3 billion, or 10.6 percent, reflecting improvement in the management and control of these liabilities.

Chart 12. Arrears at the local level



Source: Ministry of Finance (2026)

[6] *Local finance reports can be found at*: https://financa.gov.al/buxheti-i-pushtetit-vendor/

Every year, the Ministry of Finance drafts a report on the assessment of the financial situation of local self-government units, through which units that present financial difficulties or problems are identified.

During 2025, the report on the status of financial difficulties of LGUs for 2024 was prepared, from which it results that 4 local units (1 district and 3 municipalities) are classified as financial difficulties; 6 local units (1 district and 5 municipalities) have been identified with financial problems; 50 local units (3 districts and 47 municipalities) are without financial problems; while 13 local units (7 districts and 6 municipalities) have a good financial situation, registering zero arrears. The Ministry of Finance will continue during 2026 with the publication of the report on the assessment of the financial situation of LGUs for 2025, which is expected to indicate a further improvement of the financial situation of the local government, especially in terms of reducing arrears compared to the previous year.

General Unconditional Transfer

The unconditional general transfer is granted to local government units from the state budget in the form of a grant, without destination, without interest and without the right of return. This grant is used by decision of the local government councils to cover the expenses for the fulfillment of functions and the provision of basic services to the community.

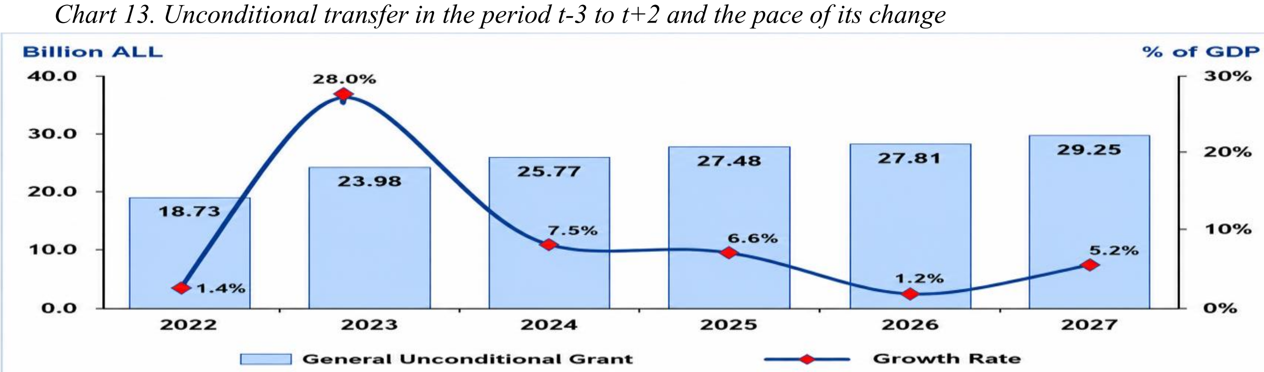
According to the law no. 68/2017 "On the finances of Local Self-Government", the unconditional transfer must be:

- *not less than 1 percent of the gross domestic product, forecasted in the report on macroeconomic assessments and forecasts approved by the Council of Ministers;*
- *not less than the total amount allocated in the previous budget year.*

The unconditional general transfer, as a guaranteed support mechanism on the principles set out in the relevant legal framework, in terms of potential risk to local government, is mainly related to demographic changes in local units, given that the resident population constitutes one of the basic components of its distribution formula. However, the formula for the division of the unconditional transfer, provided for in Article 24 of Law no. 68, dated 27.04.2017 "On Local Self-Government Finances", includes a number of other elements that contribute to balancing this risk.
In addition to the population component, the formula also takes into account indicators such as population density, the actual number of children in kindergartens and students in 9-year and secondary education for each municipality, as well as the equalization mechanisms integrated in the formula, such as equalization through the density component and that of fiscal capacity. These elements, defined in detail in Annex 1 of the Annual Budget Law, specifically in the Law no. 97/2023 "On the 2024 Budget", serve as corrective instruments that mitigate the potential effects of the risk that may come from the decrease in the number of population.

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

Chart 13. Unconditional transfer in the period t-3 to t+2 and the pace of its change



Source: Ministry of Finance (2026)

Given that the general unconditional transfer is directly related to the level of the Gross Domestic Product, its growth from 2024 to 2025 by 6.6% is precisely related to the continuous growth of GDP, as well as the additions that were made by normative act during 2025.

In 2026, the increase compared to 2025 is about 1.2% and the forecast so far for 2027 is that this transfer will increase by 5.2% in nominal value.

- *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 and the actual realization until 2025[7].

Table 11. Local government revenues and expenditures in the period t-3 to t+2

Million Lek	2022	2023	2024	2025	2026	2027
Local Government Revenue	27,638	31,686	40,331	40,911	43,932	46,344
Weight to GDP	1.29%	1.34%	1.60%	1.55%	1.58%	1.58%
Pace of change in local revenues	3.60%	14.65%	27.28%	1.44%	7.38%	5.49%
Local Government Revenue Plan	27,632	27,742	39,314	40,774	43,932	46,344
Diversion (actual-plan)	6	3,944	1,017	137	0	0
Local budget	58,694	68,841	74,407	87,793	97,767	101,934
Weight to GDP	2.73%	2.91%	2.96%	3.32%	3.51%	3.48%
Growth Rate	11.60%	17.29%	8.09%	17.99%	11.36%	4.26%
Local budget plan	61,460	66,473	82,750	90,911	97,767	101,934
Diversion (actual-plan)	-2,766	2,368	-8,343	-3,118	0	0

Source: Ministry of Finance (2026)

Over the period 2023–2025, local government revenues have recorded a performance above macroeconomic forecasts, reflecting a stable fiscal performance and improved revenue collection capacities. This development has been mainly supported by the increase in collections from the infrastructure impact tax from new constructions, the real estate tax, as well as cleaning fees. In concrete terms, in 2023 revenues exceeded the planned by about ALL 3.9 billion, while in 2024 the realization was over ALL 1 billion above the approved plan. For 2025, revenues were realized at the level of 100.3% of the plan, exceeding it by about ALL 137 million at the national level, which confirms the high level of accuracy of macroeconomic forecasts for this income category. At the same time, the share of these revenues to the Gross Domestic Product, starting from 2024 and on the horizon of medium-term forecasts, maintains an average ratio of about 1.6%, proving stability in the performance of local revenues and stability of their contribution to the framework of local public finances.

In terms of expenditures, in 2025 the actual local government budget is about 18% higher compared to 2024, reflecting an expansion of local financial activity, although it remains below the level of the revised plan by about ALL 3.1 billion. The differences between the actual implementation and the planning, both for the local government's own revenues and for the budget expenditures, reflect to a considerable extent the implementation of the legal provisions that enable the inheritance of unused funds between budget years. This mechanism demonstrates the flexibility of the local budget management framework and contributes to a more efficient management of financial resources in function of the needs and priorities of local units.

[7] *According to the latest Medium-Term Fiscal Framework (MTFF) 2027–2029, nominal GDP for 2025 is estimated at ALL 2,642,509 million.*

5.3. Mitigation of identified risks

Measures taken to mitigate the risk during 2025:

- Regarding the risk of arrears, one of the measures taken during 2025 was the policy for their reduction in local self-government units, through the addition of the unconditional general transfer of ALL 1.2 billion for the repayment of liabilities, according to the Normative Act no. 11, dated 19.12.2025 "On some amendments and additions to the law no. 115/2024, "On the 2025 Budget", as amended".

- In this context, the revision of the law no. 68, dated 27.04.2017 "On the finances of local self-government" regarding the use of actual expenditures in the formula for calculating the financial difficulties of local self-government units, as well as the use of inherited funds not committed for the repayment of arrears and sub-loans of local self-government units, has given its results for the reduction of arrears of local government, which is also reflected in the reduction of arrears year after year.

- Regarding the risk of the general unconditional transfer, as a potential risk for the local government, which may come from the reduction of the number of population in the local unit, given that the number of the resident population is one of the main elements of its distribution, the formula for the division of the unconditional transfer contains other elements, as well as the elements of equalization that is done through the density component, but also the equalization of fiscal capacity, (which are set out in detail in Annex 1 of the Annual Budget Law), elements that 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 unit of local self-government.

Measures to mitigate risk in the future:

- Review and analysis of the constituent elements of the general unconditional transfer, in the framework of the expected territorial and administrative reform, with the aim of including additional elements of evaluation and equalization, to strengthen fiscal balancing mechanisms, reduce financial inequalities between large and small or medium-sized municipalities, as well as to orient the increase of financial resources towards improving public services and increasing benefits for citizens.
- Periodic monitoring of the budget process for 61 municipalities and 12 districts. Improve the annual budget preparation reports, monitoring and medium-term budget program by focusing on the effective and efficient use of public funds.
- In support of Law no. 139/2015 "On Local Self-Government", as amended, Law no. 68/2017 "On the finances of local self-government", as amended, as well as Law no. 9632, dated 30.10.2006 "On the local tax system", as amended, the local self-government units, in exercising their fiscal and administrative autonomy, should intensify the measures for increasing their revenues and diversifying the sources of local financing. In this context, it is recommended to undertake measures aimed at improving the quality of public services for which local taxes and tariffs are applied; the expansion of the territorial coverage of these services in order to increase the income base; as well as increasing effectiveness in revenue collection and administration through institutional strengthening of responsible structures, improvement of administrative capacities, as well as continuous training and qualification of relevant personnel. These measures contribute to increasing local fiscal sustainability and improving the financial performance of local self-government units.

As during 2024, the implementation of the risk mitigation measures will continue in 2025, which were part of the approach followed in the previous year and will continue to be implemented as follows:

- Improvement of the reports of the Monitoring of the Budget Implementation and the Medium-Term Budget Program, focusing also through the continuous recommendations of the Ministry of Finance, 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 plan/fact transfers will be detailed.
- Publication of the report "On the status of the financial situation of local self-government units in 2025", where units with problems, financial difficulties, serious financial difficulties and insolvency will be identified.

Regarding the arrears, the MoF, following the publication of the annual report "On the status of the financial situation of local self-government units", will request from local self-government units with financial problems/difficulties (if such units arise) to:

- To identify the causes that lead to the accumulation of financial arrears for the municipality.
- To 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 identify the difficulties that the municipality has encountered in repaying the arrears of financial obligations.
- To draw up a plan of measures for future risk management, named in the guideline as the plan for the repayment of arrears of financial liabilities. The plan of measures includes the repayment of liabilities in value every year as well as the corresponding measures that lead to the value pledged for repayment.

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

6.1. An Overall Narrative Overview of the Previous Budget Year

The Ministry of Finance, through the Directorate of Concessions, drafts every year the Annual Summary Report, which is part of the annual report on the implementation of the budget. It contains an overview of the current portfolio of Concessions/PPPs, the performance of concession contracts, information regarding the progress of the investment and implementation, the progress of the forecasted and realized budget payments, as well as the risks arising from these concession/PPP contracts.

As for the progress of actual payments for concessionary and public-private partnership (PPP) contracts with budget support, for 2025 their monitoring and reporting has been institutionalized through the inclusion in the Supplementary Instruction no. 2 dated 24.01.2025 "On the implementation of the 2025 budget", which sets the mandatory time schedule for their reporting by each contracting authority, alongside standard formats for this purpose.

In total for 2025:

- *There are 11 concession / PPP contracts approved with budget support.*
- *Actual payments have been made for 10 concessionary/PPP contracts with budget support* [8].
- *The planned budget funds, according to the annual plan with amendments, with the destination of budget support for concessionary/PPP contracts, are about ALL 13.68 billion.*
- *Actual annual payments, in total, resulted in about ALL 13.36 billion or 97.6% of the planned annual payments for 2025, according to the plan with amendments.*

The number of PPP contracts with budget support, over the last 7 years, broken down by economic sectors, is given in the graph below. In 2023, the budget support contract "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, entered into force. Referring to the financial model of this contract, for the first three years, no payments are foreseen from the state budget.

Chart 14. Allocation of contracts with budget support by sectors

Source: Ministry of Finance (2026)

[8] *For the contract "For the design, construction and maintenance of the 'Integrated Port' in Triport Vlora", referring to the financial model of this contract, payments from the Contracting Authority will be made no earlier than three years from the effective date of the contract, after 100% of the volume of works have been completed.*

The list of all active concession/PPP contracts as well as the contracts envisaged for the following year is published in the draft budget package of each year as an appendix to the accompanying report document. The table below presents the budget payments for active concession/PPP contracts with budget support.

