

## IMPORTANT NOTICE

**NOT FOR DISTRIBUTION IN, OR INTO, THE UNITED STATES EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS (“QIBs”), AS DEFINED IN, AND IN COMPLIANCE WITH, RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED.**

**IMPORTANT: You must read the following before continuing.** The following applies to the Offering Circular following this page, whether received by e-mail or other electronic distribution system, accessed from the internet, or received as a result of electronic transmission or otherwise, and you are therefore required to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

The Offering Circular has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein, which are exempt from registration under the Securities Act. Nothing in this electronic transmission constitutes an offer of securities for sale in the United States other than as set forth herein.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR A SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY JURISDICTION WHERE THE OFFER, SALE OR SOLICITATION IS NOT PERMITTED. ANY SECURITIES TO BE ISSUED HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED.

FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**Confirmation of your Representation:** In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, you must be either: (i) outside of the United States; or (ii) a QIB (within the meaning of Rule 144A under the Securities Act). The Offering Circular is being sent at your request, and, by accessing the Offering Circular, you shall be deemed to have represented to the Issuer and the Joint Lead Managers (as defined below) that (1) you understand and agree to the terms set out herein; (2) in respect of securities being offered in an offshore transaction pursuant to Regulations S, you are outside the United States, and that, to the extent the Offering Circular is delivered via e-mail, the e-mail address to which, pursuant to your request, the Offering Circular has been delivered by electronic transmission is not located in the United States for the purposes of Regulation S under the Securities Act; (3) in respect of securities offered and sold in reliance on Rule 144A, you are a QIB; (4) you consent to delivery by electronic transmission; (5) you will not transmit the Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers and the Issuer (each as defined in the Offering Circular); and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities.

The Offering Circular is being distributed only to and directed only at (i) persons who are outside the United Kingdom or (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”), or (iii) high net worth entities and other persons falling within Article 49(2)(a) to (d) of the Order, or (iv) those persons to whom it may otherwise lawfully be distributed in accordance with the Order (all such persons collectively being referred to as “**relevant persons**”). The Offering Circular is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the Offering Circular relates is available only to relevant persons and will be engaged in only with relevant persons. No other person should rely on it.

Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (COBS), and professional clients, as defined in Regulation (EU) № 600/2014 on markets in financial instruments as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended, "UK MiFIR"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any distributor should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular, electronically or otherwise, to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by the Joint Lead Managers or the Issuer that would, or is intended to, permit a public offering of the securities, or possession or distribution of the Offering Circular or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Joint Lead Manager or any affiliate of any Joint Lead Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Deutsche Bank AG, London Branch, Intesa Sanpaolo S.p.A., London Branch, J.P. Morgan Securities plc, MUFG Securities (Europe) N.V. or Standard Chartered Bank (collectively, the "**Joint Lead Managers**") or the Issuer and their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Joint Lead Managers or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.



**THE REPUBLIC OF ALBANIA**  
**€600,000,000 5.900% Notes due 9 June 2028**  
**Issue Price: 99.055%**

The issue price of the €600,000,000 5.900% Notes due 9 June 2028 (the “Notes”) of the Republic of Albania (the “Issuer”, the “Republic” or “Albania”) is 99.055% of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 9 June 2028 (the “Maturity Date”). The Notes will bear interest from, and including, 9 June 2023 at the rate of 5.900% *per annum* payable annually in arrear on 9 June in each year, commencing on 9 June 2024. Payments on the Notes will be made in Euros without deduction for, or on account of, taxes imposed or levied by Albania to the extent described under “Terms and Conditions of the Notes – 8. Taxation”.

Application has been made to the United Kingdom Financial Conduct Authority (the “FCA”) for the Notes to be admitted to the official list of the FCA (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for the Notes to be admitted to trading on the London Stock Exchange’s main market (the “Market”). For the purposes of such application, the Issuer is an exempt issuer pursuant to Article 1(2) of Regulation (EU) № 2017/1129, as it forms part of United Kingdom (“UK”) domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “EUWA”) (as amended, the “UK Prospectus Regulation”). Accordingly, this Offering Circular has not been reviewed or approved by the FCA and has not been approved as a prospectus by any other competent authority under the UK Prospectus Regulation. The Notes will not be subject to the prospectus requirements of the UK Prospectus Regulation but will be listed in accordance with the listing rules of the London Stock Exchange.

Reference in this Offering Circular to being “listed” (and all date references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a UK regulated market for the purposes of Regulation (EU) № 600/2014 on markets in financial instruments, as it forms part of UK domestic law by virtue of the EUWA (“UK MiFIR”).

The Notes are expected to be assigned a rating of B1 by Moody’s Deutschland GmbH (“Moody’s”) and B+ by S&P Global Ratings UK Limited (“S&P UK”). Moody’s is established in the European Economic Area (“EEA”) and registered under Regulation (EC) № 1060/2009 on credit rating agencies (the “CRA Regulation”) and S&P is established in the UK and registered under Regulation (EC) № 1060/2009 on credit rating agencies as it forms part of UK domestic law by virtue of the EUWA (the “UK CRA Regulation”). The ratings issued by Moody’s have been endorsed by Moody’s Investors Service Limited (“Moody’s UK”) in accordance with the UK CRA Regulation for use in the UK and the ratings issued by S&P UK have been endorsed by S&P Global Ratings Europe Limited (“S&P”) in accordance with the CRA Regulation for use in the EEA. Each of Moody’s UK and S&P UK is included in the list of credit rating agencies published by the FCA on its website and each of Moody’s and S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority (“ESMA”) on its website in accordance with the CRA Regulation. Any change in the rating of the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

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**An investment in the Notes involves risks. See “Risk Factors”.**

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The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or with any securities regulatory authority of any state or other jurisdiction and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Notes are being offered (i) in offshore transactions in reliance on, and as defined in, Regulation S (the “Regulation S Notes”) under the Securities Act, and (ii) in the United States only to persons reasonably believed to be qualified institutional buyers (“QIBs”), as defined in Rule 144A under the Securities Act (“Rule 144A”) in reliance on Rule 144A (the “Rule 144A Notes”). Prospective purchasers that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

The Notes will be offered and sold in registered form and in denominations of €100,000 and integral multiples of €1,000, in excess thereof. The Notes will, on issue, be represented by beneficial interests in two global certificates (the “Global Certificates”), one of which (the “Unrestricted Global Certificate”) will be issued in respect of the Regulation S Notes and the other of which (the “Restricted Global Certificate”) will be issued in respect of the Rule 144A Notes, and each of which will be registered in the name of a nominee of, and delivered to, a common depository for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking, S.A. (“Clearstream, Luxembourg”). Beneficial interests in the Restricted Global Certificate will be subject to certain restrictions on transfer; see “Transfer Restrictions”. Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. It is expected that delivery of the Global Certificates will be made on 9 June 2023 (*i.e.*, the third business day following the date of pricing of the Notes, and such settlement cycle being herein referred to as “T+3”) or such later date as may be agreed (such date being referred to herein as the “Issue Date”) by the Issuer and the Joint Lead Managers. Except in the limited circumstances set out herein, certificates in definitive form will not be issued for beneficial interests in the Global Certificates. See “The Global Certificates”.

*Joint Lead Managers*

DEUTSCHE BANK

IMI INTESA SANPAOLO

J.P. MORGAN

MUFG

STANDARD CHARTERED BANK

This Offering Circular is dated 9 June 2023.

The Republic accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Republic, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of the Joint Lead Managers nor any of their respective affiliates have authorised the whole or any part of this Offering Circular, and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. None of the Joint Lead Managers or any of their directors, affiliates, advisers and agents has made any independent verification of the information contained in this Offering Circular in connection with the issue or offering of the Notes, and no representation or warranty, express or implied, is made by any of the Joint Lead Managers or their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Offering Circular is, is to be construed as, or shall be relied upon as, a representation or warranty, whether to the past or the future, by any of the Joint Lead Managers or their respective directors, affiliates, advisers or agents in any respect.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Offering Circular. Any other representation or information should not be relied upon as having been authorised by the Republic or the Joint Lead Managers. The contents of this Offering Circular are not, are not to be construed as, and should not be relied on as, legal, business or tax advice, and each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Republic and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors, which may be relevant to it in connection with such investment.

Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Albania of acquiring, holding and disposing of the Notes and receiving payments of principal, interest and/or other amounts under the Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Republic since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of this Offering Circular and other offering material relating to the Notes, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

This Offering Circular has been prepared by the Republic for use in connection with the offer and sale of the Notes. The Republic and the Joint Lead Managers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised, and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

**MIFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

**UK MIFIR product governance / Professional investors and ECPs only target market** – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook

Conduct of Business Sourcebook (COBS), and professional clients, as defined in UK MiFIR; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any distributor should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

## **STABILISATION**

In connection with the issue of the Notes, J.P. Morgan Securities plc (the "**Stabilisation Manager**") (or any person acting on behalf of the Stabilisation Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a higher level than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

## **PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT 2001 (2020 REVISED EDITION) OF SINGAPORE**

In connection with Section 309B of the Securities and Futures Act 2001 (2020 Revised Edition) of Singapore (as amended or modified from time to time, the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined and hereby notifies all relevant persons (as defined in section 309A(1) of the SFA) that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the "**MAS**") Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES**

**THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES REVIEWED OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE NOTES OR APPROVED THIS OFFERING CIRCULAR OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

## **PRESENTATION OF ECONOMIC AND OTHER INFORMATION**

In this Offering Circular, unless otherwise specified, references to "**Euro**" or "**€**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; references to "**U.S.\$**" and "**U.S. Dollars**" are to U.S. Dollars; references to "**£**" are to Great British Pounds Sterling; and references to "**ALL**" or "**Lek**" are to the lawful currency of Albania.

Statistical data appearing in this Offering Circular has been extracted or compiled from the records, statistics and other official public sources of information in Albania, and has not been independently checked or verified. The Republic has accurately reproduced such information, and as far as the Republic is aware and able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading. In recent years there have been significant steps taken in Albania to improve the accuracy and reliability of official statistics and to conform statistical methodology to international standards. However, in a transition economy in which there is a substantial amount of unofficial or unreported grey market economic activity, such as the Albanian economy, such statistical data may not accurately reflect current or historic levels of, and trends in, economic activity. In addition, all percentages presented in this Offering Circular are subject to rounding and represent approximate figures.

Information included herein that is identified as being derived from information published by Albania or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Albania. All other information herein with respect to Albania is included herein as a public official statement made on the authority of the Ministry of Finance and Economy of Albania.

## **Data Dissemination**

The Republic is a subscriber to the International Monetary Fund (the “**IMF**”) Enhanced General Data Dissemination System (the “**e-GDDS**”), which is designed to support transparency, encourage statistical development and help create strong synergies between data dissemination and surveillance. The e-GDDS requires subscribing member countries to: (i) commit to using the e-GDDS as a framework for statistical development; (ii) designate a country coordinator; and (iii) prepare metadata that describes (a) current practices in the production and dissemination of official statistics and (b) plans for short- and longer-term improvements in these practices.

Summary methodologies of all metadata to enhance transparency of statistical compilation are also provided on the Internet under the IMF’s Dissemination Standards Bulletin Board. This website and any information on it are not part of, or incorporated by reference into, this Offering Circular.

In addition, the National Statistical Office of Albania (“**INSTAT**”) cooperates with the statistical office of the European Union (the “**EU**”), Eurostat, delivering certain national data to Eurostat on a periodic basis. The methodology used by Albania to produce its GDP and other statistics has been harmonised with concepts and definitions used by EU countries, including the European System of Accounts and the System of National Accounts.

## **Review and Adjustment of Statistics**

The Republic’s official financial and economic statistics are subject to review as part of a regular confirmation process. Accordingly, financial and economic information may differ from previously published figures and may be subsequently adjusted or revised. In addition, the statistical data appearing in this Offering Circular have been obtained from public sources and documents, which may not have been prepared in accordance with the standards of, or to the same degree of accuracy as, equivalent statistics produced by the relevant bodies in other countries. Investors may be able to obtain similar statistics from other sources, but the underlying assumptions, methodologies and, consequently, the resulting data may vary from source to source, and there can be no assurance that the statistical data appearing in this Offering Circular are as accurate or as reliable as those published by more developed countries.

## **FORWARD-LOOKING STATEMENTS**

Some of the statements contained in this Offering Circular are “forward-looking” statements. Statements that are not historical facts, including statements about the Republic’s beliefs and expectations, are “forward-looking” statements. These statements are based on the Republic’s current plans, objectives, assumptions, estimates and projections. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date that they are made, and the Republic undertakes no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. The Republic cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to: (i) plans with respect to implementation of economic policy and the pace of economic and legal reforms; (ii) expectations about EU accession; (iii) expectations about the behaviour of the domestic, Eurozone and global economies; (iv) the outlook for inflation, budget deficit, exchange rates, interest rates, foreign investment, foreign relations, trade and fiscal accounts; and (v) estimates of external debt repayment and debt service.

## **SUITABILITY OF INVESTMENT**

Each potential investor in the Notes must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- i. has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular or any applicable supplement;
- ii. has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- iii. has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor’s currency;
- iv. understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and

- v. is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

## ENFORCEABILITY OF JUDGMENTS

The terms and conditions of the Notes (the “**Conditions**”), the Notes and the Agency Agreement (as defined in the Conditions) are governed by English law. The Republic will irrevocably submit to, and accept the jurisdiction of, the International Chamber of Commerce (the “**ICC**”), with respect to any suit, action or proceeding arising out of, or based on, the Notes. In addition, if the conditions set out in Condition 17.3 of the Conditions (and/or the corresponding provisions of the Agency Agreement) are met, the courts of England shall have exclusive jurisdiction to settle any disputes. Recognition of a foreign court decision and a foreign arbitral award in Albania shall be subject to the criteria set out in article 394 of the Albanian Code of Civil Procedure, pursuant to which a foreign court decision will not be recognised if: (i) it was taken by a court acting *ultra vires*; (ii) it was taken in contravention of the principle of the equality of the parties; (iii) it was taken in contravention of the principle of the rights of a party to be heard; (iv) it was taken in contravention to the public order of the Republic of Albania; (v) an Albanian court has already given a different decision on the same dispute between the same parties; or (vi) an Albanian court has already accepted hearing the same dispute between the same parties prior to the foreign court decision taking a *res judicata* force.

The Albanian courts will recognise as valid, and will enforce an arbitral award granted under the Rules of Arbitration of the ICC without re-examination of the merits of the case in accordance with and subject to the provisions of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Albanian law is, however, not clear as regards to the enforceability of foreign court decisions in Albania and the choice of jurisdiction of foreign courts in cases where the Republic is a party. Therefore, the choice of jurisdiction of foreign courts (including English courts) may be held to be invalid by an Albanian court and the submission of the Republic to the exclusive jurisdiction of the English courts might adversely affect the recognition of the judgment by the Albanian courts and it may not be possible to enforce foreign court judgments, including English court judgments, against the Republic without a re-examination of the merits.

The Albanian legislature (the “**Assembly**”) has enacted Law № 9665 of 18 December 2006 “On state borrowing, public debt and state guaranteed loans in the Republic of Albania”, as amended by Law № 181/2014 of 24 December 2014 and Law № 92/2022 of 22 December 2022. Pursuant to Article 26 of this law, the Minister of Finance and Economy of the Republic has the right to waive the sovereign immunity of the Republic in respect of the Notes, subject to certain exceptions. In particular, waivers of sovereign immunity by the Republic are subject to the exception that a court decision may not be enforced against present or future “premises of the mission” as defined in the Vienna Convention on Diplomatic Relations signed in 1961, present or future “consular premises” as defined in the Vienna Convention on Consular Relations signed in 1963 or otherwise used by a diplomat or diplomatic mission of Albania or any agency or instrumentality thereof or any immovable property which falls under provisions of paragraph 1 to 3 of article 3 of Albanian Law № 8743, dated 22 February 2001 “On the state immovable properties”, as amended. In addition, public domain properties of the Republic of Albania (as defined under Albanian law) are immune from enforcement.



## EXCHANGE RATES

The following tables set forth, for the periods indicated, the period end, average, high and low official mid-point rates published by the Bank of Albania, expressed in ALL per €1.00 and ALL per U.S.\$1.00:

<b>Lek Per Euro</b>				
<b>Year</b>	<b>High</b>	<b>Low</b>	<b>Average<sup>(1)</sup></b>	<b>Period End</b>
	<i>(Lek Per Euro)</i>			
2018.....	133.99	122.69	127.59	123.42
2019.....	125.92	120.75	123.01	121.77
2020.....	131.06	121.85	123.77	123.70
2021.....	123.61	120.81	122.46	120.81
2022.....	122.96	114.93	118.98	114.93
<b>For the month of</b>				
January 2023 .....	117.46	114.54	116.39	116.55
February 2023 .....	116.4	115.04	115.72	115.04
March 2023 .....	115.11	113.21	114.35	113.21
April 2023 .....	113.27	110.98	112.38	111.12
May 2023 .....	113.43	109.69	111.10	109.69

*Source: Bank of Albania*

**Note:**

(1) The average of the noon-buying rate on each business day during the relevant period.

<b>Lek Per U.S. Dollar</b>				
<b>Year</b>	<b>High</b>	<b>Low</b>	<b>Average<sup>(1)</sup></b>	<b>Period End</b>
	<i>(Lek Per U.S.\$)</i>			
2018.....	111.84	104.31	107.99	107.82
2019.....	112.15	106.98	109.85	108.64
2020.....	118.75	100.66	108.65	100.84
2021.....	106.91	101.24	103.52	106.86
2022.....	119.26	107.02	113.04	108.52
<b>For the month of</b>				
January 2023 .....	111.75	106.63	107.90	107.72
February 2023 .....	108.92	105.87	107.98	108.43
March 2023 .....	108.77	103.96	106.91	103.96
April 2023 .....	104.42	100.46	102.45	101.12
May 2023 .....	104.70	100.72	102.26	102.76

*Source: Bank of Albania*

**Note:**

(1) The average of the noon-buying rate on each business day during the relevant period.

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## OVERVIEW

The following is an overview of certain information contained in this Offering Circular. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. Prospective investors should also carefully consider the information set out in the section entitled “*Risk Factors*” in this Offering Circular prior to making an investment decision. See “*The Republic of Albania*”, “*The Albanian Economy*”, “*Balance of Payments and Foreign Trade*”, “*Public Debt*”, “*Monetary and Financial System*” and “*Public Finances*” for a more detailed description of the Issuer.

### Overview of the Republic

Albania is located in the southwestern region of the Balkan Peninsula in southeastern Europe. Albania shares a border with Greece to the south and southeast, Macedonia to the east, Kosovo to the northeast and Montenegro to the northwest. Western Albania lies along the Adriatic and Ionian Sea coastlines. The Adriatic Sea separates Albania from Italy via the Strait of Otranto. Albania covers an area of 28,748 square kilometres. Its territory is predominantly mountainous but is relatively flat along its coastline with the Adriatic Sea.

Albania is a self-proclaimed secular state, which, pursuant to Article 10 of the Albanian constitution (the “**Constitution**”), allows freedom of religion. According to statistics published by the United Nations Statistics Division in 2013, the predominant religions in Albania are Islam (estimated to comprise 56.7% of the population), including Sunni Islam and members of the Bektashi Order, Roman Catholic (10.0%) and Albanian Orthodox (6.7%).

The Constitution is the highest law in Albania and establishes the basic institutions of a democratic state. The Constitution provides for three branches of government: the legislative branch, the executive branch and the judicial branch. Legislative power is vested in the unicameral Assembly, which consists of 140 members, all of whom serve four-year terms. The executive branch of the Albanian government (the “**Government**”) is made up of the Council of Ministers, which is headed by the Prime Minister. The judiciary consists of a Constitutional Court, a Supreme Court and multiple appeal and district courts. The judiciary is currently undergoing a comprehensive and thorough transitional re-evaluation process to increase its transparency, accountability and independence.

Albania’s real gross domestic product (“**GDP**”) grew year-on-year between 2015 and 2019, growing by 2.2% in 2015, 3.3% in 2016, 3.8% in 2017, 4.0% in 2018 and 2.1% in 2019. According to IMF projections released before the COVID-19 pandemic, Albania’s real GDP was forecasted to grow by 3.5% in 2020 before the twin shocks of the 6.4-magnitude earthquake in north-western Albania on 26 November 2019 (the “**November 2019 Earthquake**”) and the COVID-19 pandemic. Primarily due to these two shocks, according to INSTAT data, real GDP contracted by 3.3% in 2020. Growth has rebounded in recent years. In 2021, Albania’s real GDP grew by 8.9%, driven by a strong recovery in the tourism, construction and electricity production markets. In 2022, real GDP grew by 4.8%, primarily driven by domestic demand, both in terms of consumption and investment, as well as net foreign demand. In the IMF’s 2022 Article IV consultation concluding statement published on 9 December 2022, the IMF noted that the Albanian economy had maintained positive momentum despite the shock to the global economy from the Russian Federation (“**Russia**”)’s war in Ukraine. The IMF projects real GDP to grow by 2.3% in 2023, while the Ministry of Finance and Economy projects real GDP to grow by 3.5% in 2023, influenced by developments and expectations for the global economy and the European Union. Albania has a large informal economy, which was estimated by academic reports based on INSTAT data to represent approximately 29% of GDP in 2018.

Albania’s economy is small and thus largely dependent on external trade, particularly imports, leaving it vulnerable to external shocks. In addition, Albania has historically had a current account deficit, reflecting a large trade deficit resulting from its dependence on imported goods, largely financed by private transfers (principally remittances from expatriate workers, particularly in Greece and Italy). Albania’s current account deficit between 2018 and 2022 averaged 7.4% of nominal GDP.

Public debt in Albania is comprised of central Government debt and Government-guaranteed debt, both external and domestic, as well as local government domestic debt. Public debt decreased to 64.6% of GDP as at 31 December 2022, from 74.5% as at 31 December 2021, after having increased from 74.3% as at 31 December 2020.

Total budget sector revenues grew between 2018 and 2019 before decreasing in 2020, primarily due to the impact of the COVID-19 pandemic on the Albanian economy, and then increasing in each of 2021 and 2022. Total budget sector tax revenues increased by 4.5% and 2.3% in 2018 and 2019, respectively, before decreasing by 7.5% in 2020, increasing by 19.3% in 2021 and by 13.8% in 2022. The overall fiscal deficit was ALL 78.2 billion in 2022 (3.7% of GDP), as

compared to ALL 85.3 billion in 2021 (4.6% of GDP), ALL 110.4 billion in 2020 (6.7% of GDP), ALL 31.5 billion in 2019 (1.9% of GDP) and ALL 26.2 billion in 2018 (1.6% of GDP).

Albania is in the process of applying for full membership of the EU. Since becoming a candidate for EU accession in June 2014, Albania has implemented a wide range of electoral, judicial, administrative and economic reforms to align its laws and government practices with those of the EU, to meet the preconditions for commencement of accession negotiations. In March 2020, the members of the European Council agreed to open accession negotiations with Albania. No formal decision was taken by the European Council on the approval of the negotiating framework for Albania at its meetings in June 2021. On 18 July 2022, EU Member States approved the negotiating framework for Albania and accession negotiations began. On 19 July 2022, the EU held its first Intergovernmental Conference with Albania and North Macedonia in Brussels. The European Commission also officially launched its “screening process”, constituting the first stage of the accession process, which began on 15 September 2022. The screening process is structured along six thematic clusters covering broad themes related to good governance, internal market, economic competitiveness and connectivity. To date the screening of the first and second cluster has ended, in accordance with the calendar agreed with the European Commission. The screening process is expected to be completed by November 2023.

## Overview of the Terms and Conditions of the Offering

Capitalised terms not otherwise defined in this overview have the same meaning as in the Conditions. See “Terms and Conditions of the Notes”.

<b>Issuer</b> .....	The Republic of Albania (acting through its Ministry of Finance and Economy).
<b>Joint Lead Managers</b> .....	Deutsche Bank AG, London Branch, Intesa Sanpaolo S.p.A., London Branch, J.P. Morgan Securities plc, MUFG Securities (Europe) N.V. and Standard Chartered Bank.
<b>Issue Price</b> .....	99.055% of the principal amount of the Notes.
<b>Notes</b> .....	€600,000,000 5.900% Notes due 9 June 2028.
<b>Issue Date</b> .....	9 June 2023.
<b>Maturity Date</b> .....	9 June 2028.
<b>Interest on the Notes</b> .....	5.900% <i>per annum</i> .
<b>Interest Payment Dates</b> .....	The Notes bear interest on their outstanding principal amount from and including 9 June 2023 at the rate of 5.900% <i>per annum</i> , payable annually in arrear on 9 June in each year (each an “ <b>Interest Payment Date</b> ”). The first payment (for the period from and including the Issue Date to but excluding 9 June 2024 and amounting to €59.00 per €1,000 principal amount of Notes) shall be made on 9 June 2024.  See “Terms and Conditions of the Notes – 5. Interest”.
<b>Yield</b> .....	As at the Issue Date and on the basis of the issue price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes, as calculated on the pricing date, the yield to maturity of the Notes is 6.125% <i>per annum</i> .
<b>Status</b> .....	The Notes will constitute direct, general, unconditional and (subject to the provisions of the Negative Pledge) unsecured obligations of the Issuer, which will rank <i>pari passu</i> , without preference among themselves, with all other unsecured External Indebtedness of the Issuer, from time-to-time outstanding, <i>provided, further</i> , that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and <i>vice versa</i> .  See “Terms and Conditions of the Notes – 3. Status”.
<b>Redemption</b> .....	Unless previously redeemed or purchased and cancelled, the Issuer will redeem the Notes at their principal amount on the Maturity Date.  See “Terms and Conditions of the Notes – 7. Redemption and Purchase”.

<b>Negative Pledge</b> .....	<p>The Conditions will provide that, so long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any Security Interest, other than a Permitted Security Interest, over any of its property or assets to secure Public External Indebtedness of the Issuer or any guarantee of the Issuer in respect of Public External Indebtedness, unless (i) the Notes are secured equally and rateably with such Public External Indebtedness or (ii) the Notes have the benefit of such other security, guarantee, indemnity or other arrangement as shall be substantially equivalent.</p> <p>See “<i>Terms and Conditions of the Notes – 4. Negative Pledge</i>”.</p>
<b>Events of Default</b> .....	<p>The Conditions will permit the acceleration of the Notes following the occurrence of certain events of default.</p> <p>Holders of not less than 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and repayable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest on the date the Issuer receives such written notice of the declaration.</p> <p>If the Issuer receives notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to such declaration of acceleration is or are cured following any such declaration and that such holders wish the declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any relevant Noteholder in relation thereto.</p> <p>See “<i>Terms and Conditions of the Notes – 10. Events of Default</i>”.</p>
<b>Denominations</b> .....	<p>The Notes will be offered and sold, and may only be transferred, in minimum principal amounts of €100,000 and integral multiples of €1,000, in excess thereof.</p>
<b>Form of Notes</b> .....	<p>The Notes will be in registered form, without interest coupons attached.</p> <p>Notes offered and sold in reliance upon Regulation S will be represented by beneficial interests in the Unrestricted Global Certificate, and Notes offered and sold in reliance upon Rule 144A will be represented, upon issue, by beneficial interests in the Restricted Global Certificate, each of which will be registered in the name of a nominee of a common depository for Euroclear and Clearstream, Luxembourg.</p> <p>Except in limited circumstances, certificates for the Notes in definitive form will not be issued to investors in exchange for beneficial interests in the Global Certificates. See “<i>The Global Certificates</i>”.</p>
<b>Taxation and Additional Amounts</b> .....	<p>All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Albania or any political subdivision or any authority thereof or therein having power to tax (collectively, “<b>Taxes</b>”), unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the</p>

absence of the withholding or deduction, subject to certain exceptions set out in “*Terms and Conditions of the Notes – 8. Taxation*”.

<b>Meetings of Noteholders</b> .....	The Conditions contain provisions for calling meetings of Noteholders and, in certain circumstances, holders of other debt securities of the Issuer, to consider matters affecting their interests generally. These provisions permit defined majorities (which may, in certain circumstances, be formed of holders of debt securities of the Issuer other than the Notes) to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. See “ <i>Terms and Conditions of the Notes – 13 Meetings of Noteholders; Written Resolutions</i> ”.
<b>Modification and Amendment</b> .....	The Conditions contain a provision permitting the Notes, the Conditions, the Agency Agreement or the Deed of Covenant to be amended without the consent of the Noteholders to correct a manifest error or to make any modification which is of a formal, minor or technical nature or which is not, in the sole opinion of the Issuer, materially prejudicial to the interests of the Noteholders. See “ <i>Terms and Conditions of the Notes – 13.8. Manifest error, etc.</i> ”.
<b>Use of Proceeds</b> .....	<p>The net proceeds of the issue of the Notes will be used by the Issuer for general budgetary funds in support of the public and sovereign needs of Albania (<i>i.e.</i>, not for a commercial purpose).</p> <p>See “<i>Use of Proceeds</i>”.</p>
<b>Ratings</b> .....	<p>The Notes are expected to be assigned a rating of B1 by Moody’s and B+ by S&amp;P UK. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating organisation.</p> <p>Moody’s is established in the EEA and registered under the CRA Regulation. The ratings issued by Moody’s have been endorsed by Moody’s UK in accordance with the UK CRA Regulation and have not been withdrawn. S&amp;P UK is established in the UK and registered under the UK CRA Regulation. The ratings issued by S&amp;P UK have been endorsed by S&amp;P in accordance with the CRA Regulation and have not been withdrawn.</p>
<b>Listing and Admission to Trading</b> .....	Application has been made to the FCA for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Market.
<b>Governing Law</b> .....	The Notes, the Agency Agreement and the Deed of Covenant (each as defined in the Conditions), and any non-contractual obligations arising out of or in connection with the Notes, the Agency Agreement and the Deed of Covenant, will be governed by, and construed in accordance with, English law.
<b>Transfer Restrictions</b> .....	<p>The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Consequently, the Notes may not be offered, sold or resold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state and other securities laws.</p> <p>See “<i>Transfer Restrictions</i>”.</p>
<b>Fiscal Agent, Paying Agent and Transfer Agent</b> .....	GLAS Trust Company LLC

**Registrar**..... GLAS Trust Company LLC

**Security Codes for the Regulation S  
Notes**.....

ISIN: XS2636412210

Common Code: 263641221

CFI: DBFTFR

FISN: MINISTRY OF FIN/12EUR NT 20280609

**Security Codes for the Rule 144A  
Notes**.....

ISIN: XS2636412301

Common Code: 263641230

CFI: DBFTFR

FISN: MINISTRY OF FIN/12EUR NT 20280609

The CFI and FISN (as may be updated) will be set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the FISN.



## RISK FACTORS

*Before making an investment decision, prospective investors should carefully review the specific risk factors described below, in addition to the other information contained in this Offering Circular. The Issuer believes that the following factors may affect the Issuer's ability to fulfil its obligations under the Notes. The Issuer's results, financial condition and prospects could be materially affected by each of these risks presented. Also, other risks and uncertainties not described herein could affect the Issuer's ability to fulfil its obligations under the Notes. Additional risks and uncertainties not presently known to the Issuer, or that the Issuer currently believes are immaterial, could impair the ability of the Issuer to fulfil its obligations under the Notes. Certain other matters regarding the operations of the Issuer that should be considered before making an investment in the Notes are set out in other sections of this Offering Circular. In this Offering Circular, the most material risk factors have been presented at the beginning in each category.*

### **Risks relating to the Republic**

#### ***Impact of high levels of inflation on Albania's economy***

Inflation, as measured by the consumer price index ("CPI"), has fluctuated in recent years and was 2.0% in 2018, 1.4% in 2019, 1.6% in 2020, 2.0% in 2021 and 6.7% in 2022. The increase in inflation in 2022 was primarily due to higher food and energy prices due to the impact of the war in Ukraine and global macroeconomic conditions following the COVID-19 pandemic on global prices.

Recent global social, health, political and economic events, including the war in Ukraine and the related sanctions imposed on Russia by western and allied governments, as well as the ongoing COVID-19 pandemic and its impact on markets and supply chains, have given rise to substantial volatility in financial markets, threats to the global food supply and elevated levels of energy prices, which have, in turn, caused a global increase in inflation. In response, the Bank of Albania has increased interest rates on five occasions in 2022 and once in 2023, to 3.00%, the highest level in nine years. Increases to interest rates in Albania were made concurrently with rate increases announced by the European Central Bank ("ECB"). If higher global inflation levels are sustained, continuation of the relatively higher interest rate environment or further increases in interest rates can be expected, which may, in turn, lead to a slowdown in the global economy or economic recession. Any such global deterioration in market or economic conditions could, in turn, adversely impact Albania's finances and overall economy.

The global COVID-19 pandemic, which began in early 2020, led central banks across the world, including the Bank of Albania, to adopt expansionary monetary policies, and the Bank of Albania cut its monetary policy rate to 0.5% in March 2020. The disruption of supply chains and rapid economic recovery from the COVID-19 pandemic in 2020 and 2021, further exacerbated by the war in Ukraine and the resulting supply shocks, caused an inflationary wave in global prices. In 2022, inflation has increased in Albania in line with global and regional trends, with average inflation of 6.7%, as compared to 2.0% in 2021.

Inflation rates in the Republic remain susceptible to fluctuations in international commodities and energy prices. As a result of the current risks and uncertainties in the energy markets, in each of March, July and December 2022, the Government amended the 2022 budget law to, among other things, provide subsidies totalling ALL 19.9 billion, including ALL 1 billion in financial aid for all beneficiaries of the economic assistance and disability scheme, ALL 1.2 billion in financial aid for all public administration employees, ALL 500 million in support to farmers in relation to the cost of wheat, ALL 1.2 billion in support to farmers and the fishing sector in relation to the cost of oil and ALL 0.6 billion in support to the public transport sector in relation to the cost of oil. Any continuation or increase in subsidies or other support packages, or reintroduction of certain subsidies to address the impact of inflation in Albania or otherwise, could negatively impact Government finances and increase the budget deficit. Any prolonged period of high inflation, due to subsidies or otherwise, may result in slow or stagnant economic growth in Albania, in particular, if combined with slowing economic expansion and elevated unemployment levels.

#### ***Energy, food and water security risks***

Albania has a variable climate and both drought and flooding can affect it. Unpredictable rainfall may impact Albania's primary sector activities, most notably in the agricultural sector (which accounted for approximately 33.9% of total employment in 2022), as well as its hydropower activities, which accounted for almost all of Albania's electricity generation in 2022). Annual rainfall variations may more broadly affect GDP, prices and the balance of trade.

Climatic trends and the periodicity of annual rainfall over Albania have affected the economy in the past, particularly the energy sector. In addition, events such as the COVID-19 pandemic and the war in Ukraine have impacted the energy

sector. In 2018, GDP growth in the industrial sector was primarily driven by higher electricity production due to better rainfall, accounting for around 2.7% of the GDP growth rate. In the case of commodity trade, exports, annual growth recorded double-digit figures due to the rapid expansion of electricity exports. This increase of annual rainfall intensity in 2018 had a significant positive impact on hydroelectric power generation in Albania, which resulted in lower electricity imports (compared to 2017), by state-owned electricity distributor Operatori i Shpërndarjes së Energjisë Elektrike sh.a. (“OSHEE”) and state-owned power utility company Korporata Elektroenergjitike Shqiptare (“KESH”) and required Government support. Both KESH and OSHEE experienced financial difficulties in 2019 due to a long dry season which lasted for the majority of the year. Unfavourable weather conditions continued in 2020, and the sector was also impacted by the COVID-19 pandemic, including the temporary closure in March and April 2020 of certain production and service activities, with household consumption of electricity (which is less profitable) increasing. While weather conditions and, consequently, production improved in the first half of 2021, with net public production of 5.3 terawatt hours (“TWh”), as compared to 3.1 TWh in the corresponding period of 2020, in the second half of 2021, weather conditions deteriorated and, as a result, the energy supplied by KESH and private providers decreased. Accordingly, OSHEE was forced to purchase energy on the open market and, due to price increases as a result of the global energy crisis, exacerbated by the war in Ukraine and related increase in the price of commodities, OSHEE paid an average price of ALL 25 per kilowatt hour (“Kwh”), as compared to an average price of ALL 6.3/Kwh in the first half of 2021. As a result, energy expenditures increased by ALL 20.1 billion in 2021, as compared to 2020, and OSHEE realised a net loss of ALL 15.5 billion. As a result of the Government’s interventions in the energy sector in 2022, OSHEE’s energy purchase expenses decreased by approximately ALL 9.3 billion and its revenues increased by ALL 9.5 billion in 2022, as compared to 2021. According to preliminary estimates, OSHEE is expected to realise a profit of approximately ALL 3.0 billion for 2022.

In addition, in 2019, the November 2019 Earthquake struck in north-western Albania, which killed 51 people and injured approximately 1,000. Parliament granted Prime Minister Edi Rama state of emergency powers to deal with earthquake aftermath. The EU office in Albania estimates that approximately 1.9 million people of the total population have been affected by the earthquake. The Government estimates that 17,000 people lost their homes as a result of the earthquake. Total damage has been estimated by the Government to amount to €985 million, with damage to private and public properties of €844 million and other losses of €141 million. According to estimates published in the Post Disaster Needs Assessment in 2020, total recovery needs were €1,076.1 million.

According to the World Bank, Albania is likely to be, in comparison with other countries in Europe and Central Asia, increasingly affected by extreme weather events related to climate change, including floods, storms, droughts, and sea level rises. According to the World Health Organisation, Albania is expected to experience climate change effects, including increases in temperature and decreases in rainfall, especially during the summer months, which may lead to decreased water quality and availability, including for industrial uses, such as hydro-power electricity production. Urban air quality is also expected to decline. The Government has launched, and is participating in, a number of initiatives to adapt to, and mitigate, the effects of climate change (including the passing of a climate change law (consistent with EU legislative efforts) and development of a National Energy and Climate Plan, which is expected to set out renewable energy targets to 2030). There can be no assurance, however, that such efforts will be successful in mitigating or slowing down the effects of climate change, or that such efforts will be continued and developed.

Accordingly, there can be no assurance that the Republic will not suffer from increasingly adverse weather conditions or more frequent natural disasters, including earthquakes, flooding, droughts and other adverse climatic events, which could, in turn, require emergency or additional Government environmental-related spending and may have social consequences. If adverse climatic events are sustained over a long period, this may in the future have a material adverse effect on the Government’s fiscal situation and the Albanian economy, in particular on the energy sector and the companies that operate in that sector. This may negatively impact the ability of Albania to repay principal and make payments of interest on the Notes.

#### ***Albania is a net energy importer and has declared an energy state of emergency***

Albania, in common with other importers of energy in Europe, is facing high domestic energy prices and supply interruption issues, as a consequence of rising international energy prices. The impact of such international price rises on Albania is increased as Albania is a net importer of energy and is almost entirely dependent on hydropower plants for domestic electricity generation, with little storage capacity.

In common with other countries, Albania has experienced sharp increases in energy prices since 2020 due to the termination of COVID-19 pandemic measures, which led to an increase in demand for electricity and oil, as well as the impact on global energy prices of the war in Ukraine, which has given rise to substantial volatility in financial markets, threats to the global food supply and elevated levels of energy prices. On 6 October 2021, protests were held in Tirana against high prices for electricity, fuel and certain basic food items, including bread and coffee. On 8 October 2021, the Prime Minister declared a state of emergency in relation to the energy crisis and, in particular, its likely impact over the winter period. As a result of the war in Ukraine and the related increase in the price of crude oil and its by-products, the

energy state of emergency was extended in October 2022 until 30 June 2023. The declaration of the energy state of emergency affords the Government greater autonomy in the allocation of public funds to mitigate the effects of the energy crisis and the enforcement of energy-related regulation.

The Government has introduced a number of intervening measures aimed at addressing the energy crisis. On 9 October 2021, the Prime Minister announced proposed measures designed to protect households and small businesses from rising energy prices. The measures announced by the Prime Minister included the allocation of a fund of €200 million, with half to be disbursed to OSHEE over a period of two years to help alleviate liquidity issues and half to guarantee uninterrupted energy supply and mitigate price rises. On 22 October 2021, a decision of the Council of Ministers was passed to better regulate the relationships among KESH, OSHEE and Albania's transmission system operator, OST SA, ("OST") during the state of emergency. In March 2022, the Government ordered all cities to turn off lights in public buildings and on the streets, in an attempt to reduce the energy crisis caused by drought and power price spikes caused by the war in Ukraine. Additional rules and regulations have been introduced, including Normative Act No. 5 "On some additions to Law 8450, dated 24 February 1999 "On the processing, transportation and trading of oil, gas and their by-products" as amended, which was introduced in March 2022 and is aimed at managing rising prices by determining the wholesale and retail trading price of oil by-products in the Albanian market and is currently still in effect. KESH, TSO and OSHEE were forced to suspend non-essential investment plans until 15 April 2022, and KESH is obliged to supply the universal service supplier with all required energy, to fulfil the needs of universal customers and to sell energy to the last resort supplier. Since July 2022, KESH has also been responsible for covering the losses in the transmission network during the state of emergency. While subsidies totalling 1.3% of GDP were provided to State-owned electricity companies in 2022 to prevent an increase in electricity tariffs and a total of ALL 19.9 billion in subsidies aimed at combating inflated food and energy prices were introduced in 2022 through amendments to the 2022 budget law, energy prices in Albania remain high and the long-term effects of these measures are yet to be seen.

There is uncertainty regarding the likely impact and duration of the energy crisis, as well as whether the measures to be taken by the Government will be sufficient to mitigate the negative effects of the crisis. Prolonged high energy prices could require additional emergency or Government spending and may have further political and social consequences. All such factors could, in turn, have a material adverse effect on the Albanian economy, in particular, on the energy sector and the companies operating in that sector. This may negatively impact the ability of Albania to repay principal and make payments of interest on the Notes.

#### ***The war in Ukraine.***

In February 2022, the Russian Federation commenced war in Ukraine. These actions led the United States, the European Union and the United Kingdom, among others, to impose economic sanctions against Russia, Russian government officials and Russian corporations and financial institutions. The ongoing conflict has had an immediate impact on international capital markets, investor sentiment and commodity prices (including oil and gas, which has led to rising fuel prices and inflation). The sanctions announced to date include restrictions on selling or importing goods, services or technology in or from affected regions, travel bans and asset freezes impacting connected individuals and political, military, business and financial organisations in Russia, severing Russia's largest bank from the U.S. financial system, barring some Russian enterprises from raising money in the U.S. market and blocking the access of Russian banks to financial markets. There remains a risk of escalation and an ongoing impact on geopolitical conditions. The United States and other countries could impose wider sanctions and take other actions should the conflict further escalate.

Although Albania's direct exposure to the war in Ukraine is limited, the war in Ukraine has given rise to substantial volatility in international financial markets, threats to the global food supply and elevated levels of energy and other commodity prices, which have, in turn, have caused a global increase in inflation and increased inflation in Albania. See "*—Inflation*". While the long-term effects of the war on Albania's economy remain to be seen, any such geopolitical conflict and fluctuations of global prices could have an adverse effect on economic conditions and growth in Albania and, accordingly, on the ability of Albania to raise funding in the external debt markets in the future, to repay principal and make payments of interest on the Notes.

#### ***Ongoing impact of the COVID-19 pandemic***

In December 2019, the emergence of a new strain of the COVID-19 coronavirus was reported in Wuhan, Hubei Province, China that has subsequently spread throughout the world. On 30 January 2020, the World Health Organization declared COVID-19 a public health emergency of international concern, and, on 11 March 2020, the World Health Organization declared COVID-19 a global pandemic. While the impact of the COVID-19 pandemic has reduced during 2022 and 2023 and, in May 2023, the World Health Organization declared that COVID-19 was no longer a public health emergency of international concern, it remains possible a new COVID-19 strain or other pandemic could emerge, which could have a significant adverse effect on the global or Albanian economies.