Table 12. Active concessions/PPPs with financial support from the state budget

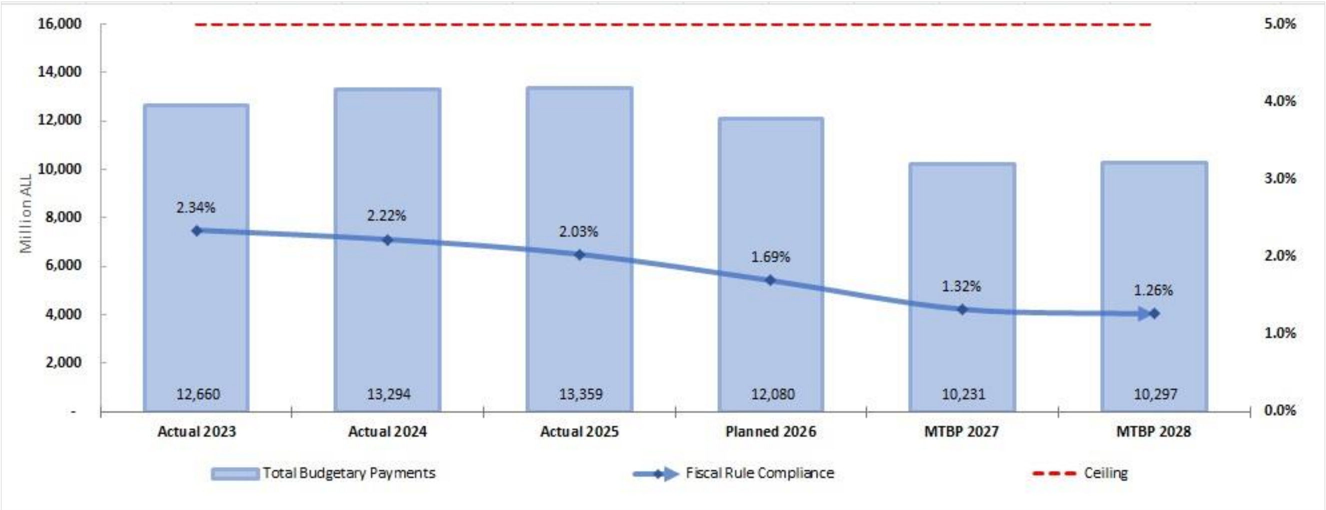
Contracting Authority	Nr.	PPP Contract Title	Start Year	End Year	Programme	Type of Expenditure	2023 Actual	2024 Actual	2025 Actual	2026 Planned	2027 Forecast	2028 Forecast (in thousand ALL)
	1	Improvement, Construction, Operation and Maintenance of the Arbër Road	2018	2031	04520	Capital Investments	2,844,000	3,504,000	3,360,000	3,360,000	3,360,000	3,360,000
	2	Subsidy for the Concession Contract "Construction, Improvement, Operation, Maintenance and Rehabilitation of the Milot–Morinë Motorway"	2019	2032	04520	Capital Investments	666,563	608,601	588,670	660,000	660,000	660,000
	3	Design, Construction and Maintenance of the Yacht Port – Orikum Bypass – Dukat Road (Saint Eliza Bridge)	2021	2034	04520	Capital Investments	726,787	786,380	762,548	860,000	860,000	860,000
	4	Design, Construction and Maintenance of the "Integrated Port" in Triport, Vlora	2022	2032	04540	Capital Investments	0	0	0	0	0	0
Ministry of Finance	1	Financing, Establishment and Operation of the Container and Other Vehicle Scanning Service in the Republic of	2013	2030	01150	Current Expenditures	1,540,310	1,411,985	1,441,412	1,500,235	1,545,242	1,591,599
Ministry of Health and Social Welfare	1	Contract for the Basic Medical Check-up Services Package	2015	2026	07220	Current Expenditures	876,083	876,083	860,158	699,823	0	0
	2	Provision of Customized Surgical Instrument Sets, Sterile Single-Use Medical Supplies for Operating Theatres, Treatment of Biological Waste, and Disinfection of Operating Theatres	2016	2026	07330	Current Expenditures	1,749,982	1,755,835	1,899,982	500,000	0	0
	3	Provision of Hemodialysis Services	2016	2026	07330	Current Expenditures	849,129	894,392	931,978	815,000	0	0
	4	Provision of Medical Laboratory Services	2020	2030	07330	Current Expenditures	1,718,879	1,802,818	1,893,575	2,000,000	2,150,000	2,200,000
Municipality of Tirana/ Ministry of Education	1	Improvement of Educational Infrastructure in the Municipality of Tirana: Design, Financing, Construction, Furnishing, Maintenance, Supervision and Commissioning of Five Educational Facilities in Tirana Zone 1 and Four Educational Facilities in Tirana Zone 4	2018	2026	09230/09120	Capital Investments	698,074	722,121	707,568	685,284	655,427	625,570
Ministry of Infrastructure and Energy (MIE) / Ministry of Environment (MoE) / Municipality of Tirana	1	Construction of the Landfill and Incinerator, Rehabilitation of Existing Disposal Sites in Tirana, and Generation of Electricity	2017	2047	06220	Current Expenditures	989,797	931,363	913,112	1,000,000	1,000,000	1,000,000
	11	TOTAL					12,659,602	13,293,577	13,359,003	12,080,342	10,230,669	10,297,169
Total Tax Revenues							598,661,930	659,096,060	716,283,250	773,034,733	815,149,024	862,341,996
Compliance with the Fiscal Rule (PPP payments below 5% of total tax revenues in the previous budget year).							2.34%	2.22%	2.03%	1.69%	1.32%	1.26%

Source: Ministry of Finance (2026)

6.2. Risks identified during the previous budget year

The Ministry of Finance assesses and approves in advance all concessionary and public-private partnership (PPP) projects, as well as any changes thereto, from the point of view of individual or group implications, for budget expenditures, budget deficit, public debt sustainability and contingent liabilities. The total amount of net annual payments made by general government units resulting from concession/PPP contracts, as a rule, should not exceed the limit of 5 percent of the actual tax revenues of the previous budget year.

Chart 15. Budget expenditures for concessionary/PPP contracts with budget support



Source: Ministry of Finance, Contracting Authorities (2026)

Specifically, for 2025, it is noted that:

- *The allowed limit of net payments for concession/PPP contracts is estimated at about ALL 32.95 billion.*
- *The net annual payments made (actually) by the general government units, for concessionary/PPP contracts with budget support, for 2025 amounted to about 13. 36 billion Lek and this value constitutes only 2.03% of the total actual tax revenues of 2024.*

Meanwhile, for 2026:

- *The allowed limit of net payments for concession/PPP contracts, of 5 percent of the actual tax revenues of 2025, is about ALL 35.8 billion.*
- *Referring to the budget payment plan for 2026, reported by the relevant Contracting Authorities, the annual net payments that are forecasted to be made by the general government units for concessionary/PPP contracts, result in about ALL 12.1 billion. This value represents only about 1.69% of the total actual tax revenues for 2025.*

6.3. Mitigation of identified risks

Regarding the compliance with the fiscal rule, for 2025, as well as in all previous years, Article 4/2 of the Law no. 9936 dated 26.06.2008 "On the management of the budget system" has been complied with, which stipulates that "...the total amount of net annual payments made by the general government units, which result from the concession contract or public-private partnership (PPP)"". In case this limit is exceeded, the Council of Ministers shall take corrective measures on the side of the budget revenues, necessary and sufficient, to return within the permitted limit, during the next two budget years.

One of the risks that the Ministry of Finance has encountered over the last few years has been the lack of timely reporting and the deficiencies of the information contained in the reports based on the annexes of the Instruction no. 35 dated 12.12.2019.

7. Fiscal Risks Associated with Public Enterprises with State Capital

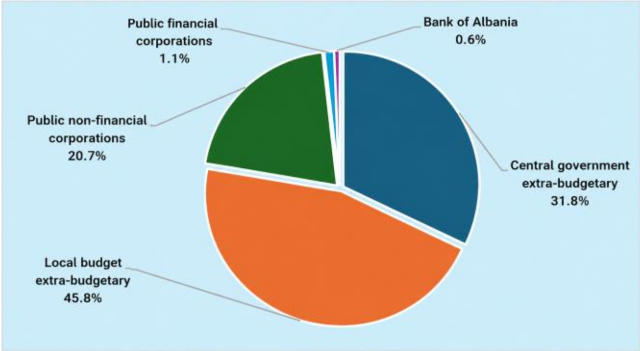
7.1. An Overall Narrative Overview of the Previous Budget Year

In accordance with the law no. 7926, dated 20.4.1995 "On the transformation of state-owned enterprises into commercial companies", state-owned enterprises were transformed into commercial companies, where the right of ownership is not only of the Ministry of Finance, but in implementation of the respective legal and sub-legal acts, this right was also transferred to other central and local institutions according to their field of responsibility. After this reform, some of the strategic companies in the energy and oil processing sector passed into the ownership of the Ministry of Infrastructure and Energy, which also owns the majority of the shares of the Water Supply and Sewerage companies. Meanwhile, other companies have passed into the ownership of the Local Government or other central institutions, or have been privatized.

Referring to the latest INSTAT publication (September 2025) on the public sector in Albania, the total number of extra-budgetary institutions is 180, which are categorized as follows:

- ✓ *57 Extra-budgetary central government*
- ✓ *83 Extra-budgetary local government*
- ✓ *37 Non-financial public enterprises*
- ✓ *2 Public financial enterprises*
- ✓ *1 Bank of Albania*

Chart 16. Quasi-public sector by number of enterprises



Source: INSTAT (2026)

Based on their status, enterprises of the form "Joint Stock Company – sh.a" are regulated by Law no. 9901 dated 14.04.2008 "On merchants and commercial companies", while enterprises of the form "Public Enterprises" are regulated by Law no. 758, dated 13.07.1992 "On state-owned commercial enterprises". Also, there are some enterprises that are regulated by a special law, such as the Albanian Radio Television (RTSH), which holds the status of a public legal entity and operates on the basis of Law no. 97, dated 04.03.2013 "On audiovisual media in the Republic of Albania". Also, the Port Authority of Durrës (DPA) is also a public legal entity which operates on the basis of Law no. 9130, dated 08.09.2003 "On the Port Authority". While the company Albcontrol is already based on the law no. 40, dated 02.05.2024 "On the air navigation service provider "Albcontrol", it is foreseen to have changed from a joint stock company to a public legal entity under the supervision of the Minister responsible for air transport issues. However, it is worth noting the fact that during the period 12M 2025 he operated as JSC. The company Hekurudha Shqiptare sh.a. is also in the process of restructuring, which through Law no. 90, dated 01.07.2021 "On the division of the company "Hekurudha Shqiptare sh.a", as amended, it has been decided to divide into two host companies, respectively responsible for the railway infrastructure and for the transport of passengers and goods. This law was amended in December 2024, transferring the ownership right of this company to the Ministry responsible for rail transport. This right was previously exercised by the Ministry responsible for the economy.

Regarding the main portfolios of the companies, the Ministry of Finance for 2025 owns three state-owned enterprises: Securities Printing sh.a, Agrokredit sh.a and Social Business Promotion sh.a.

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

Table 13. SOE-s owned by MEI and MIE for 2025

Ownership of State-owned Enterprises by Legal Form		MEI		MIE	
		100% Ownership	over 50% ownership	100% Ownership	over 50% ownership
Joint Stock Company (JSC)		**5**	**7**	**5**	**14**
Strategic	*OST sh.a*	x			
	Posta Shqiptare sh.a	x			
	Albcontrol sh.a	x			
	Albanian Investment Corporation sh.a (AIC)	x			
	Concentrated Purchasing Operator sh.a	x			
	"Albpetrol" sh.a			x	
	Albanian Railway sh.a			x	
	Albgaz sh.a			x	
	"OSHEE" sh.a			x	
	"KESH" sh.a			x	
Non-strategic	*Shengjin Seaport sh.a*		x		
	Vlora Seaport sh.a		x		
	Saranda Seaport sh.a		x		
	Albanian Maritime Registry sh.a		x		
	Albafilm sh.a		x		
	Treatment of Students Korça sh.a		x		
	Share Registration Center sh.a		x		
	14 Regional Directorates of Water Supply and Sewerage sh.a.				x
Public Enterprise		**Public Enterprise**	**0**	**1**	**0**
Strategic	*Industrial Enterprise No.1 Tirana*	x			
Non-strategic	*Steel Production Enterprise, Elbasan*			x	

Source: Ministry of Finance (2026)

Pursuant to the LOB, specifically Article 4/2 which stipulates that "... The annual financial plans and financial statements on a quarterly basis, of each non-general government unit benefiting from budget funds and/or state guarantees, shall be submitted to the Ministry of Finance...", and of the Supplementary Guideline no. 2/2025 "On the implementation of the 2025 Budget", the Ministry of Finance periodically monitors on a quarterly basis, the financial performance of the main NSAs, in addition to the other two entities RTSH and DPA, in order to identify the potential impact that these enterprises can have on the state budget. The monitoring process aims to analyze the financial and non-financial performance of the main public enterprises. In this context, the main enterprises under monitoring are listed in the following table:

Table 14. SOE-s monitored for 2025

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

Source: Ministry of Finance (2026)

The main economic and financial indicators of the NSAs monitored by the MoF are presented below [9].

[9] *For 2025, there has been no reporting from the Durrës Regional Water Supply and Sewerage Company (UKRD). The non-reporting of financial data on time by the entity is argued by the delays in the approval of their financial statements.*

Table 15. Economic and financial indicators related to the main NSIs and two other entities (not with JSC status) monitored for 2025, in million ALL.