Since the outset of the COVID-19 pandemic, the Government introduced a number of policies aimed at responding to the spread of the virus, as well as financial measures aimed at mitigating the potential economic impact of the pandemic. These policies included restrictions on travel, public transport and public gatherings, prolonged workplace closures, curfews and other constraints on commercial activities. On 25 March 2020, the Prime Minister declared a state of natural disaster in the country as a result of the COVID-19 pandemic. The crisis also produced an increase in unemployment. Should unemployment not return to pre-crisis levels, there may be social dislocation and unrest. In addition, the pandemic significantly negatively impacted all sectors of the Republic's economy, and there can be no assurance as to when, or if, the various sectors of the economy will return to or maintain pre-pandemic levels of activity.

***Albania has had, and expects to continue to have, a large trade deficit***

Albania's economy is small and thus largely dependent on external trade, particularly imports, leaving it vulnerable to external shocks. Albania's export base remains small, narrow and undiversified, due mainly to a lack of price competitiveness and poor infrastructure.

In addition, Albania has historically had a current account deficit, reflecting a large trade deficit resulting from its dependence on imported goods, largely financed by private transfers (principally remittances from expatriate workers, particularly in Greece and Italy) and FDI.

The rate of future economic growth and the ability to fund the current account deficit is, accordingly, dependent on effecting changes in the structure of Albania's economy and maintaining Albania's attractiveness to foreign investors and institutions. Albania is largely reliant on FDI flows in order to finance investment and to drive changes in its economic structure. FDI flows have, accordingly, fluctuated based on the funding levels required for various projects. Net FDI was €1,206.8 million (representing 6.7% of nominal GDP) in 2022, as compared to €989.9 million (representing 6.5% of nominal GDP) in 2021, €893.6 million (representing 6.7% of nominal GDP) in 2020, €1,036.3 million (representing 7.5% of nominal GDP) in 2019 and €1,022.2 million (representing 8.0% of nominal GDP) in 2018, reflecting increases of 21.9% in 2022 and 10.8% in 2021, a decrease of 13.8% in 2020 and an increase of 1.4% in 2019.

Albania's ability to attract FDI is based not only on international perceptions of the overall status of structural reforms and economic conditions in Albania, but also perceptions of broader regional stability and economic prospects, as well as global macro-economic conditions more generally. Accordingly, Albania's economy is vulnerable to deterioration in global economic conditions and external shocks, particularly those affecting economic trends in the EU and its other major trading partners. For example, the COVID-19 pandemic, which led to a sharp slowdown in global economic activity in 2020, including by Albania's major trading partners, had a negative impact on Albania's ability to attract FDI. In addition, the global financial and economic crisis that started in 2008 and the subsequent sovereign debt crisis and the accompanying impact on economic conditions in Albania's major trading partners and sources of inbound FDI, each of which led to a decline in growth in Albania's GDP also negatively impacted FDI flows. Concerns over the condition of the Greek economy, other Southern European economies and European economic conditions more generally, which adversely impacted the willingness of investors to invest in the region as a whole, including in Albania have also negatively impacted Albania's ability to attract FDI in the past. In particular, a significant decline in the economic growth of Albania's trading partners, including Greece, Italy and other EU member states and Turkey could have an adverse effect on demand for exports from Albania and Albania's balance of trade and, as a result, adversely affect Albania's economic growth. These economic factors could have a material adverse effect on Albania's ability to repay principal and make payments of interest on the Notes.

The comparatively high dependency on imports of certain production sectors and levels of consumer demand, coupled with the increase in import prices due to the war in Ukraine and global macroeconomic conditions have meant that, as at December 2022, imports had increased by 6.4% in 2022, as compared to 2021. In particular, Albania's domestic electricity and power production is dependent on its hydropower activities. Accordingly, Albania's energy sector is affected by flooding, droughts and other adverse climatic events, which impact Albania's hydropower activities, and increase Albania's need for, and dependence on, electricity imports.

Accordingly, the energy sector, as well as other import-dependent sectors, are vulnerable to global price fluctuations, which could be significant. Any such fluctuations of global prices could have an adverse effect on economic conditions and growth in Albania and, accordingly, on the ability of Albania to repay principal and make payments of interest on the Notes. See "*—Inflation*".

### ***Albania has had, and expects to continue to have, a budget deficit***

The Government has had a budget deficit in each of the last five years, and it does not expect to have a balanced budget for the foreseeable future. Fiscal risks also arise from Albania's pension system, which is financed on a pay-as-you-go basis, whereby state benefits are paid out of contributions from the current workforce and employers.

In addition, any deterioration in financing conditions as a result of market, economic or political factors, which may be outside Albania's control, may adversely affect Albania's ability to implement its economic strategy and reforms and jeopardise Albania's ability to repay or refinance its existing debt and to repay principal and make payments of interest on the Notes.

### ***Public debt and reliance on external funding***

Between 2018 and 2019, public debt as a percentage of GDP, decreased from 67.7% as at 31 December 2018, to 65.8% as at 31 December 2019. This declining trend reversed in 2019 as a result of the November 2019 Earthquake and the COVID-19 pandemic and the resulting increase in public expenditures and declines in GDP and was 74.3% as at 31 December 2020 and 74.5% as at 31 December 2021. Public debt as a percentage of GDP decreased, however, to 64.6% as at 31 December 2022, primarily due to the exchange rate effect (as a result of the proportion of public debt denominated in Euros and other foreign currencies). The Ministry of Finance and Economy aims to continue the downward trajectory of the debt-to-GDP ratio to 45% in compliance with the fiscal rule set out in the organic budget law. Relatively high levels of indebtedness through continued borrowing could negatively impact Albania's credit rating and could have a material adverse effect on the Albanian economy and, as a result, on Albania's capacity to repay principal and make payments of interest on the Notes.

As at 31 December 2022, multilateral and bilateral debt accounted for 48.6% and 15.6% of Albania's external debt, respectively. Albania expects to continue to rely on multilateral and bilateral support to provide a significant portion of its public and external financing requirements in the coming years. Changes in the level of support by Albania's multilateral and bilateral creditors or changes in the terms on which such creditors provide financial assistance to Albania or fund new or existing projects could have a significant adverse effect on the financial position of Albania.

Albania received support from a number of multilateral institutions in response to the COVID-19 pandemic. For example, on 10 April 2020, the IMF approved financial assistance of SDR 139.3 million (approximately U.S.\$190.5 million) to Albania under its rapid financing instrument scheme and, in July 2020, the World Bank approved a €15 million loan with Albania. In September 2020, the Government entered into a €180 million loan facility agreement with the EU to support efforts to combat and limit the economic effects of the COVID-19 pandemic. The first instalment of €90 million was disbursed in the first quarter of 2021, with the second and final instalment disbursed in November 2021. In recent years, Albania has also entered into loans that have been granted on a concessional basis or that benefit from guarantees issued by the World Bank and other international financial institutions for other policy purposes. For example, in 2014, the Government entered into an arrangement with the IMF under the Extended-Fund Facility (the "EFF") for Albania in support of the Government's reform programme. The final disbursement under the EFF was made in February 2017. See "*Public Debt—Multilateral Financial Institutions*". Access to such concessional rate or guaranteed funding reduces Albania's borrowing costs, as the interest rates in respect of such funding are generally lower than Albania could achieve without such credit support. There can be no assurance, however, that funding at such lower rates will be available in the future; in general, the availability of concessional rate funding has decreased in recent years. In particular, multinational agencies often require implementation of economic and social policies and achievement of certain policy targets, which Albania may be unwilling or unable to satisfy. If Albania is unable to obtain such funding in the future or otherwise borrow at an acceptable cost, it could have a material adverse effect on the Albanian economy and, as a result, on Albania's capacity to repay principal and make payments of interest on the Notes.

### ***Structural risks related to the domestic banking sector***

Reform efforts in the Albanian banking sector in recent years have been focused on measures to reduce non-performing loans ("NPLs"), through both write-offs of NPLs and, more recently, credit restructuring operations. While such reform measures have reduced NPLs from the levels recorded following the global financial crisis and Eurozone crisis, NPL levels remain high. As at 31 December 2022, NPLs accounted for 5.0% of the banking sector loan portfolio, as compared to 5.6% of the banking sector loan portfolio as at 31 December 2021, 8.1% as at 31 December 2020 and 8.4% as at 31 December 2019. Further reform efforts will need to continue to focus on the reduction of NPLs. Any reversal in the trend of declining NPLs or other asset quality deterioration could cause banks to fail to be in compliance with applicable regulatory requirements, including capital adequacy requirements. This could, in turn, cause banks to reduce lending activities or result in a loss of depositor confidence in the Albanian banking sector.

In addition, the majority of loans by banks in Albania are in foreign currencies, primarily Euros, amounting to 51.6% (including approximately 47% in Euros) of total loans as at 31 December 2022. This high level of foreign currency lending increases banking sector risks and requires high capital and reserves in order to protect against unfavourable exchange rate movements and the credit risks of unhedged loan portfolios. In particular, the high Euroisation of the banking sector has increased the vulnerability of the banking sector and led the Ministry of Finance and Economy, the Bank of Albania and the Albanian Financial Supervisory Authority (the “**AFSA**”) to adopt a de-Euroisation policy (the “**de-Euroisation policy**”), with the aim of improving the transmission of monetary policy and reducing risks to financial stability. Measures introduced in furtherance of this de-Euroisation policy include increasing the mandatory reserve rate for foreign currency liabilities (and reducing the mandatory reserve rate for Lek liabilities), increasing the minimum regulatory requirement for the value of liquid assets in foreign currency and raising borrowers’ awareness of the risks of foreign currency borrowing. There can be no assurance, however, that this policy or other reform measures will be successful in decreasing the majority of foreign currency lending in the Albanian banking system, which, in turn, may adversely affect Albania’s ability to repay principal and make payments of interest on the Notes. As a result of the high proportion of foreign currency lending, a depreciation of the Lek against the relevant lending currencies could have a material and adverse effect on the credit quality of the loan portfolio of the Albanian banking sector.

As at 31 December 2022, approximately 75% of assets in the banking sector were held by majority foreign-owned banks, and the Albanian banking sector was comprised of 11 banks of which four are domestically-owned. While the local Albanian subsidiaries are at present largely self-financing, in the event of increased levels of NPLs or deteriorating economic conditions in Albania, foreign parent banks may decline to provide financing to their subsidiaries in Albania or may be unable to provide such financing, as a result of adverse economic developments or regulatory requirements in their home jurisdictions. Foreign-owned banks may also reduce their loan portfolios or other business activities in a manner which adversely affects Albania, as a result of events unrelated to Albania, including as a result of economic turbulence in the Eurozone and sovereign debt markets, global epidemics or the jurisdictions of their parent banks, as well as the impact of any “contagion” effects, and the resulting impact of these and other factors on the financial condition of the banking group more generally. Such occurrences may result in a reduction in the level or scope of the activities of these banks in Albania or a failure to meet capital adequacy ratios or other regulatory requirements, among other developments. Any or all of these occurrences may negatively affect the Albanian economy and have an adverse effect on Albania’s capacity to repay principal and make payments of interest on the Notes.

In 2017 and 2018, a number of EU banks announced their intention to sell their Albanian subsidiaries. In 2018, Veneto Banca was acquired by Intesa SanPaolo Bank, the American Bank of Investment purchased NBG Bank Albania and Societe Generale Bank, Albania was purchased by Hungarian OTP Bank Nyrt. Additionally, in the first quarter of 2019, the shareholders of Credit Bank Albania approved its voluntary liquidation. In 2021, Alpha Bank, one of Greece’s four largest banks, agreed to sell its Albanian unit to Hungarian OTP Bank Nyrt. There can be no assurance that further sales will not be completed or that any new market entrants will have appropriate banking experience and meet fit and proper criteria to operate in the Albanian banking market. In addition, any future abrupt exit or change in portfolio by a Eurozone bank or other large bank operating in Albania could adversely affect Albania’s foreign exchange and treasury bills market.

In addition, future developments adversely affecting foreign banks with subsidiaries in Albania, may cause volatility in Albania, including local withdrawals from the Albanian subsidiaries of such banks as a result of the actual or perceived weakness of such subsidiaries. The occurrence of any such events would have an adverse effect on Albania’s banking system and Albania’s economy.

### ***Socio-economic challenges***

Albania faces certain socio-economic challenges, including high levels of emigration, an ageing population and high youth unemployment. These challenges require continuing attention by the Government and were exacerbated by the COVID-19 pandemic. The percentage of the labour force aged 15 to 29 who were out of the workforce as at 31 December 2022 was 20.5%, as compared to a high of 32.2% as at 31 December 2015. The costs of unemployment both in terms of additional Government spending and reduced tax receipts may further have a negative impact on the Government's finances.

Albania also faces demographic challenges from continued migration and population ageing, which could result in a decline in working age population and, in turn, increasingly affect Albania's growth potential. According to data published by INSTAT and the International Organisation for Migration, emigration from Albania, primarily by professionals due to economic factors, was one of the major reasons for the decline in the population in Albania between the 2001 and the 2011 censuses. Emigration of professionals has continued since 2011.

Albania's pension system is funded on the basis of employee and employer contributions on a "pay-as-you-go" basis. Accordingly, these socio-economic challenges may have a material adverse impact on Albania's pension deficit.

### ***Economic risks of an emerging market***

An investment in an emerging market, such as Albania, is subject to substantially greater risks than an investment in a country with a more developed economy and more developed political and legal systems. These greater risks include economic instability caused by factors such as a narrow export base, reliance on imports of energy and other key inputs, fiscal and current account deficits, reliance on foreign direct investment ("FDI"), high unemployment and frequent and significant potential changes in the political, economic, social, legal and regulatory environment, as well as the possibility that actions of the current Government may be challenged by future Governments. Accordingly, Albania's economy is vulnerable to the impact of any deterioration in global economic conditions and external shocks, particularly those affecting economic trends in the EU and its other major trading partners. Although significant progress has been made in reforming Albania's economy and political and legal systems since the end of Communist rule in 1992 and in line with Albania's objective to become a full member of the EU, Albania's economy remains characterised by certain attributes, such as concentration in a number of key industries, reliance on imports and FDI, trade and current account deficits and high unemployment, any or all of which may adversely impact Albania's economic stability. In addition, Albania's legal infrastructure and regulatory framework are still developing. Consequently, an investment in Albania carries risks that are not typically associated with investing in more mature markets. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, such investment is appropriate for them. Generally, investments in developing countries, such as Albania, are only suitable for sophisticated investors who can fully appreciate and bear the significance of the risks involved.

Investment in the Notes could also be adversely affected by negative economic or financial developments in other countries, particularly neighbouring and major regional countries (including Greece, Italy and Turkey). Adverse economic developments in one or more of the countries that comprise Albania's major trading partners (many of which are in the EU, including Greece and Italy), or questions about their ability to repay sovereign debt or the stability of their banking systems, could adversely affect the Albanian economy and Albania's ability to repay principal and make payments of interest on the Notes.

In recent years, concerns about credit risk (including that of sovereigns) and the large sovereign debts and/or fiscal deficits of several European countries (including Portugal, Italy, Ireland, Cyprus, Greece and Spain) have caused significant disruptions in international capital markets. In particular, the 2015 Greek financial crisis and subsequent bailout, led to the withdrawals of subsidiaries of Greek banks operating in Albania. The occurrence of similar events in the future could adversely affect the Albanian economy directly, as well as the key trading partner markets for Albania's goods and services and the global financial markets.

### ***Official economic data may not be accurate and could be revised***

A range of Government ministries, including the Ministry of Finance of Economy and the Ministry of Agriculture, as well as Bank of Albania and INSTAT, have prepared the statistical data which appears in this Offering Circular. Certain of these statistics may be more limited in scope, less accurate, reliable or consistent in terms of basis of compilation between various ministries and institutions and published less frequently than is the case for comparable statistics prepared by other countries (particularly existing members of the EU). Consequently, prospective investors in the Notes should be aware that figures relating to Albania's GDP and many other figures cited in this Offering Circular may be

subject to some degree of uncertainty. Furthermore, these limitations of statistical information make adequate monitoring of key fiscal and economic indicators more difficult than for other countries.

In addition, while Albania's Public Financial Management Strategy 2019-2022 targeted timely and more reliable production of statistics, standards of accuracy of statistical data may vary from ministry to ministry or authority to authority or from period to period due to the application of different methodologies. In this Offering Circular, data is presented, as applicable, as having been provided by the relevant ministry or authority to which the data is attributed, and no attempt has been made to reconcile such data to data compiled by other ministries or by other organisations, such as the IMF or the World Bank. Albania produces data in accordance with the IMF's e-GDDS. In its most recent assessment of data adequacy for surveillance, dated 30 October 2022, the IMF noted that the "*main obstacles are in real sector statistics and weak inter-institutional cooperation between government agencies*". The existence of a sizeable unofficial or "grey market" economy in Albania may also affect the accuracy and reliability of Albania's statistical information.

The statistical information presented herein is based on the latest official information currently available from the stated source. The Republic's official financial and economic statistics, included those presented herein, are subject to review as part of a regular confirmation process. Accordingly, financial and economic information may differ from previously published figures and may be subsequently adjusted or revised. Figures presented in this Offering Circular may also be subject to rounding. Prospective investors should also be aware that none of the statistical information in this Offering Circular has been independently verified.

### ***Domestic security risks***

Albania is subject to risks relating to increased global terrorism, including the actions of the so-called "Islamic State". According to press reports, a number of Albanian nationals, as well as nationals from other Balkan states, have reportedly joined the Islamic State and other terrorist organisations. If these nationals reside in, or were to return to, Albania, they may pose a security threat, which may, in turn, delay or complicate discussions with the EU regarding Albania's candidacy for EU accession.

Due to the ongoing conflicts in Syria and Ukraine, European countries have witnessed an influx of refugees since 2015. According to statistics published by the U.N. High Commissioner for Refugees (the "UNHCR") 123,000 refugees and migrants arrived in Europe in 2021, a 29% increase from 2020.

A number of migrants that have arrived in Albania are seeking passage to the EU. While the influx of refugees in the EU has not, to date, had a significant impact on Albania, migrant arrivals in Albania have increased and there can be no assurance that the number of persons seeking asylum in Albania will not continue to increase in the future. Any such increase could cause economic, political and social strains.

### ***Albania may not be successful in its significant domestic reform efforts***

Since the overthrow of the Communist government in 1992, Albania has undergone substantial political transformation from a centrally-planned state to an independent free-market and sovereign democracy. In parallel with this transformation, Albania has been pursuing a programme of economic structural reforms with the objective of developing a market-based economy through the privatisation of state enterprises and deregulation and diversification of the economy. While Albania has made substantial progress in developing a functioning market-based economy, establishing economic and institutional infrastructure to a Western European standard (including substantial reform of the legal system "*Risks relating to the Republic—The Republic's legal system is still developing*") requires further effort and investment over a number of years, and the timing of the completion of such infrastructure is uncertain.

The implementation of needed reforms, including programmes to support further economic growth, development and diversification, depends on significant and sustained political commitment and social consensus in favour of the reforms. Notwithstanding the substantial progress in recent years and Government policies of implementing further reforms and supporting diversification of the economy, there can be no assurance that the economic and financial initiatives, reforms and policies described in this Offering Circular will continue, will be pursued or commenced, will not be reversed or will achieve their intended aims in a timely manner or at all. In addition, from time-to-time, Albania has experienced political tensions, resulting in parliamentary boycotts by opposition parties of the Assembly, as well as other challenges to the political process and difficulties in reaching consensus. In February 2019, the Democratic Party of Albania (the "DPA") and Socialist Movement for Integration ("SMI") rescinded all their parliamentary mandates after the Assembly voted against their initiative on the vetting of politicians, with the 2019 municipal elections held without the participation of the DPA or SMI. The DPA and the SMI participated in the most recent parliamentary elections in 2021.



Perceived capacity constraints to economic growth, in particular in the infrastructure and tourist sectors, and the lack of labour force with a sufficient skill set may also impact the Government's ability to implement its reform programme and for such reforms to be successful.

There can be no assurance that the Government will be able to raise sufficient funding to support its reform programme. In particular, certain projects are reliant on obtaining EU or multilateral funding or for PPPs to be entered into. Changes in support from the EU and multilateral bodies, and the ability to enter into PPPs with attractive terms, to fund key reform projects could adversely affect the Albanian economy, if funding is needed to be sourced from elsewhere, or result in projects not being implemented.

Any failure of the Government to implement proposed economic, financial and other reforms and policies, or a change in the political or social consensus relating to these reforms and policies, may adversely affect the growth and development of the Albanian economy and, as a result, have a material adverse effect on Albania's capacity to repay principal and make payments of interest on the Notes.

***Albania may not be successful in its EU accession process and the timing and conditions of any such EU membership remain uncertain***

Albania is in the process of applying for full membership of the EU. Since becoming a candidate for EU accession in June 2014, Albania has implemented a wide range of electoral, judicial, administrative and economic reforms to align its laws and government practices with those of the EU, to meet the preconditions for commencement of accession negotiations and otherwise to satisfy the criteria set forth by the European Council in Copenhagen 1993. Such reforms and other actions needed to meet accession criteria include stability of institutions guaranteeing democracy, the rule of law, human rights and respect for, and protection of, minorities; the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the EU; and the ability to take on the obligations of membership, including adherence to the aims of the political, economic and monetary union. In March 2020, the members of the European Council agreed to open accession negotiations with Albania. No formal decision was taken by the European Council on the approval of the negotiating framework for Albania at its meetings in June 2021. On 18 July 2022, EU Member States approved the negotiating framework for Albania and accession negotiations began. On 19 July 2022, the EU held its first Intergovernmental Conference with Albania and North Macedonia in Brussels. The European Commission also officially launched its "screening process", constituting the first stage of the accession process, which began on 15 September 2022. The screening process is structured along six thematic clusters covering broad themes related to good governance, internal market, economic competitiveness and connectivity. To date the screening of the first and second cluster has ended, in accordance with the calendar agreed with the European Commission. The screening process is expected to be completed by November 2023. There can be no assurance that this timing will be achieved.

There can be no assurance that these negotiations or completion of the screening process will result in Albania successfully becoming a member of the EU. Accession is not expected in the short-term.

In particular, all key decisions in respect of Albania's potential accession to the EU will require a positive unanimous decision of all EU Member States. Any increase in anti-enlargement sentiment in the EU, in particular due to the simultaneous application of five other Western Balkan states besides Albania (Serbia, Montenegro, North Macedonia, Bosnia and Herzegovina and Kosovo), any deterioration of economic, fiscal, legal or the security situation in Albania or the region or current or historic debt problems experienced by certain EU member states, or any prospective changes in EU laws, may also cause delays in Albania's accession process.

Albania is also subject to the EU's policies in respect of risks relating to increased global terrorism, including the actions of the so-called "Islamic State", and migration to the EU, which may affect accession negotiations. See "*Political risks*".

Delays in the EU accession process due to Albania's inability to meet harmonisation criteria or a change in EU entry criteria, or the opposition of, or disputes with EU member states, may adversely impact Albania's economic development and, accordingly, affect its ability to repay principal and make payments of interest on the Notes.

***Legal proceedings and arbitral award***

There are a number of ongoing investment treaty and other international arbitrations involving Albania. If such proceedings are adversely determined, arbitral awards may be rendered. If such awards are not successfully annulled, challenged or otherwise resisted and they are subsequently enforced, Albania may, in time, face payment obligations.

On 2 April 2021, an ICSID Ad Hoc Committee rejected Albania's annulment proceedings in respect of an arbitral award in favour of two Italian companies, Hydro S.r.l. and Costruzioni S.r.l., and four Italian citizens, Mr. Francesco Becchetti, Mr. Mauro De Renzis, Ms. Stefania Grigolon and Ms. Liliana Condomitti (collectively, the "**Claimants**"). Published reports indicate the arbitral award to be in an amount of €99,487,000, plus interest. The Claimants have commenced proceedings in Albania, Austria, Belgium, England, Italy, the Netherlands and Norway to have the arbitral award recognised and enforced and the Claimants have claimed that they have obtained *ex parte* recognition in several jurisdictions, including England, Italy and France. As with all litigation, there can be no guarantee that the Government will be successful contesting these proceedings and the amount claimed in any jurisdiction may be higher than the amount noted above. If a final, enforceable judgment is or has been issued in any of these jurisdictions or in any other jurisdiction, and if any such judgment is then executed, it may have an adverse effect on the Government and its financial position, which may, in turn, negatively impact the price of the Notes. Furthermore, although the Government intends to vigorously dispute any such proceedings, it is possible that the Claimants may also seek to attach, seize or otherwise assert rights over the proceeds of Albania's capital markets transactions, including the proceeds of the Notes, the scheduled payments under the Notes or other outstanding external debt which may affect the settlement process in relation to any issue of Notes or have a material adverse impact on the price or trading of any issue of Notes in the secondary market.

### ***Albania remains subject to broader international and regional considerations***

Regional and international economic disruptions have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or the departure of one or more countries from the EU and/or Euro zone, could cause severe stress in the financial system generally and could adversely affect the global financial markets, which could in turn adversely affect the value of investments in Albania, including the Notes.

In addition, monetary and trade policy decisions taken in the United States and other large economies or by the European Central Bank may also have a significant impact on international economic and financial conditions, which may, in turn, have an adverse impact on developing countries, such as Albania. Uncertainty resulting from developments in international trade policy, in particular with respect to international trade between the United States and China, may have a further adverse impact on international economic and financial conditions.

Investors' reactions to events occurring in one emerging market or region sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by investors. If such a "contagion" effect occurs, Albania could be adversely affected by negative economic, security or financial developments in other emerging market countries or regions.

Albania has been adversely affected by "contagion" effects in the past, including global events, such as the Eurozone crisis and the global financial crisis. No assurance can be given that it will not be affected by similar events in the future.

There can be no assurance that Albania will not be affected by the negative economic conditions in Turkey or Argentina, or elsewhere, if a "contagion" effect occurs.

### ***The Republic's legal system is still developing***

Albania has taken, and continues to take, steps aimed at further developing its legal system, working to ensure comparability to the legal systems of EU (EU *acquis*) and other countries. New laws have been introduced, including a law protecting minorities, and revisions have been made with respect to, amongst others, company, property, securities, labour, environmental and taxation laws in order to harmonise these with EU laws. In addition, whilst, since 2016, Albania has introduced certain judicial reforms and has adopted a cross-sectoral justice strategy aimed at enhancing independence, efficiency and accountability, the independence of the judicial system and its immunity from economic and political interference in Albania remain subject to ongoing reform. Accordingly, Albania's legal system remains in transition and is subject to greater risks and uncertainties than a more developed legal system. Such risks include: (i) potential inconsistencies between and among the Constitution and various laws; (ii) Governmental, ministerial and local orders, decisions, resolutions and other acts; (iii) provisions in laws and regulations that are ambiguously worded or lack specificity and raise difficulties when implemented or interpreted; (iv) difficulties in predicting the outcome of judicial application of Albanian legislation; and (v) political or other factors resulting in inconsistent judicial determinations and interpretations or delays in the reform process.

As part of Albania's judicial reform measures, an independent re-evaluation process (or vetting process) of all judges and prosecutors carried out by the Independent Qualification Commission ("**IQC**") in conjunction with the Appeal Chamber and the Institution of Public Commissioners commenced in 2018, with the vetting of members of the

Constitutional Court, the President of the High Court and the General Prosecutor. The vetting process is at an advanced stage, with more than 82% of files having been concluded by the IQC. The initial stage of this vetting process has resulted in a number of judicial resignations, retirements and dismissals, and the process is ongoing. Accordingly, additional judges and prosecutors may resign, retire or be dismissed in the future. There can be no assurance that sufficient numbers and quality of judges and prosecutors will be available in the short-term to replace those members of the judiciary that have left their posts as a result of the vetting process. Any failure to fill vacant posts could result in delays to judicial proceedings.

As Albania is a civil law jurisdiction, judicial decisions under Albanian law generally have no precedential value and the courts are generally not bound by earlier court decisions taken under the same or similar circumstances. This may result in an inconsistent application of Albanian legislation to resolve the same or similar disputes. In addition, in some circumstances it may not be possible to obtain swift enforcement of a judgment in Albania or to predict the outcome of legal proceedings. These and other factors may adversely impact economic conditions and the environment for investment in Albania, including the willingness of foreign and other investors to invest in Albania or to provide financing for projects and companies in Albania. Such effects could have an adverse effect on economic conditions and growth in Albania and, accordingly, on the ability of Albania to repay principal and make payments of interest on the Notes.

### ***Corruption risk***

The EU, independent analysts and multinational institutions, such as the IMF, have identified corruption, money laundering and organised crime as concerns in Albania. In the 2022 Transparency International Corruption Perceptions Index, Albania ranked 101<sup>st</sup> out of 180 countries and territories under review (with the country ranked 1<sup>st</sup> considered the least corrupt), which is a slight improvement over the 2021 ranking (of 110<sup>th</sup> out of 180 countries and territories). By comparison, Montenegro is ranked 65<sup>th</sup>, North Macedonia is ranked 85<sup>th</sup> and Greece is ranked 51<sup>st</sup>.

In 2022 and 2023, a number of arrests were made, including of two former Government ministers (and members of Parliament), certain secretaries-general and other officials in connection with investigations into alleged abuses of public funds and duty relating to the construction of waste incinerators. Trials in relation to such matters are awaited or ongoing, with certain investigations also ongoing. In addition, in February 2023, a former General Secretary of the Ministry of Finance and Economy and two other officials were arrested for alleged abuse of duty in relation to incorrect compensation granted to a citizen in connection with the privatisation of a building. In February 2023, there were protests, led by opposition supporters, in Tirana against alleged corruption, as well as the high cost of living.

A number of judicial resignations, retirements and dismissals have resulted from the vetting process being conducted as part of judicial reform measures. The majority of dismissals have been due to the identification of unexplained assets and inability to verify the legality of sources of income. A move to the provision of online public services has reduced corruption levels in public service delivery. As part of judicial reform measures, new institutional architecture has been established, including the Special Prosecutor's Office Against Corruption and Organised Crime (the "SPO"), the National Bureau of Investigation (the "NBI") and special courts for adjudicating cases of corruption and organised crime. Between 2020 and November 2022, the SPO registered a total of 24 investigations against former high-level public officials for criminal offences of corruption (with 14 investigations passed for trial, two cases dismissed and eight such former officials under investigation). Efforts directed at reducing corruption have primarily targeted high-level corruption cases. Between 2020 and 2022, the final and enforceable decisions for high-level corruption cases of the special courts for adjudicating cases of corruption and organised crime included two cases with final convictions at first instance, four cases with final convictions by appeal judgments, no cases resulting in the acquittal of individuals, four cases of individuals convicted at first instance and nine cases of individuals convicted by appeal judgments. Two special court of appeal decisions are final and have been enforced with respect to the conviction of one former Prosecutor General and one former Minister of Interior.

Allegations, evidence of or charges relating to corruption, money laundering or organised crime involving the Government or members thereof, the judiciary or employees of high-profile companies, regardless of whether such allegations prove to be true, may create tensions between political parties (both governing and in opposition) and among members of the public.

Allegations of corruption are exacerbated by Albania's developing tax collection infrastructure. In addition, corruption, money laundering or organised crime in Albania may have a negative impact on Albania's economy and its reputation abroad, especially on its ability to attract FDI, and may adversely impact progress towards EU accession. A combination of all or some of these factors may lead to negative effects on economic and social conditions in Albania, which may, in turn, lead to a deterioration in public finances and a material adverse effect on the ability of Albania to fund payments on its debt obligations, including the Notes.

### ***Albania has a large informal economy***

Albania has a large informal economy, which was estimated by academic reports based on INSTAT data to represent approximately 29% of GDP in 2018. This informal economy is not recorded and is only partially taxed, resulting in a lack of revenue for the Government, ineffective regulation and monitoring of the overall economy, unreliability of statistical information (including the understatement of GDP and the contribution to GDP of various sectors) and an inability to monitor or otherwise regulate this portion of the economy. The scale of the informal economy also facilitates corruption, money laundering and organised crime. Due to its nature, the size of the informal economy is difficult to measure and any estimates are subject to inherent uncertainty. Although the Government is attempting to address the informal economy, there can be no assurance that such reforms will adequately address the issues and bring the full economy into the formal sector, which could, in turn, have a material adverse effect on the Albanian economy and, accordingly, on the ability of Albania to repay principal and make payments of interest on the Notes.

### ***The Republic's credit ratings***

Albania's long-term foreign currency is rated B1 (outlook stable) by Moody's and B+ (outlook stable) by S&P. In March 2023, S&P affirmed Albania's long-term foreign currency credit rating. In April 2023, Moody's affirmed Albania's long-term foreign currency credit rating. There can be no certainty that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. Deterioration in key economic indicators or the materialisation of any of the risks discussed herein may contribute to credit rating downgrades and the ratings assigned by the independent rating agencies may be subject to changes based on future developments. Albania has no obligation to inform the Noteholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to Albania may adversely affect the Albanian economy and the Government's cost of borrowing and, in turn, Albania's ability to repay principal and make payments of interest on the Notes.

### **Risks relating to an investment in the Notes**

#### ***Exchange Rate Risks***

The Bank of Albania maintains a flexible exchange rate policy, with limited market interventions and whereby the value of the Lek against foreign currencies is generally determined in the market. Accordingly, other than in the limited circumstances where the Bank of Albania intervenes, the ability of the Government and the Bank of Albania to influence fluctuations in the value of the Lek depends on a number of political and economic factors, including the ability to control inflation, the availability of foreign currency reserves and FDI inflows, which are outside of the control of the Government or the Bank of Albania. Albania is also a net importer of goods.

Any significant depreciation of the Lek against the Euro, the U.S. Dollar or other major currencies would increase the costs of imports and Albania's debt service and could have an effect on Albania's ability to repay its debt denominated in foreign currencies, including amounts due in Euros in respect of the Notes. In addition, a significant depreciation of the Lek against the Euro, the U.S. Dollar or other foreign currencies may result in reduced revenues and outflows of capital from the Lek, each of which could have a material adverse effect on the Albanian economy and Government revenues, which, in turn, may adversely affect Albania's ability to repay principal and make payments of interest on the Notes.

#### ***The terms of the Notes may be modified or waived without the consent of all the holders of the Notes***

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and for the passing of written resolutions of Noteholders without the need for a meeting. Such provisions are commonly referred to as "collective action clauses". These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority.

The Issuer has outstanding debt securities, and may in the future issue further debt securities, which contain collective action clauses in the same form as the collective action clauses in the conditions of the Notes. Accordingly, the Notes could be capable of aggregation with any such existing and future debt securities, meaning that a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of all the relevant aggregated series of debt securities, including the Notes.

Any modification or actions relating to any Reserved Matter (as defined in the Conditions), including in respect of payments and other important terms, may be made (a) to the Notes with the consent of the holders of 75% of the aggregate principal amount of the outstanding Notes and (b) to multiple series of debt securities which may be issued by

the Issuer (including the Notes) with the consent of both (i) the holders of at least two thirds of the aggregate principal amount of all outstanding debt securities being aggregated and (ii) the holders of at least 50% in aggregate principal amount of the outstanding debt securities of each series being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Conditions), any such modification or action relating to any Reserved Matter may be made to multiple series of the Issuer's debt securities (including the Notes) with the consent of 75% of the aggregate principal amount of the outstanding debt securities of all affected series, without requiring a particular percentage of the holders of any individual affected debt securities to vote in favour of or approve any proposed modification or action. Any modification or action proposed by the Issuer may, as the option of the Issuer, be made in respect of certain series of the Issuer's debt securities only and, for the avoidance of doubt, the collective action provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, among other things, to specify which method or methods of aggregation will be used by the Issuer.

There is, therefore, a risk that the conditions of the Notes may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of or signing a written resolution in respect of an amendment, modification or waiver may be holders of different series of debt securities and, as such, the majority of Noteholders would not necessarily have voted in favour of or signed a written resolution in respect of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple series of debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation.

The Conditions also contain a provision permitting the Notes and the Conditions to be amended without the consent of the Noteholders to correct a manifest error, or where the modification is of a formal, minor or technical nature or is not materially prejudicial to the interests of the Noteholders.

Any such amendment, modification or waiver in relation to the Notes may adversely affect their trading price.

***The Conditions restrict the ability of an individual holder to declare an Event of Default, and permit a majority of holders to rescind a declaration of such an Event of Default***

The Conditions contain a provision which, if an Event of Default occurs, allows the holders of at least 25% in aggregate principal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Issuer, whereupon the Notes shall become immediately due and payable, at their principal amount with accrued interest, without further action or formality.

The Conditions also contain a provision permitting the holders of at least 50% in aggregate principal amount of the outstanding Notes to notify the Issuer to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Issuer shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

***The Issuer is not required to effect equal or rateable payment(s) with respect to its other debt obligations pursuant to the Conditions and is not required to pay other debt obligations at the same time or as a condition of paying sums on the Notes and vice versa***

In accordance with Condition 3 (*Status*), the Notes will at all times rank *pari passu* with all other unsecured External Indebtedness of the Republic from time-to-time outstanding. However, the Republic shall have no obligation to effect equal or rateable payment(s) at any time with respect to any other such External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and *vice versa*. Accordingly, the Republic may choose to grant preferential treatment to, and therefore prioritise payment obligations to, other unsecured creditors of the Republic as payments fall due.

***The Notes have minimum denominations, which may affect an investor's ability to receive definitive Certificates***

The Notes have denominations consisting of a minimum denomination of €100,000 plus one or more higher integral multiples of €1,000, and it is possible that Notes may be traded in amounts in excess of €100,000 that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of €100,000 such that its holding amounts to such a specified denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive certificate in

respect of such holding (should certificates in definitive form be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least €100,000.

***Credit ratings may not reflect all risks***

The Notes are expected to be assigned a rating of B1 by Moody's and B+ by S&P UK. These ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A credit rating is generally dependent on a number of factors, including public debt levels, past and projected future budget deficits and other considerations. Any adverse change in the credit ratings of the Notes, or of the Republic, could adversely affect the trading price of the Notes.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes in the European Economic Area (the "EEA"), unless such ratings are issued by a credit rating agency established in the EEA and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances. Such general restriction will also apply in the case of credit ratings issued by third country non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant third country rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances. The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended and (b) transitional provisions that apply in certain circumstances. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK, of existing pre-2021 ratings, provided the relevant conditions are satisfied.

If the status of a rating agency rating the Notes changes for the purposes of the CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the relevant rating for regulatory purposes in the EEA or the UK, as applicable, and the Notes may have a different regulatory treatment, which may impact the value of the Notes and their liquidity in the secondary market.

***The Conditions are based on current provisions of English law***

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the value of the Notes.

***A secondary market for the Notes may not develop***

The Notes are new securities, which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. Although application has been made to the FCA for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of the Notes.

Furthermore, the Notes have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are being offered pursuant to an exemption from the registration requirements of the Securities Act. Accordingly, the Notes are subject to certain transfer restrictions and will bear a legend regarding those restrictions. See

“*Subscription and Sale*” and “*Transfer Restrictions*”. These restrictions may limit the ability of investors to resell the Notes.

***Investors in the Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg***

The Notes will be represented on issue by the Global Certificates, each of which will be registered in the name of a nominee of, and delivered to, a common depository for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Certificates, investors will not be entitled to receive individual certificates in definitive form in respect of the Notes.

Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificates. While the Notes are represented by the Global Certificates, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common depository for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificates.

Holders of beneficial interests in the Global Certificates will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

***There are risks relating to exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Notes in Euros. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than Euros. These include the risk that exchange rates may significantly change (including changes due to a devaluation of the Euro or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to Euros would decrease (i) the Investor’s Currency equivalent yield on the Notes, (ii) the Investor’s Currency equivalent value of the principal payable on the Notes and (iii) the Investor’s Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***Investors may experience difficulty in enforcing foreign judgments in Albania.***

Payments under the Notes are dependent upon the Issuer making payments to investors in the manner contemplated under the Notes. If the Issuer fails to do so, it may be necessary for an investor to bring an action against the Issuer to enforce its obligations and/or to claim damages, as appropriate, which may be costly and time-consuming.

The Conditions, the Notes and the Agency Agreement are governed by English law. The Republic will irrevocably submit to, and accept the jurisdiction of, the ICC, with respect to any suit, action or proceeding arising out of or based on the Notes. In addition, if the conditions set out in Condition 17.3 of the Conditions (and/or the corresponding provisions of the Agency Agreement) are met, the courts of England shall have exclusive jurisdiction to settle any disputes. Recognition of a foreign court decision and a foreign arbitral award in Albania shall be subject to the criteria set out in article 394 of the Albanian Code of Civil Procedure, pursuant to which a foreign court decision will not be recognised if: (i) it was taken by a court acting *ultra vires*; (ii) it was taken in contravention of the principle of the equality of the parties; (iii) it was taken in contravention of the principle of the rights of a party to be heard; (iv) it was taken in contravention to the public order of the Republic of Albania; (v) an Albanian court has already given a different decision on the same dispute between the same parties; or (vi) an Albanian court has already accepted hearing the same dispute between the same parties prior to the foreign court decision taking a *res judicata* force.

The courts of the Republic of Albania will recognise as valid, and will enforce an arbitral award granted under the Rules of Arbitration of the ICC without re-examination of the merits of the case in accordance with and subject to the provisions of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Albanian law is, however, not clear as regards to the enforceability of foreign court decisions in Albania and the choice of jurisdiction of foreign courts in cases where the Republic is a party. Therefore, the choice of jurisdiction of foreign courts (including English courts) may be held to be invalid by an Albanian court and the submission of the Republic to the exclusive jurisdiction of the English courts might adversely affect the recognition of the judgment by the Albanian courts and it may not be possible to enforce foreign court judgments, including English court judgments, against the Republic without a re-examination of the merits.

The Assembly has enacted Law № 9665 of 18 December 2006 “On state borrowing, public debt and state guaranteed loans in the Republic of Albania”, as amended by Law № 181/2014 of 24 December 2014 and Law № 92/2022 of 22 December 2022. Pursuant to Article 26 of this law, the Minister of Finance and Economy of the Republic has the right to waive the sovereign immunity of the Republic in respect of the Notes, subject to certain exceptions. In particular, waivers of sovereign immunity by the Republic are subject to the exception that a court decision may not be enforced against present or future “premises of the mission” as defined in the Vienna Convention on Diplomatic Relations signed in 1961, present or future “consular premises” as defined in the Vienna Convention on Consular Relations signed in 1963 or otherwise used by a diplomat or diplomatic mission of Albania or any agency or instrumentality thereof or any immovable property which falls under provisions of paragraph 1 to 3 of article 3 of Albanian Law № 8743, dated 22 February 2001 “On the state immovable properties”, as amended. In addition, public domain properties of the Republic of Albania (as defined under Albanian law) are immune from enforcement.



## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Conditions which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Notes:*

The €600,000,000 5.900% Notes due 9 June 2028 (the “**Notes**”, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of the Republic of Albania (the “**Issuer**”), acting through its Ministry of Finance and Economy, are issued subject to, and with the benefit of, an Agency Agreement dated 9 June 2023 (such agreement as amended and/or supplemented and/or restated from time-to-time, the “**Agency Agreement**”) made among the Issuer, GLAS Trust Company LLC, as registrar (the “**Registrar**”), and GLAS Trust Company LLC, as fiscal agent, paying agent and transfer agent (the “**Fiscal Agent**”, the “**Paying Agent**” and the “**Transfer Agent**”, and, collectively with the Registrar and any other Paying Agents appointed in respect of the Notes from time-to-time, the “**Agents**”). The holders of the Notes are entitled to the benefit of a Deed of Covenant (the “**Deed of Covenant**”) dated 9 June 2023 and executed by the Issuer. The original of the Deed of Covenant is held by the Fiscal Agent on behalf of the Noteholders (as defined below) at its specified office.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions contained in the Agency Agreement. Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours upon reasonable request by the Noteholders at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. References in these Conditions to the Fiscal Agent, the Registrar, the Transfer Agents, the Paying Agents and the Agents shall include any successor appointed under the Agency Agreement.

*The owners shown in the records of Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”) of book entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them.*

### 1. FORM, DENOMINATION AND TITLE

#### 1.1 Form and Denomination

The Notes are issued in registered form in amounts of €100,000 and integral multiples of €1,000, in excess thereof (referred to as the “**principal amount**” of a Note). A note certificate (each, a “**Certificate**”) will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number, which will be recorded on the relevant Certificate and in the relevant Register (as defined below), which the Issuer will procure to be kept by the Registrar.

*The Notes are not issuable in bearer form.*

#### 1.2 Title

The Registrar will maintain a separate register (each, a “**Register**”) in respect of each of the Unrestricted Notes and the Restricted Notes in accordance with the provisions of the Agency Agreement. Title to the Notes passes only by registration in the relevant Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, “**Noteholder**” and (in relation to a Note) “**holder**” means the person in whose name a Note is registered in the relevant Register.

*For a description of the procedures for transferring title to book entry interests in the Notes, see the Agency Agreement and “Clearing and Settlement Arrangements” below.*

## 2. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

### 2.1 Transfers

A Note may, subject to Condition 2.4, be transferred in whole or in part by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any Transfer Agent.

*For a description of certain restrictions on transfers of interests in the Notes, see “Transfer Restrictions”.*

### 2.2 Delivery of new Certificates

Each new Certificate to be issued upon the transfer of Notes will, within five business days of receipt by the Registrar or the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, “**business day**” shall mean a day on which commercial banks and foreign exchange markets are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

*Except in the limited circumstances described in “The Global Certificates —Exchange for Certificates”, owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and compliance with the legends placed on the Notes as described in “Transfer Restrictions”.*

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the relevant Register or as specified in the form of transfer.

### 2.3 Formalities Free of Charge

Registration of a transfer of Notes will be effected without charge by, or on behalf of, the Issuer or any Agent but upon payment by the Noteholder (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges, which may be imposed in relation to such transfer.

### 2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on (and including) the due date for any payment of principal or interest on that Note.

### 2.5 Regulations

All transfers of Notes and entries on the relevant Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Transfer Agent. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

## 3. STATUS

The Notes constitute direct, general, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured External Indebtedness (as defined below) of the Issuer from time-to-time outstanding, *provided*, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and *vice versa*.

“**External Indebtedness**” means any obligations (other than the Notes) for borrowed monies that are denominated or payable in a currency or by reference to a currency other than the lawful currency of the Issuer, *provided that*, if at any time the lawful currency of the Issuer is the Euro, then any indebtedness denominated

or payable, or at the option of the holder thereof payable, in Euro, shall be included in the definition of “External Indebtedness”.

#### 4. **NEGATIVE PLEDGE**

So long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any Security Interest (as defined below), other than a Permitted Security Interest (as defined below), over any of its property or assets to secure Public External Indebtedness of the Issuer or any guarantee of the Issuer in respect of Public External Indebtedness, unless (i) the Notes are secured equally and rateably with such Public External Indebtedness or (ii) the Notes have the benefit of such other security, guarantee, indemnity or other arrangement as shall be substantially equivalent.

In these Conditions:

“**Permitted Security Interest**” means:

- (a) any Security Interest upon property (or any revenues therefrom) to secure Public External Indebtedness incurred for the purpose of financing the acquisition or construction of such property;
- (b) any Security Interest existing on any property (or any revenues therefrom) at the time of its acquisition;
- (c) any Security Interest securing Public External Indebtedness incurred for the purpose of Project Financing provided that (i) the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Indebtedness and (ii) the property over which such Security Interest is granted consists solely of such assets and revenues;
- (d) any Security Interest existing on the original date of issue of the Notes; and
- (e) the renewal or extension of any Security Interest described in subparagraphs (a) to (d) above, provided that the principal amount of the original financing secured thereby is not increased.

“**Project Financing**” means any arrangement for the provision of funds which are to be used solely to finance a project for the acquisition, construction, development or exploitation of any property.

“**Public External Indebtedness**” means any External Indebtedness, which is evidenced or represented by bonds, notes or other securities, which are for the time being or are capable of being or intended to be quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market.

“**Security Interest**” means a lien, pledge, mortgage, security interest, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest.

#### 5. **INTEREST**

##### 5.1 **Interest Rate and Interest Payment Dates**

The Notes bear interest on their outstanding principal amount from and including 9 June 2023 at the rate of 5.900% *per annum* (the “**Rate of Interest**”), payable annually in arrear on 9 June in each year (each an “**Interest Payment Date**”). The first payment (for the period from, and including, 9 June 2023 to, but excluding, 9 June 2024 and amounting to €59.00 per €1,000 in principal amount of Notes) shall be made on 9 June 2024.

The period beginning on, and including, 9 June 2023 and ending on, but excluding, the first Interest Payment Date and each successive period beginning on, and including, an Interest Payment Date and ending on, but excluding, the next successive Interest Payment Date is called an “**Interest Period**”.

##### 5.2 **Interest Accrual**

Each Note will cease to bear interest from, and including, its due date for redemption unless, upon surrender of the Certificate representing such Note, payment of the principal in respect of the Note is improperly withheld

or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue at the rate referred to in Condition 5.1 until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) the day which is seven days after notice has been given to the Noteholders that the Fiscal Agent or the Paying Agent has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment to the relevant Noteholders under these Conditions).

### **5.3 Calculation of Broken Interest**

When interest is required to be calculated in respect of a period which is shorter than a full year, it shall be calculated by applying the Rate of Interest to each €1,000 principal amount of Notes (the “**Calculation Amount**”) and on the basis of (a) the actual number of days in the period from, and including, the date from which interest begins to accrue (the “**Accrual Date**”) to, but excluding, the date on which it falls due, divided by (b) the actual number of days from, and including, the Accrual Date to, but excluding, the next following Interest Payment Date. The resultant figure shall be rounded to the nearest cent, half a cent being rounded upwards. The interest payable in respect of a Note shall be the product of such rounded figure and the amount by which the Calculation Amount is multiplied to reach the denomination of the relevant Note, without any further rounding.

## **6. PAYMENTS**

### **6.1 Payments in respect of Notes**

Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by Euro cheque drawn on a bank that processes payments in Euro mailed by uninsured first class mail or (if posted to an address overseas) airmail to the registered address of the Noteholder if it does not have a registered account. Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the relevant Register at the close of business on the date (the “**record date**”) being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition, a Noteholder’s “**registered account**” means the Euro account maintained by, or on behalf of, it with a bank that processes payments in Euro, details of which appear on the relevant Register at the close of business, in the case of principal and interest due otherwise than on an Interest Payment Date, on the second Business Day (as defined in Condition 6.4 below) before the due date for payment and, in the case of interest due on an Interest Payment Date, on the relevant record date, and a Noteholder’s “**registered address**” means its address appearing on the relevant Register at that time.

### **6.2 Payments subject to Applicable Laws**

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment but without prejudice to the provisions of Condition 8.

### **6.3 No Commissions**

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

### **6.4 Payment on Business Days**

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition “**Business Day**” means a day (other than a Saturday or Sunday) on which the Trans-European Automated Real Time Gross Settlement Express Transfer (T2) system is open and on which commercial banks and foreign exchange markets are open for general business in London and, in the case of surrender of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

## **6.5 Partial Payments**

If the amount of principal or interest that is due on the Notes is not paid in full, the Registrar will annotate the relevant Register with a record of the amount of principal or interest in fact paid.

## **6.6 Agents**

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

- (a) there will at all times be a Fiscal Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (which may be the Fiscal Agent) having a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or such other relevant authority;
- (c) there will at all times be a Paying Agent (which may be the Fiscal Agent) having a specified office in London; and
- (d) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes in specified offices shall be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

## **7. REDEMPTION AND PURCHASE**

### **7.1 Redemption at Maturity**

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 9 June 2028.

### **7.2 No Other Redemption**

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 7.1 above.

### **7.3 Purchases**

The Issuer may at any time purchase Notes at any price in the open market or otherwise.

### **7.4 Cancellation**

All Notes which are (a) redeemed or (b) purchased by, or on behalf of, the Issuer shall be cancelled and may not be reissued or resold.

## 8. TAXATION

### 8.1 Payment without Withholding

All payments in respect of the Notes by, or on behalf of, the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied collected, withheld or assessed by, or on behalf of, the Republic of Albania or any political subdivision or any authority thereof or therein having power to tax (collectively, “**Taxes**”), unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts, which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

- (a) held by or on behalf of a holder who is liable to such Taxes in respect of such Note by reason of his having some connection with the Republic of Albania other than the mere holding of the Note; or
- (b) if such Note is surrendered for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the holder would have been entitled to such additional amounts on surrender of such Note for payment on the last day of such period of 30 days, assuming that day to have been a Business Day (as defined in Condition 6.4).

### 8.2 Interpretation

In these Conditions “**Relevant Date**” means the date on which the payment first becomes due, but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12.

### 8.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

## 9. PRESCRIPTION

Claims in respect of principal and interest will become prescribed and become void unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 8.

## 10. EVENTS OF DEFAULT

### 10.1 Declaration of Acceleration

If any of the following events (each an “**Event of Default**”) occurs and is continuing:

- (a) *Non-payment*: any amount of principal is not paid on the due date for payment thereof or any amount of interest on the Notes is not paid within 15 days of the due date for payment thereof; or
- (b) *Breach of other obligations*: the Issuer does not perform or comply with any one or more of its other obligations under the Notes, which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after notice of such default has been given to the Issuer or at the specified office of the Fiscal Agent by any Noteholder; or
- (c) *Cross-acceleration of the Issuer*:
  - (i) the holders of any Public External Indebtedness of the Issuer accelerate such Public External Indebtedness or declare such Public External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled required payment), prior to the originally stated maturity thereof; or

- (ii) the Issuer fails to pay in full any principal of, or interest on, any Public External Indebtedness when due (after expiration of any originally applicable grace period) or any Guarantee of any Public External Indebtedness given by the Issuer shall not be honoured when due and called upon (after the expiration of any originally applicable grace period);

provided that the aggregate amount of the relevant Public External Indebtedness or Guarantee in respect of which one or more of the events mentioned above in this Condition 10.1(c) shall have occurred equals or exceeds €20,000,000 or its equivalent in other currencies; or

- (d) *Moratorium*: the Issuer shall suspend payment of, or admit its inability to pay, its Public External Indebtedness or any part thereof or declare a general moratorium on, or in respect of, its Public External Indebtedness or any part thereof or anything analogous to the foregoing shall occur; or
- (e) *Unlawfulness or Invalidity*: the validity of the Notes is contested by the Issuer or the Issuer shall deny any of its obligations under the Notes or it is or becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes or any of such obligations shall be or become unenforceable or invalid; or
- (f) *International Monetary Fund*: the Issuer ceases to be a member of the International Monetary Fund or ceases to be eligible to use the general resources of the International Monetary Fund; or
- (g) *Consents etc.*: any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer to perform its obligations under the Notes, the Agency Agreement or the Deed of Covenant or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified in a manner which adversely affects any right or claim of any of the Noteholders in respect of any payment due pursuant to these Conditions,

then the holders of at least 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

In these Conditions, “**Guarantee**” means any guarantee of or indemnity in respect of indebtedness or other like obligation.

## **10.2 Withdrawal of Declaration of Acceleration**

If the Issuer receives notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

## **11. REPLACEMENT OF CERTIFICATES**

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity and/or security as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## **12. NOTICES**

### **12.1 Notices to the Noteholders**

All notices to the Noteholders will be valid if mailed to them by first class mail or (if posted to an address overseas) by airmail to the holders (or the first of any joint named holders) at their respective addresses in the relevant Register. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes

are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

## **12.2 Notices to the Issuer**

All notices to the Issuer will be valid if sent to the Issuer at the Ministry of Finance and Economy of the Republic of Albania, Tirana or such other address as may be notified by the Issuer to the Noteholders in accordance with Condition 12.1.

## **13. MEETINGS OF NOTEHOLDERS; WRITTEN RESOLUTIONS**

### **13.1 Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions**

- (a) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the Agency Agreement. The Issuer will determine the time and place of the meeting. The Issuer will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.
- (b) The Issuer will convene a meeting of Noteholders if the holders of at least 10% in principal amount of the outstanding Notes (as defined in the Agency Agreement and described in Condition 13.9 below) have delivered a written request to the Issuer (with a copy to the Fiscal Agent) setting out the purpose of the meeting. The Issuer will agree the time and place of the meeting. The Issuer will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.
- (c) The Issuer will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer will agree such procedures as are customary in the market in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.
- (d) The notice convening any meeting will specify, *inter alia*:
  - (i) the date, time and location of the meeting;
  - (ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
  - (iii) the modification record date for the meeting, which shall be no more than five business days before the date of the meeting;
  - (iv) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;
  - (v) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;
  - (vi) whether Condition 13.2 or Condition 13.3 or Condition 13.4 shall apply and, if relevant, in relation to which other series of debt securities it applies;
  - (vii) if the proposed modification or action relates to two or more series of debt securities issued by the Issuer and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;
  - (viii) such information that is required to be provided by the Issuer in accordance with Condition 13.6;



- (ix) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 13.7; and
  - (x) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.
- (e) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 13.1(d) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.
- (f) A “**modification record date**” in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
- (g) An “**Extraordinary Resolution**” means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
- (h) A “**Written Resolution**” means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
- (i) Any reference to “**debt securities**” means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.
- (j) “**Debt Securities Capable of Aggregation**” means those debt securities which include or incorporate by reference this Condition 13 and Condition 14 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

### 13.2 Modification of this Series of Notes only

- (a) Any modification of any provision of, or any action in respect of, the Notes, the Agency Agreement and/or the Deed of Covenant may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
- (b) A “**Single Series Extraordinary Resolution**” means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 13.1 by a majority of:
- (i) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or
  - (ii) in the case of a matter other than a Reserved Matter, more than 50% of the aggregate principal amount of the outstanding Notes.
- (c) A “**Single Series Written Resolution**” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
- (i) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or
  - (ii) in the case of a matter other than a Reserved Matter more than 50% of the aggregate principal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

- (d) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

### 13.3 Multiple Series Aggregation – Single limb voting

- (a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.
- (b) A “**Multiple Series Single Limb Extraordinary Resolution**” means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 13.1, as supplemented if necessary, which is passed by a majority of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
- (c) A “**Multiple Series Single Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.
- (d) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be, and on all couponholders (where applicable) of each other affected series of Debt Securities Capable of Aggregation.
- (e) The “**Uniformly Applicable**” condition will be satisfied if:
  - (i) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
  - (ii) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).
- (f) It is understood that a proposal under paragraph 13.3(a) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest,

respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

- (g) Any modification or action proposed under Condition 13.3(a) may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.3 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

#### **13.4 Multiple Series Aggregation – Two limb voting**

- (a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
- (b) A “**Multiple Series Two Limb Extraordinary Resolution**” means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 13.1, as supplemented if necessary, which is passed by a majority of:
  - (i) at least two thirds of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (ii) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).
- (c) A “**Multiple Series Two Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
  - (i) at least two thirds of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (ii) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

- (d) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be, and on all couponholders (where applicable) of each other affected series of Debt Securities Capable of Aggregation.
- (e) Any modification or action proposed under Condition 13.4(a) may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.4 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

### 13.5 Reserved Matters

In these Conditions, “**Reserved Matter**” means any proposal:

- (a) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (b) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;
- (c) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
- (d) to change this definition, or the definition of “Extraordinary Resolution”, “Single Series Extraordinary Resolution”, “Multiple Series Single Limb Extraordinary Resolution”, “Multiple Series Two Limb Extraordinary Resolution”, “Written Resolution”, “Single Series Written Resolution”, “Multiple Series Single Limb Written Resolution” or “Multiple Series Two Limb Written Resolution”;
- (e) to change the definition of “debt securities” or “Debt Securities Capable of Aggregation”;
- (f) to change the definition of “Uniformly Applicable”;
- (g) to change the definition of “outstanding” or to modify the provisions of Condition 13.9;
- (h) to change the legal ranking of the Notes;
- (i) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 10.1;
- (j) to change the law governing the Notes, the courts or arbitral tribunals to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer’s waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 17;
- (k) to impose any condition on or otherwise change the Issuer’s obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (l) to modify the provisions of this Condition 13.5;
- (m) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security; or
- (n) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:
  - (i) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
  - (ii) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

### 13.6 Information

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 13.2, Condition 13.3 or Condition 13.4, the Issuer shall publish in accordance with Condition 14, the following information:

- (a) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (b) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (c) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and
- (d) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 13.1(d)(vii).

### 13.7 Claims Valuation

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 13.3 and 13.4, the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the par value of the Notes and such affected series of debt securities will be calculated. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

### 13.8 Manifest error, etc.

The Notes, these Conditions and the provisions of the Agency Agreement and the Deed of Covenant may be amended by the Issuer without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not in the sole opinion of the Issuer materially prejudicial to the interests of the Noteholders.

### 13.9 Notes controlled by the Issuer

For the purposes of: (i) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution; (ii) this Condition 13; and (iii) Condition 10, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

- (a) "**public sector instrumentality**" means the Bank of Albania, the Albanian Ministry of Finance and Economy, any other department, ministry or agency of the government of the Republic of Albania or any corporation, trust, financial institution or other entity owned or controlled by the government of the Republic of Albania or any of the foregoing; and
- (b) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall make available to Noteholders a copy of the certificate prepared pursuant to Condition 14.4, which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Issuer shall make any such certificate available for inspection during normal business hours at the specified office of the Fiscal Agent and, upon reasonable request, will allow copies of such certificate to be taken.

### **13.10 Publication**

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 14.7.

### **13.11 Exchange and Conversion**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

## **14. AGGREGATION AGENT; AGGREGATION PROCEDURES**

### **14.1 Appointment**

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes, and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

### **14.2 Extraordinary Resolutions**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

### **14.3 Written Resolutions**

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written

Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

#### **14.4 Certificate**

For the purposes of Condition 14.2 and 14.3, the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 13.2, Condition 13.3 or Condition 13.4, as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (a) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the modification record date; and
- (b) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 13.9 on the modification record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

#### **14.5 Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 14 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

#### **14.6 Binding nature of determinations; no liability**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 14 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

#### **14.7 Manner of publication**

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 10, Condition 13, this Condition 14:

- (a) on the website of the Albanian Ministry of Finance and Economy;
- (b) through the systems of Clearstream Banking, S.A. and Euroclear Bank SA/NV and/or any other international or domestic clearing system(s) through which the Notes are for the time being cleared;
- (c) in such other places and in such other manner as may be required by applicable law or regulation; and
- (d) in such other places and in such other manner as may be customary.

### **15. CURRENCY INDEMNITY**

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall

indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

## **16. FURTHER ISSUES**

The Issuer may from time-to-time without the consent of the Noteholders create and issue further notes, having terms and conditions the same as those of the Notes or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

## **17. GOVERNING LAW, ARBITRATION AND SUBMISSION TO JURISDICTION**

### **17.1 Governing Law**

The Notes, the Agency Agreement and the Deed of Covenant, and any non-contractual obligations arising out of, or in connection with, the Notes, the Agency Agreement and the Deed of Covenant, are governed by, and will be construed in accordance with, English law.

### **17.2 Arbitration**

Subject to Condition 17.3, any dispute arising out of, or in connection with, the Notes (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligation arising out of, or in connection with, the Notes) (a “**Dispute**”) shall be referred to and finally resolved by arbitration under the Rules of Arbitration of the International Chamber of Commerce (the “**Rules**”), which Rules are deemed to be incorporated by reference into this Condition.

- (a) The arbitral tribunal shall consist of three arbitrators, each of whom shall be disinterested in the Dispute, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions.
- (b) The claimant(s), irrespective of number, shall nominate jointly one arbitrator and the respondent(s), irrespective of number, shall nominate jointly the second arbitrator, in accordance with the Rules, for confirmation by the ICC Court. If a party or parties fail(s) to nominate an arbitrator, the appointment shall be made by the ICC Court. The third arbitrator, who shall serve as president of the arbitral tribunal, shall be nominated, for confirmation by the ICC Court, by agreement of the two party-nominated arbitrators within 30 days of the nomination of the second arbitrator, or, in default of such agreement, shall be appointed by the ICC Court as soon as possible.
- (c) The seat and place of arbitration shall be London, United Kingdom.
- (d) The language of the arbitration shall be English.

### **17.3 Jurisdiction**

- (a) At any time before any Noteholder has nominated an arbitrator to resolve any Dispute(s) pursuant to Condition 17.2, that Noteholder or any other Noteholder, at its sole option, may elect by notice in writing to the Issuer that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction, as more particularly described in Condition 17.3(b)(iii). Following any such election, no arbitral tribunal shall have jurisdiction in respect of any Dispute(s).
- (b) In the event that any Noteholder issues a notice pursuant to Condition 17.3(a), the following provisions shall apply:



- (i) subject to Condition 17.3(b)(iii), the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Issuer and any Noteholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts;
- (ii) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and
- (iii) this Condition 17.3(b) is for the benefit of the Noteholders only. As a result, and notwithstanding Condition 17.3(b)(i), to the extent allowed by law, each Noteholder may, in respect of any Dispute or Disputes, take (A) proceedings relating to a Dispute (“**Proceedings**”) in any other court with jurisdiction; and (B) concurrent Proceedings in any number of jurisdictions.

#### **17.4 Appointment of Process Agent**

The Issuer irrevocably appoints the Ambassador of the Republic of Albania to the Court of St. James’s currently residing at the Embassy of the Republic of Albania, at 33 St. George’s Drive, London SW1V 4DG, United Kingdom or, in his absence, his designate as its agent for service of process in England and agrees that, in the event of such agent being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing in this Condition shall affect the right to serve process in any other manner permitted by law.

#### **17.5 Waiver of Immunity**

The Issuer irrevocably and unconditionally with respect to any Dispute: (a) to the extent permitted by law in any jurisdiction and subject as set out below, waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in such jurisdiction; (b) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute; and (c) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final judgment, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute, provided, however, that the Issuer does not waive any immunity in respect of: (i) present or future “premises of the mission” as defined in Vienna Convention on Diplomatic Relations signed in 1961, present or future “consular premises” as defined in Vienna Convention on Consular Relations signed in 1963 or otherwise used by a diplomat or diplomatic mission of Albania or any agency or instrumentality thereof; or (ii) any immovable property which falls under provisions of paragraph 1 to 3 of article 3 of Albanian Law № 8743, dated 22 February 2001 “On the state immovable properties”.

#### **17.6 Other Documents**

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the International Chamber of Commerce and the English courts and appointed an agent in England for service of process in terms substantially similar to those set out above. In addition, the Issuer has, in such documents, waived any rights to sovereign immunity and other similar defences which it may have, in terms substantially similar to those set out above.

### **18. RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## THE GLOBAL CERTIFICATES

*The Global Certificates contain the following provisions, which apply to the Notes in respect of which they are issued while they are represented by the Global Certificates, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 8 below.*

### 1. FORM OF THE NOTES

The Regulation S Notes will be represented on issue by the Unrestricted Global Certificate, and the Rule 144A Notes will be represented on issue by the Restricted Global Certificate, each of which will be registered in the name of a nominee of, and delivered to, a common depository for Euroclear and Clearstream, Luxembourg.

Beneficial interests in a Global Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. The Global Certificates will each have an ISIN and a Common Code. Beneficial interests in the Restricted Global Certificate (and any individual Certificates issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of each such Certificate, as set out therein and under “*Transfer Restrictions*”.

Except in the limited circumstances described below, owners of beneficial interests in the Global Certificates will not be entitled to receive physical delivery of individual certificates in definitive form.

Book-entry interests in the Restricted Global Certificate (“**restricted book-entry interests**”) may be transferred to a person who takes delivery in the form of book-entry interests in the Unrestricted Global Certificate (“**unrestricted book-entry interests**”) only upon delivery by the transferor of a written certification (in the form provided in the Agency Agreement) to the effect that the transfer is made in accordance with Regulation S and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Unrestricted book-entry interests may be transferred to a person who takes delivery in the form of restricted book-entry interests only upon delivery by the transferor of a written certification to the effect that the transfer is being made to a person who the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Any book-entry interest in one of the Global Certificates that is transferred to a person who takes delivery in the form of a book-entry interest in the other Global Certificate will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Certificate and become a book-entry interest in the other Global Certificate, and accordingly, will thereafter be subject to all transfers, if any, and other procedures applicable to book-entry interest in that other Global Certificate for as long as that person retains the book-entry interests.

### 2. ACCOUNTHOLDERS

For so long as any of the Notes are represented by the Global Certificates, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each, an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression “**Noteholders**” and references to “**holding of Notes**” and to “**holder of Notes**” shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Republic, solely in the nominee for the clearing systems named in the relevant Register (the “**Nominee**”) in accordance with and subject to the terms of the Global Certificates. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Nominee.

### 3. CANCELLATION

Cancellation of any Note following its redemption or purchase by the Republic will be effected by reduction in the aggregate principal amount of the Notes in the relevant Register and by the annotation of the appropriate schedule to the relevant Global Certificate.

#### 4. PAYMENTS

Payments of principal and interest in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to, or to the order of, the Fiscal Agent or such other Agent as shall have been notified to the holders of the Global Certificates for such purpose.

Distributions of amounts with respect to book-entry interests in the Global Certificates held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Certificate by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the relevant Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

#### 5. INTEREST CALCULATION

For so long as Notes are evidenced by a Global Certificate, interest payable to the Nominee will be calculated by applying the Rate of Interest to the outstanding principal amount of the Notes evidenced by the relevant Global Certificate and on the basis of (a) the actual number of days in the period from, and including, the Accrual Date to, but excluding, the date on which it falls due, divided by (b) the actual number of days from, and including, the Accrual Date to, but excluding, the next following Interest Payment Date. The resultant figure shall be rounded to the nearest cent (half a cent being rounded upwards).

#### 6. NOTICES

So long as the Notes are represented by a Global Certificate or Global Certificates and such Global Certificate(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to entitled Accountholders in substitution for notification as required by Condition 12 (*Notices*) except that, so long as the Notes are listed on any stock exchange, notices shall also be published in accordance with the rules of such exchange. Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to Euroclear and Clearstream, Luxembourg as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear or Clearstream, Luxembourg, as applicable, in accordance with its standard rules and procedures and otherwise in such manner as the Fiscal Agent and the applicable clearing system may approve for this purpose.

#### 7. REGISTRATION OF TITLE

The Registrar will not register title to the Notes in a name other than that of the Nominee for a period of seven calendar days preceding the due date for any payment of principal or interest in respect of the Notes.

#### 8. EXCHANGE FOR CERTIFICATES

##### *Exchange*

The Restricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for individual Certificates ("**Restricted Certificates**"), and the Unrestricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for individual Certificates (the "**Unrestricted Certificates**" and, together with the Restricted Certificates, the "**Certificates**") upon the occurrence of an Exchange Event.

For these purposes an “**Exchange Event**” means that:

- (a) circumstances described in Condition 10 (*Events of Default*) have occurred; or
- (b) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces that it is permanently to cease business or does in fact do so and no successor or alternative clearing system is available; or

*provided that*, in the case of any exchange pursuant to (b) above, the holder has given the Registrar not less than 30 days’ notice at its specified office of such holder’s intention to effect such exchange.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate principal amount of duly executed Certificates in or substantially in the form set out in the Agency Agreement.

### ***Delivery***

In such circumstances, the relevant Global Certificate shall be exchanged in full for Certificates and the Republic will, at the cost of the Republic (but against such indemnity and/or security as the Registrar or Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Registrar for completion and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Republic and the Registrar may require to complete, execute and deliver such Certificates and (b) in the case of the Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB. Restricted Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “*Transfer Restrictions*”.

### ***Legends***

Upon the transfer, exchange or replacement of a Restricted Certificate bearing the legend referred to under “*Transfer Restrictions*” below, or upon specific request for removal of the legend on a Restricted Certificate, the Republic will deliver only Restricted Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Republic and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Republic that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the Securities Act.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes will be used by the Issuer for general budgetary funds in support of the public and sovereign needs of Albania (*i.e.*, not for a commercial purpose).

## THE REPUBLIC OF ALBANIA



### Area and Population

Albania is located in the southwestern region of the Balkan Peninsula in south-eastern Europe. Albania shares a border with Greece to the south and southeast, North Macedonia to the east, Kosovo to the northeast and Montenegro to the northwest. Western Albania lies along the Adriatic and Ionian Sea coastlines. The Adriatic Sea separates Albania from Italy via the Strait of Otranto. Albania covers an area of 28,748 square kilometres. Its territory is predominantly mountainous but is relatively flat along its coastline with the Adriatic Sea. Albania's primary seaport is Durrës, through which, in 2020, 86.7% of Albania's maritime cargo was transported. The capital city of Albania is Tirana, which is located in the central area of the country.

According to statistics published by INSTAT, as at 1 January 2022, the population of Albania was 2.8 million, of which 32.9% lived in the Tirana prefecture. According to data from the 2011 census (the most recently-completed national census), the ethnic composition of the population was predominantly ethnic Albanian (estimated to comprise 82.6% of the population), with ethnic Greeks making up the next largest group (0.9%). Albanian is the official language of Albania. According to data from the 2011 census, fertility rates declined to below the population replacement rate. According to the Household Migration Survey conducted by INSTAT in co-operation with the International Organisation for Migration, emigration from Albania, primarily by professionals due to economic factors, was one of the major reasons for the decline in the population in Albania between the 2001 and the 2011 censuses. Emigration of professionals has continued since 2011. According to annual estimates published by INSTAT, there were 42,048 emigrants in 2021, 76.3% more than in 2020. See "*Risk Factors—Risks relating to Albania—Socio-economic challenges*". Albania was ranked 67<sup>th</sup> out of 191 countries on the 2021 Human Development Index published by the UN Development Programme ("UNDP"), as compared to 95<sup>th</sup> on the 2013 Human Development Index. Between 1990 and 2021, Albania's Human Development Index value increased from 0.644 to 0.796, or by 23.6%.

Albania is a self-proclaimed secular state, which, pursuant to Article 10 of the Constitution, allows freedom of religion. According to statistics published by the UN Statistics Division in 2013, the predominant religions in Albania are Islam (estimated to comprise 56.7% of the population), including Sunni Islam and members of the Bektashi Order, Roman Catholic (10.0%) and Albanian Orthodox (6.7%).

### History

Albanians descend from a non-Slavic, non-Turkish group of tribes known as Illyrians who arrived in the Balkans around 2000 B.C. After falling under Roman authority in 165 B.C., Albania has had only brief periods of self-rule.

Following the division of the Roman Empire in 395 A.D., the Byzantine Empire established control over present-day Albania. In the 11<sup>th</sup> century, Byzantine Emperor Alexius I Comnenus made the first-recorded reference to a distinct area of land known as Albania and to its people.

The Ottoman Empire ruled Albania from 1385 to 1912. During this time, most of the population converted to the Islamic faith; others emigrated to Italy, Greece, Egypt and Turkey. Although its control was briefly disrupted by a revolt between 1443 and 1478, which was led by Albania's national hero Gjergj Kastriot Skenderbeu, Ottoman rule was dominant for centuries.

Albania declared its independence from the Ottoman Empire in 1912 but fell under Italian control in 1939. Communist partisans took over the country in 1944. Albania was ruled by Enver Hoxha as a totalitarian Communist regime from the end of World War II until Hoxha's death in 1985. During the period of Hoxha's rule, Albania first formed an alliance with the Soviet Union until 1960 and later with China until 1978. Between 1978 and the 1990s, the Communist regime applied the principles of self-reliance and isolationism, which included the prohibition of foreign loans and foreign investment.

In the early 1990s, Albania put an end to 46 years of isolationist Communist rule and established a multi-party democracy. The then-government introduced certain liberalisation measures, including granting the freedom to travel abroad in 1990, and made efforts to improve ties with foreign countries. The former Communists remained in power following elections in March 1991, but a general strike and opposition movement led to the formation of a coalition cabinet that included non-Communists. In March 1992, Sali Berisha, leader of the right-wing DPA, was elected as the first non-Communist president of Albania since World War II. The defeat of the Communists caused economic collapse and social unrest, but the newly-elected Government introduced reforms, which marked the start of Albania's transition to a market economy. In 1996 and 1997, the rise and collapse of several large financial pyramid schemes led to riots throughout Albania, and a United Nations military peacekeeping mission led by Italy was sent to stabilise the country. Following legislative elections in 1997, the Albanian Socialist Party (the "SPA") came to power, governing for eight years. Between 2005 and 2013, the DPA returned to power (including through a DPA-led coalition governing in June 2009, for the coalition known as the "Alliance for Change"). Since September 2013, Edi Rama, leader of the SPA, has served as Prime Minister.

In April 2009, Albania became a member of the North Atlantic Treaty Organization ("NATO"). See "*—International Relations—NATO*".

Prior to the 2013 elections, two major coalitions were formed: the "Alliance for a European Albania" (a coalition of 37 opposition parties varying from the far-left to the far-right, led by Edi Rama, the then-leader of the opposition and leader of the SPA) and the "Alliance for Employment, Prosperity and Integration" (a coalition of 25 centrists and centre-right parties, led by Sali Berisha, the then-Prime Minister). In the June 2013 parliamentary elections, the left-wing coalition "Alliance for a European Albania" led by Edi Rama's SPA came to power.

In June 2014, Albania was granted EU candidate status. See "*—International Relations—European Union*".

In July 2014, the main parliamentary opposition parties boycotted the Assembly after two SPA members allegedly attacked a member of the DPA. In December 2014, following the proposal of a resolution by the European Parliament aimed at introducing democratic standards, including not allowing the majority to use its position simply to bypass opposition and debate, the DPA ended the boycott.

On 5 December 2016, the President announced that parliamentary elections would be held on 18 June 2017. In February 2017, the DPA began a four-month boycott of the Assembly. The DPA and its allies announced that they would not participate in the parliamentary elections unless certain demands were met, including the resignation of the Prime Minister, the formation of a technical government and the introduction of electronic voting. The SPA rejected these demands and the opposition parties did not register for the elections by the originally-set deadline. The political deadlock ended on 18 May 2017, following EU and U.S.-led mediation efforts and entry into a cross-party political agreement (the "**May 2017 Agreement**") by the leaders of the DPA and the SPA, which granted six ministerial positions to the DPA in sectors perceived to be important to the elections. The May 2017 Agreement postponed the election until 25 June 2017 and resulted in amendments to the Criminal Code, the law on audio visual authority and the law on political parties, to increase electoral transparency and fairness. The 2017 parliamentary elections were held on 25 June 2017, and the SPA won 48.3% of the vote, the DPA 28.8% and the SMI 14.2%, with the remainder split among small parties.

In February 2019, the DPA and SMI rescinded all their parliamentary mandates after the Assembly voted against their initiative on the vetting of politicians. The Albanian Central Election Commission (the "CEC") passed the vacant seats to the remaining registered candidates, in accordance with the law. The 2019 municipal elections were subsequently

held without the participation of the DPA or SMI. The DPA and the SMI participated in the 2021 parliamentary elections.

On 26 November 2019, north-western Albania was struck by a 6.4-magnitude earthquake, which killed 51 people and injured approximately 1,000. The Assembly granted Prime Minister Edi Rama state of emergency powers to deal with earthquake aftermath. The EU office in Albania estimates that approximately 1.9 million people were affected by the November 2019 Earthquake. The Government estimates that 17,000 people lost their homes as a result of the November 2019 Earthquake. Total damage has been estimated by the Government to amount to €985 million, with damage to private and public properties of €844 million and other losses of €141 million. According to estimates published in the Post Disaster Needs Assessment in 2020, total recovery needs were €1,076.1 million.

In March 2020, upon the positive recommendation of the European Commission, the Council for the European Union opened accession negotiations with Albania.

On 13 October 2017, the Electoral Reform Commission was established with the primary objective to amend and update the electoral code to incorporate recommendations made by the Organisation for Security and Cooperation in Europe (the “OSCE”) and Office for Democratic Institutions and Human Rights (“ODIHR”) in respect of the elections held in 2013, 2015, 2017 and (subsequently) the 2019 local elections. In June 2020, the SPA and the parliamentary and extra-parliamentary opposition parties reached a breakthrough political agreement on electoral reform, which brought the opposition parties back into the political process. The Electoral Reform Commission proposed amendments to the electoral code and, on 23 July 2020, a number of amendments to the electoral code were adopted. See “—*Government Structure and Recent Developments—Electoral Reform*”.

On 30 July 2020, constitutional amendments were made to introduce preferential voting, whereby individual voters are able to rank the candidates in order of preference. On 6 September 2020, President Ilir Meta called parliamentary elections for 25 April 2021. The official campaign period began on 26 March 2021. The parliamentary elections took place on 25 April 2021 during the COVID-19 pandemic and the SPA won 48.7% of the vote, the DPA 39.4% and the SMI 6.8%, with the remainder split among small parties. For the first time, an electronic voter identification system operated in all voting centres on election day. The CEC announced voter turnout at 46.3%. The Assembly approved Prime Minister Edi Rama’s proposed Council of Ministers and Government programme on 17 September 2021. See “—*Government Structure and Recent Developments—Current Government*”.

On 9 June 2021, the Assembly voted to impeach President Meta, for alleged violations of the constitution ahead of the 2021 parliamentary elections. However, on 17 February 2022, the Constitutional Court overturned President Meta’s impeachment, asserting that the evidence against President Meta did not amount to a grave violation of the Constitution.

In June 2022, Bajram Begaj was elected as President by the Assembly following three rounds of voting in which no other candidates were nominated. President Begaj was sworn in on 24 July 2022.

On 18 July 2022, EU Member States approved the negotiating framework for Albania, and accession negotiations began.

On 19 July 2022, the EU held its first Intergovernmental Conference with Albania and North Macedonia in Brussels. The European Commission also officially launched its “screening process”, constituting the first stage of the accession process, which began on 15 September 2022. The screening process is structured along six thematic clusters covering broad themes related to good governance, internal market, economic competitiveness and connectivity. To date, the screening of the first and second cluster has ended, in accordance with the calendar agreed with the European Commission. The screening process is expected to be completed by November 2023. See “*Risk Factors—Risks relating to the Republic—Albania may not be successful in its EU accession process and the timing and conditions of any such EU membership remain uncertain*”.

In December 2022, an EU-Western Balkans summit was held in Tirana.

## **Government Structure and Recent Developments**

### ***Political System***

Albania is a parliamentary republic based on the separation and balancing of legislative, executive and judicial powers.



## *Constitution*

The current Constitution was approved by the Assembly on 21 August 1998, and was ratified by referendum on 22 November 1998, with almost 90.0% of votes cast in favour.

The Constitution is the highest law in Albania and establishes the basic institutions of a democratic state. The Constitution provides for three branches of government: the legislative branch, the executive branch and the judicial branch. The Constitution provides that the official language of Albania is Albanian. The Constitution also guarantees, among other rights: (i) freedom of expression; (ii) freedom of conscience and of religion; (iii) the right not to be subjected to torture or cruel, inhuman or degrading punishment or treatment; (iv) the presumption of innocence; (v) the rights of the accused; (vi) the right to vote; (vii) the right to healthcare; and (viii) the right to education.

Since its adoption in 1998, the Constitution has been amended on seven occasions. On 13 January 2007, the term in office of elected local government representatives was extended from three to four years, and the number of the membership of the CEC was increased from seven to nine members. In April 2008, the Assembly adopted a package of constitutional amendments relating to the electoral system, the election of the President and the mandates of the Prosecutor General. Pursuant to these amendments, the Albanian electoral system changed from a mixed to a regional proportional system. In September 2012, a constitutional amendment, which was unanimously passed by the Assembly, limited the immunity of members of the Assembly. In 2015, changes were introduced to prevent the appointment of persons associated with criminal activities from being elected (or for elected persons to have mandate terminated in such circumstances). In July 2016, after 18 months of technical and political work and intensive negotiations, the Assembly approved amendments to the Constitution aimed at redesigning the Albanian justice system. The amendments related to two key areas: (i) the introduction of a re-evaluation process (or vetting process) of all judges and prosecutors; and (ii) the establishment of a special court and prosecution office to judge, investigate and prosecute high officials in cases of corruption and criminal charges in respect of organised crime. On 30 July 2020, constitutional amendments were made to introduce preferential voting. Pursuant to these changes, candidates are presented for electoral zones (by either political parties, coalitions, voters or candidates) and voters rank candidates from a multi-name list in order of preference. See “—*Electoral Reform*”, “—*Judiciary*” and “—*Judicial Reform*”. In January 2022, amendments were introduced to extend the constitutional mandate of the judicial vetting institutions (the IQC and PC) until December 2024.

## *Legislature*

Legislative power is vested in the unicameral Assembly, which consists of 140 members, all of whom serve four-year terms and are elected on the basis of a proportional system with multi-name lists for each electoral zone corresponding to Albania’s 12 counties. Although most legislation is passed by a simple majority of the Assembly, legislation regarding constitutional amendments and certain fundamental matters require a three-fifths majority.

## *Executive*

The President is the Head of State and serves as Commander-in-Chief of the Army and Chair of the National Security Council. The President is elected by the Assembly. The President’s duties include, among other matters, addressing the Assembly, granting pardons and citizenship, giving military decorations and titles of honour and appointing and withdrawing Albania’s diplomatic representatives to other states and international organisations. Although the vast majority of executive powers are vested in the Government, the Constitution gives the President the authority to appoint and dismiss certain high-ranking civil servants in the executive and judicial branches (including, judges of the Supreme Court and three members of the Constitutional Court). The President is elected by a majority of votes of the Assembly for a five-year term and may be re-elected for one further five-year term. The Assembly elected former Speaker Ilir Meta as President of Albania in April 2017.

On 9 June 2021, the Assembly, by 104 votes in favour to seven votes against, with three abstentions and one invalid ballot, voted to impeach President Meta, for alleged violations of the Constitution ahead of the 2021 parliamentary elections. However, on 17 February 2022, the Constitutional Court overturned President Meta’s impeachment, asserting that the evidence against him did not amount to a grave violation of the Constitution. In June 2022, Bajram Begaj was elected as President by the Assembly, following three rounds of voting in which no other candidates were nominated.

The executive branch of the Government is made up of the Council of Ministers, which is headed by the Prime Minister. The Council of Ministers comprises the Prime Minister, the Deputy Prime Minister and ministers of the Government (currently 16 ministers). The Council of Ministers exercises every state function that is not given to other organs of state power or to local government, and is responsible for defining the principal directions of Albania’s general state policy, both domestic and foreign. Pursuant to Article 96 of the Constitution, the Prime Minister is appointed by the President on the proposal of the party or coalition of parties that has the majority of seats in the

Assembly. The appointment is subsequently approved by a simple majority of all members of the Assembly. Members of the Council of Ministers are nominated by the Prime Minister, approved by a decree of the President and then finally approved by the Assembly.

In furtherance of women's rights, coordinators for gender issues have been appointed in all line ministries. Matters of gender equality are overseen by the National Council on Gender Equality. There are currently 12 female ministers in the 16 member cabinet.

### *Judiciary*

Albania has a civil law system. The court structure consists of a Constitutional Court (which sits outside of the judicial architecture and is reserved for the review of the constitutionality of legislation), a Supreme Court and multiple appeal, first instance and special courts. Reorganisation of the court system, merging several courts of first instance and appeal courts began in February 2023 with the aim of enhancing the overall efficiency of the court system, quick access to the judicial system and a balanced distribution of the workload between courts and judges.