Subject Name	Revenue	Expenses	Loss/Profit	Totally Active	Total Liabilities	Capital	Profit Margin	Current Report	(Debt Ratio) Tot Liabilities / Tot Active
OSHEE Group sh.a	72,787	65,709	7,078	109,902	117,135	-7,233	0.10	0.45	1.07
KESH sh.a	28,209	41,947	(13,738)	163,615	82,647	80,968	-0.49	1.28	0.51
OST sh.a	10,292	9,296	996	83,300	39,156	44,144	0.10	0.51	0.47
UKT sh.a	4,777	3,510	1,267	30,405	15,426	14,978	0.27	0.84	0.51
HSH sh.a	981	1,196	(215)	77,540	11,887	65,653	-0.22	0.23	0.15
AlbGaz sh.a	61	151	(90)	1,300	642	658	-1.46	13.77	0.49
Albcontrol sh.a	2,993	3,012	(19)	24,398	17,323	7,075	-0.01	2.48	0.71
RTSH	2,370	2,797	(427)	3,100	2,157	943	-0.18	0.47	0.70
Albpetrol sh.a	5,101	6,668	(1,567)	51,434	18,149	33,285	-0.31	1.18	0.35
APD	3,217	2,554	663	12,870	1,463	11,406	0.21	3.92	0.11
Posta Shqiptare sh.a.	3,229	3,386	(157)	-	-	-	-	-	-
Total	134,017	140,226	(6,209)	557,864	305,985	251,877	-	-	-
% of nominal GDP for 2025	5.07%	5.31%	-0.23%	21.11%	11.58%	9.53%	-	-	-

Source: Ministry of Finance (2026)

Referring to the data in the table above, for 2025, it is found that state-owned enterprises such as UKT and APD result in a relatively high profit margin of about 27 and 20 percent. The companies OSHEE Group, OST, also showed a positive profit. Meanwhile, KESH, AlbGaz, HSH, RTSH and Albpetrol, result in a poor financial performance, argued as follows:

- *For KESH sh.a., the year 2025 was quite challenging from an operational-economic point of view, mainly due to the unfavorable climatic conditions, which affected the recording of net losses from the financial activity. Although the initial forecasts predicted a moderate positive result, the difficult water situation did not make it possible to achieve this objective. Under the conditions of this unfavorable situation, operations during the period were oriented towards recovery and amortization measures to minimize exposure to risks, while the obligation to supply energy to universal customers, according to the DSHP, remained unchanged.*
- *According to the information provided by Albgaz sh.a., despite the full implementation of the income plan, the current financial situation of the company is presented with losses, mainly as a result of the high level of operating expenses and accumulated losses. However, liquidity remains relatively stable, while the structure of long-term liabilities has partially improved.*
- *The Albanian Railway went through a difficult financial situation during 2025 mainly related to the malfunction of some existing lines due to the preparations for their complete reconstruction, directly affecting the reduction of revenues from operating activity. However, interventions in the railway infrastructure with new strategic projects are expected to bring important developments in the medium and long term.*
- *The financial performance of RTSH has been affected by the non-realization of annual revenues accompanied by a significant lack of collections from the television tariff and the income of the institution itself. This situation has been exacerbated by the increase in operating expenses, especially related to the salary fund and program rights. At the same time, the low level of realization of capital investments has limited the process of technological modernization.*
- *The negative financial result (loss) by Albpetrol JSC in 2025 is mainly related to the non-realization of income from the sale of oil, where despite exceeding the volume of oil sales, the sale price was lower compared to the program.*

On the other hand, it is observed that AlbGaz, APD, Albpetrol, KESH appear to have good solvency in terms of repayment of short-term liabilities, resulting in a high level of liquidity.

The companies with a low debt ratio are the Albanian Railway, APD and Albpetrol, showing a stable financial position. Whereas, enterprises with a high debt ratio are especially OSHEE Group, RTSH have shown financial inability to repay liabilities.

In the following table, the liabilities in the form of loans or guarantees that state-owned enterprises have towards the Ministry of Finance for the period 2016-2025 are summarised.

Table 16. Sub-loan liabilities and guarantees of state-owned enterprises to the Ministry of Finance

Year (million ALL)	Energy Sector*			Water Sector**			Other SOEs***			Total		
	Subloans	Warranty	*Total*	Subloans	Subloans	Warranty	*Total*	Subloans	Subloans	Warranty	*Total*	Subloans
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**
2025	37,431	17,928	**55,358**	9,109	2,067	**11,176**	1,238	2,105	**3,344**	47,779	22,100	**69,879**

** The Energy Sector includes state-owned enterprises: OSHEE Group sh.a, KESH sh.a and OST sh.a.*
*** The Water Sector includes all Water Supply and Sewerage Companies sh.a.*
Other SOEs include state-owned enterprises: ARMO sh.a, Albanian Railway, Servcom sh.a, Albpetrol sh.a and RTSH.
Source: Ministry of Finance (2026)Source: Ministry of Finance (2026)

The table below shows the budget funds in the form of a subsidy (Plan/Fact), over the years, which is mainly planned for those state-owned enterprises that fail to cover the cost/expenses of operation and maintenance. The procedures on the allocation of these funds are defined in the Instruction No. 9 dated 20.07.2018 "On Standard Procedures for the Implementation of the Budget".

Table 17. Subsidies for state-owned enterprises from 2016-2025

Year (million ALL)	Budget subsidy for:					
	U-K SOEs		Directorate of Government Services		Albanian Railway	
	Plan	*Fact*	*Plan*	*Fact*	*Plan*	*Fact*
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
2025	350	350	742	723	500	500

Source: Ministry of Finance (2026)

7.1.1. Energy Sector

At the end of 2025, the water level in the Fierza reservoir reached 281.2 metres, exceeding the historical average level of 277.9 metres. This indicates that total annual precipitation was above average; however, its uneven distribution throughout the year adversely affected the company's financial performance.

Compared to 2024, it is observed that:

- The overall level of domestic production has decreased by about 4.7 percent compared to the same period of the previous year. Specifically, for the period 12M 2025, net domestic production resulted in about 7.47 TWh, compared to 8.48 TWh realized in the same period of the previous year.
- KESH sh.a (including the production of Karavasta Solar sh.p.k) realized a net production level of about 3.71 TWh, while in the same period of the previous year the net production resulted in about 4.37 TWh.
- The level of losses in the electricity distribution system has improved and results at 16.96 percent from 17.93 percent in the same period of the previous year.
- The level of collections of the electricity distribution system reached 99 percent, resulting in a decrease of 1.5 percent compared to the same period of the previous year.

In terms of fiscal risk, the impact of the sector as financial costs or missing revenues in public finances for 2025 is estimated at about ALL 5.28 billion from about ALL 6.05 billion in 2024, indicating a decrease in the impact of the sector on public finances. The foreign-financed investment projects for the energy sector for 2025 were approved at the level of 2 billion ALL according to the initial budget approved by Law no. 97/2024 "On the 2025 budget", and were not implemented during the budget year.

The exposure to the electricity sector and the actual size of contingent liabilities related to this sector are presented in the following tables:

Table 18. Data on the impact of the energy sector on public finances [10]

	2021	2022	2023	2024	2025
Impact on public finances (in million ALL):	**5,504**	**33,017**	**5,286**	**6,045**	**5,277**
1. Guarantees and sub-loans paid by MF	**5,407**	**32,973**	**5,285**	**6,045**	**5,277**
Guarantees paid by MF	*1,504**	*2,989*	*1,149*	*1,631*	*2,256*
Projects with under-borrowed foreign financing	*3,903*	*2,077*	*4,136*	*4,414*	*3,021*
Loan granted for energy	-	*7,907***	-	-	-
Foreign financing for the energy sector	*1.537*	*567*	*873*	*308*	-
2. Budget support for the energy sector		*20,000***	*0****	-	-
3. Tax liabilities (annual)	**97.3**	**43.4**	**0.1**	**0.5**	**0.02**

Source: Ministry of Finance (2026)

7.1.2. Mutual Liabilities of Energy Sector Enterprises/MF/GDT and LM/BI

In the framework of the reform in the energy sector, the Ministry of Finance and the Ministry of Infrastructure and Energy co-signed the Joint Guideline no. 379/2021 dated 30.09.2021 "On the implementation of the plan of measures for the reduction of arrears in the electricity sector", through which, the enterprises of the energy sector report periodically on a monthly basis, on the settlement of mutual arrears between the energy sector and other entities public. Throughout 2025, in accordance with the above-mentioned instruction, the MoF has periodically monitored on a monthly basis the mutual liabilities reported by energy sector enterprises and other public entities. For the 12-month period of 2025, an upward trend of mutual liabilities is observed compared to 2024. This increase is mainly attributed to the liabilities that KESH-sh.a has towards MF and OSHEE Group towards GDT. Although the enterprises of the energy sector report that part of these mutual liabilities have been settled according to the plan of measures for their reduction, the overall level continues to increase. This is because companies

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[10] **Budget support for the energy sector (OSHEE Group sh.a.) through the sovereign guarantee instrument in the amount of 10,000 million ALL for 2021 by means of normative act no. 31, dated 27.10.2021.*

*** "Energy loan" planned in the amount of ALL 8,000 million for 2022 (current realization is ALL 7,907 million) and "Budget support for the energy sector" planned in the amount of ALL 20,000 million for 2022 (current realization is ALL 20,000 million).*

The "Budget support for the energy sector" planned in the amount of ALL 12,000 million for 2023, through the Normative Act no. 5 dated 18.10.2023, was reallocated to other items of public expenditures, based on the stable situation of the sector for the current year.

continue to face an insufficient liquidity situation, carried over from previous years, which has made it impossible to repay all liabilities according to the annual plan. Another factor that has influenced the current situation is the delays in the settlement of mutual liabilities by water utilities. The enterprises of the energy sector confirm that their commitment remains maximum in terms of the successful fulfillment of the agreements for the complete liquidation of the stock of mutual liabilities.

Table 19. Mutual obligations between enterprises in the energy sector, LM/BI, MF and GDT

Until December 2025 (in billion ALL)	KESH	OST	OSHEE	MF	GDT	Total
KESH for:		0*		45.13		**45.13**
OST to:	10.24*		0.04	7.40		**17.69**
OSHEE to:	45.47**	8.07**		2.83	4.65	**61.02**
Water Supply and Securities Enterprises for:			33.80	11.19		**44.99**
ML/IB			6.60			**6.60**
Total	**55.71**	**8.07**	**40.44**	**66.55**	**4.65**	**175.42**

** The value of mutual liabilities ranges from 0-0.13 billion ALL for KESH to OST and from 10.24-13.58 billion ALL for OST to KESH, due to disagreement between companies.*

***The value of mutual liabilities ranges from 45.47-49.70 billion ALL for OSHEE to KESH and from 8.07-15.61 billion ALL for OSHEE to OST, due to disagreement between companies.*

Source: MF, KESH, OST, OSHEE Group, AKUK (2026)

7.1.3. Energy Sector Risks

- **Energy Market Risk:** From an initially unsystematic risk with temporary impact, energy market risk has been consolidated as a systemic risk, characterized by persistent price volatility and uncertainty in supply. Recent geopolitical developments, including the intensification of tensions in the Middle East and the continuation of the Russia-Ukraine conflict, have increased the risk of disruptions in global supply chains, especially in strategic oil and gas transportation corridors. At the same time, the structural increase in electricity demand globally has put additional pressure on markets. In this context, during 2025 the exposure to the risk of energy prices has increased, reflecting higher import costs compared to the initial forecasts.

- **Hydro Risk**: Influenced by the intensification of climate change and the dominant dependence on hydro resources, hydro risk has evolved from a temporary risk to a systematic and structural risk for the generating activity of KESH sh.a. During 2025, the pronounced drought and flows below the multi-year average, comparable to the most unfavorable years, 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 the entire energy sector on hydro sources, it is classified as a systemic risk by creating a seasonal imbalance between production and consumption that often turns the country into a net energy importer.

- **Liquidity Risk:** For OSHEE Group sh.a., liquidity risk is conditioned by liabilities inherited from the period of poor performance (2009–2014), and coping with the difficult liquid situations of the company has become possible only with the support of the government through the sovereign guarantee as well as the restructuring of arrears with KESH and OST through contracts concluded in cooperation with MIE. While the liquidity risk in KESH sh.a. exposes the Corporation to both short-term and long-term liabilities, negatively impacting financial consolidation and long-term sustainability. It has limited the solvency and support of the operating activity, especially the realization of investments and strategic objectives. This limitation is reflected in the increase in "Receivable Accounts" and "Accounts Payable", worsening the cash flow and financial position of the Corporation. The risk is systematic and continuous, related to the delays or non-timely payment of liabilities by the main actors of the sector, especially OSHEE Grup sh.a. and OST sh.a.

While OST sh.a. identifies as an additional factor the exchange rate exposure for foreign currency loans and delays in disbursements for foreign-financed investments.

7.1.4. Mitigation of identified risks

Under the conditions of exposure to the above-mentioned risks, under the special care of the government, the enterprises of the energy sector, through action plans, undertook concrete measures in the management of these risks, as follows:

Energy Market Risk: During 2025, following the measures undertaken to reduce the energy market risk and dependence on imports, the utilization of the leasing capacity of thermal generating assets of 110 MW continued. This capacity has served to optimize domestic energy production, especially in periods of lack of rainfall. Also, the supply from the Karavasta Solar photovoltaic plant with a capacity of 140 MW has guaranteed energy at a regulated auction price, lower than the prices of regional stock exchanges such as HUPX.

Hydro Risk: The management of the Cascade operation during 2025 is focused on maximizing hydro production and managing the water reserve, as a key measure for mitigating hydro risk. In addition, work has continued on the diversification of production sources through thermal generators and photovoltaic plants, in order to ensure supply in periods of lack of natural flows. In parallel, the use of alternative sources such as Karavasta Solar and thermal generators has helped to secure supply during periods of shortage of flows, strengthening the system's ability to cope with hydro risk.

Production Portfolio Risk: The diversification of the energy source generation portfolio has continued with the development of photovoltaic projects, including the Zadeja Dam–Vau i Dejës PV plant with a capacity of 8.25 MW, the floating PV plant in Lake Vau i Dejës with a capacity of 13.8 MW and the Belsh PV plant, which aim to increase photovoltaic generation capacities.

Liquidity Risk: The trading of energy for 6kV/10kV and 20kV consumers through the ALPEX exchange has affected the timely provision of liquidity and the reduction of liquidity risk. Also, the transition of 10kV consumers to the free market and the deepening of the energy sector reform aim to stabilize collections and reduce exposure to late payments.

7.2. Enterprises of the Water Supply and Sewerage Sector

In the framework of improving the monitoring of state-owned enterprises, the Ministry of Finance has monitored some key financial indicators of Water Supply and Sewerage Enterprises. The main performance indicators for 2025, for the analyzed U-K enterprises, point to a continuation of the existing financial situation and difficulties in paying liabilities and collecting revenues, signaling potential liquidity problems in the short term. The consequences of the COVID19 pandemic and factors such as the effects of the global energy crisis, the war in Ukraine, fluctuations in energy, fuel and input prices, have had a significant impact on the financial difficulties of U-K enterprises.

As regards the stock of liabilities accumulated by U-K sh.a companies towards the energy sector, it is worth noting that in the framework of the reform in the energy sector, relations and cooperation with institutions and key stakeholders have been intensified. The plan of measures for the reduction of arrears in the electricity sector, approved by the Joint Order MIE/MF no. 304/2020 "On the approval of the plan of measures for the reduction of arrears in the electricity sector", includes the water sector in the process of settlement of mutual liabilities.

In order to successfully implement this plan, MIE and MoF co-signed the second Joint Order no. 379/2021 "On the implementation of the plan of measures for the reduction of arrears in the electricity sector", which charges (in addition to the enterprises of the energy sector) also AKUK for monthly reporting on the progress and settlement of mutual arrears.

Thus, until December 2025, OSHEE Group sh.a. reports that the accumulated liabilities of water supply and sewerage companies are in the amount of about ALL 33.8 billion. Of these, about 14.1 billion Lek are liabilities invoiced to the company and about 19.7 billion Lek are liabilities for late payments. Out of the total principal liabilities (without arrears), only the company of U-K Durrës sh.a has 5.75 billion ALL accumulated liabilities over the years. The table below lists the five U-K companies that have the largest part of the liabilities (without arrears) to OSHEE Group sh.a, until December 2025.

Table 20. Water Supply and Sewerage Utilities with the highest stock of arrears (principal) to OSHEE Group sh.a, for 12M 2025

	(billion/ALL)
Top 5 U-K with liabilities to OSHEE Group	**9.16**
Durrës Unit U-K sh.a	5.75
Fier Unit U-K sh.a	0.89
Shkodra Unit U-K sh.a	0.88
Patos Unit U-K sh.a	0.87
Kavaja Unit U-K sh.a	0.77

Source: AKUK (2026)

The process of reforming and reorganizing the water sector has already entered a consolidation phase, in line with the National Strategy of the Water Supply and Sewerage Sector 2020-2030. Through this reform, in implementation of DCM no. 302 dated 11.05.2022 "On national policies for the reorganization of the water supply sector and wastewater disposal, treatment and treatment", the aim was to resize the current 58 U-K enterprises through their regrouping into 15 regional SKP-WSS companies (Entities with Common Competences).

This, in order to increase their good management and financial performance, which will inevitably generate sufficient income for the benefit of the smooth running of work processes and especially the repayment of accumulated liabilities, thus ensuring that they are not created in the future.

By December 2025, 14 regional KPS-WSSC companies have been established and the process has also progressed in terms of internal structuring of these companies. There are 3 municipalities that have not yet signed the cooperation agreements for the establishment of the regional water company Tirana.

7.3. Risk Assessment of Key State-Owned Enterprises

During 2025, the monitoring process has continued 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.

Below is an analysis on the financial performance of the enterprises under monitoring for the period 2021-2025 through this analytical tool.

Table 21. Risk Matrix (2021-2025) according to SOE HCT

Financial Indicators (Weighted Average for the entire portfolio)	2021	2022	2023	2024	2025
Profitability					
Return on Assets (ROA)	(0.02)	(0.03)	0.04	0.02	(0.01)
Return on Equity (ROE)	(0.04)	(0.09)	0.10	0.03	(0.02)
Cost Recovery	0.95	0.88	1.22	1.09	0.98
Liquidity					
Current Ratio	0.83	0.86	0.93	0.95	0.92
Quick Ratio	0.77	0.81	0.88	0.89	0.87
Solvency Indicators					
Debt to Assets	0.60	0.62	0.58	0.54	0.54
Debt to Equity	1.47	1.61	1.37	1.19	1.17
Cash Interest Coverage	1.68	(1.17)	3.03	7.12	7.85
Overall Risk Rating – Weighted Average	3.75	4.00	2.50	2.75	3.38

Category 5	High risk
Category 4	
Category 3	
Category 2	
Category 1	Low risk

Source: Ministry of Finance 2026, SOE HCT

The analysis of the risk matrix for major state-owned enterprises indicates that during 2021–2022 they exhibited a high level of fiscal risk, driven by weak profitability, low liquidity, and a high level of liabilities, with the overall risk level classified under Category 4. From 2023 onward, a gradual improvement in the financial situation is observed, reflected in the reduction of the risk level to Category 3, mainly as a result of improved profitability indicators and a stronger interest coverage capacity. However, liquidity indicators continue to remain below optimal levels, signaling ongoing challenges in meeting short-term obligations. At the same time, the relatively high level of debt indicates that these enterprises remain exposed to financial risks, reflecting a high degree of vulnerability and potential dependence on state support instruments in the event of a deterioration in economic conditions. Consequently, strengthening financial sustainability is considered necessary through improvements in liquidity, operational efficiency, and the gradual reduction of liabilities.

Detailed information on state-owned enterprises under MoF monitoring, including the identified risks and measures taken to mitigate them, as well as the results of the analyses for 2025, generated by SOE HCT, are presented in Annex B of this Report.

8. Fiscal Risks Related to Contingent Liabilities

8.1. Judgments of the European Court of Human Rights in Strasbourg (EctHR)

These decisions mainly concern issues related to the return and compensation of properties to former owners. The Ministry of Finance has continuously complied with all the decisions adopted by the ECtHR, through the liquidation of the respective DCMs approved in support of them, punctually and within the strict deadlines set by this body. This, considering the fact that when payments are not made within the three-month period from the date when the relevant decision becomes final, the Albanian state is charged with paying a late interest for each day of delay. However, in order to guarantee the timely settlement of these decisions, the MoF has continuously recommended the use of all possible institutional and procedural channels, within the spaces provided by the legal framework in force, suggesting the scheduling of the financial obligation, according to the possibilities of the state budget in installments, in negotiation with the beneficiaries.

During 2025, about 113,834 euros (about 11.27 million ALL) were paid for ECtHR decisions, of which about 5.7 million ALL were covered by the reserve fund of the state budget approved for 2025 and about 5.57 million ALL by the funds of the Ministry of Finance.

By the end of 2025, the obligations for ECtHR judgments are presented as follows:

Table 22. Obligations from ECtHR judgments (in euro) until the end of 2025

Date of Decision	ECtHR Judgments	Liability according to the ECtHR/DCM decision	Contingent liability	Total liability
14.09.2015	Delijorgji v. Albania	15,600 €		15,600 €
17.03.2016	Rista and Others v. Albania (Reference: Dhimërtika and Nika v. Albania)	4,417,750 €		4,417,750 €
28.05.2018	Sharxhi v. Albania	13,447,300 €		13,447,300 €
05.06.2024	Iliria s.r.l v. Albania	10,800 €		10,800 €
11.09.2024	Zela vs. Albania	60,000 €		60,000 €
26.11.2025	Kroi and Nocka v. Albania	11,200 €		11,200 €
18.11.2025	Lasku and others against Albania	6,600 €		6,600 €
25.11.2025	Selimi vs. Albania	6,500 €		6,500 €
Judgment pending from the ECtHR	Ramaj v. Albania		1,970,000 €	1,970,000 €
	Totals	**17,975,750 €**	**1,970,000 €**	**19,945,750 €**

Note: The liability under the ECtHR/DCM decision is the corresponding liability from a final ECtHR/DCM decision, which is still outstanding by the end of 2025.
Note: A contingent obligation is the expected/potential liability from a judgment under review or pending to be finalized by the ECtHR, reported by the State Attorney's Office by the end of 2025.
Source: Ministry of Finance, State Attorney's Office (2026)

8.2. Decisions of the International Court of Arbitration

The decisions of the International Court of Arbitration relate to final decisions on the resolution of conflicts in bilateral or multilateral disputes, in the responsibility of the Albanian state. Given the inherent financial effects that usually accompany these decisions, they are assessed as a significant risk for the state budget. The Ministry of Finance has continuously recommended the strengthening of the negotiating role of the budgetary institutions and the State Advocate in matters of this nature, as well as the discipline of the process of financial settlement of the beneficiaries. This, with the ultimate goal of easing, reducing and avoiding the financial burden on the state budget.

In 2025, total expenditures incurred by the State Budget for legal representation, defence, court-related expenses and other costs associated with International Arbitration awards amounted to approximately ALL 147.5 million.

A summary of liabilities related to International Arbitration awards as of end-2025 is presented below.

Table 23 Obligations for International Arbitration Awards (in euros)

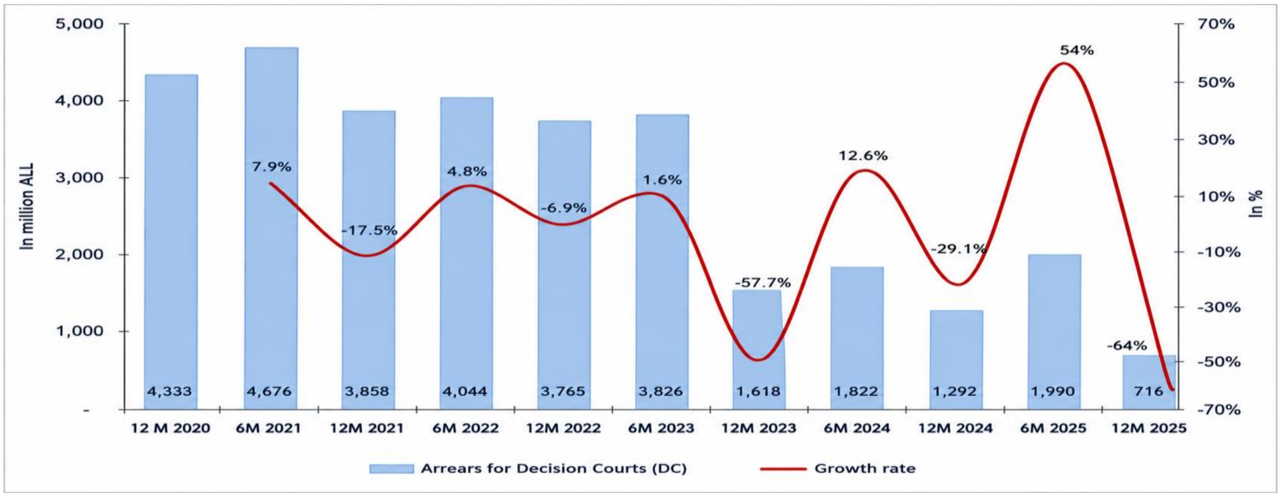
Line Ministry	Description of Arbitral Awards	Liquidation 2025	Residual liability from Arbitration awards/legal costs (A)	Contingent liabilities (B)	Total Liability (C=A+B)
MIE / ARRSH	ICC Case no. 23998/MHM (c-24011/MHM/HBH). *JV Copri-Aktor* vs ARRSH.	0	41,144,749	0	41,144,749
	Legal Costs and Court Costs ICC Case no. 23998/MHM (c-24011/MHM/HBH)	0	150,000	0	150,000
MIE / BATTERY	ICC Case 24140/MHM - Costruzioni DONDI S.P.A	0	13,282,845	0	13,282,845
	Administrative, representation and legal costs for ICC Case no. 24140/MHM/HBH *Construzioni DONDI S.P.A.*	0	28,500	0	28,500
MIE	ICC Case No. 20564/EMT/GR *Hydro srl*	0	142,976	0	142,976
MIE/ AKBN/ Albpetrol Sh.a	ICC Case no. 22676/GR GBC Oil Company LTD vs MIE, AKBN and Albpetrol	0	11,855,415	0	11,855,415
	Legal Costs for MIE/AKBN Representation Proceedings in ICC Case No. 22676/GR	0	407,500	0	407,500
MF	Representation of Albania in the arbitration case Mimoza Ndroqi v. RSH	420,000	36,153	0	36,153
	ICSID Arbitration no. ARB/15/28 *"Hydro and others v. Albania"*	0	0	108,302,807	108,302,807
	Legal costs related to ICSID Arbitration Award no. ARB/15/28 *"Hydro and others v. Albania"*	983,658	2,714,575	1,050,000	3,764,575
	Legal costs for the processes of opposing the Executive Decree R.G.n 27416/2024	51,750	50,000	410,000	460,000
MADR	Administrative and Legal Costs for PCA Case 2018-49 *Valeria Srl vs RSH*	559	0	0	0
MEI	Court/Administrative Costs for ICC Case 29497/ICA3 Sweco GmbH vs. MEKI	18,400	0	0	0
	Total	**1,474,367**	**69,812,712**	**109,762,807**	**179,575,519**