The Constitutional Court is comprised of nine members for a single nine-year term. Three members are appointed by the President, three members are elected by the Assembly and three members are elected by the High Court based on a ranking conducted by the Judicial Appointment Council. The mandates of one third of the members of the Constitutional Court end and new members are appointed every three years. The Constitutional Court interprets the Constitution, determines the constitutionality of laws and resolves constitutional disputes. All nine members of the Constitutional Court have currently been appointed and the Constitutional Court is fully operational. In February 2023, Ms. Holta Zaçaj was elected by the sitting judges as Chair of the Constitutional Court.

The Supreme Court is the highest court in the judicial system, and is currently composed of 16 judges. Judges of the Supreme Court are appointed by the President upon the proposal of the High Judicial Council for a single nine-year term.

The High Judicial Council is responsible for ensuring the independence, accountability and the functioning of the judiciary. The High Judicial Council consists of 11 members, six judicial members are elected by judges of all levels and five members are elected by the Assembly, from the ranks of non-judicial lawyers.

appointing and dismissing other judges. The High Judicial Council is comprised of 15 members: the President, the Chairman of the Supreme Court, the Minister of Justice, three members elected by the Assembly and nine judges of various levels elected by the National Judicial Conference.

The remaining courts are divided into three jurisdictions: criminal, civil and military. There are no jury trials under the Albanian justice system, and judgments and sentences are rendered by judges.

Special courts are also competent to adjudicate on matters relating to corruption and organised crime, as well as criminal charges against the President of the Republic, Speaker of the Assembly, Prime Minister and various other senior political and judicial figures.

### *Judicial Reform*

The judiciary of Albania is currently undergoing a comprehensive and thorough transitional re-evaluation process to increase its transparency, accountability and independence. In July 2016, after 18 months of technical and political work and intensive negotiations, the Assembly approved amendments to the Constitution aimed at overhauling the governing bodies of Albania's judiciary and improving the efficiency and independence of the judicial system. The amendments primarily covered three key areas: (i) the introduction of a re-evaluation process (or vetting process) of all judges and prosecutors; (ii) the establishment of a special court and prosecution office to judge, investigate and prosecute high officials in cases of corruption and criminal charges relating to organised crime; and (iii) the establishment of a governance system for the judiciary, including a High Judicial Council, a High Prosecutorial Council and the High Justice Inspectorate.

The judicial reform process has resulted in the modification of existing institutions, as well as the creation of new institutions. Following the adoption of the constitutional amendments in 2016, the following new judicial institutions were created: (i) High Judicial Council (aimed at monitoring the independence, accountability and good functioning of the judiciary, with six members elected by members of the judiciary and five members appointed by the Assembly); (ii) High Prosecutorial Council (aimed at monitoring the independence, accountability and good functioning of prosecutors in Albania, with six members elected by members of the judiciary and five members appointed by the Assembly); (iii) High Justice Inspectorate (responsible for the verification of complaints, the investigation of violations

and the initiation of disciplinary proceedings against judges and prosecutors; the High Justice Inspector is nominated by a three-fifths majority of the Assembly); (iv) Justice Appointments Council (established as an independent organ tasked with verifying the legal and moral qualifications of judicial candidates, consisting of nine members drawn by lot from judges and prosecutors); (v) the SPO (which represents the State in cases against individuals charged with corruption, organised crime and other criminal cases) and which formally began operations on 19 December 2019, following the appointment of eight prosecutors (since increased to 17 prosecutors); (vi) Court Against Corruption and Organised Crime; (vii) the NBI (which assists the Special Prosecution in investigating crimes of corruption and organised crime, as well as crimes committed by a list of officials set out in the Constitution (including, the President, the Speaker of the Assembly, the Prime Minister, members of the Council of Ministers and certain other officials) and other Special Investigation Units and includes two criminal justice experts appointed by the EU as members and a Director appointed by the SPO); and (viii) re-evaluation institutions.

Other initiatives have been, and continue to be, introduced in parallel to improve the courts' efficiency (including reforming court fees and introducing electronic operational case management), reduce backlogs, improve the enforcement of contracts and strengthen property rights (including property right protections for non-residents).

In November 2016, the Government adopted a cross-sectoral justice strategy for 2016-2020 (the “**Justice Strategy**”), which aimed to increase access to justice, enhance public trust in the Albanian justice system and encourage the acceleration of European integration. The Ministry of Justice developed a second cross-sectoral justice strategy for 2021-2025. The four objectives of the cross-sector justice strategy 2021-2025 are: (i) the professional functioning of the justice system governance institutions in accordance with applicable requirements and European standards, to guarantee independence, efficiency and accountability; (ii) to strengthen the transparency, competence, accessibility and efficiency of the judiciary in accordance with applicable requirements and European standards; (iii) a criminal justice system based on modern principles of a European justice system, guaranteeing re-socialisation, reintegration and rehabilitation, as well as respect for human rights and freedoms within an integrated and inclusive approach solid crime prevention practices; and (iv) coordination, efficient and effective management of the justice system across sector. The cross-sector justice strategy 2021-2025 is accompanied by an action plan, which includes 32 indicators against which implementation of the strategy can be monitored.

Budgetary support has continued to be granted to justice reform. Since 2016, 869 new employees, made up of judges, prosecutors and administrative staff, have been added to the judiciary. The salaries of judges and prosecutors is on average 101% higher compared to 2016, with the prosecutors and judges of the SPO being the highest paid officials in the country.

In its “Key Findings of the 2022 Report on Albania”, the European Commission concluded that Albania’s judicial system had reached a moderate level of preparation for EU membership and that Albania has made good progress in terms of comprehensive judicial reform. See “*Risk Factors—Risks relating to the Republic—Albania may not be successful in its EU accession process and the timing and conditions of any such EU membership remain uncertain*”.

#### *Vetting Process*

Pursuant to the constitutional amendments adopted in 2016, a commission of first instance with an initial five-year mandate, the IQC, and a specialised chamber to hear appeals (the “**Appeal Chamber**”), each a specialised institution external to the ordinary court system, were established to carry out the vetting process. The IQC and the Appeal Chamber are, in turn, monitored by an international monitoring operation (the “**International Monitoring Operation**”) composed of judges and prosecutors selected by different EU Member States. The vetting process comprises three main components: (i) an asset assessment, comprising an overall audit of the legitimacy of the judge’s or prosecutor’s assets; (ii) a background assessment, comprising an evaluation of whether the judge or prosecutor has links to organised crime; and (iii) a proficiency assessment, comprising an evaluation of the judge’s or prosecutor’s relevant skills. The vetting process began in January 2018 with the Constitutional Court, the President of the High Court and the General Prosecutor, with vetting of the remaining members of the judiciary commencing following completion of the commission’s initial review.

A number of judicial members have either resigned, refusing to complete the process or to leave official duties at the time of retirement, rather than complete the vetting process. Opting out of the vetting process does not exempt members of the judiciary from separate criminal investigation and trial.

As of 30 April 2023, 651 decisions had been made by the IQC in connection with the vetting process, of which 275 decisions had resulted in confirmations of judicial appointments, 224 decisions had resulted in dismissals from office, 94 decisions had resulted in the termination of the re-evaluation process, 46 decisions had resulted in termination without a final decision and, four decisions had resulted in suspensions from duty and eight decisions had resulted in discontinuing the vetting process. Decisions terminating the appointment of judges and prosecutors have been primarily as a result of the identification of unexplained assets and sources of funds. As of 30 April 2023, 194 decisions had been

made by the Appeal Chamber in connection with the vetting process, of which there were 144 decisions to enforce the decision of the IQC.

The vetting process in respect of 805 judicial staff was due to conclude in 2022 but was extended by the Assembly in February 2022 until 31 December 2024. Accordingly, additional judges and prosecutors may be dismissed or may decide to resign from the judiciary rather than complete or participate in the vetting process. As a result of the vetting process and dismissal rate, amendments to laws relating to judicial reform have been made in order to address identified shortcomings. Albanian authorities are implementing a re-distribution plan, which is aimed at addressing the vacancies that have arisen across the judiciary. The extension of the vetting process has been publicly welcomed by both the United States and the EU. See “*Risk Factors—Risks relating to Albania—Corruption risk*” and “*Risk Factors—Risks relating to Albania—The Republic’s legal system is still developing*”.

### **Current Government**

The main political parties in Albania are the SPA, the DPA, the SMI, the Albanian Republican Party, the Justice and Integration Party, the Demo-Christian Party, the Union for Human Rights Party, the New Democracy Party, the Social Democratic Party and the Social Democracy Party.

The most recent elections for the Assembly were held in April 2021, in which the SPA won 74 seats and the mandate to form a government without the need to form a coalition. The CEC registered 10 political parties and two coalitions to contesting the 2021 parliamentary elections nationwide, and five independent candidates to contesting in five districts.

The following table sets forth the results of the 2021 elections.

<b>Results of the 2021 Assembly Elections</b>		
	<b>Number of Seats</b>	<b>Percentage of Seats</b>
Socialist Party (SPA) .....	74	48.7
Democratic Party “Alliance for Change” (DPA).....	59	39.4
Socialist Movement for Integration (SMI) .....	4	6.8
Social Democratic Party .....	3	2.3
	<b>140</b>	<b>97.2</b>
<b>Total</b> .....		

The ODIHR, a delegation of the OSCE Parliamentary Assembly and a delegation of the Parliamentary Assembly of the Council of Europe formed an International Election Observation Mission (the “**IEOM**”) to oversee the 2021 parliamentary elections.

The IEOM issued a Statement of Preliminary Findings and Conclusions on 26 April 2021, which included the statement that “*In the 25 April elections, voters had a choice of candidates, who were able to campaign freely, under a legal framework which respects fundamental freedoms.*”

The next parliamentary elections are scheduled for 2025.

The Assembly approved Prime Minister Edi Rama’s proposed Council of Ministers and Government programme on 17 September 2021. The Council of Ministers includes 17 ministers, all of whom belong to the SPA. As at 31 March 2023, 66.7% of the Council of Ministers are female. See “*The Albanian Economy—Government Programme*”.

### **Electoral Reform**

Following the May 2017 Agreement, on 22 May 2017, amendments were made to the Law on Political Parties, the Law on Audio-visual Media and the Criminal Code, introducing regulations on campaigning, campaign finance and political advertising in broadcast media, as well as new electoral offences and increased sanctions for existing electoral offences.

On 13 October 2017, the Electoral Reform Commission was established with the primary objective to amend and update the electoral code to incorporate recommendations made by the OSCE and ODIHR in respect of the elections held in 2013, 2015, 2017 and (subsequently) the 2019 local elections. The Electoral Reform Commission proposed amendments to the electoral code, and, on 23 July 2020, a number of amendments to the electoral code were adopted. These amendments altered the structure of the CEC, provided for additional regulatory safeguards against the misuse of public resources and strengthened guarantees for gender balance in candidate lists, as well as amending provisions relating to public and private financing of campaigns, oversight of campaign coverage in the media and election dispute

resolution. The electoral reforms also provided for electronic voter identification on election day, the possibility of introducing voting from abroad and piloting new voting and counting technologies.

On 30 July 2020, constitutional amendments were made to introduce preferential voting, whereby individual voters are able to rank candidates in order of preference. On 6 September 2020, President Ilir Meta called parliamentary elections for 25 April 2021.

Following further amendments on 5 October 2020, the electoral code replaced the regional threshold qualifications for seat allocations with a national threshold of 1%, provided for a minimum number of candidates on party lists and allowed leaders of political parties to stand as candidates in up to four electoral districts.

On 15 December 2021, representatives of the main political parties, state institutions and experts met to discuss the 2021 parliamentary elections and how to strengthen the legal framework and advance the new electoral reform agenda. In 2022, the Assembly approved the establishment of a Special Parliamentary Committee focused on electoral reform, which is comprised of 18 members and is tasked with drafting electoral reform legislation. The term of the Special Parliamentary Committee expires in August 2023.

### **Local Government**

Local government in Albania is organised in two levels, municipalities and districts. In July 2014, the Assembly passed Law № 115 of 31 July 2014 “On administrative division of local government units in the Republic of Albania” (“**Law 115**”), according to which the number of local government units decreased to 61 from the 373 communes and municipalities previously in place, while the number of regional councils remained at 12. In addition, the law reduced the number of municipal councillors from 6,600 to 1,600 and the number of public clerks from 20,000 to 12,000. Pursuant to reforms introduced by Law 115, local government units enjoy certain rights, including the right of self-governance, the right of property, the right to collect revenues and make expenditures and the right to conduct economic activities. These administrative reforms have increased the level of investment expenditures, in comparison to administrative expenditures, in most municipalities.

Since 2015, the Government has continued to focus on reforming local government and encouraging decentralisation, with the aim of increasing local government efficiency and performance, as well as simplifying access to local services. In February 2015, the Assembly approved a national strategy for decentralisation and local governance for 2015-2020. In October 2020, the action plan for this national strategy was updated to cover the period 2020-2022. The strategy sets out the Government’s vision towards strengthening local democracy and advancing the decentralisation process in line with EU standards. The decentralisation strategy aims to increase the number of functions and competencies delegated to local governments, while seeking to address concerns over weak revenue collection, financial control, human resource management, corruption and transparency. The Consultative Council was established in December 2016 as a mechanism to facilitate institutional co-ordination between central and local governments. In January 2016, Law № 139 of 17 December 2015 “On local self-governance finances” came into effect, regulating the organisation and functioning of local government units. In 2017, Law № 68 of 27 April 2017 “On local self-government finances” (the “**Local Finance Law**”) was adopted. See “*Public Finances—Local Budgets*”.

The most recent local government elections took place on 14 May 2023. This election was the third to elect mayors, municipal council members, municipal unit mayors and municipal unit members in each of the 61 local government units. Turnout varied among the local government units, with the CEC concluding that official nationwide turnout was approximately 38%. The OSCE monitored the local elections and in a press release dated 15 May 2023 noted that “[the] local elections were generally well-administered, competitive and held with the participation of the country’s key political forces”. The next local government elections are scheduled to take place in 2027.

The 2023 local government budget aims to promote local democracy efforts through the enhancement of the quality of services available to citizens at the local level. The 2023 local government budget targets an ALL 1.5 billion increase in tax revenues, as compared to 2022, as well as an ALL 3 billion increase in unconditional grants and an ALL 537 million increase in specific grants, all of which are expected to be used to increase the local public investment portfolio.

### **International Relations**

Albania is a member of multiple regional and international organisations and initiatives, including the United Nations (“**UN**”), the OSCE, NATO, the Stability Pact for South Eastern Europe, the U.S.-Adriatic Charter on Euro-Atlantic Integration and the World Trade Organization (“**WTO**”). Albania is a negotiating candidate country for accession to the EU.

## *European Union*

EU integration, leading to accession to the EU, is the Government's overriding foreign policy priority. In June 2006, Albania and the EU signed a Stabilisation and Association Agreement (the "SAA"), which entered into force on 1 April 2009. The SAA provided guidance on required reforms to implement EU *acquis* and standards. In accordance with the SAA, Albania has been focusing on implementing essential rule of law reforms and addressing corruption and organised crime. According to Article 6 of the SAA, the association shall be implemented progressively and shall be fully realised over a transitional period of a maximum of ten years. The transitional period ended on 31 March 2019. Since 1 April 2019, Albania is considered fully associated with the EU. See "*Risk Factors—Risks relating to the Republic—Albania may not be successful in its EU accession process and the timing and conditions of any such EU membership remain uncertain*".

Albania filed its application for EU membership in April 2009. In October 2013, the European Commission recommended that Albania be granted EU candidate status, subject to completion of certain key reform measures. The European Commission's 2013-2014 Enlargement Strategy Paper identified five key priorities to be addressed prior to the launch of formal accession negotiations: (i) continued implementation of public administration reforms; (ii) further action to reinforce the independence, efficiency and accountability of judicial institutions; (iii) introduction of measures to fight corruption; (iv) introduction of measures to fight organised crime; and (v) reinforcement of human rights and anti-discrimination policies and implementation of property rights (collectively, the "**Five Key EU Integration Priorities**"). In May 2014, the Government adopted a comprehensive roadmap to structure Albania's efforts in meeting these key priorities, and, in July 2014, the Government adopted a National Plan for European Integration for the period 2015 to 2020. On 27 June 2014, Albania was granted EU candidate status.

In recent years, Albania has been working closely with the European Commission in connection with its reform projects and its preparation for the various stages of the EU integration process. Formal membership negotiations also requires the adoption of established EU laws and preparations to be in a position to apply and enforce EU law. In Albania, the National Council of European Integration has been established; demonstrating the all-party approach to EU integration, this Council is chaired by the parliamentary opposition. Members of the parliamentary opposition were also invited to participate in high-level dialogue with all EU institutions.

In its 2016 Communication on EU Enlargement Policy, the European Commission commended Albania's progress in respect of the Five Key EU Integration Priorities and noted the judicial reform programme launched in Albania. See "*Government Structure and Recent Developments—Political System—Judiciary*". Accordingly, the European Commission recommended that accession talks be opened as soon as tangible progress in the areas of judicial reform, combat against corruption and free and democratic elections had been shown.

In February 2018, the European Commission adopted its strategy for "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans". This strategy outlined the remaining challenges to EU integration faced by the six Balkan states hoping to join the EU, *i.e.*, Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro and Serbia (the "**West Balkans Six**"). The strategy sets out flagship initiatives in six key areas (rule of law, security and migration, socio-economic development, transport and energy connectivity, digital agenda and reconciliation and good neighbourly relations), as well as the European Commission's vision for the EU and West Balkans Six joint future and how to achieve it.

The leaders of the West Balkans Six attended an EU heads of state summit in Sofia in May 2018. At the summit, the EU leaders agreed on a declaration (the "**Sofia Declaration**"), which welcomed the shared commitment of the West Balkans Six to European values and principles and reaffirmed the EU's unequivocal support for the European perspective of the Western Balkans. The "Sofia priority agenda" was also adopted as an annex to the Sofia Declaration, outlining new measures for enhanced co-operation between the EU and the West Balkans Six in the areas of strengthening support to the rule of law and good governance, reinforcing engagement on security and migration, supporting socio-economic development with a specific focus on youth, increasing connectivity, launching a digital agenda for the West Balkans and supporting reconciliation and good neighbourly relations in the Western Balkans.

In its April 2018 Communication on EU Enlargement Policy, the European Commission concluded that significant improvements had been made in respect of each of the Five Key EU Integration Priorities. The report noted, among other findings, that: (i) relevant legal and strategic frameworks were now in place and public administration reform had continued consistently; (ii) a thorough and comprehensive justice reform is being implemented; (iii) there has been an improvement in the fight against corruption and organised crime; and (iv) the legal framework for the protection of human rights is broadly in line with European standards and Albania has ratified most international human rights conventions. In the communication, the European Commission recommended to open accession negotiations, on the basis of Albania maintaining and deepening the current reform momentum, in the key field of the rule of law, in

particular across all five key priorities, and continuing to deliver the concrete and tangible results in the re-evaluation of judges and prosecutors (vetting).

In the European Commission's Albania 2019 Report, which was published in May 2019, the Commission concluded that Albania had continued to implement reforms crucial to the EU's agenda and recommended that open accession talks be approved by the European Council. On 25 March 2020, the European Council approved the opening of accession negotiations. In May 2020, Albania appointed its Chief Negotiator in anticipation of the commencement of accession negotiations. In July 2020, a draft negotiating framework for Albania was presented to the Member States.

At a virtual summit in Zagreb held in May 2020, the EU and the leaders of the West Balkans Six issued the Zagreb Declaration, which confirmed EU support to the Western Balkans and its commitment to actively support their efforts to combat the COVID-19 outbreak, its impacts on societies and economies and post-pandemic recovery.

In the 2020 Communication on EU enlargement policy published in October 2020, the European Commission assessed that Albania has advanced towards its strategic goals with the Council's decision to open EU accession negotiations. The Stabilisation and Association Council between Albania and the European Union held its eleventh meeting on 1 March 2021 and noted the European Commission's 2020 Albania Report.

On 12 May 2021, the European Commission issued an update report on the fulfillment by Albania of the conditions prior to the first intergovernmental conferences and other priorities in the Council's conclusions of March 2020, which opened accession negotiations with Albania. The report noted that: *“Overall, and despite the challenges posed by the COVID-19 outbreak, Albania has continued to show its commitment and delivered tangible and sustainable results in the key areas identified in the Council Conclusions of March 2020.”*

In June 2021, the EU Council had an exchange of views on the accession negotiations with the Republic of Albania (and the Republic of North Macedonia). There was no formal decision of the EU Council on the approval of the negotiating framework for Albania. One Member State vetoed the approval of the negotiating framework for North Macedonia and the EU Council then took no formal decision on both the files for North Macedonia and Albania.

On 18 July 2022, EU Member States approved the negotiating framework for Albania and accession negotiations began.

On 19 July 2022, the European Commission officially launched its “screening process”, which began on 15 September 2022. The screening process is structured along six thematic clusters covering broad themes related to good governance, internal market, economic competitiveness and connectivity. To date, the screening of the first and second cluster has ended, in accordance with the calendar agreed with the European Commission. The screening process is expected to be completed by November 2023.

On 12 October 2022, the European Commission published its Albania 2022 Report, which acknowledged that Albania has continued to maintain its focus on the EU reform agenda despite the challenge of addressing the economic and social consequences of the triple shock of the November 2019 Earthquake, the COVID-19 pandemic and the war in Ukraine.

In December 2022, the EU Council welcomed the fact that the first Intergovernmental Conference had been held in July 2022, stating that this was a clear recognition of the progress Albania has achieved on advancing the EU reform agenda and on delivering tangible and sustained results.

An EU-Western Balkans summit was held in Tirana during December 2022 and 2023.

In February 2023, Albania's National Strategy for Development and European Integration 2022-2030 (the “NSDEI”) was approved by a decision of the Council of Ministers. The NSDEI envisions Albania in 2030 as a dynamic economy, which is part of the European Union and that offers equal conditions for increasing the well-being of all its citizens based on a functional democracy that guarantees fundamental rights and human freedoms. The NSDEI builds upon the National Strategy for Development and Integration 2015-2020, with the goal of European integration and a focus on three main pillars: (i) democracy and strengthening of institutions and good governance; (ii) an agenda for sustainable economic development, connectivity and green growth; and (iii) social cohesion. The NSDEI targets progress in all areas but, in particular, with respect to: (i) the process of joining the European Union and the democratisation of Albania, the consolidation of institutions and the rule of law and ongoing fundamental reforms; (ii) the fight against corruption through judicial reform, the modernisation of services and the consolidation of digital infrastructure; (iii) increasing electricity generation capacity based on renewable sources, primarily solar and wind, while providing support for increased energy efficiency in the housing sector and reducing energy losses; (iv) supporting new

technologies and innovation in agriculture, increasing attention to food security and expanding export opportunities; (v) tourism and the goal of increasing tourism to 10 million foreign visitors by 2030; and (vi) increasing digital opportunities for Albanian enterprises and citizens, particularly in the private sector. It defines the policy objectives of the Government and is expected to guide the Ministry of Finance and Economy in its preparation of the annual budget. The NSDEI includes 50 measurable key performance indicators across policy areas including public services, competitiveness, employment, well-being, rural development and agriculture, telecommunications, energy, water supply, social protection, youth/employment, public finances and health, of which 17 are linked to the UN's Sustainable Development Goals.

Albania continues to align its foreign policies with the EU Common Foreign and Security Policy and actively participates in missions and operations under the EU Common Security and Defence Policy.

Albania is party to the EC-Albania Readmission Agreement, which entered into force in 2006 and establishes reciprocal procedures for the readmission of persons residing without authorisation in Albania or an EU member state, and the Visa Facilitation Agreement, which entered into force in 2008. Since 2010, Albanian citizens benefit from visa-free travel to the Schengen Area.

Albania has benefited from EU support through a number of programmes, targeted both nationally and regionally, primarily in the areas of governance and institution building, rule of law, education, agriculture and rural development. Albania has also received EU support following the November 2019 Earthquake, to support efforts during the COVID-19 pandemic, as well as to support the socio-economic consequences of the energy crisis resulting from the impact on global energy prices due to the war in Ukraine and global macroeconomic conditions.

Following the November 2019 Earthquake, at an international donors conference, the European Commission pledged €115 million of support consisting of: (i) an initial amount of €15 million for rehabilitation and reconstruction of education facilities; and (ii) and additional €100 million under a programme adopted in July 2020 focusing on the rehabilitation and reconstruction of education facilities, including furniture and equipment, to allow children and the youth to return to school with better conditions and facilities, as well as the rehabilitation of damaged cultural heritage sites, including monuments, museums, libraries and archaeological site.

The main source of funding for EU support to Albania is through the Instrument for Pre-Accession Assistance (“IPA”). Financing under the IPA for 2020 was €103.3 million. On 15 September 2022, the Assembly ratified an agreement with the EU under a third IPA for the receipt of €600 million in funding between 2022 and 2029. On 24 March 2023, the Council of Ministers approved financing agreements between the European Commission and Albania for 2022 and 2023 under the third IPA. The 2022 programme includes an EU contribution of €82.6 million to be used for environmental protection, strengthening democracy, EU alignment, fighting organised crime, strengthening the judiciary as well as supporting reforms required to meet EU standards and norms. The 2023 programme is expected to provide a further €80 million to be used to support the socio-economic consequences of the energy crisis.

In 2020, the EU's COVID-19 support package for Albania amounted to €50.7 million of support, including €26 million under the IPA for 2020, €4 million to address immediate medical supplies and equipment needs (from the IPA for 2017) and €20.7 million to top-up an existing €50 million social inclusion programme under the IPA for 2019. In April 2020, the EU launched the EU4Health Programme, which provided for the procurement of specialised medical equipment and devices for the prevention and treatment of COVID-19 in Albania. In December 2020, the European Commission adopted a €70 million package under the Instrument for Pre-Accession (IPA II) to help fund the access of Western Balkans partners to COVID-19 vaccines procured by EU Member States, enabling the Western Balkans to purchase a number of vaccines from the EU Advance Purchase Agreements with six manufacturers, with individual EU Member States sharing a portion of their pre-allocated doses. COVID-19 vaccines shared and funded by the EU arrived in the region in April 2021.

In 2020, the Government entered into a €180 million loan facility agreement with the EU to support efforts to combat and limit the economic effects of the COVID-19 pandemic. The first instalment of €90 million was disbursed in the first quarter of 2021, and the second and final instalment was disbursed in November 2021.

Albania has particularly strong relations with Greece (as a result of the proximity of Albania to Greece, the presence of a significant number of ethnic Greeks in Albania and ethnic Albanians in Greece and the historic presence of Greek banks in the Albanian financial sector) and considers their relationship to be a strategic partnership. A memorandum of understanding on energy was signed in April 2017 between Albania and Greece, aimed at promoting regional energy connectivity and the diversification of natural gas sources, lines and suppliers. A memorandum of co-operation in the agricultural sector, which was signed in July 2015, entered into force in March 2021.



Italy is Albania's largest trading partner (See "*Balance of Payments and Foreign Trade*"). In October 2016, Albania and Italy signed a memorandum of understanding on cooperation in the agriculture sector, and, in March 2017, a cooperation agreement was signed between the Albanian and Italian transport ministries, removing the fixed fee and road tax for Albanian carriers. In November 2017, Albania and Italy signed a protocol on the fight against terrorism and human trafficking. In February 2018, a memorandum of understanding focussing on transport and infrastructure, renewable energy, environmental technologies and tourism was announced between Albania and Italy. The two countries have also renewed their framework agreement on education and are currently conducting discussions relating to several other key areas. Construction and completion of the Trans-Adriatic Pipeline ("**TAP**") project in 2020 was another key project that continued Albania's close cooperation with Italy. See "*The Albanian Economy—Principal sectors of the Economy—Energy—Energy Sector Reform*". In March 2021, Italy and Albania entered into an agreement for the automatic conversion of driving licences.

### ***United States***

The United States established diplomatic relations with Albania in 1922, although diplomatic relations were ended in 1939 due to Albania's occupation by Italy and Germany and then during Albania's communist regime. Diplomatic relations between the United States and Albania were re-established in 1991.

Albania and the United States have signed and ratified a number of agreements, including: a treaty on the prevention of proliferation of weapons of mass destruction and the promotion of defence and military relations; the U.S.-Adriatic Charter on Euro-Atlantic Integration; and an Article 98 agreement regarding the non-surrender of persons to the International Criminal Court.

In April 2015, Albania and the United States signed a Joint Declaration on Strategic Partnership, which focuses on partnership between the two countries on global issues, regional issues, political dialogue, security, strengthening the rule of law, economic development, energy security and educational and cultural changes. Albania co-operates with, and hosts, the United States on military exercises. In 2021, the Government and the United States signed a memorandum of understanding on 4G and 5G mobile technology security. Co-operation in other fields has also deepened and, in October 2020, the U.S. and Albania entered into a memorandum of understanding on economic co-operation. The second session of a Strategic Dialogue took place between the United States and Albania on 25 October 2022, which reaffirmed the Joint Declaration on Strategic Partnership and set out the United States and Albania's determination to jointly advance a range of shared priorities. The Dialogue was led by Albanian Foreign Minister, Olta Xhaçka, and U.S. Assistant Secretary of State for European and Eurasian Affairs, Dr. Karen Donfried, and focused on areas of key geostrategic importance, including energy supply and security, cyber resilience, digital transformation and climate change, as well as a mutual desire to promote and forge stronger ties between the business communities of the two countries.

U.S. government assistance has aimed to help Albania to strengthen its democratic institutions and the rule of law; promote sustainable, broad-based economic growth; and integrate the country into European and Euro-Atlantic structures. In 2022, financial assistance from the United States to Albania totalled U.S.\$4.9 million (of which U.S.\$3.5 million was provided by the United States Agency for International Development), as compared to U.S.\$16.7 million in 2021 and U.S.\$54.4 million in 2020.

Following the November 2019 Earthquake, the United States provided U.S.\$930,000 to Albania to be used for reconstruction and safety projects.

Following cyber-attacks on key digital infrastructure in Albania in September 2022, the United States approved an initial package of assistance of U.S.\$25 million for Albania.

### ***United Kingdom***

Following the United Kingdom's withdrawal from the EU, in February 2021, Albania and the United Kingdom entered into a partnership, trade and co-operation agreement, which entered into force in May 2021. This agreement aims to ensure the continuation of co-operation and trade between Albania and the United Kingdom, maintaining certain preferential terms that applied under the SAA while the United Kingdom was a member of the EU. As a result of the agreement, total trade in goods and services between the UK and Albania increased by 157.9%, or £251 million, to £410 million for the twelve months ended 30 September 2022, as compared to the corresponding period of 2021. Albania and the United Kingdom have outlined a £4 billion ambition for a closer export relationship and, in December 2022, Albania and the United Kingdom agreed to be partners in economic development and sustainable projects in Albania and the wider Western Balkans.

## ***Russia***

Relations between Albania and Russia have deteriorated since 2008, primarily due to Russia's policy regarding Kosovo. Since 2014, bilateral relations with Russia have deteriorated further in response to Russia's annexation of Crimea and, now, the war in Ukraine. In this respect, Albania has officially aligned its foreign policy and economic sanctions regime with that of the EU and the Government has provided €1 million in financial support to Ukraine. Albania has welcomed the decision of the EU to grant Ukraine the status of a candidate country.

In 2022, Russia requested to increase the number of diplomatic personnel at its embassy in Tirana. The Government denied this request.

## ***NATO***

Albania joined NATO in April 2009. In recent years, Albania has been working to increase its participation in NATO as part of its closer integration with the alliance. In addition to its participation in NATO operations in Afghanistan, Albanian forces have worked alongside NATO nations in peacekeeping operations in Bosnia and Herzegovina. Albania also contributes military personnel to Kosovo. In November 2016, the Albanian navy, in its first NATO deployment, joined NATO's Aegean mission and deployed a patrol vessel, manned with a rotating crew of 23 members, to monitor the waters between Turkey and Greece and support international efforts aimed at combatting human trafficking. Albania has deployed 23 troops in Latvia since 2017, as part of the Canadian-led multinational group (forming part of NATO's Enhanced Forward Presence in Estonia, Latvia, Lithuania and Poland). In August 2018, Prime Minister Rama announced that NATO, in partnership with the Government, is expected to invest over €43 million in the construction of an air base in Kuçovë, NATO's first air base in the Western Balkans, which is also expected to serve as the national base for Albania's air force. It is expected that the airbase will be operational in 2024.

Albania's foreign policy with respect to the war in Ukraine is in line with NATO's policies, and Albania contributes funds to the NATO trust fund for assisting Ukraine.

Albania also contributes to NATO's anti-terrorism operations through its participation in NATO's Partnership Action Plan on Terrorism. This includes sharing intelligence and analysis with NATO, enhancing national counter-terrorist capabilities and improving border security.

## ***World Trade Organization***

Albania has been a member of the WTO since September 2000. As a result of its membership of the WTO, Albania is required to continuously monitor the fulfilment of commitments arising from membership, as well as to develop and implement domestic legislation in accordance with the agreements and rules of the WTO. The Ministry of Finance and Economy, in co-ordination with the Ministry of Foreign Affairs, is responsible for monitoring Albania's compliance with WTO requirements, in close collaboration with the Permanent Mission of the Republic of Albania in Geneva.

## ***United Nations***

Albania has been a member of the UN since 14 December 1955 and regularly works with various UN agencies, including the UNHCR, the UN Economic Commission for Europe ("UNECE"), the UN Industrial Development Organisation ("UNIDO"), the World Intellectual Property Organization ("WIPO"), the UN Environment Programme ("UNEP"), the UNDP and the World Meteorological Organization ("WMO"). In September 2015, Albania endorsed the UN's "2030 Agenda for Sustainable Development" ("Agenda 2030"), which was adopted by world leaders in September 2015 and came into force on 1 January 2016, and has included sustainability targets from Agenda 2030 as part of its EU integration reform agenda. These sustainability targets included working towards the elimination of poverty, hunger and gender inequality.

In 2016, Albania signed a memorandum of understanding with UNECE aimed at developing cooperation in relation to sustainable housing, including through the establishment of the Geneva United Nations Charter Centre of Excellence in Tirana. Albania became a member of UNECE in 1955,

In January 2018, Albania (primarily through the Ministry of Tourism) began working with the UNECE in connection with its "Evidence-based environmental governance and sustainable environmental policies in support of the 2030 Agenda in South East Europe", with the aim of developing a national action plan to implement recommendations to improve Albania's environmental policies, including by addressing past industrial pollution.

In 2020, Albania headed the Organisation for Security and Co-operation in Europe (“OSCE”), which is comprised of 57 countries. In June 2021, Albania was elected as a non-permanent member of the UN Security Council for 2022 and 2023.

Albania is also working with UNIDO on initiatives to increase the use of biomass energy by small- and medium-sized enterprises (“SMEs”).

Albania also continues to support international efforts within the UN to achieve gender equality as a matter of priority.

On 25 October 2021, Albania and the UN Country Team signed the Albania-UN Sustainable Development Cooperation Framework 2022-2026, which sets specific targets in relation to certain UN Sustainable Development Goals, including, targeting that by 2026: (i) there is increased and more equitable investment in people, removing barriers and creating opportunities for those at risk of exclusion; (ii) innovative and integrated policy solutions to accelerate sustainable, productive and inclusive economic development, enhance climate change adaptation and mitigation and encourage transition to a green and blue economy; (iii) governance is more transparent and accountable, enabling people (women and girls, men and boys, and persons at risk of exclusion) to enjoy quality, inclusive services, enhanced rule of law and access to justice in line with Albania’s human rights commitments; and (iv) governance is more transparent and accountable, enabling all people to enjoy quality, inclusive services, enhanced rule of law and access to justice in line with Albania’s human rights commitments.

### ***Regional Relationships***

Albania maintains positive relations with its neighbours. Since 18 February 2008, Albania has recognised the independence of, and strengthened its relationship with, Kosovo, which has, in the past, led to tensions with neighbouring countries, although these tensions have declined in recent years. Following the eight intergovernmental meeting held in Tirana in 2022, the Kosovan and Albanian governments have been working towards a results-oriented co-operation, with a number of bilateral agreements covering wide-ranging areas of co-operation entered into, including the free movement of people and goods, as well as education, trade and tourism.

Furthermore, Albania maintains generally positive relations with Montenegro, which gained its independence in 2006 after the dissolution of the former Yugoslav Republic. Albania revitalised its relationship with Serbia following the visit of Albania’s Prime Minister Edi Rama to Belgrade on 11 November 2014, the first visit since 1946. Since January 2021, citizens of the two countries have been able to travel between the countries on the basis of identification cards (rather than passports).

Tensions occasionally arise with Greece over the treatment of the Greek minority in Albania or the Albanian community in Greece, but relations with Greece are positive overall, and Greece is a strategic partner of Albania. In January 2021, Albania and Greece entered into an agreement establishing a new communications centre on their land border, aimed at strengthening co-operation between police forces and customs offices.

Albania also maintains good relations with Bosnia and Herzegovina. Albania maintains good diplomatic relations with North Macedonia and supports its sovereignty, integrity and stability, requesting that the rights of ethnic Albanians in North Macedonia should be respected in line with the Ohrid Framework Agreement entered into on 13 August 2001.

On 19 December 2006, all of Albania’s bilateral trade agreements with countries in the western Balkans region were transformed into a multilateral agreement, the Central European Free Trade Agreement (“CEFTA”), which includes Albania, North Macedonia, Montenegro, Kosovo, Moldova, Serbia and Bosnia and Herzegovina.

Albanian, North Macedonian and Italian law enforcement agencies are cooperating with increasing efficiency to crack down on the trafficking of arms, drugs, contraband and human beings across their borders. See “—*European Union*”. Albania has also arrested and prosecuted several ethnic Albanian extremists on charges of inciting inter-ethnic hatred in North Macedonia and Kosovo.

In recent years, regional cooperation has increased. Albania participates in a number of regional political and economic forums and initiatives, including transition from the Stability Pact for South-Eastern Europe to a more regional framework with the South-East European Cooperation Process and the Regional Cooperation Council.

In addition, Albania has joined the West Balkans Six Initiative, which provides political support for regional cooperation focusing on economic governance and connectivity. The Western Balkans Six established the Western Balkans Fund (“WBF”) in November 2015 with the objective of enhancing cooperation among its members and strengthening relations and regional cohesion, to advance integration into the EU. The WBF finances small- and medium-term projects with the objective of increasing regional and cross-border cooperation and strengthening regional

cohesion. The eighth Western Balkans Six Summit was held in Slovenia in November 2022. At the summit, agreements facilitating citizens' free movement throughout the region and the mutual recognition of the professional qualifications of doctors, dentists and architects were signed after three years of negotiation. German Chancellor, Olaf Scholz., who hosted the summit noted that "*Europe without the Western Balkans is not complete*". In December 2022, the first ever summit between EU and Western Balkans leaders to take place in the Western Balkans was held in Tirana. EU leaders adopted a declaration reaffirming the EU's "*unequivocal support for the European perspective of the Western Balkans*" and emphasising the importance of continuing reforms, notably in the area of rule of law, and in particular those related to the independence and functioning of the judiciary and the fight against corruption and organised crime. See also "*European Union*".

Following the November 2019 Earthquake, Serbia, North Macedonia, Montenegro, Kosovo and Bosnia and Herzegovina provided U.S.\$2.8 million in support to Albania (of which U.S.\$2 million was provided by Serbia).

In May 2017, Kosovo, Montenegro and Albania signed a protocol for the establishment of a joint centre for police cooperation. The aim of the joint centre project is to improve cross-border cooperation in the fight against crime through more intensive exchange of operative information and more efficient coordination of joint activities along state borders.

In February 2020, Albania participated in the High-Level Conference EU-Western Balkans, which took place in Thessaloniki and reaffirmed the importance of the EU integration process as an impetus for reform in the region. It also aimed to increase regional cooperation and address political issues in the region through the implementation of regional projects aligned with those implemented in the EU. In this respect, a number of Government ministries, including the Ministry of Economic Development, Trade and Entrepreneurship and the Ministry of Transportation, have worked with their counterparts in other countries in the region in connection with a list of regional projects, which will require the support of both EU and international financial institutions. Albania is an active participant and beneficiary of the Berlin Process, aimed, among other targets, at deepening economic and trade cooperation within the Western Balkans. Together with Serbia and North Macedonia, Albania is engaged in a tripartite initiative to implement the "Four EU Freedoms" in the region.

In July 2021, the leaders of Albania, Serbia and North Macedonia launched "Open Balkan", an initiative for regional co-operation. Memoranda of understanding have been signed relating to co-operation on the facilitation of imports, exports and the movement of goods in the Western Balkans, on free access to the labour market, on co-operation in disaster protection, on mutual recognition of authorised economic operators, on cooperation of the tax administrations in the Western Balkans, and in the field of accreditation. Work is ongoing in respect of the removal of non-tariff barriers and administrative fees related to payments to be made at the border, as well as to enhance cooperation between the international promotion agencies.

In November 2022, Albania and North Macedonia signed cooperation deals in respect of energy and infrastructure projects, expressing a commitment toward continuing cooperation as both countries work towards joining the EU.

## **Legal Proceedings**

From time-to-time, Albania is involved in investment treaty arbitrations against it. For instance, there are three ICSID arbitrations currently listed on the ICSID website as pending against Albania. In March 2023, ICSID also notified Albania of an additional request for the institution of arbitration proceedings that had been initiated. There are also two ongoing UN Commission on International Trade Law ("**UNCITRAL**") matters. Albania is vigorously defending these claims and, save as set out below, does not believe that these claims, taken singly or collectively, as and when adjudicated, will have a significant effect on Albania's financial position.

See also "*Risk Factors—Risks Relating to the Republic—Legal proceedings and arbitral award*".

### ***Hydro S.r.l. and others v. Republic of Albania***

Albania was the respondent party in an investment treaty arbitration brought against it by two Italian companies, Hydro S.r.l. ("**Hydro**") and Costruzioni S.r.l. ("**Costruzioni**") and four Italian citizens, Mr. Francesco Becchetti, Mr. Mauro De Renzis, Ms. Stefania Grigolon and Ms. Liliana Condomitti (collectively, the "**Claimants**"). The arbitration was brought on the basis of the bilateral investment treaty between Albania and Italy. The dispute related to the alleged Claimants' investments in Albania's hydroelectric energy, wind energy and media industries and the Claimants' allegations that Albania expropriated certain of the Claimants' investments and did not accord fair and equitable treatment to the Claimants' investments in Albania. In an award issued on 24 April 2019, the arbitral tribunal found that it only had jurisdiction to hear part of the claims. All the claims were dismissed, save for an expropriation claim related

to a broadcasting project for which the Claimants were awarded an amount indicated by published reports to be €99,487,000, plus interest.

Albania requested the annulment of the award. This request was rejected by the ICSID Ad Hoc Committee on 2 April 2021.

Certain of the Claimants are currently subject to ongoing criminal proceedings in Albania. In particular, Mr. Becchetti was convicted by the Tirana Judicial District Court on 23 February 2022 and sentenced to 17 years imprisonment. In March 2023, Mr. Becchetti and others appealed the District Court's decision.

Court proceedings for the recognition and/or enforcement of the award have been initiated by the Claimants in Albania, Austria, Belgium, England, Italy, the Netherlands and Norway, and are currently ongoing. The Claimants maintain they have obtained recognition of the award in several jurisdictions, including England, Italy and France by way of *ex parte* orders. The Government is continuing to, or intends to, contest such proceedings, although the ultimate outcome remains uncertain.

In April 2022, Albania filed an application for revision of the award. On 29 March 2023, the parties were notified of the Tribunal's decision to dismiss Albania's Revision Application.

Certain of the Claimants were subject to ongoing criminal proceedings in Albania and, in February 2023, the Court of First Instance of Tirana found the defendants guilty of several convictions against them.