We clarify that, since the liabilities for the Arbitration awards are in different currencies, the current exchange rates are reflected.
We clarify that the table shows arbitration issues/related legal costs, for which there are current liabilities (remaining or contingent) and/or payments have been made during 2025.
We clarify that, for contracts that are terminated before the end of the contracted service, the entity is liquidated only for the services performed in function of the contract. Consequently, the entire value specified in the contract is not exhausted.
Note: The above information is based on the latest data (April 2026) reported to the MoF by the State Attorney's Office and by the Line Ministries/Budgetary Institutions, on liabilities and payments until the end of 2025. Consequently, our estimates are accurate as far as information is available. The tag for their validation is held only by the State Attorney's Office.
Note: The table above includes liabilities from final decisions of the Arbitration Court and liabilities arising from contracts concluded between the Albanian state and law firms/independent experts etc (mainly for representation and defense procedures, opposition/review/annulment of an arbitration award or other administrative/application/translation costs etc.).
Note: The total initial liability is the value of the obligation determined in a final decision of the Arbitration court or the total value determined in a contract concluded between the Albanian state and an independent law firm/expert etc (mainly for representation and defense procedures, opposition/review/annulment of an arbitration award or other administrative/application/translation costs etc.
Note: The remaining liability from International Arbitration awards/legal costs is the outstanding liability from a final decision of the International Court of Arbitration or the remaining (unpaid) liability from the contracts concluded between the Albanian state and independent law firms/experts, for the part of the obligation that has been invoiced by the State Attorney's Office and turns out to be unpaid or the obligation which, Based on the contract, it must be liquidated according to the stages set out in the contract, in the relevant article on 'Fees and method of payment'.
Note: Contingent liability is the expected/potential obligation which is likely to materialize in the coming periods, specifically for decisions of the International Court of Arbitration which are subject to legal procedures of opposition/review/suspension/annulment or expected obligations from contracts concluded between the Albanian state and law firms/independent experts, for the procedural stages set out in the contract which continue in cases where the Tribunal finds jurisdiction and continues with the other phases defined in the contract, phases which imply financial costs.
Source: Ministry of Finance, State Attorney's Office, Line Ministries/Budgetary Institutions (2026)

8.3. Administrative court decisions, final (Central + Local)

The chart below shows the performance of the level of arrears for court decisions until December 2025, on a six-month basis.

Chart 17. Progress of arrears for court decisions (Central + Local)



Source: Ministry of Finance (2026)

The arrears due to court decisions are mainly based on the unfair dismissals of former employees, which in any case imply unforeseen budget costs. These liabilities are monitored and reported by the Ministry of Finance, in the framework of the general monitoring of arrears.

The Ministry of Finance, in order to anticipate their accumulation on time, in addition to a periodic monitoring, has continuously appealed to the management ability of the budget institutions themselves, through the application of payment installments to the beneficiaries or other instruments of relief and/or timely shifting of their budget burden.

9. Fiscal Risks Related with Natural Disasters

9.1. An Overall Narrative Overview of the Previous Budget Year

In 2025, 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 disaster preparedness and resilience. 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), during the 2025 season, fires have affected a wide territorial area throughout the country. The burned areas mainly include forests, shrubs and pastures, but also agricultural land and private property in certain areas.

The most affected regions were Gjirokastra, Vlora, Fier, Shkodra, Elbasan, Dibra, Shkodra, Tirana, 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.

Also, the fires have negatively affected the local economy, especially in the agricultural and livestock sector. During the 2025 season, the following have been affected:

- Large areas with forests, shrubs and pastures (62943 ha);
- Agricultural areas, including olive groves, vineyards and livestock areas;
- Private property, apartments and ancillary facilities in some isolated cases.

Referring to EFFIS, the burned area during 2025 was 62,943 hectares.

During the fire season, 2,743 cases of fires were registered in the country, where 30,215 local operational forces (MZSH, Police, municipality, ADZM, FA, volunteer, medical emergency, etc.) were engaged with 2,284 vehicles. Also, 2 helicopters of the Air Force of the Armed Forces have been activated in the firefighting operations, which carried out over 120 operations.

- ***193** massive fires (over 1 ha) on a national scale.*
- ***52.7%** of the entire burned area was caused by **18** massive fires.*
- *The area burned during 2025 was **62,943** hectares, referring to EFFIS.*

Seismic events

Regarding seismic events, during 2025, 52 earthquakes with a magnitude of over 3.0 on the Richter scale were recorded, which were slightly felt around the epicenters, but without causing problems in the infrastructure and community, where the earthquake with the highest magnitude occurred in the municipality of Vora with a magnitude of 4.4 Richter.

Floods

During the period 17–26 November 2025, the territory of the Republic of Albania was engulfed by intense and prolonged rainfall, occasionally accompanied by thunderstorms and, in mountainous areas, snowfall.

The most affected counties and areas

- Vlora region (Saranda, Finiq, Delvina, Konispol, Novoselë) Widespread flooding, significant damage to agriculture and livestock, damaged embankments and blocked rural axes.
- Lezha District; Serious problems from the crack of the embankment of the Vain Lagoon and the Droja River; Flooding of agricultural lands and danger to housing.
- Korça district (Maliq, Pogradec, Devoll) Damage to embankments, collapse of bridges (Osoja, Moglica), isolation of areas and damage to retaining walls.
- Dibër district (Mat, Bulqizë, Klos) Road collapses and damage to infrastructure.
- Berat District Extensive flooding, significant damage to agriculture and livestock, damaged embankments and blocked rural axes.

- Vlora District: over 1,200 ha.
- Lezha District: over 500 ha.
- Districts of Korça, Fier, Durrës, Berat: Hundreds of other hectares affected in total

In this context, during 2025, the National Civil Protection Agency has focused on further strengthening the governance of disaster risk management through the completion of the by-law framework pursuant to 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 (NSRF) 2023 – 2030, the drafting of key strategic documents at the local level, in order to fulfill its obligations in the function of disaster risk reduction, as a member country of the European Civil Protection Mechanism (UCPM) 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, mitigating and rehabilitation measures, strengthening operational capacities, increasing knowledge and professional training of civil protection personnel at local and central level, raising awareness and awareness of the population. 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 Climate and Country Development Report highlighted the need for Albania to invest $6 billion over the next decade to protect itself from 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 promote sustainable development.

9.2. Risks identified during the previous budget year

In support of point 2 of Article 48 of the Law no. 45/2019, "On Civil Protection" as well as DCM no. 345, dated 26.5.2022, "On Determining the Method of Collection and Administration of Disaster Loss Data", in October 2024, AKMC enabled the creation of the Disaster Loss Database which, in cooperation with AKSHI, was included in the group of State Electronic Systems with digital space created on the servers of AKSHI. The procedures of the Database system are organized, operated and determined on the basis of the Regulation on the Internal Organization and Functioning of the State Database on Disaster Losses. The User Manual dated 28.5.2025 summarizes all the roles of the users of the system in order to include all the functionalities that this system offers.

Due to increased security measures, such as the state database, the Loss Data system can only be accessed by registered users through the 2-factor security system. Data retention is an inherent and comprehensive service, where through analysis it enables users to achieve an immediate understanding of the impact of disasters in a country or region, the possibility of comparative research and is a supportive basis for decision-making.

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

After the establishment of the system, trainings were carried out initially with the staff of the AKMC itself and then with the persons appointed by the municipalities and the 12 prefectures, according to the training module no. 10 "Use of the Disaster Loss Database". In 2025, the electronic Disaster Loss Data System has been applied.

Table 24. Table of natural disasters in Albania during 2025

The event	No. of Events	Loss of life	Injured	Destroyed houses	Damaged Houses	Damage to agriculture Ha.	Damages to Livestock No.
FIRE	1,415	10	46	190	268	56,692	978
STORMS	19	1	-	-	832	6,863	13,109
ACCIDENT	4	8	2	-	-	-	20
OTHER	19	12	9	-	1	-	-
Total	**1,457**	**31**	**57**	**190**	**1,101**	**63,555**	**14,107**

Source: DesInventar Sendai (2026)

Table 25. A summary of losses for the comparative period 2024-2025

Year	No of Events	Loss of life	Injured	Destroyed houses	Damaged Houses	Damage to agriculture Ha.	Damages to Livestock No.
2024	**1,676**	**50**	**120**	**84**	**778**	**6,867**	**226**
2025	**1,457**	**31**	**57**	**190**	**1,101**	**63,555**	**14,107**
Difference	**(219)**	**(19)**	**(63)**	**106**	**323**	**56,687**	**13,881**

Source: DesInventar Sendai (2026)

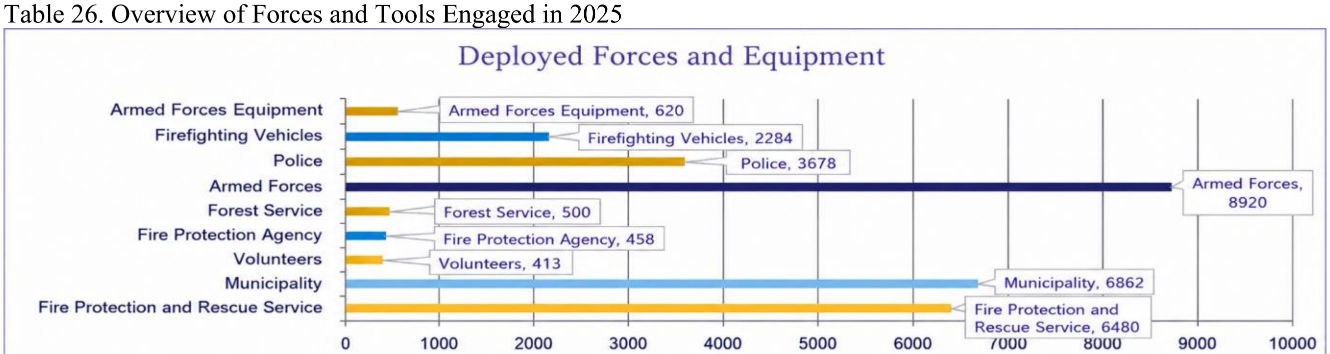
In the management of emergencies that occurred during 2025, requests for international assistance have been sent to the Emergency Response Coordination Center (ERCC). Through the activation of the European Civil Protection Mechanism, the following were mobilized:

- 1 Canadair aircraft of the Croatian government (deployed to the Kuçova base).
- 3 Canadian aircraft of the Italian government (Rapid intervention 1+2, in 2 separate operations)
- 4 ZPL aircraft of the Greek government (Rapid intervention 2+2, in 2 separate operations).
- 2 Hungarian Cougar helicopters (deployed to the Kuçova base).
- 1 Czech helicopter (deployed to the Kuçova base);
- 1 Slovak (with deployment at the Kuçova base);
- 1 Swedish Fire Boss aircraft (Rapid Intervention).

Assistance from the United Arab Emirates

- A specialized firefighting unit consisting of two helicopters from the United Arab Emirates (UAE), stationed at Kuçova Air Base:
- Completed 27 aerial operations;
- Released over 1,260 tonnes of water in firefighting activities;
- Provided operational support in wildfire-affected areas, including Gramsh, Ballolli Forest, and Vlorë

Table 26. Overview of Forces and Tools Engaged in 2025



	Fire Protection and Rescue Service	Municipality	Volunteers	Fire Protection Agency	Forest Service	Armed Forces	Police	Firefighting Vehicles	Armed Forces Equipment
■	1								
■ 2025	6480	6862	413	458	500	8920	3678	2284	620

9.3. Mitigation of identified risks

In accordance with Law No. 45/2019 “On Civil Protection” and the annual budget law, financial resources and financing instruments have been put in place to support the national disaster prevention policy, as well as the regional and local management of natural disasters, as outlined below:

- Civil Emergencies Fund, planned in the budget of the Ministry of Defence/National Civil Protection Agency, which serves to cover damages caused by natural disasters and take preventive measures;
- Budget for disaster risk reduction and civil protection, of Ministries and Budget Institutions, according to their area of state responsibility, where budget planning should be from 2 percent to 4 percent of the total annual budget;
- The Municipal Budget, the minimum provision of 4 percent of their total annual budget, which are provided by the conditional funds of the state budget, the allocation of which is made according to the provisions of the Annual Budget Law;
- The Solidarity Fund, where the AKMC, through an account in a second-level bank, creates a civil protection fund, according to the provisions of Law No. 45/2019;
- The Reserve Fund, which is used by decision of the Council of Ministers, for unforeseen cases of general government units;
- The Contingency Fund, which is used by decision of the Council of Ministers for unforeseen cases.

Pursuant to Law 115/2024 "On the 2025 Budget", Annex no. 6, in the budget of the Ministry of Defence, in the "Civil Emergencies" program, the Fund of 1,000 million ALL under the heading "Capital Expenditures" for the prevention and management of natural disasters has been approved, which aims to support the national policy of prevention and regional and local management of natural disasters. This fund was allocated to 61 municipalities for the financing of 53 new projects selected by DCM No. 127 dated 28.02.2025 as well as the financing of 32 ongoing projects from the previous year.

The fund allocated to local self-government units of 1,000 million ALL has been realized in the amount of 76% or 727 million ALL. The fund of 300 million ALL under the item "Capital expenditures" in the "Civil Emergencies" program of the Ministry of Defense was granted to 14 municipalities for the financing of 5 new projects selected by DCM No. 128 dated 28.02.2025 as well as the financing of 10 ongoing projects from the previous year, according to the criteria in Annex 7 of the Budget Law. For 2025, out of the total value allocated to local self-government units, the realization is 82% or 222 million ALL.