Proceedings on similar and related matters were also brought against Albania by Agonset sh.p.k before the European Court of Human Rights. On 2 June 2022, the European Court of Human Rights unanimously declared the claimant's application inadmissible.

#### ***Arka Energy B.V. v. Republic of Albania***

In December 2020, a request for the institution of arbitration proceedings was registered at ICSID in respect of a claim made against Albania by Arka Energy B.V. under the bilateral investment treaty between Albania and the Netherlands. The ICSID tribunal was constituted in September 2021. The proceedings were ultimately discontinued due to the parties' failure to pay the initial administrative costs requested by ICSID.

#### ***Durres Kurum Shipping SH. P.K. and others v. Republic of Albania***

In September 2020, a request for the institution of arbitration proceedings was registered at ICSID in respect of a claim made against Albania by Durres Kurum Shipping SH. P.K. and others under the bilateral investment treaties between Albania and the United Kingdom and Albania and the United States. The ICSID tribunal was constituted in June 2021. The tribunal held its first session by video conference in July 2021. In September 2022, an order for the production of documents was issued by the tribunal. These proceedings are ongoing and it is not possible to predict how these proceedings will develop or what the outcome will be. On 20 February 2023, Durres Kurum Shipping SH. P.K. submitted a "Reply on Merits". Albania is expected to submit its rejoinder on 30 June 2023. The final hearing for this case is expected to take place by the end of 2023.

#### ***EMS Shipping & Trading GmbH. v. Republic of Albania***

On 30 March 2023, Albania was notified by ICSID of a request for the institution of arbitration proceedings brought by a German company, EMS Shipping, in respect of a dispute regarding a concession agreement for the management, operation and maintenance of the east terminal of Durrës Port East Terminal. The case is currently in its early procedural stages, with the tribunal expected to review the case by June 2023. It is not possible to predict how these proceedings will develop or what the outcome will be.

#### ***IVICOM Holding GmbH v. Republic of Albania***

On 9 December 2021, IVICOM Holding GmbH, filed a request for arbitration pursuant to the Stockholm Chamber of Commerce arbitration rules in respect of a claim under the Energy Charter Treaty 1994 in connection with a dispute relating to an environmental impact assessment for a power plant project and the issuance of an environmental statement. Each of the parties has appointed an arbitrator. On 31 March 2023, the Republic submitted its statement of defence. It is not possible to predict how these proceedings will develop or what the outcome will be.

#### ***Ndroqi v. Republic of Albania***

On 31 August 2022, Mimoza Ndroqi, a Bulgarian citizen, filed a notice of arbitration pursuant to the 2021 UNCITRAL Arbitration Rules in respect of the bilateral investment treaty between Bulgaria and Albania.

Each of the parties has appointed an arbitrator. On 15 March 2023, Ms. Ndroqi sent a letter to the Permanent Court of Arbitration (the “PCA”), in which it (i) designated the PCA as the appointing authority in the proceedings and (ii) requested that the PCA designate the presiding arbitrator. A presiding arbitrator has not yet been appointed and the parties have not reached agreement on: (i) the applicable arbitration rules; (ii) the seat of the arbitration; or (iii) the language of the arbitration. It is not possible to predict how these proceedings will develop or what the outcome will be.

#### ***Phoenix Petroleum Sh.a. v. Albpetrol Sh.a.***

On 24 February 2023, Phoenix Petroleum Sh.a. (“Phoenix”) sent a notice of arbitration to Albania state-owned oil and gas upstream company, Albpetrol Sh.a. (“Albpetrol”), in accordance with the 2021 UNCITRAL Arbitration Rules, in respect of losses as a result of Albpetrol’s purported invalid termination of a petroleum agreement entered into by Phoenix and Albpetrol for the development and production of the onshore Amonicë oil field in Albania. Phoenix appointed its arbitrator on 27 March 2023 and Albpetrol notified Phoenix of its own party-appointed arbitrator on 26 April 2023. A presiding arbitrator has not yet been appointed. It is not possible to predict how these proceedings will develop or what the outcome will be.

#### ***Valeria Italia S.r.l. v. Republic of Albania***

On 1 August 2018, Valeria Italia S.r.l. (“Valeria”) served a notice of arbitration on Albania under the 1976 UNCITRAL Arbitration Rules. Valeria alleges that Albania has breached the Italy-Albania bilateral investment treaty (the “Treaty”) through certain measures and omissions affecting the operations of a joint venture between Valeria and a former Albanian State farm, N.B. Gosë. The proceedings were bifurcated and, at the outcome of the jurisdictional phase, the Tribunal declined jurisdiction over the main Claimant’s claim due to the Treaty not being in force at the time of the alleged measure (the withdrawal of a land concession). The claims that survive concern certain discrete issues that occurred after the Treaty entered into force. A final hearing is scheduled to take place from 26 to 30 June 2023. A final award can be expected between the third quarter of 2024 and the second quarter of 2025. It is not possible to predict the outcome of the case.

#### **Response to COVID-19**

In common with most other countries, the COVID-19 pandemic has, and is expected to continue to have, a significant effect on Albania. As of 21 April 2023, the Ministry of Health and Social Protection reported that there had been 334,149 confirmed cases of COVID-19 and 3,605 deaths.

The Government took a number of measures in an effort to limit the spread of the COVID-19 virus. See “*Risk Factors—Risks Relating to the Republic—Ongoing impact of the COVID-19 pandemic*”.

#### ***State of Emergency***

On 24 March 2020, the Government declared a natural disaster state of emergency due to the COVID-19 outbreak. During this period: (i) a nationwide lockdown was imposed; and (ii) strict measures to isolate the spread of the virus were in place. Curfews and lockdowns were reintroduced for various periods during the COVID-19 pandemic and all sporting events, cultural events and other large public gatherings were cancelled and all restaurants, bars and nightclubs were closed, as were all gyms, recreational areas, children’s activity centres, among others, during the initial lockdown period. There were also various periods of school closures and distance learning in 2020 and 2021.

Since 1 May 2022, the curfew has been lifted and the wearing of face masks is no longer mandatory. There are currently no restrictions on movement within Albania and restrictions on gatherings, sports championships, theatre, artistic and cultural performances have been lifted. In addition, with effect from 1 May 2022, health restrictions (requiring a negative test or proof of vaccination) on entering and leaving the country have been lifted.

#### ***Vaccination Programme***

Albania commenced its vaccination programme in January 2021, initially targeting the highest priority groups of healthcare workers, people living in nursing homes and people with certain medical conditions. The vaccination programme was subsequently opened-up to other healthcare workers and persons according to their age (starting with persons aged 90 years and over gradually decreasing until all persons aged 18 and over were eligible). In March 2021, Albania started a mass vaccination campaign against COVID-19. As of 18 April 2023, a total of 3,063,778 COVID-19 vaccine doses had been administered, with approximately 61% of the target population having received at least one dose (representing a total of 1,331,151 first doses) and approximately 57% having received two doses (representing a total of 1,282,049 second doses). Approximately 399,538 third doses have been administered.

## **Financial Measures**

On 10 April 2020, the IMF approved financial assistance of SDR 139.3 million (approximately U.S.\$190.5 million) to Albania under its rapid financing instrument scheme. In September 2020, the Government entered into a €180 million loan facility agreement with the EU to support efforts to combat and limit the economic effects of the COVID-19 pandemic. The first instalment of €90 million was disbursed in the first quarter of 2021, and the second and final instalment is expected to be disbursed by the end of 2021.

In October 2020, Albania entered into a €15 million loan with the World Bank (through the International Bank for Reconstruction and Development) to help Albania prevent, detect and respond to the COVID-19 pandemic and strengthen national systems for public health preparedness. The loan entered into effect on 13 January 2021 and disbursements of funds under the loan have commenced.

In June 2021, the Council of Europe Development Bank (the “CEB”) approved a €60 million public sector financing facility to support the Government in its efforts to mitigate the effects of the COVID-19 pandemic, which has been fully disbursed.

The EU also announced financial support to the Western Balkans during the COVID-19 pandemic, of which, as at June 2021, Albania had been allocated €7.7 million for the health sector, €73.5 million in funds to tackle the economic and social consequences of the COVID-19 pandemic and €250 million in macro-financial assistance. According to Government figures, in 2020, the EU’s COVID-19 support package for Albania amounted to €50.7 million of support, including €26 million under the IPA for 2020, €4 million to address immediate medical supplies and equipment needs (from the IPA for 2017) and €20.7 million to top-up an existing €50 million social inclusion programme under the IPA for 2019. In April 2020, the EU launched the EU4Health Programme, which provided for the procurement of specialised medical equipment and devices for the prevention and treatment of COVID-19 in Albania. In August 2021, the IMF made a general allocation of SDRs, in proportion to existing IMF quotas, of approximately U.S.\$650 billion, pursuant to which, Albania benefitted from an allocation of SDR 133.5 million (approximately U.S.\$190 million). This allocation is to be generally used or maintained as reserves and was issued to help countries mitigate the impact of the COVID-19 pandemic.

See “*Public Debt*”.

The Government allocated a total of ALL 42.6 billion through two support packages for the population and the private sector affected by the COVID-19 pandemic, which includes budget spending, sovereign guarantees and tax deferrals. The first package of measures included: (i) ALL 3.5 billion in additional funding for the health sector; (ii) ALL 6.5 billion to support small businesses and the self-employed by paying minimum salaries, doubling unemployment benefits and providing social assistance; and (iii) establishing a sovereign guarantee fund of ALL 11 billion for companies to access overdrafts in the banking system (with an interest rate capped at 2.85% for a maturity of up to two years) to pay employee wages for up to three months. The Government will bear the interest costs. The deadline for applications under the sovereign guarantee scheme closed on 20 June 2020, ALL 5.9 billion of loans were approved under the sovereign guarantee scheme, with ALL 5.3 billion disbursed.

The second package of measures included: (i) establishing a fund of ALL 7 billion to pay ALL 40,000 to employees of small businesses not covered in the first package, employees of large businesses made redundant due to the pandemic and employees in the tourism sector; and (ii) a sovereign guarantee of ALL 15 billion to be used to provide loans for working capital for all private companies that were tax-compliant and solvent before the pandemic. The Government will guarantee 60% of the loans and interest is capped at 5% for a maturity of up to five years. The Government has also adopted tax deferral measures allowing certain companies to defer tax payments. As of 31 August 2021, ALL 16.4 billion of loans were approved, of which ALL 9.8 billion were approved under the sovereign guarantee scheme, with ALL 15.9 billion disbursed.

## **Monetary Policy**

The Bank of Albania took a number of measures to minimise the effect of the COVID-19 pandemic, including increasing its operational capacity to guarantee the supply of currency and ensure the smooth functioning of the electronic payment system. Monetary policy and banking system supervision measures introduced included reducing the policy rate to 0.5% and the overnight lending rate to 0.9% in March 2020 (although it has been subsequently increased on a number of occasions), temporarily easing loan classification and provisioning requirements for distressed borrowers, applying lower risk weights and restricting the distribution of dividends by banks. See “*Monetary and Financial System*”.

## THE ALBANIAN ECONOMY

### Background

The Albanian economy has undergone a significant transformation since the fall of the Communist government in 1992. In common with other post-Communist countries in Eastern Europe, Albania's transition to a market-based economy in the 1990s was accompanied by economic dislocation due to the shock of the transition and the effects and costs of implementing economic reforms. This transition remains ongoing, with a broad range of continuing reform initiatives being implemented by the Government, in particular programmes aimed at structural reforms and fiscal consolidation.

The democratically-elected government that assumed office in April 1992 launched an economic reform programme that was intended to stop economic deterioration and begin Albania's transition to a market economy. Key elements included price and foreign exchange liberalisation, fiscal consolidation and monetary restraint. These were complemented by a comprehensive package of structural reforms, including privatisation, enterprise and financial sector reforms, as well as the creation of a legal framework for a market economy and private sector activity. Led by the agricultural sector, real GDP grew, and Albania's currency, the Lek, stabilised. Progress stalled in 1996, due to, among other things, the collapse of large financial pyramid schemes and the instability that followed.

In recent years, the Albanian economy has improved, infrastructure has developed and substantial reforms, in areas such as tax collection, property laws and business regulations, are continuing. Between 1998 and 2008, Albania had real GDP growth of at least 5.5% each year, except in 2002. Between 2009 and 2014, Albania had an average annual GDP growth rate of 2.3%. Albania's real GDP grew year-on-year between 2015 and 2019, growing by 2.2% in 2015, 3.3% in 2016, 3.8% in 2017, 4.0% in 2018 and 2.1% in 2019. According to IMF projections released before the COVID-19 pandemic, Albania's real GDP was forecasted to grow by 3.5% in 2020 before the twin shocks of the November 2019 Earthquake and the COVID-19 pandemic. Primarily due to these two shocks, according to INSTAT data, real GDP contracted by 3.3% in 2020. Growth has rebounded in recent years; in 2021, Albania's real GDP grew by 8.9%, driven by a strong recovery in the tourism, construction and electricity production markets. In 2022, real GDP grew by 4.8%, primarily driven by domestic demand, both in terms of consumption and investment, as well as net foreign demand. In the IMF's 2022 Article IV consultation concluding statement published on 9 December 2022, the IMF noted that the Albanian economy had maintained positive momentum despite the shock to the global economy from the war in Ukraine. The IMF projects real GDP to grow by 2.3% in 2023, while the Ministry of Finance and Economy projects real GDP to grow by 3.5% in 2023, influenced by developments and expectations for the global economy and the European Union. See "*—Gross Domestic Product*".

As a result of recent economic and structural reforms, economic growth has increased, domestic and external demand has remained strong and unemployment has decreased, although certain metrics deteriorated in 2020 due to the impact of the COVID-19 pandemic. The Government's economic policy seeks to achieve sustainable growth, generate solid employment, improve the standard of living of Albanians and create an economy capable of integrating in EU value chains. See "*—Government Programme*" and "*—Economic Programme and Priorities*".

Albania is one of the poorest countries in Europe. According to INSTAT, annual *per capita* GDP was estimated to be ALL 580,521 (approximately €4,690) in 2020, ALL 600,168 (approximately €5,391) in 2021 and ALL 764,057 (approximately €6,430) in 2022 while gross national disposable income ("**GNDI**") *per capita* was estimated to be approximately ALL 612,719 (approximately €4,951) in 2020, ALL 693,476 (approximately €5,663) in 2021 and ALL 797,619 (approximately €6,700) in 2022. GNDI *per capita* adjusted for purchasing power parity was €10,518 in 2020, €12,000 in 2021 and €13,749 in 2022. According to the latest data published by INSTAT in the Income and Living Conditions Survey, the at-risk-of poverty rate threshold for a one-member household in 2021 was set at ALL 191,791, compared to ALL 186,242 in 2020. In 2021 there were an estimated 622,705 individuals living below the at-risk-of-poverty threshold, as compared to as estimated 621,504 individuals in 2020; representing an increase of approximately 0.2%.

According to estimates by the World Bank published in its Macro Poverty Outlook (October 2022), Albania's upper middle-income poverty rate (measured at U.S.\$6.85 per day at 2017 purchasing power parity) was estimated at 26.0% in 2022 and 24.5% in 2023, as compared to 28.1% in 2021. This increase was primarily due to policy stimulus and the resurgence of travel, construction, and extractive activity.

In 2022, the official unemployment rate in Albania was 11.0%. See "*—Employment*".



Albania also has a large informal economy, which was estimated by academic reports based on INSTAT data to represent approximately 29% of GDP in 2018. See “—*Gross Domestic Product*”, “—*Informal Economy*” and “*Risk Factors—Risks relating to Albania—Albania has a large informal economy*”.

The Bank of Albania targets annual inflation at a rate of 3.0%. While inflation remained below this target between 2012 and October 2021 and is expected to return to this target in early 2024, since November 2021, the inflation rate has increased in line with global inflationary trends, reaching a high of 8.3% in October 2022. In an attempt to ease inflationary pressures, the Bank of Albania raised interest rates five times during 2022 to 2.75%. To date in 2023, the policy rate has been increased once, by 25 basis points (to 3.0% as of March 2023), its highest level in nine years. Increases to the interest rate in Albania were generally made concurrently with the rate set by the ECB. See “*Monetary and Financial System—Monetary Policy*”.

## **Government Programme**

The Assembly approved Prime Minister Edi Rama’s proposed Council of Ministers and Government programme on 17 September 2021.

The five pillars of the Government programme are the reconstruction programme following the November 2019 Earthquake and the COVID-19 pandemic, as well as well-being for all (raising citizen welfare), modernising the economy (including the agriculture, tourism, energy, digital economy, transport and services sectors), family and solidarity, with equal access to education and health and working for a strong Albania, in particular Albania’s governance and institutional framework. The Government has set an average target of 4.5% annual GDP growth, a target 20% increase in disposal income and an average 25% increase of all wages by the end of the Government’s mandate in 2025.

Key priorities and pledges in the Government’s programme include:

- (i) completion of the reconstruction efforts following the November 2019 Earthquake (in particular reconstruction of housing) by the end of 2022;
- (ii) a continued mass vaccination plan against COVID-19 (see “*Response to COVID-19*”);
- (iii) raising the minimum wage from ALL 30,000 to at least ALL 38,000 by 2025;
- (iv) increasing public sector wages (by 40% for teachers and education staff and by 30% for public administration salaries by 2025);
- (v) digitalisation of administration;
- (vi) the establishment of a €50 million sovereign guarantee fund to support the transition to new production lines, innovation, research and development, marketing and design in the manufacturing sector;
- (vii) enhancing the well-being of manufacturing workers by increasing the minimum wage;
- (viii) implementation of, and compliance with, the approved justice reforms;
- (ix) support to the tourism sector, with the aims of ensuring the sustainability of the sector and making Albania a “tourism champion” in the Western Balkans by 2030, including by boosting FDI through fiscal incentives;
- (x) support to ongoing infrastructure projects, including road projects, the ports of Durrës, Saranda, Shengjin and Vlora and plans to build two international airports in Vlora and then Saranda;
- (xi) aims for Albania to become a net exporter of electricity and to encourage investments in renewable energies and increase photovoltaic capacities, while decreasing dependence on hydropower plants;
- (xii) finalising the operationalisation of the Albanian Energy Exchange; and
- (xiii) additional support for farmers (including through tax exemption schemes and investment in new production capacities, as well as reforms to enhance access to export markets) with agricultural exports targeted to reach U.S.\$1 billion by the end of the Government’s term.

## **Economic Programme and Priorities**

In October 2014, the European Commission invited the West Balkans Six, including Albania, to prepare annual economic reform programmes (“**Economic Reform Programmes**”) in connection with their proposed accession to the EU. These economic reform programmes are required to include medium-term macro-economic and fiscal policy frameworks, proposed macro-structural reform measures to directly support the policy frameworks and other sectoral structural reform measures aimed at improving physical and human capital, industrial structures, the business environment and trade integration in order to boost competitiveness and long-term growth.

On 1 March 2023, the Government adopted its ninth annual Economic Reform Programme covering the period 2023-2025 (the “**2023-2025 ERP**”), which outlines the Government’s key macro-economic and fiscal policies, as well as its medium-term priority structural reforms. The 2023-2025 ERP builds on and replaces the programme for 2022, 2023 and 2024 set out in the 2022-2024 ERP adopted in January 2022, as well as the joint conclusion of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey in respect of the 2022-2024 ERP published in May 2022, which invited Albania to, among other things: (i) provide targeted and temporary support to vulnerable households and firms, if needed, in view of both pandemic effects and the impact of the war in Ukraine; (ii) continue towards a gradual reduction of the public debt ratio and a return to the positive primary balance rule by 2024; (iii) improve the fiscal position while addressing that spending needs should be underpinned by increased revenue mobilisation through the ongoing implementation of the medium-term revenue strategy; (iv) implement the use of the regular legislative process for budget revisions and for any amendment of the budget law; (v) implement the long-standing recommendations to improve and harmonise public investment planning and management; (vi) increase spending on human capital and research, thereby complementing infrastructure investment and making the public expenditure more growth-friendly; and (vii) tackle corruption, improve the rule of law and strengthen institutions to promote competitiveness. In respect of specific structural reforms, the main challenges in terms of boosting competitiveness and long-term and inclusive growth identified were: (i) improving the business environment and investment climate by increasing the pace of reforms and government support, and by tackling informality; (ii) increasing innovation and skills of young people and adults to enhance employment; and (iii) increasing coverage and adequacy of social protection and health insurance to reduce the share of the population at risk of poverty. The 2023-2025 ERP was officially submitted to the European Commission on 31 January 2023.

Pursuant to the 2023-2025 ERP, fiscal policy in the medium-term is expected to be oriented towards fiscal consolidation, in line with the fiscal rules set out in the organic budget law. The 2023-2025 ERP also includes 19 structural reforms, many of which are rolled over from the previous economic reform programme, but which also include new reform measures.

### **2023-2025 ERP Reform Priorities**

Building on the ongoing implementation of previous years’ reform priorities, the Government plans to focus on the following reform priorities in 2023-2025:

#### *Employment and labour market*

- **Increasing the quality and access to vocational education and training** – The National Employment and Skills Strategy (“**NESS**”) 2023-2030 (the main policy document that guides the implementation of actions related to employment and skills development in Albania), which was approved by the Council of Ministers on 24 March 2023, has the following objectives: (i) the systematic engagement of the private sector in skills development through vocational education and training and employment; (ii) ensuring evidence-based governance of the labour market and vocational education and training policies; (iii) supporting and promoting quality and inclusive lifelong learning for enhanced employability; and (iv) the digital transformation of vocational education and training and employment and its connection to the green economy. Within the targets of the NESS, this reform measure seeks to equip young people and adults, with the necessary training, skills and qualifications to compete in the labour market and increase their employment opportunities. Planned activities for 2023 include, among others, the reconstruction of schools and workshops, implementation of the “Strategy of Employment and Skills 2023-2030”, developing the competencies of 200 vocational education and training teachers and the establishment of two other sectoral committees.
- **Improving the employability of the most vulnerable unemployed jobseekers** – The NESS has an overall goal of “*Quality employment and lifelong learning for all*”. The policy goals of the NESS are (i) skills development and better matching of demand with supply in the labour market for more employment; and (ii) promoting employment through the implementation of comprehensive labour market policies. Planned activities aimed at improving the

employability of the most vulnerable unemployed jobseekers for 2023 include, among others, the implementation of employment promotion programmes focusing on the most vulnerable, introducing a pilot “Youth Guarantee Scheme” targeting youth unemployment, implementing agreements signed with municipalities in uncovered areas and improving the quality and effectiveness of institutions and services of the labour market through the continuous training of staff and measuring customer satisfaction.

- **Improving institutional, financial and human capacities for research and innovation** – The objectives of this reform measure are: (i) to enable the further development of the research infrastructure in the economy by increasing the level of investments in the research infrastructure; (ii) to increase mobility and institutional cooperation between researchers and the business community; (iii) to increase the participation of Albanian research institutions in the EU’s Horizon Europe framework programme; and (iv) to support changes in the structure of the sector and enterprises in the economy, including the role of SMEs. Planned activities for 2023 include, among others, drafting a strategic and legal framework in the field of science, innovation and technology, developing a clear methodology for the creation of funds for the transfer of research, innovation and technology and increasing and strengthening the human and infrastructural capacities of scientific research and innovation through support and funding.

#### *Social protection and inclusion*

- **Increasing the coverage and adequacy of social protection and health insurance to reduce the share of the population at risk of poverty** – The overall goal of this measure is to expand the coverage, inclusiveness, effectiveness and targeting of social services, through integrated services and financial mechanisms. Planned activities in 2023 include, among others, drafting a new social protection strategy, supporting persons from disadvantaged backgrounds, transforming two public child residential institutions in alternative care in Korça and Vlora and expanding the implementation of the bio-psycho-social evaluation scheme to support persons with disabilities with combined cash support and social care in other regions.
- **Increasing access to healthcare** – Universal healthcare coverage remains a long-term objective of the Government in order to guarantee access, quality and safety in the provision of healthcare services. Planned activities in 2023 include, among others, financing healthcare services, increasing the cost-effectiveness of the reimbursed drug list, continuing funding of healthcare packages and approving the National Hospital Programme, which aims to transform the hospital system in Albania to remodel hospital services provision and distribution of human and financial resources according to demographic and epidemiological structure change.

#### *Business Environment and reduction of informal economy*

- **Strengthening the fight against informality** – Planned activities for 2023 include implementing new and improved risk criteria for identifying non-compliant taxpayers, fully integrating systems to improve the efficiency of the Tax Administration’s research and analysis and implementing a compliance programme targeting the wealthiest individuals.
- **Support measures for micro-, small- and medium-sized enterprises (“MSMEs”)** – MSMEs in Albania are significant contributors to the economy. In 2021, the Strategy of Investment and Business Development for 2021-2027 and the Action Plan for the Implementation of the Strategy 2021-2023 were adopted. Since the adoption of Law № 43/2022 “On the development of micro, small and medium sized enterprises”, Government support grants may now be made available to MSMEs. A grant scheme is expected to be drafted and implemented in order to increase access to finance. Further planned activities for 2023 include, among others, the development of an export strategy, conducting regular training needs assessments, initiating a competition-based value chain upgrading initiative and drafting the annual MSME Government budget grant schemes.

### *Public Financial Management*

- **Public Strategic Investments** – This reform measure is aimed at the development of a new public investment management procedure, including public-private partnerships, strengthening the capacity across Government to appraise public investment projects and improving the monitoring of public investments, including public-private partnership projects and concessions. Activities planned in 2023 include, among others, developing capacities across the Government aimed at identifying, preparing and appraising public investment projects and developing the methodology on the allocation of the budget funds for strategic investments.
- **Strengthening managerial accountability in general government units** – This reform measure is aimed at ensuring the accountability of administrative bodies. Activities planned in 2023 include, among others, making available an improved regulatory framework for the implementation of procedures for the development of an effective system of managerial accountability and the facilitation of mechanisms for the purpose of good management of public funds and the continuous evaluation of the quality of the internal control system in order to conduct an in-depth analysis of the functioning of the internal control elements, identify the main problems and provide concrete recommendations for addressing them.

### *Green transition*

- **Reducing environmental pollution and promoting the decarbonisation of energy-intensive industries** – Albania has taken action to support green growth and revitalisation in recent years. In particular, to support the objectives of the EU Green Deal, Albania signed two declarations at the Sofia Summit in November 2020: (i) the Western Balkan countries on the Green Agenda; and (ii) the creation of a Common Regional Market, which aims to make the economy sustainable and climate-neutral by 2050, through a set of comprehensive political and financial initiatives and reforms. Activities planned in 2023 include, among others, approval of the law on fluorinated gases (“**F-gases**”), raising awareness of the F-gases Phase Down incentive and introducing a licensing scheme for F-gas undertakings.

### *Digital transformation*

- **Development of broadband infrastructure for the digital economy** – This reform measure aims to increase investment in broadband infrastructure, improve broadband penetration rates, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as increase competition. Planned activities in 2023 include, among others, establishment of a national Broadband Competent Office, development of 5G networks, adoption of a new law on electronic communications and other capacity strengthening projects.

### *Economic integration reforms*

- **Deepening economic integration** – there are a number of initiatives under consideration in respect of this reform measure, including, the completion of a feasibility study in relation to possible customs union with Kosovo, continued work to finalise and realise the measures set out in the Action Plan to establish a Common Regional Market and implementing existing action plans, as well as three major cross border projects, which are each expected to be completed during 2025, including: (i) the design and installation of a national single window; (ii) improvement of the Qafë-Thanë border crossing with North Macedonia through the establishment of integrated control; and (iii) developing a new computerised transit system compatible with EU standards.

### *Energy market reforms*

- **Energy security through the promotion of renewable energy sources and energy efficiency improvement** – This reform measure is in line with the strategic framework of the National Energy Strategy (2018-2030), the National Energy and Climate Plan (2020 – 2030) and the Government’s vision for the development of the energy sector by increasing energy security, increasing production capacity through diversification, energy efficiency measures and the increase of energy transmission capacity, in a sustainable and environmentally friendly manner. Planned activities in 2023 include, among others, commencing the construction phase of the “Karavasta PV Power Plant 140MW” project, commencing the construction phase of the Spitalla PV Power Plant of 100 MW project, conducting an offshore wind auction, monitoring the implementation of new wind and solar energy projects and conducting a feasibility study relating to the installation of charging towers for electric cars in Albania.

### *Transport market reforms*

- **Rehabilitation and construction of the Tirana-TIA-Durrës railway segment** – This reform measure to upgrade and extend the Tirana-TIA-Durrës railway line is rolled over from previous ERPs. It is intended to increase intermodal transport and double the speed of passenger and freight transport between Tirana and Durrës, boosting traffic and reducing road congestion. A civil works contract for the upgrade of Tirana-Durrës railway was signed in early February 2021 with INC SPA and HSH Albanian Railways. This strategic investment also benefits from €90.5 million in EU funding. Planned activities for 2023 include, rehabilitation works on the main section and construction of the new railway line to Tirana International Airport.

### *Agriculture, Industry and Services*

- **Better marine and maritime governance services** – This reform measure seeks to amend, align and complete current legislation and procedures to create a regulatory framework that is modern, in line with EU regulations and tailored to the needs and distinct characteristics of the blue economy. This reform also plans to introduce certification of maritime tourism operators to permit maritime tourism activities only by licensed maritime tourism operators (including, among others, sailing, surfing, recreational diving, windsurfing, water skiing, wakeboarding, water motor and fishing). Plans for 2023 include, among others, the certification of maritime tourism operators and promotion of the maritime tourism sector. See “—Principal Sectors of the Economy—Services—Tourism”.

### *Education and skills*

- **Support of the implementation of the pre-university curricular reform and teacher training** – Competency-based curricula has been implemented in all grades (1-12) of the pre-university education system. Planned activities for 2023 include, among others, training 1,000 second grade teachers and monitoring the continuity of work for the implementation of the English language programme, completing the harmonisation process of the initial training curricula of higher education teachers based on the requirements of the Law on Higher Education, as well as with the curriculum offered in pre-university education, and strengthening human capacities in the curriculum sectors at the local education office level.
- **Inclusiveness and equality in education** – Inclusiveness has been the focus of education policies in Albania in the last decade, aiming to increase participation in early childhood education, as well as participation in the education of children from vulnerable groups. Planned activities in 2023 include, among others, the transformation of special schools to resource centres, providing additional support teachers for students with disabilities and teachers trained in Albanian sign language, training 61 heads of professional networks of assistant teachers and assistant teachers and training the professional networks of psycho-social service employees.
- **Development and empowerment of digital competency of teachers** – The Ministry of Education and Sports has set as a priority in the National Education Strategy 2021-2026, the integration of Information and Communication Technology (“ICT”) and the digitisation of education. An ICT programme has been designed and the rollout began with first grade children in 2022. Approximately 1,200 ICT teachers have been trained in the use of the “akademi.al” platform, 5,508 teachers have been trained in the use of online platforms in the teaching process and 724 leaders of professional networks have been trained in the use of ICT in the assessment of students based on competencies. 100 schools in Albania have been equipped with smart labs. Plans for 2023 include, among others, the design and approval of the ICT programme and its implementation among children in the second grade, training ICT teachers for the implementation of the programme in the second grade, drafting the supporting material for teachers to include coding skills and its implementation in 2023 in second grade and training of 1,200 professional network managers on “Students’ Internet Safety”.

### *Employment and labour market*

- **Improving the employability of the most vulnerable unemployed jobseekers, especially those affected by COVID-19, through new and revised employment promotion programmes and employment services** – The National Employment and Skills Strategy (“NESS”) 2019-2022 and its related action plan is supported by the Medium Term Budget Programme (“MTBP”), as well as donor projects. The main objective of the NESS 2019 – 2022 is to identify and design appropriate incentive policies for employment and vocational training to create quality jobs and opportunities for employment and skills. Within the targets of the NESS, this reform measure seeks to better profile jobseekers through a revamped information system and the development of individual employability plans, as well as to develop and implement new and revised employment promotion programmes. Support to the reintegration into

the labour market of formerly informal workers will also continue, as will interinstitutional collaboration between authorities. Planned activities for 2021 include, among others, continued capacity support to the National Agency on Employment and Skills and finalisation of its information systems, profiling of jobseekers and development of individual employment plans and the implementation of employment promotion programmes focused on COVID-19.

#### *Social protection and inclusion*

- ***Strengthening and expanding health and social protection coverage and reducing inequality and supporting inclusive and sustainable growth*** – The overall goal of this measure is to expand the coverage, inclusiveness, effectiveness and targeting of social services, through integrated services and financial mechanisms. Strengthening monitoring, evaluation and capacity building in local, regional and central structures is a precondition to empowering vulnerable groups and people in need. Planned activities in 2023 include, among others, drafting a new social protection strategy, implementing the bio-psycho-social evaluation scheme to support persons with disabilities with combined cash support and social care, supporting persons from disadvantaged backgrounds, improving community-based social services and drafting national action plans for social inclusion and poverty reduction.
- ***Increasing access to healthcare*** – Universal healthcare coverage remains a long-term objective of the Government in order to guarantee access, quality and safety in the provision of healthcare services. The November 2019 Earthquake and the COVID-19 pandemic tested the healthcare system and demonstrated the need for continued investment. The Government’s medium-term priority is to remodel public funding in the healthcare sector by focusing on health investment beyond health spending. Planned activities in 2023 include, among others, launching the HPV vaccination programme, financing healthcare services, increasing the cost-effectiveness of the reimbursed drug list, continuing funding of healthcare packages and continuing financing of preventative screening programmes.

#### **Gross Domestic Product**

The following table sets forth details of Albania’s GDP for the years indicated.

	<b>Gross Domestic Product<sup>(1)</sup></b>				
	<b>For the year ended 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>GDP at current prices (nominal GDP)</b>					
ALL billions .....	1,636.7	1,691.9	1,647.4	1,856.2	2,134.5
€ billions <sup>(2)</sup> .....	12.8	13.8	13.3	15.2	17.9
<b>Real GDP Growth (%)</b> .....	4.0	2.1	(3.3)	8.9	4.8
<b>GDP per capita</b>					
ALL thousands .....	571.01	592.78	580.52	660.17	764.06 <sup>(3)</sup>
€ .....	4,475.9	4,818.0	4,690.5	5,390.9	6,418.3

*Source: INSTAT*

#### **Notes:**

- (1) Certain figures in this table have been revised and may differ from previously published data.
- (2) Converted into Euros using the average annual Lek/Euro exchange rate for the relevant year. See “Exchange Rates”.
- (3) Calculated based on population as at 1 January 2023.

Albania’s real GDP grew by 4.0% in 2018 and 2.1% in 2019. According to IMF projections released before the COVID-19 pandemic, Albania’s real GDP was forecasted to grow by 3.5% in 2020 before the twin shocks of the November 2019 Earthquake and the COVID-19 pandemic. Primarily due to these two shocks, according to INSTAT data, real GDP contracted by 3.3% in 2020, reflecting lower domestic and external demand.

Growth has rebounded in recent years. In 2021, Albania’s real GDP grew by 8.9%, driven by a strong recovery in the tourism, construction and electricity production markets. In 2022, real GDP grew by 4.8%, primarily driven by domestic demand, both in terms of consumption and investment, as well as net foreign demand. In the IMF’s 2022 Article IV consultation concluding statement published on 9 December 2022, the IMF noted that the Albanian economy had maintained positive momentum despite the shock to the global economy from the war in Ukraine. The IMF projects

real GDP to grow by 2.3% in 2023, while the Ministry of Finance and Economy projects real GDP to grow by 3.5% in 2023.

Albania's GDP in 2022 primarily consisted of services (which accounted for 47.3% of GDP, of which trade, hotels and restaurants represented 14.4% of GDP, transport represented 3.0% of GDP, information and communication represented 3.0% of GDP, financial and insurance activities represented 2.1% of GDP and other services represented 24.8% of GDP), agriculture, hunting and forestry (18.6% of GDP), construction (9.7% of GDP) and industry (11.7% of GDP), according to statistics prepared by INSTAT. The remaining 12.6% of GDP relates to net taxes on products (see “—*Principal Sectors of the Economy*”). Approximately 33.9% of all workers in Albania were employed in the agricultural sector in 2022, although the construction and service industries have expanded in recent years. The tourism sector has benefited from increased visits by tourists from the Balkan region and elsewhere, with tourism numbers starting to recover in 2022 following the easing of COVID-19 travel-related restrictions in place in 2020 and 2021. See “—*Principal Sectors of the Economy—Services—Tourism*”.

GDP per capita, adjusted for purchasing power parity, was €10,015.8 in 2018, €10,352.8 in 2019, €9,936.6 in 2020, €11,350.7 in 2021 and €13,170.7 in 2022, according to data published by the Ministry of Finance and Economy.

The following table sets forth details of the expenditure composition of Albania's GDP in both current prices and percentage terms for the years indicated.

	Expenditure Composition of GDP <sup>(1)</sup>									
	For the year ended 31 December									
	2018		2019		2020		2021		2022	
	(ALL millions)	(% of GDP)	(ALL millions)	(% of GDP)	(ALL millions)	(% of GDP)	(ALL millions)	(% of GDP)	(ALL millions)	(% of GDP)
<b>Final Consumption...</b>	<b>1,479,510</b>	<b>90.4</b>	<b>1,519,340</b>	<b>91.4</b>	<b>1,523,799</b>	<b>92.50</b>	<b>1,643,836</b>	<b>88.6</b>	<b>1,834,291</b>	<b>85.9</b>
Household consumption expenditure.....	1,278,812	78.3	1,340,230	79.2	1,317,607	79.98	1,411,321	76.0	1,606,878	75.3
General Government consumption expenditure.....	184,731	11.3	191,980	11.4	195,196	11.85	221,041	11.9	217,363	10.2
NPI serving households <sup>(3)</sup> .....	12,967	0.8	13,296	0.8	10,996	0.67	11,475	0.6	10,051	0.5
<b>Gross fixed capital formation .....</b>	<b>390,567</b>	<b>23.9</b>	<b>377,519</b>	<b>22.3</b>	<b>373,135</b>	<b>22.65</b>	<b>452,045</b>	<b>24.4</b>	<b>510,785</b>	<b>23.9</b>
<b>Net export .....</b>	<b>(223,647)</b>	<b>(13.7)</b>	<b>(231,294)</b>	<b>(13.7)</b>	<b>(239,111)</b>	<b>(14.51)</b>	<b>(248,721)</b>	<b>(13.40)</b>	<b>(221,524)</b>	<b>(10.4)</b>
Exports of goods and services.....	516,748	31.6	529,638	31.3	373,271	22.7	581,152	31.3	799,643	37.5
Imports of goods and services.....	740,395	45.2	760,932	45.0	612,382	37.17	829,873	44.7	1,021,167	47.8
Changes in stocks .....	779	0.1	11,831	0.7	5,198	0.32	8,514	0.5	—	—
Statistical discrepancy .....	(10,477)	(0.6)	(11,659)	(0.7)	(15,590)	(0.95)	498	0.03	—	—
<b>GDP .....</b>	<b>1,636,731</b>	<b>100.0</b>	<b>1,691,903</b>	<b>100.0</b>	<b>1,647,431</b>	<b>100.0</b>	<b>1,856,172</b>	<b>100.0</b>	<b>2,134,464</b>	<b>100.0</b>

Source: INSTAT

**Notes:**

- (1) Certain figures in this table have been revised and may differ from previously published data.
- (2) NPI serving households includes expenditure provided by non-profit making institutions to households as social transfers in kind.
- (3) Not available.

## Principal Sectors of the Economy

The following table sets forth the value-added composition of GDP, by economic activity, in both current prices and percentage terms for the years indicated.

	<b>GDP by Economic Activity<sup>(1)</sup></b>									
	<b>For the year ended 31 December</b>									
	<b>2018</b>		<b>2019</b>		<b>2020</b>		<b>2021</b>		<b>2022</b>	
	<i>(ALL millions)</i>	<i>(% of GDP)</i>	<i>(ALL millions)</i>	<i>(% of GDP)</i>	<i>(ALL millions)</i>	<i>(% of GDP)</i>	<i>(ALL millions)</i>	<i>(% of GDP)</i>	<i>(ALL millions)</i>	<i>(% of GDP)</i>
Agriculture, hunting and forestry	301,641	18.4	311,130	18.4	316,722	19.2	340,758	18.4	397,609	18.6
Industry	201,249	12.3	203,911	12.1	184,332	11.2	208,505	11.2	249,501	11.7
<i>Mining and Quarrying Industry</i>	<i>41,737</i>	<i>2.6</i>	<i>48,200</i>	<i>2.9</i>	<i>34,371</i>	<i>2.1</i>	<i>40,873</i>	<i>2.2</i>	<i>47,191</i>	<i>2.2</i>
<i>Manufacturing Industry</i>	<i>100,385</i>	<i>6.1</i>	<i>105,849</i>	<i>6.3</i>	<i>101,416</i>	<i>6.2</i>	<i>114,251</i>	<i>6.2</i>	<i>139,775</i>	<i>6.5</i>
<i>Electricity, gas, steam and air conditioning supply</i>	<i>44,953</i>	<i>2.7</i>	<i>34,389</i>	<i>2.0</i>	<i>34,147</i>	<i>2.1</i>	<i>36,363</i>	<i>2.0</i>	<i>40,373</i>	<i>1.9</i>
<i>Water supply, sewerage, waste management and remediation activities</i>	<i>14,174</i>	<i>0.9</i>	<i>15,473</i>	<i>0.9</i>	<i>14,397</i>	<i>0.9</i>	<i>17,018</i>	<i>0.9</i>	<i>22,162</i>	<i>1.0</i>
Construction	147,036	9.0	144,953	8.6	147,041	8.9	176,595	9.5	207,984	9.7
Total Services	781,629	47.8	819,005	48.4	796,495	48.4	888,424	47.9	1,009,444	47.3
<i>Trade, Hotels and Restaurants.</i>	<i>214,912</i>	<i>13.1</i>	<i>229,791</i>	<i>13.6</i>	<i>221,285</i>	<i>13.4</i>	<i>247,120</i>	<i>13.3</i>	<i>308,092</i>	<i>14.4</i>
<i>Transport</i>	<i>53,806</i>	<i>3.3</i>	<i>55,458</i>	<i>3.3</i>	<i>46,270</i>	<i>2.8</i>	<i>57,459</i>	<i>3.1</i>	<i>64,171</i>	<i>3.0</i>
<i>Information and communication</i>	<i>46,893</i>	<i>2.9</i>	<i>50,493</i>	<i>3.0</i>	<i>49,877</i>	<i>3.0</i>	<i>55,769</i>	<i>3.0</i>	<i>63,693</i>	<i>3.0</i>
<i>Financial and insurance activities</i>	<i>37,249</i>	<i>2.3</i>	<i>36,730</i>	<i>2.2</i>	<i>34,220</i>	<i>2.1</i>	<i>38,173</i>	<i>2.1</i>	<i>43,285</i>	<i>2.1</i>
<i>Other services<sup>(2)</sup></i>	<i>428,769</i>	<i>26.2</i>	<i>446,533</i>	<i>26.4</i>	<i>444,843</i>	<i>27.0</i>	<i>489,903</i>	<i>26.4</i>	<i>530,203</i>	<i>24.8</i>
<b>Gross value added at basic prices</b>	<b>1,431,558</b>	<b>87.5</b>	<b>1,478,999</b>	<b>87.4</b>	<b>1,444,591</b>	<b>87.7</b>	<b>1,614,282</b>	<b>87.0</b>	<b>1,864,537</b>	<b>87.4</b>
Net Taxes on products	205,173	12.5	212,904	12.6	202,840	12.3	241,890	13.0	269,926	12.6
<b>GDP at market prices</b>	<b>1,636,731</b>	<b>100.0</b>	<b>1,691,903</b>	<b>100.0</b>	<b>1,647,431</b>	<b>100.0</b>	<b>1,856,172</b>	<b>100.0</b>	<b>2,134,464</b>	<b>100.0</b>

Source: INSTAT

### Notes:

- (1) Certain figures in this table have been revised and may differ from previously published data.  
(2) "Other Services" includes public administration, health and education.