In the "Civil Emergencies" program (Article 604) "Other Internal Current Transfers", for 2025, the Civil Emergencies Fund in the amount of 800 million ALL is allocated to the "Civil Emergencies" program of the Ministry of Defense and is distributed in the form of a conditional transfer to local self-government units from the Ministry of Defense in cooperation with the Ministry of Finance and Economy with a formula, which is based on the specific weight that the budget of each municipality occupies in relation to the total budget of all municipalities. These funds pursuant to DCM no. 414 dated 08.07.2021 "On the approval of the procedures and criteria for the allocation and use of the Conditional Fund of the State Budget for Civil Protection", as amended by DCM no. 290, dated 17.5.2023, are used by local self-government units according to their needs for the compensation of citizens affected by Natural Disasters or for taking preventive measures with the purchase of goods and services or the purchase of specific means for civil protection.

During 2025, in order to fully implement the above-mentioned DCM, out of the total amount of the conditional transfer (article 604), 352 million ALL have been reallocated to 16 municipalities under the investment item (article 231) to be used in accordance with the specifications of DCM 414 dated 08.07.2021, as amended. The realization of item 604 for 2025 is 92% or 590 million ALL and the realization of item 231 on behalf of DCM 414 is 13% or 45 million ALL.

With the Normative Act No. 11, dated 19.12.2025, a fund of 150 million ALL was opened for the financial compensation of 975 families affected by various natural disasters in the municipalities of Kamez, Kruje, Librazhda, Kukës, etc., whose files were administered by AKMC. Also, 196 million ALL have been allocated to local self-government units to compensate 116 families affected by the massive fires that occurred during the summer of 2025.

The fund of 200 million Lek under the item "Capital Expenditures" in the "Civil Emergencies" program of the Ministry of Defense is used to eliminate the consequences in cases of natural disasters, when the expenditure is of an investment nature. This fund is distributed during the budget year based on the request of the local self-government unit, according to cases of disaster.

Albania has continued with the implementation of strategic documents in the field of ERO, deepening the data analysis according to DCM no. 168 dated 24.03.2023 "Disaster Risk Assessment at the central level", DCM no. 807 dated 28.12.2023 "National Civil Emergency Plan" and monitoring the level of implementation of these legal and sub-legal acts.

Pursuant to Article 47 of Law 45/2019 and Directive 2018/1972 of the European Parliament and of the Council with measures to ensure effective access to emergency services through emergency communications on the single European emergency number '112', the draft of the draft decision "On the establishment and operation of the unified emergency call system 112 (NUE) has 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 Skills in Albania" (RESEAL II), which after the piloting of 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 with the provision of 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 4 million euros financed by GCF, concluded 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, an appropriate system towards early action based on forecasts, enabling economic sectors and local communities – to take action forward, anticipating and responding to events. This program has also been supported by the Albanian government's co-financing worth 2.5 million euros.

9.4. Recommendations for Further Improvements

- Robust data on disaster events, damages, losses and financial expenses are essential to assess the fiscal risk from natural disasters and to establish the most appropriate mitigation measures. Collaborations with risk modelling experts are also useful to assess future risk exposure, considering that the risk of natural disasters due to the effects of climate change is increasing. The AKMC and the Ministry of Finance are currently working on developments in this area.
- Continuous efforts are needed to build and strengthen institutional capacities. The establishment of dedicated sectors for disaster risk management and the development of trainings for staff responsible for disaster risk management and fiscal risk reporting, is essential in central and local government units.

- The development of clear reporting formats, using standardized formats for reporting budget execution for natural disasters, ensures consistency and comparability by reporting units.
- Improving data collection and management is very important, along with the use of technology. The creation of integrated databases from the central to the local level and the investment in technology is necessary to have real-time data and other relevant indicators. There is a need to increase the awareness of the population on the risk of natural disasters as well as financial preparation that enables the reduction, management and mitigation of risk through financial instruments, e.g. insurance policies.

9.5. Challenges

- Lack of clarity in the definition of institutional roles and responsibilities, the approval of operational procedures, and the full deployment of human, financial, and technical capacities by line ministries and structures within the civil protection operational system;
- Limited implementation of Council of Ministers Decision No. 431, dated 15 July 2021, concerning the establishment of dedicated civil protection units. A number of central government institutions have yet to incorporate dedicated civil protection personnel within their organizational structures, in line with their respective areas of responsibility. In some cases, civil protection functions remain integrated within administrative units performing broader functions;
- Incomplete application of the subsidiarity principle in coordination at the regional (county) level regarding the use of capacities of local self-government structures, in accordance with Article 7 of Law No. 45/2019 “On Civil Protection”, as well as an insufficient level of public awareness regarding disaster risks and preventive measures;
- Insufficient equipment, resources, and human and technical capacities of municipal Fire Protection and Rescue Services (FPRS), as well as of the structures responsible for forest management and the National Agency of Protected Areas (NAPA);
- Need to increase the number of exercises and training activities, particularly for operational personnel engaged in wildfire suppression and flood response operations;
- Need to strengthen public awareness and outreach efforts regarding the protection of the environment and infrastructure, as well as the consequences arising from environmentally harmful and high-risk behaviours.

MINISTER OF FINANCE

PETRIT MALAJ

Appendix A

Macroeconomic Forecasting Methodology and Sensitivity Analysis

The forecasting of medium-term macroeconomic indicators and all components of the macroeconomic framework has been primarily based on financial programming modelling and analytical methods. The baseline macroeconomic scenario is grounded in the current stance of macroeconomic policies, the existing government economic and structural reform agenda, as well as the rational behaviour and interaction of economic agents within the domestic and external macroeconomic environment, which is assessed as the most likely scenario over the medium term.
The preparation of these forecasts is based on a set of key assumptions and draws upon macroeconomic statistical data from institutions such as INSTAT, the Bank of Albania, the Ministry of Finance, the International Monetary Fund (IMF), the World Bank, and Eurostat, mainly in the form of annual, quarterly, and monthly time series generally available since 1996. The baseline scenario aims to present the most probable and internally consistent macroeconomic outlook.

The fundamental objectives of fiscal and monetary policies over the next three years are:

- Targeting a declining public debt trajectory by aiming to return the budget to a balanced primary balance or a surplus starting from 2024. This objective is legally binding under the OBL;
- Maintaining a level of public investment above the fiscal deficit in each year and above 5 percent of GDP on average each year;
- Maintaining price stability with an inflation target of 3.0 percent and aligning fiscal policy with monetary policy;
- Reducing the current account deficit through improving the external position and increasing foreign exchange reserves to a level covering at least 4 months of imports of goods and services.

These fundamental objectives constitute the basic framework of the economic and fiscal programme, within which the projections are determined and all other macroeconomic and fiscal variables are programmed.

Sensitivity Analysis

Sensitivity analysis presents the expected impacts on the fiscal framework and the possible adjustments to fiscal and budgetary policies under alternative macroeconomic scenarios.
Under the “pessimistic” scenario, which assumes lower economic growth than the “baseline” scenario, lower efficiency in tax collection is expected for several key components, while under the “optimistic” scenario, higher efficiency is expected. To calculate revenue changes and the net effect of automatic stabilisers, in the pessimistic scenario the revenue to GDP ratio is affected by one-third of the shocks to real growth in each year, whereas in the optimistic scenario it is affected asymmetrically by one-tenth. Compliance with the fiscal rules under the OBL is maintained across all scenarios, ensuring a fiscally consolidating policy stance. However, the fiscal deficit target varies across scenarios, reflecting a countercyclical response: easing in the pessimistic scenario and stronger consolidation in the optimistic scenario.
In the pessimistic scenario, the easing of fiscal policy is achieved while maintaining compliance of key indicators with the fiscal rules, whereas adjustments are focused on domestically financed capital expenditures and on operational and maintenance expenditures. In the optimistic scenario, discretionary expenditures remain unchanged in nominal terms compared to the baseline scenario, while the additional revenues are reflected in a lower fiscal deficit.

➢ *Risk: Deviation from the Baseline Forecast Scenario*

Risk Characteristics: The Medium-Term Budget Programme and Fiscal Framework (MTBPF) sets out the Government's strategic priorities. It projects the macroeconomic outlook over the medium-term horizon and forecasts the aggregate levels of state budget revenues and expenditures, taking into account the expected effects of external and domestic factors that may influence the country's economic developments.

Impact: (Low) The baseline scenario, approved through the MTBPF document, is assessed as having the highest probability of materialisation. Nevertheless, the projection of alternative scenarios, assuming that some of the various risks surrounding the baseline scenario may materialise, constitutes an important component of public finance planning.

Mitigation Measures:

To enhance the quality of planning and ensure more efficient management of public funds, the Ministry of Finance prepares two alternative scenarios for each budget year whenever there is a reasonable probability that circumstances may deviate from the baseline assumptions. Specifically, these consist of a "pessimistic" scenario and an "optimistic" scenario. Each alternative scenario assumes that a set of negative risks (in the case of the pessimistic scenario) or positive risks (in the case of the optimistic scenario) will materialise.

This group of risks assumes deviations from the baseline forecasts for the main macroeconomic indicators over the medium-term period 2026–2028, including:

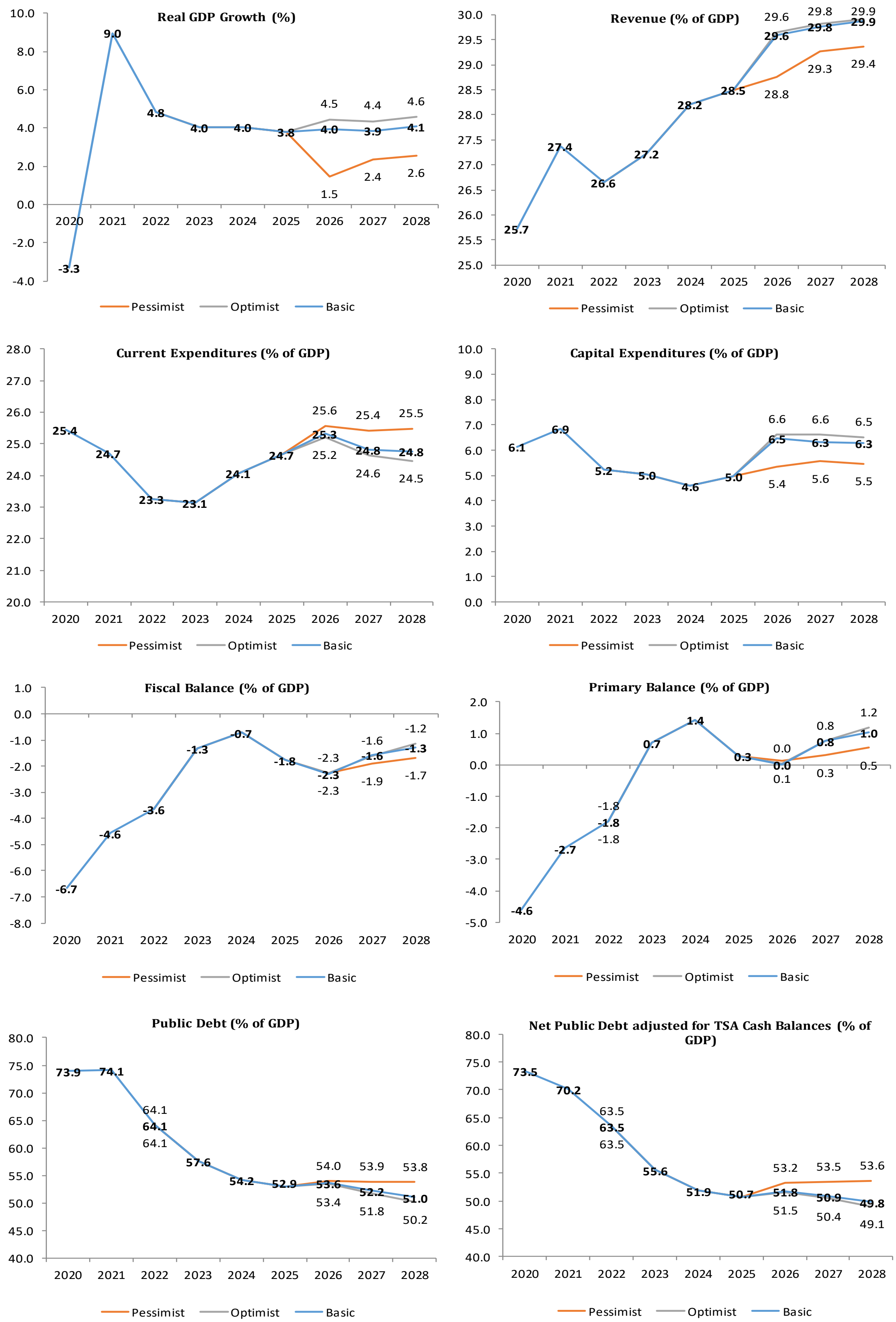
- Credit growth to the economy;
- The performance of the Eurozone economy and its effects on exports of goods and services, remittances, and foreign capital inflows;
- The exchange rate;
- Interest rates;
- The pace and impact of the structural policy reforms planned for the medium-term period, among others.