## Agriculture

Agriculture is a key sector in the Albanian economy, accounting for 18.6% of GDP in 2022, as compared to 18.4% in 2021. In 2022, the agricultural sector grew by 0.06%, as compared to 2021. Albania's principal agricultural products are livestock, field crops and fruits. Approximately, 33.9% of all workers in Albania were employed in the agricultural sector in 2022.



Historically, Albania has had a significant trade deficit in agricultural products with the EU, which in recent years has been decreasing (from 1:2.87 in 2018 to 1:2.9 in 2022). As part of the EU accession process, Albania is required to align its agricultural policies with the EU Common Agricultural Policy (“CAP”). CAP requirements place an emphasis on efficient management of natural resources, and alignment measures are expected to increase the efficiency of agricultural practices in Albania.

The EU has developed an instrument for pre-accession assistance in rural development (“IPARD II”), through which support is granted through four accredited measures: (i) investment in physical assets of agricultural holdings; (ii) investment in physical assets concerning processing and marketing of agricultural and fishery products; (iii) support for farm diversification and business development; and (iv) technical assistance. Four open calls have been carried out for applications for farmers, agri-food businesses and business diversification in rural areas. Under the first call for applications, between the launch of IPARD II implementation (in October 2018) and 30 June 2021, there were 130 contracted applications, with total grants of €24 million made (of which €17.3 million was funded by the EU, with the remainder funded by the Government). Under the second call for applications, 371 applications were submitted and the total number of applications contracted was 175, with grants of €28.7 million made (of which €21.6 million was funded by the EU, with the remainder funded by the Government). Under the third call for applications, 369 applications were submitted, and the total number of applications contracted was 160, with grants of €27.7 million made (of which €20.8 million was funded by the EU, with the remainder funded by the Government). Under the fourth call for applications, 132 applications were submitted, and the total number of applications contracted was 33, with grants of €6.0 million made (of which €4.5 million was funded by the EU). The contracting process remains ongoing. In 2023, support is expected to begin to be given via IPARD III, which is expected to fund a total of €146 million for Albanian agricultural and rural development until 2027.

The following table sets forth certain information regarding Albania’s agricultural sector for the years indicated.

	<b>Agricultural Production by Product<sup>(1)</sup></b>				
	<b>As at 31 December</b>				
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Total utilised agricultural area ( <i>thousand hectares</i> ) <sup>(2)</sup>	1,169	1,174	1,166	1,166	1,136.8
Arable land.....	607	611	602	600	600
<i>Land under permanent crops</i> .....	84	85	86	88	88
<i>Land under permanent meadows and pastures</i>	478	478	478	478	449
<i>Cattle</i> .....	475	467	416	363	337
<i>Pigs</i> .....	180	184	184	158	159
<i>Sheep and goats</i> .....	2,859	2,781	2,621	2,332	2,256
Production and utilisation of milk on farms ( <i>total whole milk, thousand tonnes</i> ).....	1,156	1,144	1,112	1,052	1,013
Crop production ( <i>thousand tonnes, harvested production</i> )					
<i>Cereals (including rice)</i> .....	702	678	661	684	692
<i>Wheat</i> .....	275	240	233	233	225
<i>Vegetables</i> .....	1,152	1,166	1,258	1,296	1,338

*Source: Ministry of Agriculture and Rural Development Albania*

**Notes:**

(1) Certain figures in this table have been revised and may differ from previously published data.

(2) Figures include arable land, permanent meadows and pastures, permanent crops and kitchen gardens.

*Agricultural Sector Reform*

The Government’s main policies for agriculture and rural development during the period 2021 to 2027 (The Strategy for Agriculture and Rural Development and Fisheries) (which is in line with the EU Common Agriculture Policy) provides a framework for the development of a viable and competitive agricultural and food processing sector and balanced economic development in rural areas. These policies are expected to pave the way for continued integration of EU agricultural and agro-processing sector policies and to serve as a basis for increasing standards of living in rural areas and, accordingly, reducing poverty. Policy initiatives implemented to date in this sector include investing in:

(i) agricultural holding assets; (ii) physical assets relating to the processing and marketing of agricultural and fishery products; (iii) farm product diversification; and (iv) business development and technical assistance. EU grants have supported development and reform in the fisheries and agro-processing sectors, which have supported increased exports of agricultural products in the year ending 31 December 2022. See “*Balance of Payments and Foreign Trade—Foreign Trade*”.

Between 2020 and 2022, a number of legal measures were adopted, including the “Law on Cadastre”, which provides for a regulated and harmonised system of real estate registration, and the “Law on the completion of the transitional ownership processes in the Republic of Albania”, which defines the procedures and the relevant state body responsible for the completion of transitional administrative-legal processes and for the registration of ownership titles for State and private immovable properties involving agricultural land. The implementation of these measures have begun.

In July 2015, the Albanian Ministry of Agriculture, Rural Development and Water Administration entered into an agreement with KfW German Development Bank and the European Union to establish the Rural Credit Foundation (“**RCF**”). The RCF’s main objectives are to: (i) broaden access to finance for businesses operating in the agricultural sector; (ii) encourage financial institutions to provide finance to smaller agricultural companies at an early stage; and (iii) bring the productivity of the Albanian agricultural sector in line with that of other European countries. The scheme covers up to 70% of loan defaults, up to a maximum of €500,000. As at 31 December 2022, €42.3 million has been disbursed to 10,181 qualifying agricultural companies or farmers.

In July 2016, the European Bank for Reconstruction and Development (the “**EBRD**”) and the Government launched the Albania Agribusiness Support Facility (“**AASF**”). This facility is aimed at enhancing access to finance for local agribusinesses by providing direct credit lines or by sharing the risk of lending to the agribusiness sector with partner commercial banks and non-bank microfinance institutions. The Government has made available €36 million over three years to support the facility. As at 31 December 2022, the Government had disbursed €18.5 million. The EBRD is providing up to an additional €100 million in funding and risk sharing facilities. As at 31 December 2022, the AASF had disbursed 6,229 loans totalling €98.4 million. See “*Public Debt—Multilateral Financial Institutions—European Bank for Reconstruction and Development*”.

Agricultural exports for 2022 reached approximately U.S.\$500 million.

## **Industry**

Albania’s industrial sector comprises principally manufacturing and extraction. Industrial output increased by 5.4% in 2022, as compared to an increase of 10.4% in 2021.

Albania’s manufacturing sub-sector includes primarily the manufacturing of food products, beverages and tobacco, textiles and textile products, electricity production, tanning and dressing of leather, luggage and handbags and wood and wood products. In 2022, the manufacturing sub-sector accounted for 9.7% of Albania’s GDP, as compared to 9.0% in 2021.

The mining and quarrying industry comprises mining and quarrying of energy producing materials, mining of metal ores and other mining and quarrying. Chromium, ferro-nickel, copper, coal and oil and gas are among the most important sub-soil minerals in Albania. In 2022, the mining and quarrying industry accounted for 2.2% of Albania’s GDP as compared to 2.2% in 2021, 2.1% in 2020, 2.9% in 2019 and 2.6% in 2018.

In July 2021, the Council of Ministers approved a new Business and Investment Development Strategy 2021-2027, which replaced the strategy in place between 2014 and 2020. The new strategy and related action plan are built around three main pillars: (i) investment attraction and internationalisation; (ii) SME development, entrepreneurship and innovation; and (iii) human capital development, and aims to ensure more innovation-driven and knowledge-based economic development. The Business and Investment Development Strategy 2021-2027 targets total investments of €77 million by 2027. Key priorities of the Business and Investment Development Strategy 2021-2027 include:

- **Systematic promotion:** Encouraging inter-organisational collaboration and further development of efforts by the Albanian Investment Development Agency (“**AIDA**”), the Ministry of Foreign Affairs, the Ministry of State for the Diaspora and the various embassies in the field of economic diplomacy. The strategy aims to enhance the effectiveness and impact of investment attraction efforts and to explore new avenues to support the internationalisation of SMEs and entrepreneurs (through networking and digital solutions). Planned actions include

introducing capacity upgrade programmes in line with the needs of export-oriented investors and defining an export strategy to include export promotion and business facilitation measures.

- ***SME development, entrepreneurship and innovation:*** With the aim of unleashing potential and intelligent specialisation and to develop a critical mass by approaching the independent development process with a new mindset and to help all chains and actors, from start-ups to well established entities, local SMEs to international investors and from research academies to public support institutions and trade associations. Planned actions include complementing financial support to SMEs with technical assistance and capability-building measures and adopting measures to strengthen the start-up ecosystem and improve access to finance and capabilities.
- ***Increasing access to finance:*** Special emphasis is to be placed on supporting female entrepreneurs and female-led enterprises. AIDA aims to establish an information portal on access to finance. The existing SME grant scheme is expected to be redesigned and the grant application process will be restructured (including the introduction of an online application process to expand the range of applicants and to make the application process more accessible for SMEs outside of Tirana).
- ***Development of Entrepreneurship Skills Programme for SMEs:*** AIDA plans to co-ordinate the programme, which is expected to include, among other aims, the development of dedicated training programmes, new communication initiatives and targeted information materials for SMEs, as well as ongoing monitoring.
- ***Workforce Development Programme for SMEs and Investors:*** AIDA plans to co-ordinate this programme, which will be implemented with the co-operation of training providers and business associates. There are also plans to provide assistance for SMEs hiring graduates for innovation projects, as well as assistance for industrial PhDs for joint research projects with SMEs.

Recent policies and initiatives introduced by the Government to support SMEs include:

- ***Supporting business innovation and competitiveness, including through the COVID-19 pandemic:*** In 2020, funds managed by AIDA were administered directly by the Ministry of Finance and Economy and distributed in the form of support schemes to mitigate the impact of the COVID-19 pandemic. AIDA, together with the Ministry of Finance and Economy, established a working group to draft a new financial support scheme for SMEs. Online business to business and customer relationship management platforms have also been set up on AIDA's website, which contain details of approximately 1,064 businesses, aimed at increasing visibility to potential business partners.
- ***Promoting "Made in Albania" Products:*** In 2020, AIDA launched a campaign (including on social media) to promote "Made in Albania" products, with a particular focus on the domestic market given the trading difficulties imposed by the COVID-19 pandemic. As at 1 February 2023, 237 local products have been subject to the campaign. A discussion forum was also organised on promoting local products and strengthening the "Made in Albania" brand.
- ***Reducing the administrative burden placed on SMEs:*** In 2016, the National Business Centre ("NBC") and the e-Albania online platform were established, which enable SMEs to access over 300 services online including registration, applications for permits or licenses, customs authorisations, tax filing and tax payments. Since 30 June 2020, all of the NBC's services have been offered online through the e-Albania portal. AIDA has prepared a guide aimed at SMEs that are looking to develop e-commerce and a self assessment tool has been added to the AIDA website, together with online training sessions.
- ***Strengthening the ability of SMEs to trade with the EU:*** Albania continues to align its infrastructure with that of the EU in key areas such as metrology. A roadmap is also being prepared to identify any remaining technical regulations requiring harmonisation. The staffing capacity of key infrastructure institutions has been strengthened and a support programme for SMEs seeking certification according to European or international standards has been expanded. Overall, these activities are aimed at improving the access for SMEs that need to certify their products, services or processes to conform with European standards and regulations, improving their ability to compete in the EU and other international markets.
- ***Supporting SME internationalisation.*** By developing export support services, the Government seeks to enhance export sophistication and innovation, while also boosting export competitiveness. In addition to support

programmes, a working group has been established to draft a programme aimed at increasing exports during the period from 2023 to 2027.

- **Reducing the regulatory burden placed on SMEs:** In 2018, the Government introduced procedures for regulatory impacts analysis (“RIAs”) when adopting or amending new or existing legislation.
- **Managing and Implementing the Enterprise Europe Network Project:** The Enterprise Europe Network is the largest network in the world, supporting SMEs by encouraging innovation and up-scaling. This network is co-financed under the Competitiveness of SMEs programme, an EU-funded programme designed to encourage the competitiveness of European enterprises. AIDA, through the implementation of the European Enterprise Network in Albania, enables business support, including: (i) international agreement support (*i.e.*, offering expertise, contacts and activities to connect Albanian companies with potential partners to grow their business); (ii) advice on international growth (*i.e.*, offering advice from experts on growth and expansion in international markets); and (iii) business innovation support (*i.e.*, offering solution-oriented services to help companies convert innovative ideas into international commercial successes).
- **Creating an ecosystem conducive to start-ups and innovation:** In 2022, a dedicated innovation start-up law was adopted, which provides for a state-budget allocation to support innovation. Private-sector-backed initiatives have also been set up, providing acceleration programmes for high-potential start-ups, technical assistance, mentoring and investor relations training.
- **Creating a supportive operating environment:** The Government has continued implementing digital reforms and made progress in both increasing the availability of digital government services and streamlining those available to better fit users’ needs. In particular, the Government has streamlined company registration and licensing processes through the National Business Centre and introduced digital distribution for licensing officials. In addition, an “access to finance” platform was launched on the AIDA website with the support of the EBRD in May 2021. As at 13 February 2023, 98 applications have been published on the platform and 7,554 visitors / users have interacted with the platform, and the main web-page has been visited a total of 38,910 times.
- **Promoting women in entrepreneurship:** According to INSTAT, in 2021, 31.1% of companies were led by women, as compared to 31.4% in 2020.
- **Attracting foreign direct investment:** AIDA has played a principal role in attracting foreign direct investment in Albanian industry. As at 31 December 2022, AIDA had 14 lead projects, which remain active, including four new leads with a combined investment value of €128 million.

#### *Industrial Sector Reform*

In recent years, the Government has been working to promote the processing of Albania’s natural resources, including minerals such as nickel-silicate or quartzite and leather and to support the industrial sector by providing financial support to pre-feasibility assessments and technical-economic studies in cooperation with scientific research institutions.

The Government has also taken steps to encourage both foreign and domestic investment in Albanian businesses through the introduction of Law №. 55/2015 (the Law on Strategic Investments in the Republic of Albania, the “**Law on Strategic Investments**”). This law provides legal guarantees to foreign investors and is aimed at: (i) reducing contractual and legal risks for foreign and domestic investors; and (ii) adopting fast-track procedures, achieved by AIDA assisting investors with all administrative and bureaucratic procedures until the completion of the investment project. The strategic investments made vary in value from €1 million to €50 million. In some sectors, principally tourism and agriculture, this investment has led to an increase in the number of jobs available. In 2021 and 2022, 26 strategic projects were approved by the Strategic Investment Committee (primarily in the tourism, agriculture and energy sectors), with four projects rejected. AIDA is currently assisting with the preparation of application documents for 29 strategic projects. In 2022, the Investment and Aftercare Sector of AIDA held a total of 21 meetings with foreign and local investors. Seven assistance activities have been successfully finalised and nine cases continue to be pursued.

In 2019, the Government passed Law №. 32/2018 (the National Strategy for Diaspora Law). The strategy, to be implemented by the Albanian Development Fund for Diaspora, aims to provide and allocate financial resources to promote socio-economic and cultural development, philanthropy and investment to support the development of business in Albania and abroad. The operations of the Albanian Development Fund for Diaspora have been frozen since 2021.

The Government has also taken steps to promote economic development through the creation of Technology and Economic Development Zones (“**TEDA**”). The Ministry of Finance and Economy (upon receiving approval from the Council of Ministers on 20 March 2020), entered into a contract with the property developer Italdruri Elbasan LLC to construct, maintain and operate a TEDA in Elbasani. In May 2020, the Municipality of Tirana was granted the status of strategic investor in respect of another TEDA, in Kashar.

The Government is also developing a unified law on investments to replace the Law on Strategic Investments. The draft unified law on investments is in the consultation phase and is being shared with the various interested ministries for review and comment.

### ***Construction***

The construction sector has been a significant contributor to Albania’s economic growth over the past ten years, as the sector has benefited from high levels of both private and public investment. The construction sector accounted for 9.7% of GDP in 2022, as compared to 9.5% of GDP in 2021.

During 2022, construction activity increased by 11.7%, which was primarily due to new construction projects. During 2022, a total of 1,420 building permits were issued for new buildings, as compared to 1,396 building permits in 2021, reflecting an increase of 1.7%.

### ***Financial and Insurance Activities***

The contribution of financial and insurance activities to the Albanian economy decreased between 2018 and 2022. Financial and insurance activities accounted for 2.1% of GDP in each of 2022 and 2021. See “*Monetary and Financial System—The Albanian Banking Sector*”.

NPLs accounted for 5.0% of the banking sector loan portfolio as at 31 December 2022, as compared to 5.6% as at 31 December 2021, 8.1% as at 31 December 2020, 8.4% as at 31 December 2019 and 11.1% as at 31 December 2018. The reduction of NPLs has been, and continues to be, a key focus of the Bank of Albania’s supervision activities. Bank lending is financed predominantly with deposits.

The bank lending portfolio is dominated by foreign currency lending (principally in Euros), which represented 51.6% (including approximately 47% of the total foreign currency amount denominated in Euros) of total loans as at 31 December 2022. This ratio has been declining since 2018. In particular, the high Euroisation of the banking sector has increased the vulnerability of the banking sector and led the Ministry of Finance and Economy, the Bank of Albania and the Albanian Financial Supervisory Authority (the AFSA) to adopt a de-Euroisation policy.

See “*Monetary and Financial System—The Albanian Banking Sector*” and “*Risk Factors—Risks relating to Albania—Domestic banking sector*”.

The following table sets forth certain information on the banking sector, including with respect to credit granted to the economy (“CE”), as at the dates indicated.

### Credit to the Economy

	As at 31 December				
	2018	2019	2020	2021	2022
	(%)				
CE <sup>(1)</sup> (total)/GDP <sup>(2)</sup> .....	37.1	38.9	43.0	40.7	37.9
CE <sup>(1)</sup> (foreign currency)/GDP <sup>(2)</sup> .....	19.1	19.5	21.3	20.4	19.1
CE <sup>(1)</sup> (domestic currency)/GDP <sup>(2)</sup> .....	18	19.5	21.6	20.4	18.8
CE (total)/deposits <sup>(3)</sup> .....	54.1	55.1	54.3	53.6	54.0
M3/GDP <sup>(2)(4)</sup> .....	77.3	78.6	90.1	85.5	77.9
Total deposits/GDP <sup>(2)</sup> .....	68.5	70.7	79.1	65.7	59.7

*Source: The Bank of Albania*

**Notes:**

- (1) CE represents total credit to residents as adjusted for write offs (principally of NPLs) during 2016-2020 and in the six months ended 30 June 2021. See “*Monetary and Financial System—The Albanian Banking Sector—Non-Performing Loans*”.
- (2) GDP figures are nominal GDP.
- (3) Deposits represent total deposits of Albanian banks.
- (4) See “*Monetary and Financial System—Money Supply*”.

As at 31 December 2022, total CE was 54.0% of total deposits, as compared to 53.6% as at 31 December 2021.

Total CE as a percentage of GDP increased from 37.1% as at 31 December 2018 to 38.9% as at 31 December 2019, 43.0% as at 31 December 2020, before decreasing to 40.7% as at 31 December 2021 and 37.9% as at 31 December 2022. This decrease in 2022, as compared to 2021, was primarily due to the credit slowdown in response to the monetary policy normalisation.

See “*Monetary and Financial System—Monetary Policy*” and “*Monetary and Financial System—The Albanian Banking Sector—Non-Performing Loans*”.

### **Energy**

The energy sector is a priority reform sector for the Government. As much as 99.0% of Albania’s domestic electricity production is from hydroelectric sources, which causes Albania’s actual annual electricity production to fluctuate and can have a significant impact on economic performance. Albania imported 921 gigawatt hours (“GWh”) (or 11.6% of its total energy consumption) from various sources in 2022, including hydropower sources, under long-term supply contracts. Energy imports have fluctuated in recent years, amounting to 11.6% of total consumption in 2022, as compared to net exports of 548 GWh (or 6.5% of total consumption) in 2021, due to good hydrological conditions. During 2020 there was a net import of 2,276 GWh (or 29.9% of total consumption), in 2019 there was a net import of 2,406 GWh (or 31.6% of total consumption) and in 2018 there was a net export of 913 GWh (or 11.9% of total consumption). This fluctuation is primarily due to seasonal variations in the weather, including, for example, a long dry season in 2019, in which KESH’s annual production fell to approximately 3.2 TWh, as compared to average annual production of 4.2 TWh, which, in turn, led to an increase in imports. See “*Risk Factors—Risks relating to Albania—Energy, food and water security risks*”.

Albania, in common with other importers of energy in Europe, is facing high domestic energy prices and supply interruption issues, because of rising international energy prices. On 8 October 2021, the Prime Minister declared an energy state of emergency in relation to the energy crisis. As a result of the war in Ukraine and the related increase in the price of crude oil and its by-products, the energy state of emergency was extended in October 2022 until 30 June 2023. In March 2022, the Government ordered all cities to turn off lights in public buildings and on the streets, in an attempt to tackle the energy crisis caused by drought and power price spikes caused by the war in Ukraine. In October 2022, the EU pledged €80 million in grants to Albania to help tackle the energy crisis, as part of a wider support package provided to the Western Balkans by the EU. An agreement in respect of the €80 million grant was signed on 15 March 2023. See “*Risk Factors—Risks relating to the Republic—Albania is a net energy importer and has declared an energy state of emergency*”.

As a result of the energy state emergency, KESH, TSO and the OSHEE Group were forced to suspend their non-essential investment plans until 15 April 2022. In March 2022, the Government passed Normative Act №. 5 “On some additions to Law 8450, dated 24.02.1999 “On the processing, transportation and trading of oil, gas and their by-products” as amended, which was aimed at managing rising prices by determining the wholesale and retail trading price of oil by-products in the Albanian market and is currently still in effect. In March 2022, the Prime Minister presented the Social Resistance Package, which is aimed at mitigating the impact of the global energy crisis, as well as the impact of the war in Ukraine on prices by introducing measures with immediate effect to offset the rising prices of basic food items for retired people, families in need of economic assistance and individuals with disabilities. The package provides support to farmers and small businesses and funds the energy price shield for household consumers and small businesses. As a result of the recent and ongoing risks and uncertainties in the energy markets, in each of March, July and December 2022, the Government amended the 2022 budget law through normative acts aimed at providing subsidies totalling ALL 19.9 billion to combat inflated food and energy prices, including ALL 1 billion in financial aid for all beneficiaries of the economic assistance and disability scheme, ALL 1.2 billion in financial aid for all public administration employees, ALL 500 million in support to farmers in relation to the cost of wheat, ALL 1.2 billion in support to farmers and the fishing sector in relation to the cost of oil and ALL 0.6 billion in support to the public transport sector in relation to the cost of oil.

In connection with the energy state of emergency, since June 2022, KESH has been required to supply the universal service supplier with all required energy, to fulfil the needs of universal customers and to sell energy to the last resort supplier. Since July 2022, KESH has also been responsible for covering the losses in the transmission network during the energy state of emergency. The electricity supplier has an obligation to sell electricity to cover the distribution losses of the distribution operator. Priority producers with power purchase agreements with the electricity supplier are required, until 30 June 2023, to sell energy produced to that supplier. From 30 June 2023, such priority producers may choose whether to continue with the contract or to sell it on the free market. In September 2022, a scheme to increase household electricity tariffs for all consumption in excess of 800 kWh/month per month to ALL 42 per kWh, and to subsidise consumption of up to 800 kWh /month at price of ALL 9.5 per kWh was approved. While initially set to enter into force in October 2022, accompanied by a plan to reduce energy consumption by Government institutions by 15%, the introduction of the tariff scheme was postponed and subsidies totalling 1.3% of GDP were provided to State-owned electricity companies in 2022. In October 2022, the Council of Ministers approved a measure, which is intended to strengthen the implementation of mandatory measures and rules for reducing electricity consumption by 15% of the monthly consumption for the duration of the energy state of emergency. A subsequent ministerial order requires public institution must designate an energy administrator to monitor compliance with the energy saving target. Financing measures have been made available to families for the installation of solar panels, with the aim of reducing long-term electricity consumption and minimising the effect of the state of emergency in electricity.

In the past, Albania’s economic growth has been hampered by inadequate energy and transportation infrastructure. There are occasional electricity outages, which are maintenance-related and not a result of insufficient supply. Advance notice is generally given to the public when maintenance-related interruptions take place. Progress has been made on improving the electricity services and significantly reducing the frequency and length of outages, in part as a result of investments made in recent years.

Electricity production capacity in the hydroelectric sector has increased in recent years, in part, due to the establishment of new power plants, including Banja (accounting for 72 MW) and Moglica (accounting for 183 MW), Ayen Energy in Fani river (accounting for 118 MW) and Langarica (accounting for over 40 MW).

In 2022, total electricity production was 7,002 GWh, as compared to average production of 6,141 GWh between 2009 and 2021 and record production of 8,552 GWh in 2018. This increase was primarily due to investment in hydropower plants in recent years. Power plants operated by KESH accounted for approximately 3,859 GWh, or 55.1%, of the total electricity production of Albania in 2022, while other producers produced 3,143 GWh, or 44.9%, of the total electricity production of Albania in 2022. Albania is generally a net importer of electric energy.

In June 2020, the Moglica power plant started commercial operations, with a capacity of 184 MW.

In July 2020, the Government entered into a 30-year concession contract with French company, Voltalia, to build and operate a 140 MW photovoltaic power production plant in Karavasta. This is expected to be the largest solar power plant in the Western Balkans. On 1 July 2022, Voltalia began construction. Pursuant to the contract, 50% of the electricity produced at the plant will be sold to the Government at a subsidised rate for the first 15 years of operation.

In March 2021, the Government entered into a memorandum of understanding with U.S. companies Excelerate Energy and ExxonMobil to conduct a feasibility study for the development of a liquid natural gas project in Vlora, including the conversion or expansion of the existing Vlora thermal power plant. On 22 June 2022, the Government signed two

memoranda of cooperation with the government of Kosovo in respect of the development of the Vlora liquified natural gas terminal. On 19 July 2022, Bulgarian company Overgas entered into a contract to purchase up to one billion cubic meters (“bcm”) of regasified liquified natural gas annually for ten years from Excelerate Energy via the Vlora liquified natural gas terminal and the proposed Vlora-Fier pipeline. When constructed, the Vlora-Fier pipeline is intended to allow natural gas to flow from the TAP to the Vlora thermal power plant in Albania. Construction works have not yet commenced.

In May 2021, the Government entered into a concession contract with Voltalia to build and operate a 100 MW photovoltaic power production plant in Spitalla. Pursuant to the contract, 70% of the electricity produced at the plant will be sold to the Government under a power purchase agreement for the first 15 years of operation. Construction works are expected to start in early 2024.

Construction of the Skavica HPP is seen by the Government as an important step towards increasing energy security, reducing electricity imports and increasing the efficiency and production of energy from other HPPs on the Drin River Cascade. In July 2021, KESH and Bechtel entered into a contract for the first phase of the construction of the Skavica HPP, following the signing of a memorandum of understanding between the Government and the U.S. government in October 2020.

The Devoll hydro power plants project is also a flagship project in the Albanian energy sector, which is expected to expand Albania’s electricity generation capacities to a total production capacity of approximately 789 GWh annually. See “*Balance of Payments and Foreign Trade—Financial Account—Major FDI Projects*”.

The following table sets forth certain details of Albania’s energy sector for the years indicated.

	<b>Energy Production and Consumption<sup>(1)</sup></b>				
	<b>For the year ended 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(TOE thousands, except as indicated)<sup>(2)</sup></i>				
Primary production of all energy products	1,997	1,727	1,480	1,773	1,615
<i>Crude Oil</i> .....	911	1,005	758	712	657
<i>Hard coal and lignite</i> .....	98	31	42	80	149
<i>Natural gas</i> .....	73	64	49	49	13
Net imports of all energy products	1,377	2,406	2,276	1,452	1,532
Gross inland energy consumption	2,682	2,750	2,957	2,227	2,177
Electricity generation ( <i>thousand GWh</i> )	8,552	5,208	5,313	8,962	7,002

*Source: National Agency of Natural Resources*

**Notes:**

- (1) Certain figures in this table have been revised and may differ from previously published data.
- (2) TOE means “tonnes of oil”.

The main objectives of Albanian energy policy are to increase the security of electricity supply for all customers and to increase the diversification of energy sources for electricity production. Domestically-produced energy is generated exclusively by hydropower, and, accordingly, diversification is achieved only through the import of electricity. The ERP 2023-2025 targets achieving energy security through the promotion of renewable energy sources and energy efficiency improvements. See “*—Energy Sector Reform*”.

The financial condition of KESH, the state-owned electricity generation company, has deteriorated since mid-2006, and KESH is in the process of implementing a major restructuring programme. KESH supplies approximately 55%-60% of Albanian customers’ demand for electricity and is also responsible for the administration of the power plants it operates. In July 2016, the EBRD entered into a €218 million loan with KESH to support its restructuring and reform efforts. The loan matures in 2031 and benefits from a sovereign guarantee issued by the Government. Under a sub-agreement between KESH and OSHEE that entered into force in 2017, OSHEE is required to pay back all debt to KESH through annual instalments of ALL 2.4 billion. While EBRD loan repayments have been paid as scheduled by KESH or by the Ministry of Finance on its behalf, OSHEE did not satisfy all payments under the sub-agreement. A rescheduling plan was signed on 28 July 2021. See “*Public Debt—Multilateral Financial Institutions—European Bank for Reconstruction and Development*”.



Drought conditions since 2017 have had a significant negative impact on hydroelectric power generation in Albania. Both KESH and OSHEE experienced financial difficulties in 2019, due, in part, to the longer than usual dry season, which lasted for the majority of the year. Unfavourable weather conditions continued in 2020, and the sector was also impacted by the COVID-19 pandemic, including the temporary closure in March and April 2020 of certain production and service activities, with household consumption of electricity (which is less profitable) increasing. Weather conditions and, consequently, production improved in the first half of 2021, with net public production of 5.3 TWh, as compared to 3.1 TWh in the corresponding period of 2020. Accordingly, OSHEE and KESH recorded a net profit of ALL 2.5 billion and ALL 4.0 billion, respectively, in the six months ended 30 June 2021. However, in the second half of 2021, weather conditions deteriorated and, as a result, the energy supplied by KESH and private providers decreased. Accordingly, OSHEE was forced to purchase energy on the free market and, due to price surges, OSHEE paid an average price of ALL 25/Kwh, as compared to an average price of ALL 6.3/Kwh in the first half of 2021. As a result, energy expenditures increased by ALL 20.1 billion in 2021, as compared to 2020 and OSHEE realised a net loss of ALL 15.5 billion. As a result of the Government's interventions in the energy sector in 2022, OSHEE's energy purchase expenses decreased by approximately ALL 9.3 billion and its revenues increased by ALL 9.5 billion in 2022, as compared to 2021. According to preliminary estimates, OSHEE is expected to realise a profit of approximately ALL 3.0 billion for 2022.

### *Energy Sector Reform*

The Government has been pursuing an ambitious energy sector reform project to increase production capacity, transmission capacity and distribution and to reduce technical and non-technical losses across the distribution network, by improving the legal framework and implementing changes to the Penal Code. In 2018, the Government adopted its National Energy Sector Strategy 2018-2030, which targets regional integration and diversification of the sector and includes plans for developing all energy resources, including renewable sources. The strategy targets renewable energy to account for 42% of total primary energy supply by 2030. In December 2021, Albania was the first Western Balkan country to approve a National Energy and Climate Plan 2020 – 2030 (the “NECP”). The NECP aims to reduce greenhouse gas emissions by 18.7%, increase energy efficiency by 8.4% and increase the share of renewable energy to 54.4% of total energy demand. The Government is currently preparing amendments to the NECP, in line with the recommendations of the Energy Community Secretariat, aimed at: (i) a further reduction of final energy consumption by 9.4%; and (ii) a further increase in the renewable energy share of the final energy consumption to 59.4%.

The most recent reform measures taken by the Government in the energy sector include:

- Annual electricity distribution losses have decreased from 31.3% in 2015 to 20.7% in 2021. However, the amount of annual electricity distribution losses in 2021, increased by approximately 155 GWh, as compared to 2022, due to an increase in electricity consumption for 2021.
- Efforts have also been made to increase the bill collection rate for electricity distribution. In 2021, total collections represented 97.5% of invoiced electricity, an increase, as compared to 95.8% in 2020. Total collections values include arrears, which are realised in the respective year.
- Extension of tariff adjustments and deregulation to increased sectors. As at the end of March 2020, all 35 KV end users were included in the deregulated market.
- Completion of the restructuring of OSHEE in December 2019, to separate energy supply from distribution services. Following this unbundling, OSHEE manages and co-ordinates the three new companies. The Government has also encouraged OSHEE and other state-owned companies in the energy sector to undertake corporate governance reforms.
- In February 2017, the Assembly passed legislation permitting the establishment of the Albania Power Exchange. The Albania Power Exchange was established in October 2020 by OST (owning 57.25% of the shares) and the Kosovan transmission system operator, KOSTT (owning 42.75% of the shares). The Albania Power Exchange aims to facilitate sales and purchases of energy at prices that reflect market value and to eliminate the need for public tenders.
- In November 2022, Parliament adopted amendments to the VAT Law, excluding imports and trading on the Albania Power Exchange markets from VAT, with effect from 11 April 2023.

- In March 2017, the Energy Regulatory Entity (the “**ERE**”), the Albanian energy regulator, approved the certification of OST, following a positive opinion from the Energy Community Secretariat. In 2018, Albgaz was certified by the ERE and, since 2019, has been a member of European Network of Transmission System Operators for Gas.
- In March 2018, the Government announced the adoption of a National Energy Strategy for 2018-2030, which promotes low emission developments and creates opportunities for private sector investment and clean growth. Pursuant to the strategy, the Government aims to: (i) reduce power distribution losses from 26.4% in 2017 to 10% by 2030; (ii) improve the collection rate of power bill payments from 90% in 2018 to 98% by 2030; and (iv) reduce greenhouse gas emission by 11.5% by 2030 (in line with the Paris Agreement (within the United Nations Framework Convention on Climate Change), which was signed in September 2015 and ratified in May 2016). The strategy was drafted with the support of international donors, including the United States Agency for International Development.
- In 2017, Law № 7/2017 “On promoting the use of energy from renewable sources” was passed, which aims to increase energy production from renewable sources in line with Albania’s obligations under the Energy Community Treaty.
- The Ministry of Infrastructure and Energy has prepared the first draft of the National Energy and Climate Plan, which is expected to set out renewable energy targets to 2030. The first draft of this plan was submitted to the EC Secretariat in July 2021.
- The Ministry of Infrastructure and Energy has prepared a new law “On the promotion of the use of renewable sources”, which is based on Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources. The draft law has been approved by the Albanian Parliament.
- The Government approved the NECP in December 2021 (as discussed above).

The Government’s fiscal support to the power sector has increased in recent years due to the increase in foreign financing to support projects in this sector. The Government also plans to increase regional co-operation (including through the development of infrastructure projects (see “—*Infrastructure Development*”)) to further reform the energy sector.

### *Infrastructure Development*

A number of major infrastructure projects are also ongoing or planned in the energy sector:

- **Wind electricity generators.** The Ministry of Infrastructure and Energy has announced a competitive bidding process for wind electricity generators with installed capacities from 10 MW to 75 MW. The Ministry of Infrastructure and Energy is expected to select projects with a total capacity of 100 MW, which will benefit from support measures. The contracting authority may later decide to increase the total tendered capacity up to 150 MW. The first phase of this process has been completed and six companies have pre-qualified for the second phase. The winners are expected to be announced in June 2023.
- **Construction of the TAP.** The TAP will transport natural gas from the Turkish-Greek border through South Eastern Europe to its tie-in point in Southern Italy. In 2016, the first phase of TAP’s road infrastructure rehabilitation in Albania was completed. The participants in TAP are BP, State Oil Company of the Azerbaijan Republic (“**SOCAR**”), Snam S.p.A, Fluxys, Enagás and Axpo. TAP is expected to have a direct impact on the Albanian economy commencing in 2017, with expected contributions to GDP and the creation of approximately 3,500 jobs (of which 85.2% are expected to be in Albania). Construction of the TAP cost approximately €1.5 billion, of which 20% was invested by BP, 20% by SOCAR, 20% by Snam, 19% by Fluxys, 16% by Enagás and 5% by Axpo. This activity is also expected to raise revenue for the Government, both in direct financing and through indirect projects. The TAP commenced operations in December 2020, with transmission capacity of 7 bcm between December 2020 and September 2021. In November 2022, the TAP transmitted 15 bcm of natural gas from Azerbaijan to Europe, of which approximately 8.5 bcm was delivered to Italy.

- **Construction of the Ionian Adriatic Pipeline (the “IAP”).** The IAP will transport natural gas between Albania, Montenegro, Bosnia and Herzegovina and Croatia and is expected to be connected to the TAP. The construction of the Albanian section of the pipeline is expected to begin in 2025, and the length of IAP is expected to be 516 km with capacity to transport 5 billion cubic metres of natural gas per year. Construction of the IAP is expected to cost a total of approximately €615 million. In February 2018, a memorandum of co-operation was signed by the IAP participants to establish a project company to construct the IAP. The participants in IAP are Plinacro of Croatia, Albgaz of Albania and Montenegro Bonus of Montenegro. The preliminary technical design for the IAP is expected to be completed in 2021. Negotiations with the gas transmission operators of the participating countries have begun in respect of the constitution of the IAP company. Albania is expected to fund the first phase of the IAP (Fier-Vlora Pipeline) from the Government budget.
- **Albania – North Macedonia Interconnection Line.** Contracts for construction of the first and second phases of the 400 kV interconnection line between Albania and North Macedonia entered into force in March 2021 and July 2021, respectively. Construction of the first phase commenced in February 2022 and is expected to be completed in the first half of 2023. The timing for the construction of the second phase has not yet been finalised. This project is being financed by: (i) a loan of €50.0 million from Kreditanstalt für Wiederaufbau Development Bank (“KfW”); (ii) a grant of €14 million from the Western Balkans Investment Framework (the “WBIF”); (iii) a grant from the German government of €575,000 to be used for expert services; (iv) a detail design grant of €600,000 from WBIF for the detail design phase of the project; and (v) funds of €5 million from OST SA. Due to increases in international metal prices, as well as of labour and transport costs, there have been difficulties and delays agreeing contracts with manufacturers and suppliers for the purchase of goods and materials. A cost escalation formula has been approved by KfW and an amendment to the construction contract was signed in February 2023.
- **Skavica HPP Development.** In January 2019, a 21-month pre-feasibility study was launched in respect of a proposed hydropower project on the Drin River cascade, which is intended to increase energy security, reduce electricity imports and increase the efficiency and optimise energy production from other hydropower plants on the Drin River cascade. In July 2021, KESH and the U.S. engineering and construction company Bechtel entered into a contract for the first phase of the construction of the Skavica HPP, which comprises the completion of feasibility studies and technical services, to be completed by the end of 2022. In May 2020, the Prime Minister announced that the HPP would be constructed using public funds and is expected to cost approximately €350 million. In October 2022, the Government announced that construction is expected to begin by July 2023.

Albania has deposits of petroleum and natural gas and proven oil reserves of approximately 437 million tonnes (according to figures published in the Strategy of Energy 2018-2030). The major oil fields in Albania include the Patos-Marinza heavy oil field and the Kuçova heavy oil field. Since 2017, Albania has had agreements in place with Shell and Eni S.p.A for the exploration and production of oil within Albania. Shell has drilled a number of wells in the Shpiragu mountain complex, announcing in May 2019 the potential of a significant light oil discovery in the Shpiragu-4 well. Shell is still in the appraisal period and is currently drilling the Shpiragu-5 well. Results are expected in mid-2024. In December 2019, Eni S.p.A. signed an exploration and output-sharing deal with the Government for the Dumre block in central Albania, and Eni S.p.A. is currently concluding the seismic studies. In June 2022, EDG Natural Gas signed development and production sharing contracts for the existing gas fields of Povelca and Frakulla.

### *Services*

The services sector is the largest sector in the Albanian economy. It consists of trade, hotels and restaurants, transport post and communications and other services. The services sector as a whole represented 47.3% of Albania’s GDP in 2022 and 47.9% in 2021. The trade, hotels and restaurants sub-sector increased to 14.4% in 2022, as compared to 13.3% in 2021.

## Tourism

Tourism is one of the most important components in Albania's services sector. In 2021, the sector recorded a total contribution (including indirect multiplier effects) of U.S.\$3.1 billion, accounting for approximately 17.4% of GDP, according to the World Travel and Tourism Council ("WTTC"). This positions the sector as one of the main contributors to economic growth, and it is projected to grow over the next ten years. In 2021, the tourism sector created 226,100 jobs, representing approximately 20% of total employment in Albania, according to information published by WTTC.

Albania's largely undeveloped coastline, mountains and historical heritage, as well as its location in Southern Europe, less than two hours' flight time from a number of high-income countries, makes tourism a potential growth sector for the Albanian economy.

The tourism sector was negatively affected by the COVID-19 pandemic and the related restrictions on travel in 2020 and in 2021. According to statistics published by INSTAT, arrivals of foreign citizens in Albania between 2017 and 2019 increased, on average, by 10.7%. In 2020, as a result of COVID-19-related travel restrictions, arrivals of foreign citizens decreased by 58.5% (to 2.7 million), as compared to 2019 (6.4 million). In 2022, arrivals of foreign citizens increased by 32.6% (to 7.5 million), as compared to 2021 (5.7 million).

In 2021, 1,457 accommodation facilities (hotels, motels, camps, guesthouses, mountain shelters and other short-term accommodation facilities) were operating, with approximately 41,019 rooms and 98,367 beds available, according to information published by INSTAT.

The following table sets forth certain details regarding the tourism sector for the periods indicated.

	<b>Tourism Activities<sup>(1)</sup></b>				
	<b>For the year ended 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Total Arrivals ( <i>thousands</i> ).....	11,247	12,104	5,419	9,617	13,010
<i>Albanian</i> .....	5,320	5,698	2,762	3,928	5,466
<i>Foreign</i> .....	5,927	6,406	2,657	5,689	7,544
<i>Africa</i> .....	4	24	2	3	5
<i>America</i> .....	149	157	30	116	177
<i>East Asia and Pacific</i> .....	68	68	5	8	27
<i>Middle East</i> .....	7	12	2	37	42
<i>South Asia</i> .....	3	14	1	21	11
<i>Europe<sup>(2)</sup></i> .....	5,332	5,796	2,616	5,173	6,922
<i>Other<sup>(3)</sup></i> .....	364	335	1	331	360
Total Number of Nights spent in Accommodation Establishments in Albania( <i>millions</i> ).....	3.1	3.3	1.6	3.2	3.8
Total Number of Tourist Nights ( <i>millions</i> ).....	30.9	32.3	12.6	27	35
Tourism Income ( <i>€ millions</i> ).....	1,857	2,083	988	1,912	2,840

*Sources: INSTAT and Bank of Albania*

### Notes:

- (1) Certain figures in this table have been revised and may differ from previously published data.
- (2) Europe includes regions such as: Southern Europe, Western Europe, Central and Eastern Europe, Northern Europe and East/Mediterranean Europe.  
In 2022, 82% of tourist arrivals arrived from Southern Europe, 7% from Western Europe, 6% from Central and Eastern Europe, 4% from Northern Europe, 1% from East/ Mediterranean Europe.
- (3) Other includes not specified World countries.

According to statistics published by the WTTC, travel and tourism is expected to have attracted capital investment of ALL 23.8 billion in 2021, as compared to ALL 23 billion in 2020 and ALL 34 billion in 2018. Non-residents' total expenditure in Albania is estimated to be €2.8 billion in 2022, as compared to €1.9 billion in 2021, €1.0 billion in 2020, €2.1 billion in 2019 and €1.9 billion in 2018.

Policy initiatives in the tourism sector are focused on making Albania an attractive and sustainable destination for tourists. The National Strategy for Development and Integration for 2014 to 2020 ("NSDI") encouraged the development of middle-to high-end sustainable tourism through the following strategic goals: (i) establishing an international standard certification system (with more than 1,300 accommodations, 234 national tourist guides, 75 local guides and 30 special interest guides certified to date); (ii) incentivising the development of high-end, non-traditional

tourism; (iii) focusing public infrastructure provision in areas of current and potentially high tourist demand; and (iv) creating a greater international awareness of Albania's natural environment, traditional heritage and hospitality. In June 2017, the Government reduced the rate of VAT applicable to tourism accommodation services to 6% from the standard VAT rate of 20% and introduced a fiscal incentive package for certain internationally-known four- and five- star hotels, including a ten-year profit tax exemption, available until December 2024. As at 31 December 2021, 604 travel agencies and 204 tour operators had been licenced by the NBC, and a number of international brand hotels are either present or have announced their intention to establish a presence in Albania, including the Maritime, Hyatt, Marriott, Accor, Radisson and Melia brands.

To further diversify the tourism offering in Albania, from 1 January 2019, the Government has: (i) reduced the rate of income tax applied to accommodation and food services that are certified as agri-tourism to 5% for a period of ten years; and (ii) introduced an exemption from infrastructure tax for certified agri-tourism entities. More than 20 entities have been certified as agri-tourism entities.

In April 2021, the second international airport in Albania was opened in Kukes. Construction of a third international airport in Vlora has begun, and construction of a fourth international airport in Saranda is also planned, but construction was delayed by the outbreak of the COVID-19 pandemic and has not yet begun. See “—*Transport and Infrastructure*”.

The Government is in the process of creating a database of updated information for businesses in the tourism sector, with the aim of achieving growth in tourism investments and in the supply of tourist activities.

In accordance with the strategy for Sustainable Development of Tourism 2019-2023 approved by the Council of Ministers on 19 June 2019, the Government is focusing on tourist destinations and resources, offering types of natural tourism, cultural tourism and coastal tourism. Such measures are expected to increase job creation, international arrivals, international tourism receipts and investment in tourism.

In April 2020, the law “On activities of maritime tourism” was introduced, which sets out the rules and criteria for maritime tourism. Further Council of Ministers decisions have also been passed to provide detailed rules for the development of maritime tourism and have identified areas for the development of maritime tourism. Through this framework, the Government hopes to capitalise on nautical tourism opportunities promoted in certain of its neighbouring countries. In May 2020, VAT exemptions were introduced for certain types of imported pleasure boats.

In November 2016, the World Bank approved a loan of U.S.\$71 million in respect of an Integrated Urban and Tourism Development Project aimed at improving urban infrastructure, enhancing tourism assets and strengthening institutional capacity to support tourism-related economic development in selected areas in the south of Albania. The project, which began on 30 April 2017 following the ratification of the loan agreement by the Assembly, is expected to be completed on 31 July 2022. Construction work to improve infrastructure is currently underway, with work taking place on the public promenade in Saranda and on the access road to Berat Castle. Certain work has been completed, including rehabilitation of the Berat Castle pedestrian access cobblestone road, improvements to street lighting in Permet, rehabilitation of public staircases in Saranda, rehabilitation of the Gjirokastra Bazaar cobblestone roads and the delivery of solid waste equipment for the Himara transfer station.

In December 2018, pursuant to the instrument for pre-accession assistance, the EU approved the Tourism-Led Model for Local Economic Development Support Programme and signed a contribution agreement with the EBRD. The 60 month programme, which will initially be implemented in four pilot areas (Berat, Korça, Fier and Shkoder), is aimed at enhancing the contribution of the tourism sector to the economic growth and competitiveness of Albania by raising the quality and sustainability of the integrated tourism offer, enhancing the attractiveness of cultural, natural and other assets for tourists and improving local sustainable development of priority infrastructures in the framework of the Albanian regional development policy. The programme has been established with a €105 million budget (comprised of a €40 million EU contribution, an EBRD loan of up to €60 million and €5 million for small loans to SMEs provided by local financial institutions).

### ***Transport and Infrastructure***

The transport sector accounted for 3.0% of GDP in 2022 and 3.1% in 2021.

Although recent measures have been adopted to improve the transportation infrastructure, Albania has a limited railway system and only two international airports. As a result of Albania's mountainous terrain and poor road conditions, the transportation of goods by land is arduous and costly.

In November 2016, the national transport strategy and action plan for 2016-2020 was adopted, which is intended to develop a sustainable transport network and improve energy efficiency. The Ministry of Infrastructure and Energy has prepared an updated National Transport Strategy for 2021-2025, together with its corresponding action plan. The Permanent Secretariat of the Transport Community is currently reviewing the strategy to ensure it is aligned with EU strategic documents.

In March 2021, a consortium led by Switzerland-based Mabco Constructions, entered into a U.S.\$123.8 million 35-year concession contract to build, operate and maintain an international airport in Vlora. Preparatory works are expected to take two years, followed by one year of construction. Construction work is currently underway. In April 2021, the second international airport in Albania was opened in Kukes. The airport involved total investment of U.S.\$28.7 million, is 90 miles north-east of Tirana and has a single runway. The Government's programme, which was approved by the Assembly in September 2021, also targets construction of an international airport in Saranda.

### *Roads*

The Government is implementing a number of key projects and initiatives to improve Albania's road network and infrastructure, including:

- ***Construction of highway linking Tirana and North Macedonia (Arberi Road)*** - In February 2018, the Government signed a contract with Gjoka Konstruktion for a construction and maintenance project in respect of the remaining part of the highway linking Tirana to the Dibra region and North Macedonia, known as the Arberi Road. The Arberi Road is intended to enhance economic and social development in northeast Albania and to improve the movement of traffic and reduce travel time, vehicle operating costs and the number of accidents. The project is estimated to cost approximately U.S.\$298 million and is being conducted as a PPP project. Funding from the Government budget for this project starting in 2019 has been included in the medium-term budget plan and is expected to amount to an average annual amount of U.S.\$30.3 million (based on actual amounts incurred and the approved financing plan for 2021). For 2023, the expected annual cost is U.S.\$27 million. Construction began in May 2018 and is expected to be completed in July 2023. While the project was not significantly impacted by the COVID-19 pandemic and related restrictions, delays have been experienced due to the suspension of works on the Murriz tunnel section, as well as work on slopes for the second and fourth segments of the project. Once completed, Gjoka Konstruktion will operate the road for a period of 13 years.
- ***Feasibility study for construction and upgrade of the Adriatic-Ionian Corridor*** - The Adriatic-Ionian Highway/Expressway is a strategic project, which is expected to provide a better road connection with neighbouring countries establishing a competitive, reliable and safe transport system. The project is expected to include the construction of the following highways in Albania:
  - the Lezha bypass (with an estimated cost of €24.6 million); when funds are available, this project is to be financed from the Government budget; this project is included in the medium-term budget programme but works were cancelled in 2021. An international concession call for the construction of the "Milot-Balldren" road segment is expected to be made during the second half of 2023;
  - the Tirana bypass (with an estimated cost of €221 million); when funds are available, this project is expected to be financed from a combination of WBIF investment grants (37.1%) and a loan from the EBRD (57.7%). A detailed design for this project has been completed and an update of the cost benefit analysis is underway in order to begin the procedures for loan negotiations and works/supervision procurements;
  - the Tepelena bypass (with an estimated cost of €23 million); construction work on this bypass has completed;
  - the Gjirokastra bypass (with an estimated cost of €38 million); when funds are available, this project is expected to be financed from the Government budget; this project is not yet included in the medium-term budget programme. A detailed design for the project has been completed);
  - upgrades to the Thumana-Kashari bypass (with an estimated cost of €169.3 million); this project is being conducted as a PPP project. The PPP contract has been signed, and the civil works have begun.

In December 2015, the WBIF approved a grant of €3.5 million for a feasibility study in relation to the construction of a highway between Albania and Montenegro. The feasibility study began on 15 November 2017 and was completed in November 2020. Construction of the Fieri Bypass, which comprises part of the highway, has been completed.

### *Railways*

In recent years, development and reform programmes in the railway industry have focused on transposing European legislation, as a precondition for comprehensive institutional reform and the profiling and strengthening of the administrative capacity of the railway.

A new railway code was adopted in December 2016 and entered into force in January 2018. The railway code aims to regulate railway transport by separating train operations from infrastructure management, in line with EU requirements. Implementing legislation for the establishment of relevant structures and authorities, in particular the Railway Regulatory Authority, the Railway Safety Authority and the Railway and Maritime National Investigation Authority was approved in July 2021 and became effective in August 2021. The legal separation of different functions of Albanian Railway, the national railway company, was also approved in July 2021. One private railway operator is licensed for, and operates, freight transport.

On 21 March 2016, the National Investment Committee approved the Tirana-TIA-Durrës railway project as a key priority for the Government. The Tirana-TIA-Durrës railway is part of the Western Balkans Core Network 2 Route that connects the cities of Podgorica in Montenegro and Vlora in Albania and is also designated as an indicative extension of Trans-European Transport Networks Railway of the Western Balkans. The project is expected to improve the connectivity of Albania's main cities with the Port of Durres and TIA. The project also includes sectorial reforms and measures aimed at strengthening Albanian Railway. Tendering for the construction contract for the Tirana-TIA-Durrës railway project began in April 2018 and was completed in November 2020. The construction contract was signed in February 2021 and the works are estimated to be completed in March 2024. The project is expected to cost €90.5 million. The Tirana-TIA-Durrës railway project is being co-financed by an EBRD loan of €36.9 million granted on concessional rates and EU/WBIF grants of €36.7 million, which consist of an investment grant of €32.9 million and technical assistance grants of €2.5 million for the works supervision and project implementation support. In addition, WBIF grants of €2.75 million were provided for project preparation. The remaining costs, which are comprised of VAT and local expenses, will be financed by the Government. See "*Public Debt—Multilateral Financial Institutions—European Bank for Reconstruction and Development*".

Other projects for the improvement of railway infrastructure include:

- ***Rehabilitation of the Vora–Hani Hotit railway line:*** A detailed design for rehabilitation works to the Vora-Hani Hotit railway line was completed in July 2021. The designs include: (i) support structures designs; (ii) the construction of thirteen railway stations and related infrastructure; (iii) the installation of signalling, telecommunications and safety systems; (iv) full upgrade of the railway tracks; and (v) preparation of the environmental and social impact assessment. The rehabilitation project has been financed by a €4.7 million grant from WBIF, which was approved in December 2016, and with EBRD as the lead international financial institution. The project was approved by the Strategic Planning Committee of Albania in July 2021. Total costs of construction were expected to be €251 million, with requests made to the WBIF for a grant of €138.7 million, with EBRD, as the lead international financial institution. In August 2022, EBRD approved a loan of up to €62.9 million to the Republic for the benefit of HSH Albanian Railways. EBRD and EIB have since requested a review of project costs and applied a 14% inflation rate for all components, including electrification.
- ***Construction of a Pogradeci–Korça railway line.*** A pre-feasibility study for the construction of a railway link between Albania and Greece was approved by the Hellenic Railways Organisation and the Albanian Ministry of Infrastructure and Energy, under the Interreg Europe Programme, which is an EU programme that aims to help regional and local governments across Europe to develop and deliver better policy. This pre-feasibility study was completed in March 2021, and further steps on the preparation of a feasibility study and preliminary design are being considered by the Government and Albanian Railway.
- ***Rehabilitation of Durrësi–Pogradeci–Lini railway and the construction of a railway link between Lini and the border of North Macedonia.*** The feasibility study for this project was completed in January 2018. This project has been split into two corridors: Durres-Rrogozhina and Rrogozhina-Pogradec.

- **Rehabilitation of the Durres-Rrogozhina railway line:** A detailed design for the rehabilitation of Durres-Rrogozhina railway line was completed in August 2021. The detailed design includes: (i) support structures designs; (ii) the construction of four railway stations and related infrastructure; (iii) the installation of signalling, telecommunications and safety systems; (iv) the upgrade of the railway tracks; and (v) preparation of the environmental and social impact assessment. The rehabilitation project has been financed by a €1.7 million grant from WBIF, which was approved in December 2019, and with EIB, as the lead international financial institution. The project was approved by the Strategic Planning Committee of Albania in July 2021. Total costs of construction are expected to be €72 million, with requests made to the WBIF for a grant of €36.1 million, with EIB, as the lead international financial institution.
- **Rehabilitation of the Rrogozhina-Pogradec railway line:** Preliminary design works for this section of the line started in September 2021 funded by a direct grant of €1.75 million from the EIB but the initial contract for the preliminary design works has since been cancelled by EIB. The procurement procedure was re-opened and completed on January 2023. In February 2023, a consultant began work drafting the Inception Report, which is expected to be submitted in April 2023. The expected completion date of this project is in August 2024.
- **Durres – Prishtina railway connection:** This project aims at developing a new railway line between Albania and Kosovo. A memorandum of understanding was signed in June 2022, sharing the cost of a pre-feasibility study (€1 million to each of Albania and Kosovo). Albanian Railways launched the tender in relation to the pre-feasibility study in October 2022.

### **Maritime Transport**

Albania has a large coastline and, accordingly, Albania's ports, particularly the Durres port, constitute a significant economic resource, acting as a transport hub for the Adriatic region.

In October 2020, the Government approved the National Sectoral Plan of Marine Transport and Port Infrastructure, which, among other things, targets the relocation of cargo ports from urban locations and the redevelopment of urban ports into marinas and tourist facilities.

In recent years, the Government has invested funds and developed a number of initiatives for port infrastructure construction, including:

- **Durres Port:** In line with the National Sectoral Plan of Marine Transportation and Port Infrastructure approved in October 2020, the port of Durres is expected to be converted into a modern marina, with the commercial port transferred to Porto Romano. A master plan for the new port on Porto Romano has been completed and approved. In June 2021, Durres Port Authority opened the tender for the design of the new commercial port in Porto Romano. The winner of the tender procedure is Royal Haskoning DHV. The detailed design for the new commercial port in Porto Romano has been completed. A tender procedure for the construction works is expected to be launched in mid-2023, with an approximate value of €390 million.

In November 2020, an agreement for economic co-operation was signed between the Government and the government of the United Arab Emirates. In April 2021, a plan was presented for the construction of a new tourist marina at Durres Port, with a planned investment of approximately €2 billion by Dubai-based Emaar Group. The contract for the development of the Durres Waterfront and Marina has been signed and approved by the Assembly.

- **Vlora Port Rehabilitation:** Following abandonment of construction works of a previous project at the commercial sector of Vlora Port in January 2019, in line with the National Sectoral Plan of Maritime Transport and Port Infrastructure, the Government aims to transform the Vlora Port into a tourist marina with waterfront and tourist services. The Ministry of Infrastructure and Energy has been tasked with designing and implementing the tender procedures for the construction, operation and transfer of a marina in Vlora, as well as the relocation of the current commercial port. In July 2021, a 35-year concession contract was granted to a joint venture of UK and Albanian companies for the design, construction, operation, maintenance and transfer of the tourist port.
- **Vessel Traffic and Monitoring System:** A vessel traffic and monitoring system is currently being developed to help facilitate the movement of goods across the region through the introduction of a national single window



system linking key agencies to reduce import and export times through digitalised customs, improving infrastructure at border crossings and installing critical technology such as intelligent transport systems and vessel traffic management and information systems. This project is being financed by the World Bank through a loan of approximately €20 million. A project implementation unit has been formed and a feasibility study has been completed. Terms of reference are also in place for the selection of the contractor to implement the system, as well as for required staff training. Terms of reference for the project implementation supervisor are to be drafted. Tender procedures have not yet been announced for this project and the timing for such announced is subject to a decision of the World Bank and the Ministry of Finance and Economy.

### *Information and Communication*

According to statistics published by INSTAT, the information and communication sector contributed 3.0% of GDP in each of 2021 and 2022.

Fixed broadband internet penetration in Albania has been low due to the limited coverage of the fixed telephony network. However, the Republic has followed global trends in terms of internet penetration, connectivity and speed, experiencing increases in these areas in recent years. As at 31 December 2022, there were approximately 582,000 subscribers of fixed broadband services, an increase of 8.5% compared with 2021. Fixed broadband penetration has increased at an annual rate of between 8% and 10% in recent years, reaching approximately 80% of households in 2022. According to statistics published by the Albanian Authority of Electronic and Postal Communications, as at 31 December 2022, there were 2.75 million active users of mobile telephony and 2.14 million active users of mobile broadband internet from mobile phones.

The number of fixed telephony customers has decreased slightly in recent years to 177,152 subscribers. The number of fixed broadband subscribers as at 31 December 2022 was 579,416 (508,254 household subscribers and 51,140 businesses), reflecting a 8.5% increase, as compared to the number of fixed broadband subscribers as at 31 December 2021. Use of traditional mobile telephony services (including voice calls and SMS) has been in decline in the last four years, while usage of mobile broadband services has grown. As at 31 December 2022, the reported mobile 3G/4G/4G+ coverage in Albania reached approximately 99% of the population and covered approximately 96% of the territory. The usage of mobile data in 2022 was more than 184 million GB, representing an increase of more than 18% as compared to 2021.

In 2020, the Council of Ministers adopted the 2020-2025 National Plan for the Sustainable Digital Broadband Infrastructure Development, which aims to ensure high-speed digital broadband infrastructure across the country and to lay the foundations to become a “Gigabit society”, *i.e.*, a society in which the majority of businesses and individuals are able to access data with high internet speeds and capabilities. The National Plan for Sustainable Digital Infrastructure and Broadband 2020 – 2025 defined three strategic objectives of broadband development as follows: (i) the sustainable development of broadband infrastructure; (ii) reducing the digital divide and providing comprehensive broadband services; and (iii) increasing demand for digital economy development and the “Gigabit society”. The National Broadband Plan includes several activities and measures in order to promote the broadband development and to increase the broadband penetration in fixed and mobile services.

In May 2018, the West Balkans Six launched the process of eliminating roaming surcharges within the region. In 2019, the second Regional Roaming Agreement was signed at the West Balkans Six Digital Summit in Belgrade and has since been implemented with, as a final step, the “Roam Like at Home” regime introduced in July 2021.

On 2 November 2020, the West Balkans Six signed a memorandum of understanding to establish a regional co-ordinated approach to secure 5G networks and timely harmonised measures to deploy 5G services across the region.

On 10 November 2020, the West Balkans Six endorsed the “Common Regional Market (CRM) 2021-2024 Action Plan”, under which they have committed to work jointly towards the further integration of the region into the “Pan-European Digital Zone”. This also aims to enhance the digital transformation of the region and move the West Balkans towards a digitally-driven economy based on EU standards and practices. A roadmap to reduce roaming prices between the EU and the West Balkans was agreed during a ministerial meeting organised in Podgorica, Montenegro in the framework of the fourth Digital Summit of the Western Balkans held in October 2021.

Development of advanced electronic communications infrastructure, together with fast and super-fast broadband continues to be a main priority of Albania’s digital agenda. In pursuance of this aim, the 800 MHz spectrum band, is currently being utilised by two mobile network operators, Vodafone Albania and Telekom Albania, who were

successful in their tender offers of approximately €7.4 million each for 1x10 MHz paired spectrum in March 2019 and September 2019, respectively. The spectrum policy document was approved by the Council of Ministers in 2020, establishing a radio spectrum policy.

## **Environment**

In recent years, Albania's objective to join the EU has driven its environmental policy, and a number of new policies and legislation have been developed focusing on the harmonisation of environmental policy across Albania, as well as the integration of environmental protection provisions in sector-specific policies. The NSDI, which was adopted in 2015, identifies challenges, visions, strategic priorities and goals, and sets out necessary policy measures to be taken. Recent environmental legislative and policy initiatives have been based on requirements defined by the approximation of EU environmental legislation.

The Ministry of Tourism and Environment is also working to develop a cross sector strategy setting out environmental policy and strategic guidance in place (the "**Cross-Cutting Environmental Strategy**"). The Ministry of Tourism and Environment is the principal authority responsible for the implementation of Albania's environmental commitments under national law and international treaties. The Directorate of Integration and Projects within the Ministry of Tourism and Environment has overall responsibility for international cooperation. In respect of international environmental cooperation, the Ministry of Tourism and Environment shares responsibility with the Ministry for Europe and Foreign Affairs, which has the authority to initiate the ratification of MEAs (international agreements, between three or more countries, on how to jointly address environmental problems of a cross-border nature), and is responsible for coordinating and monitoring measures for the implementation of the requirements of Albania's European commitments. The Environmental State Inspectorate has been established, which is responsible for controlling and enforcing environmental legislation in Albania. The Inspectorate sets penalties for administrative violations and has the authority to suspend or permanently close activities and operations, which do not comply with applicable environmental legislation.

On 2 July 2019, Albania became the first country in the region to introduce a climate change cross-cutting strategy, which aims to reduce greenhouse gas emissions across Albania. In December 2020, Law № 155/2020 (the "**Law on Climate Change**") was approved. The Law on Climate Change is in line with EU efforts on climate change and the United Nations Framework Convention on Climate Change. In addition, a draft law on Fluorinated Gases is in the process of being prepared by the Government, to align Albania with EU Regulation № 517/2014 on the reduction of fluorinated gases.

Between 2017 and 2020, the Council of Ministers approved five new decisions, which aim to improve the level of the Albania's approximation with EU regulation and standards in this area. In June 2019, Albania put in place a National Plan on Air Quality Management, which sets out and defines the measures to be taken in order to improve air quality. Measures have also been put in place to mitigate levels of chemical pollution in the Republic, including the implementation of legislation and dedicated capacity building.

## Wages

The following table sets forth details regarding recent wage trends for the years indicated.

	Wage Trends by Sector				
	As at 31 December				
	2018	2019	2020 <i>(ALL)</i>	2021	2022
Average monthly wage per employee <sup>(1)</sup> .....	50,589	52,380	53,662	57,191	61,898
Average public sector monthly wage <sup>(1)</sup> .....	61,023	63,084	64,389	68,508	70,007
Official minimum wage in public sector .....	24,000	26,000	26,000	30,000	34,000
Average monthly wage and salary by economic activity.....	50,589	52,372	53,662	57,191	61,898
<i>Agriculture, forestry and fishing</i> .....	36,907	36,911	33,359	35,661	40,531
<i>Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; sewage, waste management and remediation activities</i> .....	42,190	44,150	45,359	48,860	53,645
<i>Construction</i> .....	43,688	42,235	41,629	43,358	48,820
<i>Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities</i> .....	36,799	39,045	39,870	43,770	49,574
<i>Information and communication</i> .....	75,784	80,022	80,626	86,353	98,943
<i>Financial and insurance activities</i> .....	106,475	107,702	109,423	113,235	126,777
<i>Real estate activities; professional, scientific and technical activities; administrative and support service activities</i> .....	59,124	59,477	60,925	62,960	69,115
<i>Public administration and defence; compulsory social security; education; health and social work activities</i> .....	61,082	63,119	64,483	68,924	70,796
<i>Arts, entertainment and recreation, repair of household goods and services</i> .....	51,492	57,535	58,107	61,688	65,178

*Source: INSTAT*

### Note:

(1) Average monthly wage per employee includes data for public sector and private sector employees. The average public sector monthly wage per employee, for 2018 to 2021, is the quarterly average calculated by INSTAT using payroll data obtained from the Official Statistics National Programme. The Official Statistics National Programme is the document that regulates the production of official statistics by the National Statistics System, in line with the statistical principles set out in Articles 4 and 4(1) of the Statistics Law, in compliance with the European Statistics Code of Practice. Since 2018, the average public sector monthly wage per employee in public sector data is the quarterly average calculated by INSTAT using payroll data obtained from the General Tax Directorate.

The highest gross average monthly wages and salary by economic activity for 2022 were in the financial and insurance activities (ALL 126,777), and the lowest average monthly wages and salary were in the agriculture, forestry and fishing activities (ALL 40,531).

In 2022, the official minimum wage in the public sector increased as compared to 2021, at ALL 34,000, while the average public sector monthly wage increased by 2.2% to ALL 70,007 in 2022, as compared to ALL 68,508 in 2021. The average monthly wage per employee (including the public and private sectors) increased by 8.2% to ALL 61,898 in 2022, as compared to ALL 57,191 in 2021.

## Employment

The table below sets forth information on Albania's labour force and employment and unemployment levels as at the dates indicated.

<b>Labour Force and Employment / Unemployment Levels<sup>(1)</sup></b>					
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Labour force ( <i>thousands</i> ).....	1,404	1,430	1,408	1,411	1,458
Labour force activity rate (15-64 years) (%)	68.3	69.6	69.1	69.3	73.2
Employment rate (15+ years) (%) .....	52.1	53.4	52.5	52.9	55.5
Employment by main sectors (%)					
<i>Agriculture</i> .....	38.0	37.8	36.1	33.8	—
<i>Industry</i> .....	19.3	19.3	20.5	21.9	—
<i>Services</i> .....	42.7	42.9	43.4	44.3	—
Unemployed ( <i>thousands</i> ).....	173.2	164.8	164.6	162.6	159.6
Unemployment rate (15+ years) (%).....	12.3	11.5	11.7	11.5	11.0
Employment in agriculture (%) .....	38.2	38.0	37.8	33.8	33.9

*Source: INSTAT, Labour Force Survey.*

### Note:

(1) Certain figures in this table have been revised and may differ from previously published data.

The unemployment rate decreased from 11.5% in 2021 to 11.0% in 2022, as the labour force increased by 3.3%. At the same time, the labour activity rate and employment rate have also increased from 69.3% and 52.9%, respectively, in 2021 to 73.2% and 55.5%, respectively in 2022. Since 2018, the services sector has been the largest source of employment in Albania, representing 44.3% of employment in 2021, followed by the agriculture sector, representing 33.8% of employment in 2021 and 33.9% of employment in 2022. As at 31 December 2022, the unemployment rate was 11.0% and the total labour force was 1,458 million. As at 31 December 2021, 19.5% of those economically inactive were fulfilling household duties, 10.7% were in retirement or early retirement, 33.3% were students, 11.2% permanently disabled and 13.0% were otherwise economically inactive. The impact of the COVID-19 pandemic and related restrictions led to a significant decrease in employment opportunities and an increase in unemployment in 2020, as a result of the closure of certain businesses or job losses.

Since 2016, the Government has begun implementing measures aimed at reforming vocational training and education. The Government has initiated the restructuring stipulated in the revised law on vocational education and training and is the process of implementing amendments to the labour code which was approved in 1995 (the “**Labour Code**”). The amendments to the Labour Code, which were approved by the Assembly in 2016, include: (i) permitting temporary employment of foreign employees in Albania; (ii) introducing flexible working; (iii) establishing an agency for temporary work; and (iv) extending parental leave to male employees. In 2016 the “Law on Craftsmanship in the Republic of Albania” was introduced, which regulates apprenticeships. In February 2017 a revised vocational training and education law was adopted, clarifying the roles of state and non-state actors in the provision of vocational training and education.

In October 2014, the Council of Ministers approved the National Strategy for Employment and Skills 2014-2020 and its action plan. The NESS was subsequently extended until 2022. A new National Strategy for Employment and Skills (“**NESS**”) 2023-2030 was approved by the Council of Ministers in March 2023. The main goal for the NESS 2023-2030 is “Quality employment and lifelong learning for all” through: (i) skills development and better matching of demand with supply in the labour market for more employment opportunities; and (ii) enabling decent employment for women and men through the implementation of comprehensive labour market policies. The action plan is expected to focus on enabling employment through the implementation of comprehensive labour market policies, skills development and better matching of demand with supply in the labour market for higher employment.

Since February 2017, the Government has continued to draft secondary legislation in support of vocational training and education. In 2018, the Government also developed and implemented the Albanian Qualifications Framework (in accordance with the European Qualifications Framework), established the National Agency for Employment and Skills and the National Council for Vocational Education and Training. In addition to these developments, new vocational training and education teachers have been recruited, and efforts are underway to increase the capacities of the National Agency for Employment and Skills and the National Agency for Education, Vocational Training and Qualifications.

## Pensions and Social Insurance

### *Pension Reform*

The pension system in Albania provides benefits to almost 695,101 citizens that belong to specific categories, such as: the elderly, the disabled and family (death) pensions. The system relies on a pay-as-you-go scheme pursuant to which benefits are paid directly from current workers' contributions and taxes.

During 2014, the Government commenced reforms of the pension system, which entered into force on 1 January 2015. The reform aimed to increase the number of contributors in the mid-term and long-term, reduce the high level of redistribution, improve the scheme's financial sustainability in the long-term by creating incentives for the payment of contributions for longer periods, provide for the payment of contributions based on real contributory wages, provide for the continuation of employment beyond retirement ages, simplify the method of calculation of benefits and increase the transparency of the system. In particular, the pensions law includes the following measures:

- a gradual increase of the retirement age from 2015 until 2056. The women's retirement age is scheduled to increase by two months a year to reach 63 by 2032, and the men's retirement age is scheduled to increase by one month a year, with both genders to reach 67 years by 2056;
- improvement of the pension formula in rural areas through the merger of the current two schemes into a single national scheme. All pensions are subject to the new regime;
- reinforcement of the contributory principle by changing the pension-calculating formula;
- removal of the ceiling used for the calculation of the maximum pension and indexing of the maximum contributory wage with average wage growth;
- increase of the contribution period for the purpose of entitlements to the full base pension;
- establishment of a social pension, to be funded by the state budget, for all individuals over 70 years of age, resident in Albania during the five years prior to their retirement, who do not qualify for a compulsory pension scheme;
- imposition of conditions leading to reduced costs of state supplementary pensions for political officials, professors, military personnel and other state workers;
- establishment of occupational pension schemes that aim to guarantee incomes for individuals who retire earlier than the official retirement age;
- freezing of current pensions, which are not subject to recalculation, except for inflation indexing;
- improvement of the performance of private pension funds;
- removal of the previous special interest privilege (acknowledgement of unpaid university period as insurance period) for women with a university degree after 2032; and
- introduction of de-motivating elements regarding early retirement and encouraging postponed retirement.

Since the introduction of the pensions law and other reforms, there has been an improvement in a variety of pension system indicators, including the coverage ratio of the pension system. Social insurance system revenues increased from ALL 79,340 million in 2018 to ALL 105,657 million in 2022, reflecting an increase of 33.1%. These revenues accounted for 5.1% of GDP in 2022, as compared to 5.0% of GDP in 2021. Contributors to the social insurance system increased from 778,111 persons in 2018 to 801,480 persons in 2022, an increase of 3.0%. Total transfers from the pension fund to private budgets were ALL 125,364 million in 2018, or approximately 7.7% of GDP, as compared to ALL 163,037 million in 2022, or approximately 7.9% of GDP, reflecting an increase of 30.0%. As a result of increased social contributions, pensions financing from the budget has decreased from 1.7% of GDP in 2018 to 1.3% of GDP in 2022. Social insurance system revenues are expected to increase by 4.1% in 2023, as compared to 2022, while

Government spending on benefit and compensation schemes is expected to increase by approximately 2.6%. The Government's reform programme aims to continue to reduce the impact of the pensions system on public finances.

### *Social Protection and State Aid*

In recent years, the Government has introduced new legislation focusing on social care. The law on social care services entered into force in November 2016, and the law on the rights and the protection of the child entered into force in February 2017. The 2017-2020 National Agenda for Children's Rights was adopted in April 2017, promoting stronger governance in the protection of such rights. A new National Agenda for Children's Rights for the period 2021-2026 was adopted in November 2021 and has four strategic goals: (i) good governance to respect, protect, and achieve children's rights; (ii) the elimination of all forms of violence and provision of child protection; (iii) child and adolescent-friendly systems and services; and (iv) the promotion of children's rights in the digital world.

Spending on disability benefits has risen in recent years due, in part, to weak controls and instances of fraud. The Government worked with the World Bank on a medium-term project to reform disability benefits and improve the equity and efficiency of cash-based social assistance. A new disability assessment system to reflect international practices of transforming medical assessment to bio-psycho-social assessment has been implemented in the Tirana, Elbasan and Durres regions and is now being implemented across other regions of Albania.

As at 31 December 2022, the contribution rate to the social protection scheme for employed people is 27.9% of the gross wages (partly contributed by employers, subject to a maximum level of 13.8%), while for the self-employed, the rate is an amount not lower than the national minimum wage and not higher than the maximum wage, approved by a decision of the Council of Ministers. The contribution rate for employed people includes contributions in respect of compulsory social insurance (*i.e.*, sickness benefits, maternity benefits, accident-at-work benefits, old-age, sickness and veterans pension benefits and unemployment insurance). The contribution rate for self-employed people includes maternity and pension benefits. Since January 2015, the maximum contribution level has been indexed to increases to the minimum wage. In addition, under Albania's compulsory healthcare insurance scheme, 3.4% of gross wages is contributed for employed people (3.4% of gross wages by each of the employee and the employer) and self-employed people contribute 3.4% of their twice monthly minimum gross wages for healthcare services. See "*Public Finance—Descriptions of Principal Budgetary Components—Tax Revenue*".

Implementation of social care reform measures continued in 2021 based on the principles of decentralisation, deinstitutionalisation and diversification. In 2021, a social fund was introduced, which for 2021 provided support to 16 municipalities and 13 specialised social care services in six regions through a total fund of €1.5 million. In 2022, the same fund provided support to 26 municipalities and 21 specialised social care services through a total fund of €1.7 million.

### **Healthcare**

The healthcare system in Albania is in a relatively nascent stage of development, and key health system performance indicators in Albania are mixed. While health outcomes are relatively strong by regional standards, the sector suffers from inefficiencies and inequities.

In 2022, the number of hospitals in Albania was 2 per 100,000 population and, on average, there were 370.6 standard hospital beds, approximately 12.7 acute hospital beds and 22.3 psychiatric beds per 100,000 population. The range of facilities in hospitals in Albania varies depending on whether the hospitals are located in urban or rural areas. In recent years new healthcare facilities have been constructed outside of Tirana to try to expand and improve healthcare in Albania.

The following table sets forth details of the healthcare infrastructure in Albania in 2022:

<b>Health Infrastructure</b>	
<b>Indicator</b>	<b>Amount</b>
Hospitals ( <i>per 100,000 population</i> ).....	2
Hospital beds ( <i>per 100,000 population</i> ).....	370
Acute care hospital beds ( <i>per 100,000 population</i> ).....	12.7
Psychiatric beds ( <i>per 100,000 population</i> ).....	22.3
Primary healthcare units ( <i>per 100,000 population</i> ).....	14.8
Computed tomography units ( <i>per million population</i> ).....	9.7
Radiotherapy units ( <i>per million population</i> ).....	2
Mammography units ( <i>per million females aged 50-69 years</i> ).....	53.6

*Source: Ministry of Health and Social Protection*

In February 2015, the World Bank’s Board of Executive Directors approved €32.1 million in IBRD financing for a Health System Improvement Project. The total project cost is €36.1 million, with the remainder to be co-financed by the Government. The project is aimed at improving the efficiency of care in selected hospitals in Albania, improving the management of information in the health system and increasing financial access to healthcare services.

Since January 2018, the Government has implemented an economic aid scheme across the country, which offers support to families and individuals and subsidies to promote education and healthcare for families with school-age children. The number of beneficiary families has increased by 20% to approximately 64,000 families. Households in need with three or more children receive double payment.

In April 2022, the Government approved the National Health Strategy 2021 – 2030, which aims to protect and preserve the health of citizens and provide effective treatment for a range of the most common health-related problems encountered throughout a lifetime. The Government aims to increase public financing for health to 70% of all healthcare costs by 2030, with the goal that no Albanian family falls into poverty due to health-care related costs and expenses.

## **Privatisation**

Albania carried out a major privatisation programme as part of its structural reforms towards the development of a market economy. Most privatisations took place during the 1990s, and the aggregate privatisation proceeds for the period from 1992 to 2014 exceeded U.S.\$979 million.

Privatisations in Albania began in the second half of 1991 with the creation of the National Privatisation Agency. Law № 7512 of 10 August 1991 “On sanctioning and protecting private property, free initiative, independent private activities and privatisation” recognised private property generally and the concept of privatisation of state enterprises in particular. Pursuant to this law, from 1991 to 1992, more than 17,000 small service and trade businesses, as well as 2,000 tracks, fishing boats, agricultural machineries and other assets, were privatised through direct selling or management buyouts.

The privatisation process developed in steps, starting with the privatisation of small businesses, particularly service providers, followed by the privatisation of SMEs, defined as those with values of less than U.S.\$150,000 and U.S.\$500,000, respectively, and the implementation of a programme of “voucher privatisation” or “mass privatisation” for 97 joint stock state companies. The remainder of privatisations of SMEs took place through employee buy-outs, with many companies being liquidated during this process.

In 1998, the Government enacted Law № 8306 of 14 March 1998 as part of a strategy to privatise major companies operating in strategic sectors, including the telecommunications, postal services, mining and energy and oil and gas sectors. Limited domestic capital, however, made privatisation of large enterprises difficult, and slower than initially planned.

In 1999, Albania privatised its first mobile phone network, through a U.S.\$85.6 million sale to Telenor and Greece’s Cosmote. In 2001, it awarded the second mobile phone licence to Vodafone. Other important privatisations include the privatisation of the concession of TIA, the concession of the Port of Durres, the privatisation of 85% of the shares of

Albanian Refining and Marketing Oil and the privatisation of 76% of the shares of the fixed line telecommunications company, AlbTelecom.

As a result of the foregoing, the vast majority of economic activity in Albania is conducted by the private sector. With privatisation largely complete, the Government has identified energy sector reforms as a priority.

In 2007, the Government decided to privatise the distribution arm of the state-owned power company KESH in order to reduce losses and improve service quality. As a first step, the distribution arm was unbundled from KESH and incorporated as a separate power distribution system operator, OHSEE (formerly, OSSH), in June 2007. In 2009, the Government sold a 76% stake in OHSEE to the Czech power group, CEZ, for €102 million. In late 2014, however, the Republic resumed ownership of the company. On 23 September 2015, the Assembly approved Law № 102 “On Natural Gas Sector” requiring the unbundling of production activity from the activities of natural gas transmission and distribution. In July 2016, the Council of Ministers approved the establishment of Albgaz S.A. as a combined operator for the transmission and distribution of natural gas, which was completed in 2017. Since 20 December 2019, OHSEE has been restructured into three separate entities in order to separate electricity supply and distribution services: an electricity distribution operator, an electricity supply company and a universal service provider.

During 2018, the Government privatised 16 assets for an aggregate of ALL 169.0 million, of which four of these assets were purchased by former land owners using their pre-emption rights. The Minister of Finance and Economy approved the action plan for the privatisation of state assets for the period 2016-2020, as amended for the period 2018-2020 on 21 March 2018. In June 2018 the liquidation of a 100% state-owned company, Prodhim Veshja Ushtarake JSC, was completed in accordance with this action plan.

During 2019, 28 assets were privatised for an aggregate of ALL 360.2 million. The assets were sold through public auction procedure and former land owners had priority to purchase the assets. Some of these assets were purchased by land owners, exercising their pre-emption rights. During 2020, 13 assets were privatised for an aggregate of ALL 246.8 million through public auction procedures with pre-emption rights granted to former land owners. During 2021, seven assets were privatised for an aggregate of ALL 82 million. During 2022, two assets were privatised for an aggregate of ALL 100 million.

The following table sets out information on privatisation revenues received by Albania and as a percentage of GDP in the years indicated.

	<b>Privatisation Revenues</b>				
	<b>For the year ended 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Privatisation revenues (ALL millions).....	104	242	228	306	191
Privatisation revenues (% of GDP).....	0.01	0.01	0.01	0.01	0.01

*Source: Ministry of Finance and Economy*

The state budget does not provide for assumed privatisation revenues.

### **Public Private Partnerships**

In 2015, the Government announced its intention to encourage the use of PPPs. In February 2017, Prime Minister Rama launched a €1 billion PPP programme, focusing on PPPs in the transport and education sectors. Work has begun on five projects, of which four are in the transport sector and one is in the education sector. Under the €1 billion PPP programme, the Government intends to make funds available to private partners to be used to cover construction and operation costs over an eight- to 13-year period. The PPP projects are not treated as public debt but are instead accounted for by the private partner as “off balance sheet” items, in compliance with the European System of Accounts (ESA 95) rules.

In 2020, the legislative framework for PPPs was improved through the adoption of Law № 162/2020, which partially transposes EU directives on public procurement. In addition, in May 2021, public procurement rules were adopted, which set monetary thresholds in the public procurement system and supplement the law through more detailed



provisions regarding definitions, calculation of procurement value, exclusions, subsidised contracts, reserved contracts, conflicts of interest, rules of communication, types of procurement procedures and their conduct, framework agreement, dynamic purchasing systems, centralised procurement, preliminary market consultations, contracts divided into lots, notices of various types, invitations to tender, qualification criteria, self-summary documents, quality requirements, reliance on the capability of other entities, reduction in the number of tenders, contract award criteria, contract performance conditions, sub-contracting, contract monitoring, design contest, documentation, and complaints review. This legislative framework is also supported by the recent adoption of 29 sets of standard tender documents for procurement procedures, 27 instructions and various Council of Ministers decisions on procurement-related matters.

In November 2020, the National Public Procurement Strategy 2020-2023 was adopted, which is the first public-procurement related strategy document with a cross-cutting approach, targeting measures that affect fields such as concessions and PPPs, defence and security procurement, centralised procurement and a complaints review system. This strategy includes five key policy objectives: (i) efficient and sustainable public procurement; (ii) improvement of the legal and institutional framework on concessions and PPPs; (iii) reorganisation of defence and security procurement; (iv) centralised purchasing; and (v) improvement of the complaints review system.

In May 2018, following criticism by the IMF and the World Bank of the Government's practice of accepting unsolicited proposals relating to PPP agreements, the Government announced that it would stop accepting such proposals from the private sector, aiming to improve accountability on financial and legal issues. In 2019, the Council of Ministers amended Law № 125/2013 in accordance with IMF and World Bank recommendations. The amendments restrict unsolicited proposals from the private sector for concessions and PPP projects. As a result, unsolicited proposals are allowed only for PPP projects relating to the provision of works or services in ports and airports or the production and distribution of electricity, energy for heating and natural gas.

In order to increase transparency, strengthen financial discipline and monitor fiscal and budgetary risks arising from concessions and PPP contracts, the Ministry of Finance and Economy proposed changes, which were since adopted. These amendments have reinforced the role of the Ministry of Finance and Economy in monitoring concessions and PPP projects. In March 2019, the process of monitoring and reporting concessions and PPP contracts was introduced. The Ministry of Finance and Economy prepares and publishes a summary annual report on the progress of all concessions and PPP contracts, which forms part of the annual report of budget implementation. This report aims to present a summary of the concessions and PPP contracts and their fiscal risks and budgetary implications. The format of these reports is prepared in accordance with international practices, with assistance from the World Bank, funded by the Delegation of the European Union and the Swiss Federation.

The organic budget law stipulates that annual PPP payments cannot exceed 5% of tax revenues. In 2023, PPP payments are expected to reach 2.5% of total tax revenues, as compared to PPP payments of 2.7% of total tax revenues in 2022.

In February 2018, the Government signed a contract with Gjoka Konstruksion for a construction and maintenance project in respect of the remaining part of the highway linking Tirana to the Dibra region and North Macedonia, which is estimated to cost approximately U.S.\$250 million (plus VAT) and take a period of 13 years to complete. See "*The Economy—Principal Sectors of the Economy—Transport and Infrastructure—Roads*".