Table A1. Alternative Scenario Parameters

	2020	2021	2022	2023	2024	2025 Fakt.	2026 Para.	2027 Para.	2028 Para.
Real GDP Growth (%)									
Basic	-3.3	9.0	4.8	4.0	4.0	3.8	4.0	3.9	4.1
Pessimist							1.5	2.4	2.6
Optimist							4.5	4.4	4.6
Nominal GDP growth (%)									
Basic	-3.3	12.7	15.2	10.0	6.5	5.3	5.3	5.2	5.4
Pessimist							2.2	3.3	3.5
Optimist							5.8	5.7	5.9
Nominal GDP (billion ALL)									
Basic	1,656	1,867	2,150	2,364	2,518	2,651	2,781	2,925	3,082
Pessimist							2,701	2,791	2,890
Optimist							2,795	2,953	3,127
Public Debt Effective Interest Rate (%)									
Basic	3.2	3.0	3.0	3.6	4.1	4.1	4.2	4.3	4.4
Pessimist							4.2	3.9	3.9
Optimist							4.2	4.4	4.5
Nominal Exchange Rate, average (Lek/Euro)									
Basic	123.8	122.5	119.0	108.8	100.7	97.8	98.3	98.3	98.3
Pessimist							98.3	98.3	98.3
Optimist							98.3	98.3	98.3
Total Revenue (% of GDP)									
Basic	25.7	27.4	26.6	27.2	28.2	28.5	29.6	29.8	29.9
Pessimist							28.8	29.3	29.4
Optimist							29.6	29.8	29.9
Total Expenditure (% of GDP)									
Basic	32.4	31.9	30.3	28.5	28.9	30.2	31.9	31.3	31.1
Pessimist							31.0	31.2	31.1
Optimist							31.9	31.4	31.1
Current Expenditure (% of GDP)									
Basic	25.4	24.7	23.3	23.1	24.1	24.7	25.3	24.8	24.8
Pessimist							25.6	25.4	25.5
Optimist							25.2	24.6	24.5
Capital Expenditure (% of GDP)									
Basic	6.1	6.9	5.2	5.0	4.6	5.0	6.5	6.3	6.3
Pessimist							5.4	5.6	5.5
Optimist							6.6	6.6	6.5
Fiscal balance (% of GDP))									
Basic	-6.7	-4.6	-3.6	-1.3	-0.7	-1.8	-2.3	-1.6	-1.3
Pessimist							-2.3	-1.9	-1.7
Optimist							-2.3	-1.6	-1.2
Primary Balance (% of GDP)									
Basic	-4.6	-2.7	-1.8	0.7	1.4	0.3	0.0	0.8	1.0
Pessimist							0.1	0.3	0.5
Optimist							0.0	0.8	1.2
Gross public debt (%GDP)									
Basic	73.9	74.1	64.1	57.6	54.2	52.9	53.6	52.2	51.0
Pessimist							54.0	53.9	53.8
Optimist							53.4	51.8	50.2
Net Public Debt (net of TSA cash balances) (% of GDP)									
Basic	73.5	70.2	63.5	55.6	51.9	50.7	51.8	50.9	49.8
Pessimist							53.2	53.5	53.6
Optimist							51.5	50.4	49.1

Source: Ministry of Finance (2026)

Chart A2. Dynamics of Key Indicators under Alternative Scenarios



Source: Ministry of Finance (2026)

Appendix B

Fiscal Risks from State-Owned Enterprises Monitored by the Ministry of Finance in 2025 (Risk Description and Implemented / Planned Mitigation Measures)

During 2025, the Ministry of Finance monitored, on a quarterly basis, the financial performance of the main state-owned enterprises (SOEs) with the aim of identifying the potential impact that these enterprises may have on the state budget. The enterprises that recorded positive financial performance were OSHEE Group, OST, UKT and APD. Meanwhile, the enterprises with negative financial performance were KESH, HSH, AlbGaz, RTSH and Albpetrol.

In summary, the financial risks identified during 2025, together with the measures taken and/or expected to mitigate them, are presented below.

Table B1. Fiscal Risks from State-Owned Enterprises in the Previous Year

SOEs	Risk Description	Measures Planned to Mitigate the Risk
OSHEE Group JSC	• Risk arising from substantial legacy liabilities resulting from the company's negative financial performance during the 2009–2014 period (when the company was managed by CEZ a.s.), as well as from the financial losses incurred in 2021 as a consequence of the global energy crisis. • The inherited financial challenges have significantly increased the company's liquidity risk.	• The measures implemented by the company to reduce operating expenditures have improved its performance and reduced its financial risk exposure. • OSHEE Group's plan for reducing arrears. Despite liquidity constraints, the company succeeded in reducing its outstanding liabilities, primarily obligations to suppliers (related to investments and materials inherited from previous years), as well as a portion of its overdue obligations to KESH JSC.
KESH JSC	• Energy Market Risk, arising from fluctuations in electricity prices on international energy exchanges. • Hydrological Risk, resulting from climate change and dry periods/unfavourable hydrological conditions, as experienced in 2019, 2020, and 2022. • Generation Portfolio Risk, stemming from the lack of diversified energy generation sources. • Liquidity Risk.	• Optimised management of cascade operations through rational scheduling and balanced administration of inflow, reservoir level, and energy reserve variables, thereby maximising electricity generation and contributing to the mitigation of hydrological risk. • Securing alternative energy sources through supply from the Karavasta Solar PV plant, the use of floating thermal power generators, and electricity purchases on the market (ALPEX), with the aim of reducing exposure to imports and ensuring the fulfilment of the Public Service Obligation (PSO). • Optimisation of costs and trading activities through continuous monitoring of market signals (HUDEX) and the execution of electricity trading transactions, ensuring lower procurement costs and the generation of additional revenues
OST JSC	• Risk arising from changes in the required electricity transmission tariff. • Risk arising from changes in market prices for the purchase of transmission network losses and other electricity-related costs. • Foreign Exchange Risk, arising from fluctuations in exchange rates. • Liquidity Risk.	• To minimise transmission tariff risk, OST JSC periodically submits applications to the Energy Regulatory Authority (ERE) for the approval of the required transmission tariff, which reflects the costs associated with OST JSC's operations. • With regard to the risk arising from the purchase price of transmission losses, OST JSC, following the commencement of operations of the Albanian Power Exchange (ALPEX), has taken the necessary measures to secure the funds required for the procurement of the electricity quantities needed to cover transmission losses.
Tirana Water Supply and	• Kushtet atmosferike. • Dëmtimi i linjave të shpërndarjes. • Risku i kordinimit ndërsektorial në përgatitjen edhe analizimin e dokumentacionit finaciar dhe kontabël.	• Spostimi i linjave, shtyrja e punimeve në kushte të pafavorshme atmosferike dhe kryerjen e kontrolleve të vazhdueshme nga sektorët përkatës. • Krijimi i alternativave të reja për furnizim me ujë.

SOEs	Risk Description	Measures Planned to Mitigate the Risk
Sewerage JSC		• Menaxhimi në kohë i dosjeve dhe dokumentacionit financiar. • Hartimi dhe mbajtja e regjistrit të riskut.
Albanian Railways JSC	• Liquidity Risk and the inability to meet outstanding financial obligations. • Risk arising from failure to implement structural reforms and functional unbundling in accordance with the law. • Risk of delays and limited capacity to absorb investments in railway infrastructure.	• Adoption of the law aimed at accelerating and clarifying the functional unbundling process of Albanian Railways (HSH). • Approval of Ministerial Orders No. 286, dated 19 November 2024, and Nos. 300 and 301, dated 27 November 2024, establishing the regulatory framework for the effective separation of functions between railway operators and the railway infrastructure manager, in line with EU requirements. • Approval of Council of Ministers Decision (CMD) No. 848/2024 on the adoption of the 2025 Combined Nomenclature of Goods.
Albania Post JSC	• Weaknesses in revenue generation and collection. • Financial and Liquidity Risk. • Operational Risk	• Enhancing transparency and strengthening internal controls. • Technological modernisation and process automation. • Capacity development and the promotion of a culture of integrity.
AlbGaz JSC	• Risk of revenue underperformance and liquidity shortages. • Dependence on dividend income as the primary source of revenue increases the company's exposure to factors beyond its control.	• Reduction of operating costs through workforce rationalisation. • Strengthening fiscal discipline through the full achievement of planned revenues and the efficient use of funds to ensure short-term financial stability.
Albcontrol JSC	• Risk of revenue constraints resulting from the enforcement of two arbitration awards against the Republic of Albania. • Liquidity Risk, arising from insufficient resources to meet financial and development-related obligations. • Risk of under-execution of planned expenditures and investments due to liquidity constraints.	• Active monitoring and follow-up of the court proceedings with the support of the State Advocacy Office and Eurocontrol. • Securing financing from the shareholder and assessing alternative sources of funding. • Temporary postponement of expenditures and investments. • Securing alternative funding sources for the reporting year..
Albanian Radio and Television (RTSH)	• Risk of exceeding the planned expenditure level as a result of unforeseen expenditures. • Risk of delays in revenue collection.	• Measures aimed at improving the planning and management of annual expenditures. • New agreements with debtors to ensure the timely settlement of obligations. • Measures aimed at reducing energy consumption and strengthening overall consumption control.
Albpetrol JSC	• Liquidity Risk. • Credit Risk. • Environmental and Technical Safety Risk associated with the exploitation of oil fields.	• Continuous monitoring of current cash flows. • Enhancements to credit risk assessment practices. • Ongoing monitoring of environmental risks.
Durrës Port Authority (DPA)	• Procedural delays in procurement processes, resulting in the non-implementation of planned investments and projects. • Litigation and enforcement proceedings. • Cost overruns relative to projections for the expropriation process in Porto Romano. • Contract monitoring and implementation risk.	• Direct coordination with the Government to ensure the inclusion of expropriation costs in the state budget. • Continuous monitoring of judicial proceedings and case law developments. • Conservative cash flow forecasting. • Avoiding the commitment of DPA funds to expropriation expenses beyond the Authority's actual financial capacity.

Source: Ministry of Finance (2026)

SOE Health Check Tool (HCT)

Through the SOE Health Check Tool (HCT), the performance of state-owned enterprises (SOEs) is assessed against a set of internationally recognised indicators, including liquidity levels, solvency (debt-related indicators), profitability, and other key financial metrics. Based on these indicators, SOEs are classified into five categories, ranging from Category 1 (Low Risk) to Category 5 (High Risk).

<u>**Case Study 1: State-Owned Enterprises in the Energy Sector**</u>

The following analysis presents the financial performance of the energy sector SOE portfolio over the period 2021–2025, based on the SOE Health Check Tool (HCT).

Table C1. Risk Matrix (2021–2025), Based on the SOE Health Check Tool (HCT)

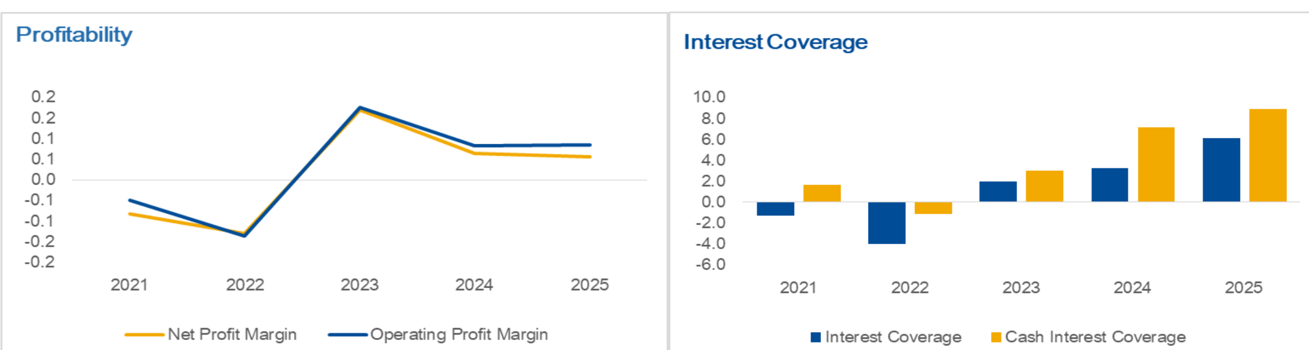
Financial Indicators (Weighted Average Across the Energy Sector Portfolio)	2021	2022	2023	2024	2025
Profitability					
Return on Assets (ROA)	(0.02)	(0.03)	0.04	0.02	0.01
Return on Equity (ROE)	(0.04)	(0.09)	0.10	0.03	0.03
Cost Recovery	0.95	0.88	1.22	1.09	1.09
Liquidity					
Current Ratio	0.83	0.86	0.93	0.95	0.96
Quick Ratio	0.77	0.81	0.88	0.89	0.90
Solvency Indicators					
Debt-to-Assets Ratio	0.60	0.62	0.58	0.54	0.53
Debt-to-Equity Ratio	1.47	1.61	1.37	1.19	1.11
Cash Interest Coverage	1.68	(1.17)	3.03	7.12	8.93
Overall Risk Level – Weighted Average*	4.09	4.27	2.91	3.00	3.00

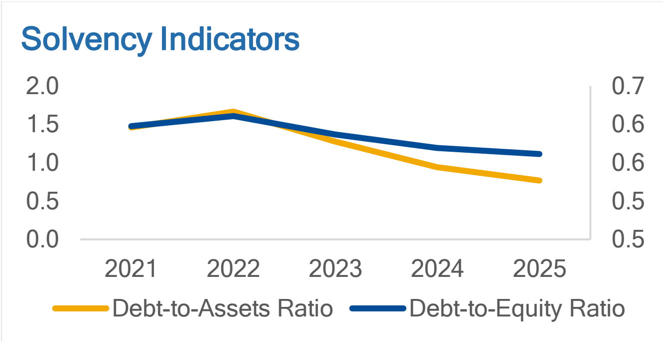
Category 5	High Risk
Category 4	
Category 3	
Category 2	
Category 1	Low Risk

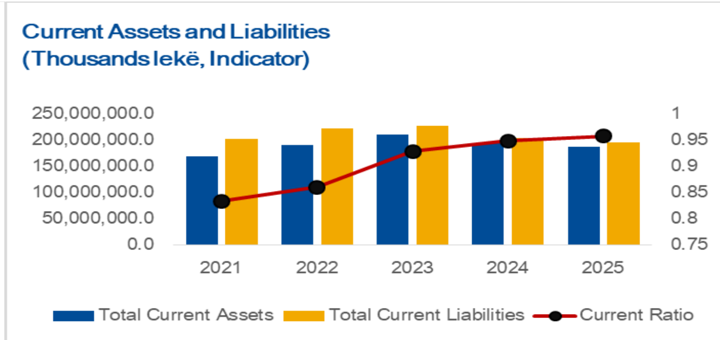
Source: Ministry of Finance (2026), SOE HCT

According to the Risk Matrix, the energy sector exhibited a high level of risk during 2021–2022, with the overall risk assessment reaching 4.5 (Category 5). This period coincided with the declaration of a state of emergency in electricity supply, reflecting heightened operational and financial pressures across the sector. In 2023, a significant improvement in the sector's financial performance was observed, reflected in a reduction of the overall risk level from "high" to "moderate". This development was supported by improvements in profitability indicators, the return to positive returns on assets and equity, and a strengthening of interest coverage capacity. At the same time, debt indicators showed gradual stabilisation, reflecting an improvement in financial capacity and reduced exposure to liabilities. In 2024, the sector maintained a relatively stable position, although profitability indicators recorded a slight decline compared with 2023. Specifically, the return on assets decreased moderately, while liquidity indicators remained below optimal levels, reflecting the continued financial pressures associated with managing short-term obligations. Nevertheless, debt and interest coverage indicators remained stable, demonstrating a more sustainable capacity to meet financial obligations and a reduced exposure to fiscal risks. In 2025, the energy sector's risk level is assessed as high, with an overall score of approximately 3.75 (Category 4), reflecting a deterioration compared with the previous year. This outcome was driven by a challenging year for the energy sector, largely influenced by unfavourable climatic conditions, which adversely affected operational and financial performance.

Chart C1. Energy Sector Financial Indicators (2021–2025) – SOE Health Check Tool (HCT)







Source: Ministry of Finance 2026, SOE HCT

The charts above indicate that, in 2025:

- Net profit margin and operating margin peaked in 2023. During 2024–2025, these indicators declined, a trend also reflected in lower returns on assets and equity. However, performance remained relatively stable compared with 2024, indicating overall stability in financial performance despite moderate fluctuations in profitability.
- Solvency indicators continued their downward trend, with the ratios of liabilities to assets and liabilities to equity showing further improvement, reflecting a gradual reduction in leverage and a strengthening of financial sustainability.
- Interest coverage and cash coverage ratios recorded significant improvements, demonstrating a stronger capacity of enterprises to cover financing costs and meet their obligations to creditors.
- The structure of current assets and current liabilities indicates a gradual improvement in the ability to meet short-term obligations, supported by the stability of current assets and the relative decline in liabilities. Nevertheless, the current ratio remains below the optimal level, signalling continued liquidity pressures.

<u>Case Study 2: Main State-Owned Enterprises Monitored Outside the Energy Sector</u>

The analysis below presents the financial performance of the portfolio of main monitored state-owned enterprises outside the energy sector over the period 2021–2025, based on the SOE Health Check Tool (HCT).

Table C2. Risk Matrix of Main Monitored SOEs Outside the Energy Sector (2021–2025), Based on the SOE Health Check Tool (HCT)

Financial Indicators (Weighted Average for the Portfolio of Main SOEs Outside the Energy Sector)

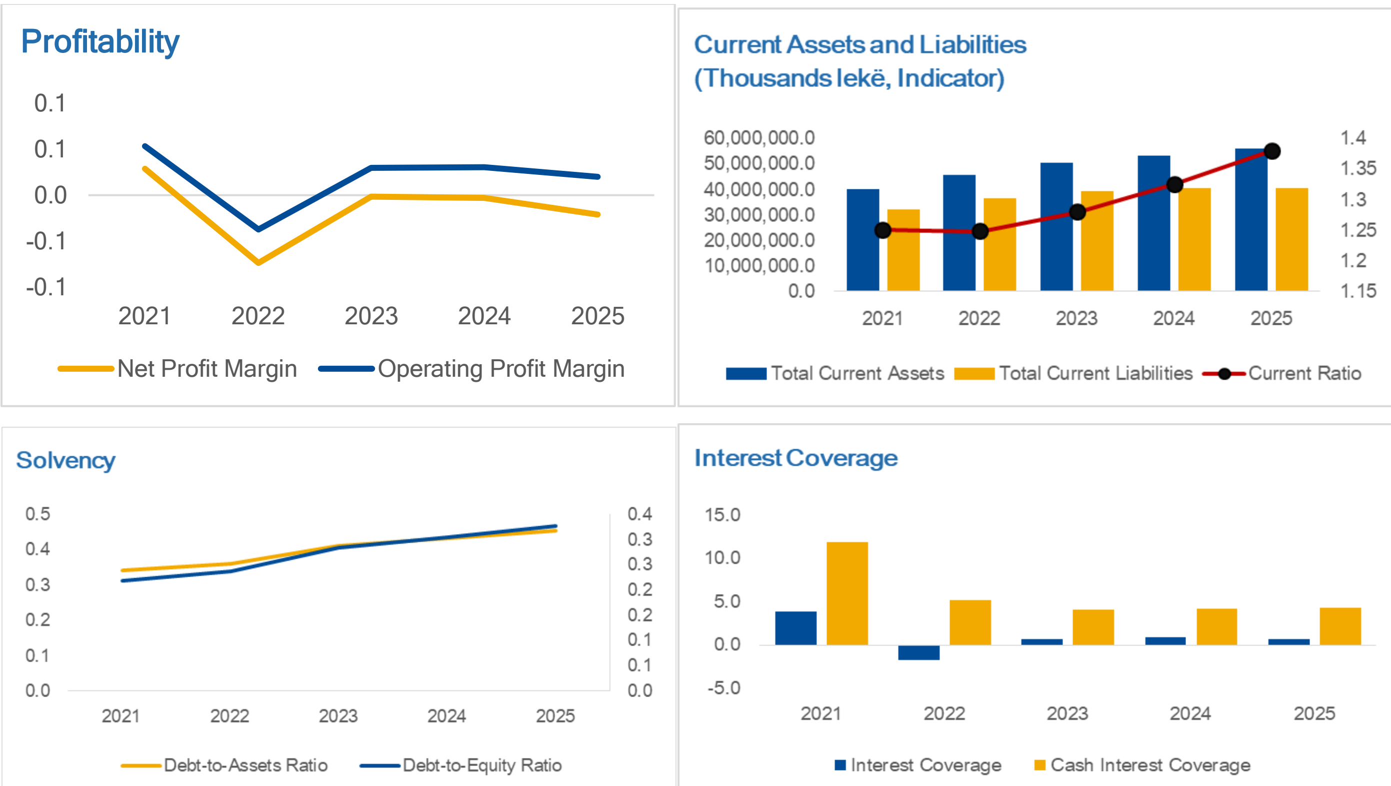
	2021	2022	2023	2024	2025
Profitability					
Return on Assets (ROA)	0.00	(0.01)	(0.00)	(0.00)	(0.00)
Return on Equity (ROE)	0.00	(0.01)	(0.00)	(0.00)	(0.00)
Cost Recovery	1.06	0.96	1.03	1.03	1.02
Liquidity					
Current Ratio	1.25	1.25	1.28	1.33	1.38
Quick Ratio	1.11	1.13	1.18	1.23	1.31
Solvency Indicators					
Debt-to-Assets Ratio	0.24	0.25	0.29	0.30	0.32
Debt-to-Equity Ratio	0.31	0.34	0.41	0.44	0.47
Cash Interest Coverage	11.88	5.13	4.07	4.16	4.32
Overall Risk Rating - Weighted Average*	2.13	2.75	2.50	2.38	2.38

Category	Risk
Category 5	High risk
Category 4	
Category 3	
Category 2	
Category 1	Low risk

Source: Ministry of Finance (2026), SOE HCT

The table above shows that the main state-owned enterprises outside the energy sector maintained a moderate fiscal risk profile throughout the period 2021–2025, with only minor fluctuations in the overall risk level. Profitability indicators remained weak and largely unchanged over the years, reflecting a limited capacity to generate profits and low returns on assets and equity. Liquidity indicators, however, showed gradual improvement, particularly in 2024–2025, with both the quick ratio and the current ratio signalling an enhanced ability to meet short-term obligations. Debt indicators remained at relatively low levels, indicating limited exposure to borrowing, while the interest coverage ratio suggests that these enterprises maintain sufficient capacity to meet their financing costs.

Chart C2. Financial Indicators of Main SOEs Monitored Outside the Energy Sector for the Period 2021–2025, Based on the SOE Health Check Tool (HCT)



Source: Ministry of Finance (2026), SOE HCT

The charts above indicate that, in 2025:

- Net profit margin and operating margin recorded a slight decline compared with 2024, reflecting a weaker financial performance of state-owned enterprises operating outside the energy sector.
- Solvency indicators remained relatively stable, although a gradual increase in the ratios of liabilities to assets and liabilities to equity was observed, signalling a higher exposure to borrowing.
- Interest coverage ratios indicate insufficient capacity to comfortably meet obligations to external creditors, particularly interest payments, reflecting continued financial constraints.
- The ability to meet short-term obligations improved gradually, supported by growth in current assets and an improvement in the current ratio, signalling a strengthening of the liquidity position

Appendix C

Table D1. The table below presents the allocation of budgetary resources by risk category for each reporting municipality. (in ALL)

No.	Municipalities	Budget allocated to flood risk		Budget allocated to wildfire risk		Budget allocated multirisk		Budget allocated to Landslide risk		Busdget allocated to earthquake risk		Total of Municiplalities
		Expenditures (602-604)	Investments 231	Expenditures(602-604)	Investments 231	Expenditures(602-604)	Investments 231	Expenditures(602-604)	Investments 231	Expenditures(602-604)	Investments 231	
1	Belsh	1,861,230	25,625,546		5,040,000							32,526,776
2	Berat			1,657,301		8,263,294	6,836,160					16,756,755
3	Bulqize			5,000,000			12,468,059			1,080,000		18,548,059
4	Cerrik	5,118,212	27,393,732									32,511,944
5	Delvine		8,249,418	1,662,923	6,720,000							16,632,341
6	Devoll	5,088,000	5,154,565		500,000							10,742,565
7	Dibër			18,543,000								18,543,000
8	Divjake	6,252,000	43,405,440									49,657,440
9	Dropull		2,400,000					397,420				2,797,420
10	Durres			3,061,841								3,061,841
11	Elbasan			673,037		16,416,600	298,703	617,603		4,731,701		22,737,644
12	Fier	14,789,005		5,381,488								20,170,493
13	Fushë Arrëz					1,482,509						1,482,509
14	Gjirokastër			763,200								763,200
15	Gramsh	2,126,988										2,126,988
16	Has	1,000,000	1,959,135		5,928,000							8,887,135
17	Kamëz	2,111,722		3,394,626			20,791,597					26,297,945
18	Klos	632500.00	21,318,421									21,950,921
19	Kolonjë	742,080										742,080
20	Korçë	14,700,000	19,659,165	266,400		2,568,000	4,760,000					41,953,565
21	Krujë						6,720,000					6,720,000
22	Kuçovë	2,200,000	50,864,190	1,236,078								54,300,268
23	Kukës	107,640										107,640
24	Kurbin		91,970,376	6,628,314								98,598,690
25	Lezhë			1,982,818	16,895,417		20,512,644		305,744			39,696,623
26	Librazhd		817,841	2,974,245	545,378		6,720,000			848,608		11,906,072
27	Malësi e Madhe		15,544,810				4,480,000					20,024,810
28	Maliq		30,060,716	5,292,827		9,450,000		3,491,024				48,294,567
29	Mallakastër		4,582,895				5,076,000					9,658,895
30	Mat	2,000,000					3,509,647					5,509,647
31	Mirditë				5,600,000							5,600,000
32	Patos	5,000,000		45,000								5,045,000
33	Përmet		28,762,059		6,720,000				528,000			36,010,059
34	Pogradec	6,736,305					14,049,487					20,785,792
35	Polican			706,888				1,795,568		496,261		2,998,717
36	Përrenjas		2,962,715									2,962,715

37	Rrogozhinë	4,400,000	2,000,000									6,400,000
38	Roskovec		21,213,880					3,627,480				24,841,360
39	Sarandë		16,536,700	3,940,800		10,944,089						31,421,589
40	Selenicë		37,268,334					4,044,344				41,312,678
41	Shkodër			15,777,383				5,999,778				21,777,161
42	Skrapar	2,558,419	29,043,672							1,000,000		32,602,091
43	Tepelenë	4,568,600					8,568,000					13,136,600
44	Tropoje		8,357,798									8,357,798
45	Dimal		12,029,972	1,581,000			6,720,000		4,971,772			25,302,744
TOTAL		**81,992,701**	**507,181,380**	**80,569,169**	**47,948,795**	**49,124,492**	**121,510,297**	**19,973,217**	**5,805,516**	**8,156,570**	**-**	**922,262,137**

Source: AKMC 2026