In October 2018, the Government signed a contract for the first phase of a project to improve the educational infrastructure in Tirana. The project is divided into four phases with a total investment value of ALL 8.0 billion. The signing of contracts in respect of the remaining three phases is pending. In July 2019, the Government approved two concession contracts: (i) a contract for the design, construction and maintenance of the Milot-Balldren roadway with a duration of 13 years and an investment value of €161.5 million; and (ii) a contract for the design, construction and maintenance of the Yacht Port-Bypass Orikum-Dukat roadway with a duration of 13 years and an investment value of €50.6 million.

In December 2019, in line with the Government's commitment to develop tourism, the construction of an airport in Vlora in southern Albania was proposed. In April 2021 the Ministry of Infrastructure and Energy signed the concession contract for the design, construction, operation, maintenance and transfer of Vlora Airport with a consortium comprised of members of the Mabetex Group Consortium, the YDA Group and the 2A Group. The total cost for the construction of this project is expected to be approximately €104.3 million, with state budget support, in the form of indirect payments of €138.3 million relating to a ten-year guarantee.

## **Informal Economy**

Albania has a substantial informal economy, which is significant in terms of the production of both goods and services and as a source of employment. According to figures estimated by academic reports based on INSTAT data, Albania's informal economy represented approximately 29% of GDP in 2018. A campaign aimed at reducing the informal economy launched in 2015 has led to a significant increase in formal employment (with the employment rate rising from 59.5% in 2018 to 65.0% in 2022).

The Government is pursuing a number of measures to reduce the informal economy, including the establishment of a simplified tax system and procedures, as well as strengthening inspection capacity and introducing measures aimed at fighting corruption and bribery in public administration. In July 2020, amendments were also passed to the Law "On the Invoice and Circulation Monitoring System" which is aimed at advancing efforts to reduce the informal economy.

## BALANCE OF PAYMENTS AND FOREIGN TRADE

### Balance of Payments

The following table sets forth data on Albania's balance of payments for the periods indicated.

	Balance of Payments <sup>(1)(2)</sup>				
	For the year ended 31 December				
	2018	2019	2020	2021	2022
	(€ millions)				
<b>Current Account</b> .....	<b>(866.4)</b>	<b>(1,088.7)</b>	<b>(1,152.6)</b>	<b>(1,166.4)</b>	<b>(1,080.3)</b>
<b>Goods and Services</b> .....	<b>(1,760.1)</b>	<b>(1,879.9)</b>	<b>(1,930.8)</b>	<b>(2,033.5)</b>	<b>(1,867.7)</b>
Credit.....	4,058.9	4,311.1	3,019.9	4,750.6	6,733.9
Debit.....	5,819.0	6,191.0	4,950.6	6,784.1	8,601.6
<b>Goods</b> .....	<b>(2,871.1)</b>	<b>(3,143.8)</b>	<b>(2,982.5)</b>	<b>(3,829.3)</b>	<b>(4,269.1)</b>
Credit.....	986.1	906.5	793.6	1,264.8	1,932.5
Debit.....	3,857.2	4,050.3	3,776.1	5,094.1	6,201.6
<b>Services</b> .....	<b>1,111.0</b>	<b>1,263.9</b>	<b>1,051.8</b>	<b>1,795.9</b>	<b>2,401.3</b>
Credit.....	3,072.8	3,404.6	2,226.2	3,485.8	4,801.4
Debit.....	1,961.8	2,140.7	1,174.5	1,689.9	2,400.1
<i>Manufacturing Services on Physical Inputs owned by others</i>	414.8	450.6	437.2	501.1	625.0
<i>Maintenance and Repair Services</i> .....	5.3	4.3	5.2	3.7	7.7
<i>Transport</i> .....	45.3	20.2	(3.7)	123.0	204.7
<i>Travel</i> .....	430.3	500.6	321.1	840.1	1,069.3
<i>Construction</i> .....	3.5	4.6	0.6	(54.5)	21.3
<i>Insurance and Pension Services</i> .....	(17.9)	(29.9)	(18.7)	(37.3)	(37.2)
<i>Financial Services</i> .....	(20.7)	(1.8)	(0.8)	(8.2)	(3.7)
<i>Charges for the use of Intellectual Property</i> .....	(9.7)	(15.7)	(19.6)	(13.2)	(17.7)
<i>Telecommunications, Computer, and Information Services</i>	7.3	21.9	6.2	33.8	95.7
<i>Other Business Services</i> .....	306.1	330.3	319.7	403.9	398.3
<i>Personal, Cultural, and Recreational Services</i> .....	5.4	3.8	8.7	16.4	27.9
<i>Government Goods and Services</i> .....	(58.7)	(24.9)	(4.0)	(13.0)	10.0
<b>Primary Income</b> .....	<b>(13.9)</b>	<b>(180.1)</b>	<b>(219.3)</b>	<b>(210.9)</b>	<b>(331.6)</b>
Credit.....	392.8	420.2	337.1	397.6	579.9
Debit.....	406.6	600.3	556.4	608.6	911.5
<b>Secondary Income</b> .....	<b>907.5</b>	<b>971.3</b>	<b>997.5</b>	<b>1,078.0</b>	<b>1,119.1</b>
Credit.....	1,005.4	1,105.5	1,169.7	1,244.0	1,280.2
Debit.....	97.9	134.2	172.3	166.0	161.2
<b>Capital Account</b> .....	<b>104.0</b>	<b>76.1</b>	<b>143.6</b>	<b>359.3</b>	<b>20.1</b>
<b>Financial Account</b> .....	<b>(771.1)</b>	<b>(904.7)</b>	<b>(849.7)</b>	<b>(628.3)</b>	<b>(913.8)</b>
Assets.....	572.4	46.2	582.3	1,474.6	380.0
Liabilities.....	1,343.5	951.0	1,432.1	2,103.0	1,293.9
<b>Direct Investments</b> .....	<b>(1,022.2)</b>	<b>(1,036.3)</b>	<b>(893.6)</b>	<b>(989.9)</b>	<b>(1,206.8)</b>
Assets.....	(2.6)	36.0	43.1	42.3	165.6
Liabilities.....	1,019.6	1,072.3	936.7	1,032.2	1,372.4
<b>Portfolio Investments</b> .....	<b>(76.1)</b>	<b>140.6</b>	<b>(65.9)</b>	<b>(96.5)</b>	<b>572.8</b>
Assets.....	176.1	73.7	264.2	324.7	376.2
Liabilities.....	252.2	(66.9)	330.1	421.1	(196.6)
<b>Financial Derivatives (other than reserves) and Employee Stock Options</b>	—	—	—	—	—
Assets.....	—	—	—	—	—
Liabilities.....	—	—	—	—	—
<b>Other Investments</b> .....	<b>(44.3)</b>	<b>68.7</b>	<b>(545.0)</b>	<b>(478.1)</b>	<b>(210.0)</b>
Assets.....	27.4	14.3	(379.6)	171.5	(91.9)
Liabilities.....	71.7	(54.4)	165.3	649.6	118.1
<b>Reserve Assets</b> .....	<b>371.5</b>	<b>(77.7)</b>	<b>654.7</b>	<b>936.2</b>	<b>(69.8)</b>
Monetary gold.....	(0.0)	48.4	—	—	15.5
SDRs.....	(39.0)	(25.2)	132.6	99.5	(70.5)
Reserve Position in the IMF.....	0.0	(0.0)	(0.0)	(0.0)	0.1
Other Reserve Assets.....	410.4	(100.9)	522.0	836.7	(15.0)
<b>Net Errors and Omissions</b> .....	<b>(8.7)</b>	<b>107.9</b>	<b>159.3</b>	<b>178.8</b>	<b>146.3</b>

Source: The Bank of Albania

#### Notes:

- (1) INSTAT compiles statistics for foreign trade, while the Bank of Albania compiles and releases overall balance of payment statistics (which include foreign trade data received from INSTAT). The balance of payments statistics set out in the above table have been compiled in compliance with international standards laid down in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* ("BPM6").
- (2) Certain figures in this table have been revised and differ from previously published figures.

#### Current Account

Albania's current account deficit between 2018 and 2022 averaged 7.4% of nominal GDP. A substantial part of Albania's current account deficit is attributable to high domestic demand for imports and fluctuations in income from

exports. Fluctuations in secondary income are primarily driven by remittances, while fluctuations in primary income are primarily driven by employer compensation inflows and investment outflows.

Albania's current account deficit decreased to €1,080.3 million in 2022 from €1,166.4 million in 2021, reflecting a decrease of €86.1 million, or 7.4%. The decrease in current account deficit was primarily due to an increase in the services account surplus, of €605.4 million, or 33.7%, in turn, primarily due to an increase in travel receipts in 2022.

In 2022, Albania's current account deficit accounted for 6.0% of GDP, as compared to 7.6% in 2021.

### *Net Exports and Trade Balance*

In 2022, Albania's trade deficit (including trade of goods and services) was €1,867.7 million, as compared to €2,033.5 million in 2021, reflecting a decrease in the deficit of €165.8 million, or 8.2%. In 2022, the trade deficit represented 10% of nominal GDP, as compared to 13% of nominal GDP in 2021. Exports of goods and services were €6,733.9 million in 2022, as compared to €4,750.9 million in 2021, reflecting an increase of €1,983.0 million, or 41.7%.

### *Services Account*

The net balance of the services account registered a surplus of €2,401.3 million in 2022, as compared to a surplus of €1,795.9 million in 2021. This increase in the surplus was primarily due to increases of €81.7 million and €229.2 million, respectively, in surplus in respect of travel services and tourism services, as well as increases in surplus in respect of manufacturing services on physical inputs owned by others and telecommunications, computer and information technology services. Net travel services receipts increased by 27.3% to €1,069.3 million in 2022, as compared to €840.1 million in 2021, primarily due to an increase in the number of foreign visitors visiting Albania following the COVID-19 pandemic.

### *Primary Income*

Albania's primary income account registered a net deficit in each year between 2018 to 2022. In 2022, the primary income account registered a deficit of €331.6 million, as compared to a deficit of €210.9 million in 2021, reflecting an increase in the deficit of €120.7 million, or 57.2%. This increase was primarily due to increases in reinvested earnings by direct investment enterprises in Albania due to improvements in their financial results. This increased deficit was partially offset by an increase in employee compensation (by 44%, to €456 million) following the post COVID-19 re-opening of the economy. In 2022, net compensation of employees increased by €132 million, as compared to 2021, while the net investment income deficit increased by €254 million.

### *Secondary Income*

The secondary income account registered a surplus of €1,119.1 million in 2022, as compared to a surplus of €1,078.0 million in 2021, reflecting an increase of €41.1 million, or 3.8%. Net flows in the secondary income account were estimated at 6% of nominal GDP in 2022 and 7.1% of nominal GDP in 2021. The increase in the secondary income surplus in 2022 was primarily due to increased workers' remittances. In 2022, net remittances increased by €72.8 million, or 9.6%, to €833.7 million (representing 4.7% of GDP), as compared to €760.9 million in 2021 (representing 5.0% of GDP). See "*—Remittances*". In addition, net official transfers were €31 million in 2022 compared to €49 million in 2021, primarily due to a decrease of almost 34% in EU fund inflows under current transfers.

## **Capital and Financial Accounts**

### *Capital Account*

The capital account registered a surplus of €20.1 million in 2022, as compared to €359.3 million in 2021, reflecting a decrease of €339.2 million, or 94.4%. Net flows of the capital account represented 0.1% of nominal GDP in 2022, as compared to 2.3% of nominal GDP in 2021. The decrease in the capital account surplus in 2022 was primarily due to an increase in outflows to financial corporations, non-financial corporations, household, and non-profit institutions serving households.

The combination of net non-financial transactions in the current account and capital account renders the net position of a domestic economy as a net lender, if in surplus, and a net borrower, if in deficit, versus non-resident economies. Conceptually, this result is equal to the net balance of the financial account, which reflects the manner in which the net lending position or net borrowing position by non-residents is being financed.

In 2022, Albania's economy held a net borrowing position of €1,060 million, as compared to a net borrowing position of €807 million in 2021.

### **Financial Account**

The financial account registered net liabilities of €913.8 million in 2022, as compared to net liabilities of €628.3 million in 2021, reflecting an increase in net liabilities of €285.5 million, or 45.4%. Net liabilities of the financial account represented 5% of nominal GDP in 2022 and 4% of nominal GDP in 2021. The increase in financial account liabilities in 2022 was primarily due to reinvestment of earnings and equity and investment fund shares.

Financial account net liabilities represented 85% of the current account deficit registered in 2022.

### **Foreign Direct Investment**

The financial account received €1,206.8 million of net direct investment (representing 6.7% of nominal GDP) in 2022, as compared to €989.9 million (representing 6.5% of nominal GDP) in 2021, reflecting an increase of €216.9 million, or 21.9%.

Direct investments represent an important foreign currency inflow in financing the trade and current account deficits. The net FDI to current account deficit ratio was 111.7% in 2022, as compared to 84.9% in 2021.

The following tables sets forth details of Albania's FDI for the periods indicated.

	<b>Net Foreign Direct Investment<sup>(1)</sup></b>				
	<b>For the year ended 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(€ millions)</i>				
Net FDI.....	1,022.2	1,036.3	893.6	989.9	1,206.8
Net FDI/GDP (%).....	8.0	7.5	6.7	6.5	6.7
Net FDI/Current account deficit (%).....	118.0	95.2	77.5	84.9	111.7
Net FDI/Balance of trade (%).....	58.1	55.1	46.3	48.7	64.6

Sources: INSTAT and The Bank of Albania

#### **Note:**

(1) Certain figures in this table have been revised and differ from previously published figures.

	<b>Foreign Direct Investment Stock by Country<sup>(1)</sup></b>				
	<b>As at 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(%)</i>				
Greece.....	14.4	5.9	5.4	2.7	1.9
Canada.....	13.4	14.0	13.2	12.6	12.8
Switzerland.....	17.6	18.7	19.6	18.4	16.7
Netherlands.....	13.6	15.2	16.3	16.3	16.5
Italy.....	9.3	9.4	10.2	10.6	10.6
Turkey.....	8.1	7.5	7.5	7.6	7.4
Bulgaria.....	0.3	6.0	5.4	7.1	6.3
Austria.....	6.9	6.9	7.0	6.6	6.3
Cyprus.....	2.2	2.5	2.2	2.1	2.1
Germany.....	1.7	1.7	1.8	2.2	2.7
France.....	4.1	3.9	3.5	3.9	3.9
International Organisations.....	1.5	0.6	0.4	0.3	0.2
<b>Total</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: The Bank of Albania

#### **Note:**

(1) Certain figures in this table have been revised and differ from previously published figures.

### Foreign Direct Investment Stock by Country

	As at 31 December				
	2018	2019	2020	2021	2022
	(€ millions)				
Greece.....	1,071.6	474.2	460.9	257.2	211.6
Canada.....	1,000.6	1,114.9	1,118.6	1,204.6	1,450.2
Switzerland.....	1,315.5	1,492.1	1,665.9	1,760.2	1,890.8
Netherlands.....	1,017.0	1,209.3	1,383.8	1,558.2	1,866.2
Italy .....	690.9	753.2	866.2	1,014.1	1,201.8
Turkey .....	604.7	596.2	633.7	721.1	843.6
Bulgaria.....	25.2	478.1	456.8	682.3	715.8
Austria.....	516.7	549.7	597.7	631.5	709.7
Cyprus .....	165.1	199.9	182.8	200.9	234.0
Germany.....	126.7	133.2	148.6	208.0	311.4
France.....	306.6	307.4	297.0	374.8	445.1
International Organisations.....	108.4	51.0	34.1	26.7	28.2
<b>Total</b>	<b>7,455.2</b>	<b>7,974.1</b>	<b>8,482.0</b>	<b>9,543.7</b>	<b>11,338.8</b>

Source: The Bank of Albania

As at 31 December 2018, 2019, 2020, 2021 and 2022, Switzerland accounted for the largest proportion of Albania's total FDI stock, accounting for 17.6%, 18.7%, 19.6%, 18.4% and 16.7%, respectively. The increase in the proportion of FDI from Switzerland since 2018 is primarily due to projects in the energy and mining sectors.

The following table sets forth details of Albania's FDI stock, by industry, as at the dates indicated.

### Foreign Direct Investment Stock by Industry<sup>(1)</sup>

	As at 31 December				
	2018	2019	2020	2021	2022
	(%)				
Information and communications.....	14.5	12.8	12.6	11.4	10.6
Financial and insurance.....	14.4	13.3	13.1	12.9	12.1
Energy, gas and air supply.....	27.5	29.6	30.2	28.2	26.5
Mining.....	13.7	14.5	14.5	14.7	15.4
Manufacturing.....	8.9	8.4	8.5	8.7	9.0
Professional, scientific and technical activities.....	5.7	5.9	6.0	6.1	5.7
Wholesale, retail, car and motorbike repair activities.....	3.9	3.6	3.7	4.0	4.5
Real estate .....	5.2	6.2	6.7	8.1	9.9
Transport and accommodation services.....	1.3	1.5	0.8	1.2	1.4
Construction.....	1.9	1.5	1.6	2.0	2.0
Administrative and support services.....	0.9	1.0	1.0	1.2	1.4
International organization related activities.....	1.0	0.6	0.4	0.2	0.2
Art, entertainment and recreation activities.....	0.4	0.5	0.3	0.3	0.4
Health and social work activities.....	0.4	0.3	0.3	0.4	0.4
Education.....	0.2	0.2	0.2	0.2	0.2
Agriculture, forestry and fishing.....	0.1	0.1	0.1	0.1	0.1
Water supply.....	0.0	0.0	0.1	0.1	0.1
Other services.....	0.0	0.0	0.0	0.0	0.0
<b>Total</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: The Bank of Albania

#### Note:

(1) Certain figures in this table have been revised and differ from previously published figures.

As at 31 December 2022, FDI stock to the energy, gas and air supply sector accounted for the largest portion of Albania's total FDI stock, accounting for 26.5%. FDI stock to the energy, gas and air supply sector increased to €3,009.3 million as at 31 December 2022 from €2,687.4 million as at 31 December 2021, reflecting an increase of €321.9 million, or 1.6%.

Other significant contributors to total FDI include the information and communications sector, which accounted for 10.6% and 11.4% of total FDI stock as at 31 December 2022 and 2021, respectively, the financial and insurance sector, which accounted for 12.1% and 12.9% of total FDI stock as at 31 December 2022 and 2021, respectively, and the

mining sector, which accounted for 15.4% of total FDI stock and 14.7% of total FDI stock as at 31 December 2022 and 2021, respectively.

#### *Major FDI Projects*

The following projects have contributed to the growth of net FDI inflows since 2018:

- *The Trans-Adriatic Pipeline Project:* The TAP project had a total financing commitment of €1.5 billion between 2015-2019. As at 31 March 2021, investment in the TAP was €1,438.3 million, of which €828.6 million had been allocated to construction (with the remainder allocated to other costs, including costs of imported materials, property acquisitions, management, insurance and contingency costs). In September 2021, the consortium for the TAP project announced the transportation of the first 5 bcm of gas to Europe since the pipeline began operations in December 2020. See “*The Albanian Economy—Principal sectors of the Economy—Energy—Energy Sector Reform—Infrastructure Development*”.
- *Devoll Project:* This project involved the construction of three major hydro power plants on the Devoll River at a cost of approximately €500.0 million and was undertaken in conjunction with Norwegian company Statkraft. Two hydro power plants (Banjë HPP and Moglicë HPP) are operational and the investment decision for a third hydropower plant, Kokël HPP, is expected to be considered now the first two hydropower plants have been completed. This project is expected to expand Albania’s electricity generation capacities to a total production capacity of approximately 789 GWh annually. See “*The Albanian Economy—Principal Sectors of the Economy—Energy—Energy Sector Reform—Infrastructure Development*”.
- *Mining Sector Projects:* In recent years, there has been increased FDI inflows from mining sector projects, in particular from an oil exploration project in central-south Albania promoted by Shell. Exploration investment has come to an end, and the project parties are considering whether to proceed to the extraction phase of the project.

#### **Portfolio Investments and Net Other Investments**

Net portfolio investments registered net assets of €572.8 million in 2022, as compared to net liabilities of €96.5 million in 2021. The net assets recorded in 2022 were primarily due to a significant decrease in liabilities (mainly attributable to a contraction in the volume of Government securities issued, concurrently with a larger volume of securities redeemed or sold by non-residents) and the increase in the assets purchased by deposit-taking corporations, excluding the Bank of Albania, and by other financial corporations (debt securities issued by non-residents).

The other investment account registered net inflows liabilities of €210.0 million in 2022, as compared to net inflows liabilities of €478.1 million in 2021. The net inflows liabilities recorded in 2022 were primarily due to a negative net acquisition of assets in the amount of €92 million, driven by a fall in deposits placed abroad by resident banks to non-residents and the net incurrence of liabilities in the amount of €118 million in 2022, a decrease of €532 million, as compared to 2021. The net incurrence of liabilities recorded in 2021 were primarily due to €225 million in loan liabilities of the Government, as well as the receipt of the SDR equivalent of €161 million by Albania from the IMF.

Foreign exchange reserve assets registered a deficit of €69.8 million as at 31 December 2022, as compared to a surplus of €936.2 million as at 31 December 2021. The deficit as at 31 December 2022 was primarily due to foreign debt services, leading to a reduction in Government foreign exchange deposits, including a reduction in SDR deposits by €70.5 million. The surplus as at 31 December 2021 was primarily due to SDR receipts and Eurobond issues.

#### **Net errors and omissions**

Due to problems that may be faced in the sources of information and during the compilation of the external sector statistics, the balance of payment figures are subject to certain discrepancies. These are aggregated and accounted for under the balancing item of net errors and omissions. In 2022, net errors and omissions registered a positive balance of €146.3 million (0.8% of nominal GDP), as compared to a positive balance of €178.8 million (1.2% of nominal GDP) in 2021.

#### **Foreign Trade**

Albania has liberalised its foreign trade since 1990 and follows guidelines set by the EU and the WTO. Albania has been a member of the WTO since 2000 and applies WTO rules on import licencing. See “*The Republic of Albania—International Relations*”. As a result of this liberalisation and an ongoing process of harmonisation of Albanian customs

rules with the EU system, imports and exports of commodities are not generally subject to special authorisation requirements. Exceptions apply to quotas or control requirements imposed through different bilateral or multilateral agreements signed by Albania.

An important achievement towards EU integration, the SAA (the Stabilisation and Association Agreement) between Albania and the EU was ratified in April 2009, including a provision for the establishment of a free trade area between Albania and the EU within ten years. See “*The Republic of Albania—International Relations—European Union.*”

On 19 December 2006, all of Albania’s bilateral trade agreements with countries in the region were transformed into a multilateral agreement, the CEFTA (the Central European Free Trade Agreement), which includes Albania, Macedonia, Montenegro, Kosovo, Moldova, Serbia and Bosnia and Herzegovina. See “*The Republic of Albania—International Relations—Regional Relationships.*”

In December 2009, Albania signed a free trade agreement with the European Free Trade Association (“EFTA”). The EFTA member states are: Iceland, Liechtenstein, Norway and Switzerland.

Albania has also concluded a free trade agreement with Turkey, which entered into force in May 2008. In addition, Albania follows the General System of Preferences, the U.S. trade programme providing for preferential U.S. duty-free treatment on certain products.

Foreign trade of goods and services in Albania represented 67% of nominal GDP in 2022, reflecting the small size and open nature of Albania’s economy. The following table sets forth information on Albania’s imports and exports by sector, for the periods indicated.

<b>Imports and Exports by Sector<sup>(1)</sup></b>					
<b>For the year ended 31 December</b>					
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<i>(€ millions)</i>					
<b>Imports</b>					
Food, Beverages and Tobacco.....	834.9	897.2	896.2	1,061.9	1,254.2
Minerals, Fuels and Electrical Energy...	536.0	627.9	440.8	858.4	1,443.3
Chemical and Plastic Products .....	687.8	721.3	735.4	936.8	984.3
Leather and Related Products.....	148.1	140.9	102.1	121.9	143.1
Wood and Paper Products .....	197.2	209.9	194.0	236.0	296.2
Textiles and Shoes.....	691.5	708.9	609.7	741.8	855.9
Construction Materials and Metals.....	614.5	637.7	632.3	913.2	1,153.0
Machinery and Parts .....	1,115.7	1,127.9	1,081.2	1,389.2	1,572.6
Others .....	202.4	205.2	198.7	280.5	288.4
<b>Total.....</b>	<b>5,028.1</b>	<b>5,276.8</b>	<b>4,890.3</b>	<b>6,539.6</b>	<b>7,991.7</b>
<b>Exports</b>					
Food, Beverages and Tobacco.....	253.4	287.6	315.5	363.2	434.9
Minerals, Oil and Electrical Energy .....	442.1	408.7	322.5	566.2	903.9
Chemical and Plastic Products .....	48.5	62.2	59.9	87.2	148.1
Leather and Related Products.....	21.4	19.9	14.6	17.8	24.3
Wood and Paper Products .....	75.5	78.0	69.8	82.9	120.1
Textiles and Shoes.....	969.0	961.0	826.9	918.4	1,137.1
Construction Materials and Metals.....	417.0	369.0	337.8	654.0	886.0
Machinery and Parts .....	141.1	169.9	181.0	235.9	333.7
Others .....	64.4	73.0	69.3	86.2	105.3
<b>Total.....</b>	<b>2,433.4</b>	<b>2,429.2</b>	<b>2,197.3</b>	<b>3,011.8</b>	<b>4,093.3</b>

*Sources: INSTAT and The Bank of Albania*

**Note:**

(1) Certain figures in this table have been revised and differ from previously published figures.

Since 2018, the value of total imports has increased from €5,028.1 million to €7,991.7 million in 2022, an increase of 58.9%. Import growth since 2018 has been primarily driven by growth in the minerals, fuels and electrical energy



sector, the construction materials and metals sector, machinery and parts and the food, beverages and tobacco sector. Growth of imports in the foods, beverages and tobacco sector since 2018 has been primarily driven by general growth in household consumption and tourism activities. Growth of imports in the minerals, fuels and electrical energy and construction materials and metals sector has been driven by increases in prices of unprocessed fuels and industrial metals and electricity production, as well as demand.

Imports of machinery and parts have accounted for the largest proportion of imports in each year since 2018, accounting for 22.2% in 2018, 21.4% in 2019, 22.1% in 2020, 21.2% in 2021 and 19.7% in 2022. The large proportion of machinery and parts imports are primarily due to the fact that Albania does not produce high technology goods domestically and, accordingly, imports such goods. The extracting, manufacturing, telecommunications and transport industries are the main importers of machinery and parts. Machinery and parts imports also include imports of capital goods for final consumption, including cars, motors, computers and electrical appliances, which are not produced domestically in Albania.

In 2022, the value of total imports increased to €7,991.7 million, as compared to €6,539.6 million in 2021, reflecting an increase of €1,452.1 million, or 22.2%. The increase was mainly driven by imports in the minerals, fuels and electrical energy sector, as well as imports of construction materials and machinery equipment driven by increased prices and development and construction investments.

The comparatively high dependency on imports of certain production sectors and levels of consumer demand, coupled with falling import prices (in certain cases as a result of domestic exchange rate appreciation) has stimulated high import growth, particularly since 2018. In particular, Albania's domestic electricity and power production is dependent on its hydropower activities (which accounted for 99% of domestic electricity generation in 2022). Accordingly, Albania's energy sector is affected by droughts and other adverse climatic events, which impact Albania's hydropower activities, and increase Albania's need for, and dependence on, electricity imports. As a result of the drought in 2017, electricity from electricity imports accounted for approximately 45.7% of available electricity in 2017, as compared to approximately 26% in 2016. Electricity from electricity imports accounted for 23.3% in 2018, before increasing to 41.7% in 2019, 42.7% in 2020 and falling to 26.8% in 2021 and 38.4% in 2022. *“Risk Factors—Risks relating to Albania—Energy, food and water security risks”*.

Since 2018, the value of total exports has increased from €2,433.1 million to €4,093.3 million in 2022, an increase of 68.2%. Export growth since 2018 has been primarily driven by growth in the minerals, oil and electrical energy sector, the construction materials and metals sector, and the machinery and parts sector. In 2022, textile and shoes exports increased by 23.8%, as compared to 2021. Growth of exports in the construction materials and metals sector since 2018 has been primarily driven by exports of such materials to Italy and neighbouring countries, including Kosovo and Macedonia.

In 2022, the total value of exports increased to €4,093.3 million, as compared to €3,011.8 million in 2021, reflecting an increase of €1,081.5 million, or 35.9%. In addition to the increase in textile and shoe sector exports, this increase was driven by an increase in minerals, oils and electrical energy exports, in turn, due to higher international prices for unprocessed fuels and industrial metals and electricity production.

#### *Focus of Trade*

The following tables set forth Albania's exports and imports of goods, by origin or destination, as a percentage of total exports and imports and in value, for the periods indicated.

<b>Exports and Imports of Goods by Origin or Destination<sup>(1)</sup></b>					
	<b>For the year ended 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	(%)				
<b>Exports</b>					
Italy .....	48.0	47.9	45.4	42.2	43.2
Kosovo .....	8.8	10.0	9.6	10.2	7.8
Spain .....	7.8	8.0	6.1	6.4	4.8
Germany.....	4.3	4.8	5.9	5.5	6.6
Greece .....	4.2	4.3	4.9	5.8	5.2
China .....	1.8	2.1	1.8	2.5	2.0
Serbia .....	2.6	1.8	2.3	2.7	2.8
Macedonia.....	2.8	2.9	3.3	3.4	4.0
Malta.....	0.2	0.3	0.2	0.3	0.2
Turkey.....	0.7	0.7	1.1	1.4	1.3
Others.....	18.8	17.4	19.3	19.6	22.2
<b>Total.....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<b>Imports</b>					
Italy .....	27.3	25.3	25.1	24.3	21.7
Turkey .....	8.5	9.5	9.6	10.8	12.1
China .....	8.4	9.2	8.9	8.1	8.2
Greece .....	8.1	8.4	9.0	8.0	7.8
Germany .....	7.7	7.2	7.7	6.9	6.2
Serbia .....	3.4	3.6	3.8	3.5	3.4
Russia .....	2.0	1.8	2.2	1.9	1.1
United States .....	1.4	1.9	1.6	1.8	1.4
Spain .....	2.5	1.8	1.6	1.4	1.7
France .....	1.9	2.0	2.0	1.6	1.5
Others .....	28.8	29.4	28.5	31.7	35.0
<b>Total .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Sources: INSTAT and The Bank of Albania

**Note:**

- (1) Certain figures in this table have been revised and differ from previously published figures.

### Exports and Imports of Goods by Origin or Destination

	For the year ended 31 December				
	2018	2019	2020	2021	2022
	<i>(€ millions)</i>				
<b>Exports</b>					
Italy .....	1,168.6	1,163.3	997.9	1,271.9	1,768.6
Kosovo .....	212.3	242.3	212.1	307.8	317.5
Spain .....	189.5	193.8	134.1	192.5	196.3
Germany .....	105.3	115.4	129.3	164.6	268.6
Greece .....	102.8	103.9	106.7	174.8	212.9
China .....	44.6	50.5	40.4	74.0	82.5
Serbia .....	63.0	43.8	50.7	81.5	113.4
Macedonia .....	67.0	69.6	71.5	102.4	162.1
Malta .....	5.8	7.2	5.1	7.5	6.6
Turkey .....	16.9	16.7	24.8	43.2	54.2
Others .....	457.4	422.3	424.5	591.1	908.5
<b>Total .....</b>	<b>2,433.1</b>	<b>2,428.9</b>	<b>2,197.3</b>	<b>3,011.3</b>	<b>4,091.3</b>
<b>Imports</b>					
Italy .....	1,373.8	1,334.7	1,227.9	1,587.8	1,730.3
China .....	421.8	485.5	436.6	532.4	651.2
Greece .....	408.4	441.7	440.0	522.8	625.9
Turkey .....	424.7	502.4	468.2	703.1	963.3
Germany .....	388.5	377.9	376.5	448.7	492.2
Serbia .....	170.2	187.4	185.6	228.9	270.6
United States .....	71.9	100.3	76.0	119.0	109.9
Spain .....	125.9	93.8	79.1	94.1	137.3
Russia .....	99.2	94.4	109.2	122.8	91.8
France .....	97.3	105.9	95.6	104.4	118.5
Others .....	1,446.1	1,552.8	1,395.7	2,074.6	2,796.7
<b>Total .....</b>	<b>5,027.7</b>	<b>5,276.8</b>	<b>4,890.3</b>	<b>6,538.6</b>	<b>7,987.7</b>

Sources: INSTAT and The Bank of Albania

In 2022, Italy was the largest importer of Albanian goods, purchasing 43.2% of total exports in 2022, as compared to 42.2% in 2021. Exports to Italy are primarily comprised of textiles and footwear exports (which accounted for 50% of total exports to Italy in 2022), construction materials and metals exports (which accounted for 16% of total exports to Italy in 2022), machinery exports (which accounted for 9% of total exports to Italy in 2022), and minerals and fuel exports (which accounted for 9% of total exports to Italy in 2022). Albania's second largest trading partner for exports in 2022 was Kosovo, which accounted for 7.8% of total exports in 2022, as compared to 10.2% in 2021. Exports to Kosovo are primarily comprised of construction materials and metals exports (which accounted for 44% of total exports to Kosovo in 2022), minerals and fuels exports (which accounted for 17% of total exports to Kosovo in 2022) and foods exports (which accounted for 15% of total exports to Kosovo in 2022).

Exports to Germany have increased from 4.3% of total exports in 2018 to 6.6% in 2022. The increase in exports to Germany is primarily due to an increase in exports of minerals and fuels. Whereas, exports to Spain in real terms have decreased from 7.8% of total exports in 2018 to 4.8% in 2022. Exports to Spain are mostly comprised of mineral and fuels exports (which accounted for 88% of total exports to Spain in 2022).

Exports to China have increased in recent years, from 1.8% of total exports in 2018 to 2.0% in 2022, despite fluctuations in international prices, in particular for exports of chrome ore. Exports of minerals represents 98% of total exports to China.

Italy was also the source of the largest portion of Albanian imports in 2022, accounting for 21.7% of total imports, as compared to 24.3% in 2021. Imports from Italy are primarily comprised of textiles and footwear imports (which accounted for 24% of total imports from Italy in 2022), machinery imports (which accounted for 20% of total imports from Italy in 2022), construction materials imports (which accounted for 13% of total imports from Italy in 2022), chemicals imports (which accounted for 12% of total imports from Italy in 2022), foods imports (which accounted for 14% of total imports from Italy in 2022) and minerals and fuels imports (which accounted for 3% of total imports from Italy in 2022). Albania's next largest trading partners for imports in 2022 were Turkey, China and Greece, each accounting for 12.1%, 8.2% and 7.8% of total imports, respectively, as compared to 10.8%, 8.1% and 8.0% respectively, in 2021.

## Remittances

Historically, remittances have contributed significantly to funding Albania's current account deficit. Between 2010 and 2013, however, the level of remittances declined, due, in part, to economic hardship in Italy and Greece, where a large portion of Albanian migrants are located, as well as the effects of the global financial crisis.

Despite continuing economic difficulties in certain European countries, including Italy and Greece, remittances have increased year-on-year since 2018. Average remittance growth between 2018 and 2022 was 16.1%.

Remittances were negatively impacted by the impact of the COVID-19 pandemic. At the start of the COVID-19 pandemic, the adverse economic conditions, as well as the disruption to global travel presented an obstacle in receipt of remittances (with a significant proportion of remittances previously typically brought into the country in cash).

The following table sets forth details of Albania's remittances for the periods indicated.

	<b>Remittances</b>				
	<b>For the year ended 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Net remittances ( <i>€ millions</i> ).....	699.6	701.9	673.3	760.9	833.7
Remittances/Trade deficit (G+S) (%).....	38.0	37.3	34.9	37.4	44.6

*Source: The Bank of Albania*

In 2022, net remittances increased by €72.8 million, or 9.6%, to €833.7 million (representing 4.7% of GDP), as compared to €760.9 million in 2021 (representing 5.0% of GDP), in line with the easing of COVID-19-related restrictions and the rebound of the economy during 2022. In addition, money that was not sent by expatriates due to the COVID-19 pandemic in 2020 and 2021 was sent in 2022.

## MONETARY AND FINANCIAL SYSTEM

### The Bank of Albania

On 22 April 1992, the Bank of Albania was established and vested with the functions of the central bank of the Republic of Albania. Its operations are governed by Law № 8269 of 23 December 1997 “On the Bank of Albania” (the “**Bank of Albania Law**”), which outlines the Bank of Albania’s powers and responsibilities. The Bank of Albania is the issuer of all Albanian currency. The Bank of Albania acts as banker and advisor to, and fiscal agent of, the Government, and is responsible for formulating and implementing Albania’s monetary policy, supporting financial stability, implementing foreign exchange and exchange rate policy, managing foreign reserves, promoting the normal functioning of payment systems and regulating and supervising the banking sector, including, among other things, granting and revoking banking licenses. Since the entry into force of the Law “On the recovery and resolution of Banks in the Republic of Albania” in July 2017, the Bank of Albania has the authority to step in (as the resolution authority) and use resolution tools in connection with failing banks and bank insolvencies. See “—*The Albanian Banking Sector—Bank Resolution and Resolution Fund*”.

The Bank of Albania’s primary monetary objective is to achieve and maintain price stability. It is an independent and autonomous institution, accountable to the Assembly, with paid-up capital owned exclusively by the Republic. The Bank of Albania is governed by the Supervisory Council, which consists of the governor, two deputy governors and six other members. The governor is appointed by the Assembly, and the two deputy governors are appointed by the Supervisory Council. The term of office of the members of the Supervisory Council is seven years. In September 2014, the then-governor and the internal auditor of the Bank of Albania were removed from office by the Assembly, upon the request of the Supervisory Council of the Bank of Albania, on charges of dereliction of duty relating to a vault theft in which a mid-level employee of the Bank of Albania is alleged to have stolen U.S.\$6.6 million over a four-year period. In February 2015, the Assembly appointed Mr. Gent Sejko as the governor of the Bank of Albania. Mr. Sejko was re-elected as the governor of the Bank of Albania for a second term by the Assembly on 24 February 2022.

In July 2007, the Bank of Albania signed a memorandum of understanding with the central banks of the neighbouring nations of North Macedonia, Greece, Bulgaria, Cyprus, Romania, Serbia, Bosnia and Herzegovina, the Republic of Srpska and Montenegro to facilitate information and view sharing among banking supervisors.

In 2018, the Bank of Albania signed a Memorandum of Understanding with the ECB in respect of banking supervision. Pursuant to the Memorandum of Understanding, the Bank of Albania and the ECB have agreed to cooperate with each other on the basis of mutual trust and understanding for the purpose of performing supervisory tasks in respect of cross border credit institutions that fall within their supervisory responsibility. The Memorandum of Understanding sets out how information can be exchanged and supervision can be conducted effectively.

The Bank of Albania is engaged in a medium-term project to amend the Bank of Albania Law to align it more fully with the European System of Central Banks and is currently working with international partners to draft the relevant amendments. In September 2015, the European Banking Authority added the Bank of Albania to the list of non-EU or third country supervisory authorities that may participate in EU banking supervisory colleges (a flexible structure comprised of an international bank’s “home” and “host” supervisors, which is aimed at information sharing and cooperation).

In April 2017, a memorandum of understanding was signed among the Bank of Albania, the Ministry of Finance and Economy and the Albanian Financial Supervisory Authority (the AFSA) to increase the use of the Lek in the Albanian financial system and economy (the de-Euroisation policy) with the aim of improving the transmission of monetary policy and reducing risks to financial stability. See “—*Monetary Policy*”.

The following table sets forth the balance sheet of the Bank of Albania as at the dates indicated.

	<b>Balance Sheet of the Bank of Albania</b>						
	<b>As at 31 December</b>					<b>As at 30 April</b>	
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	
	<i>(ALL millions)</i>						
<b>Total Assets</b> .....	<b>547,104.2</b>	<b>539,621.7</b>	<b>627,704.6</b>	<b>749,793.9</b>	<b>732,739.1</b>	<b>706,528.3</b>	
Monetary gold and SDR holdings .....	19,625.0	24,187.9	41,289.9	54,478.8	46,713.6	48,929.9	
Foreign currency.....	67.1	98.3	33.7	90.2	59.8	(28.8)	
Deposits.....	189,904.2	152,387.6	200,001.8	274,042.4	89,699.2	67,786.7	
Securities other than shares .....	261,577.2	283,678.9	309,231.7	333,221.4	499,531.8	504,154.6	
Loans.....	34,144.7	36,097.8	34,715.4	43,768.7	53,391.3	43,012.3	
Financial derivatives.....	19.3	13.8	11.8	13.7	5.3	(0.2)	
Receivable accounts .....	21,224.9	22,325.3	21,443.3	22,551.2	21,282.2	20,638.7	
Non-financial assets .....	20,542.0	20,832.0	20,977.0	21,627.6	22,055.9	22,035.0	
<b>Total Liabilities and Capital</b> .....	<b>547,104.2</b>	<b>539,621.7</b>	<b>627,704.6</b>	<b>749,793.9</b>	<b>732,739.1</b>	<b>706,528.3</b>	
Currency in circulation .....	286,158.4	303,092.6	355,481.6	378,384.5	401,438.5	399,589.9	
Deposits included in broad money .....	50.6	102.2	57.4	53.9	56.4	369.6	
Deposits excluded from broad money .....	222,291.9	194,622.7	230,751.7	312,786.1	299,494.5	282,197.6	
Loans.....	18.3	0.0	0.0	0.0	0.0	0.0	
Other accounts payable.....	518.7	1,690.8	943.4	1,412.8	879.9	817.3	
SDR allocation .....	6,977.7	6,987.3	6,747.6	26,836.7	25,757.0	24,794.8	
Shares and other equity .....	31,088.6	33,126.1	33,723.0	30,319.9	5,112.7	(1,267.8)	

*Source: The Bank of Albania*

The Ministry of Finance and Economy maintains deposit accounts denominated in Lek, Euros, U.S. dollars and SDR with the Bank of Albania. In 2022, the average balance was ALL 74.0 billion (based on the 2022 average), according to account information provided by the Bank of Albania to the Ministry of Finance and Economy's Treasury Office.

## Monetary Policy

Pursuant to Article 3, paragraph 4(a)(1) of the Bank of Albania Law, the Bank of Albania's duty is "to independently formulate, adopt and implement the monetary policy of Albania, consistent with its main objective". The Bank of Albania acts independently in setting targets for its monetary policy and selecting operational instruments to achieve it. Monetary policy is communicated through quarterly monetary policy reports and press conferences held following meetings of the Supervisory Council.

The primary objective of the Bank of Albania's monetary policy is to achieve and maintain price stability. In accordance with its obligations arising from the Bank of Albania Law, the Bank of Albania formulates and implements policies seeking to achieve price stability by pursuing low but positive long-term inflation rates. In this respect, the Bank of Albania is committed to achieving and maintaining annual inflation at 3.0%. The inflation target is measured by the annual rate of change in CPI, as calculated and published by INSTAT. The main indicator of the balance of inflationary pressures in the economy is the deviation of the medium-term forecast inflation from the target. See "—*Inflation*".

In compliance with its policies regarding inflation, the Bank of Albania implements a free-floating exchange rate and is committed to maintaining sufficient levels of foreign reserves to cover at least four months of imports and 100% of Albania's short-term foreign debt. The Bank of Albania has developed a framework based on an optimisation methodology to adjust the adequate level of reserves accounting for financial stability considerations, as well as the cost of holding reserves. See "—*Foreign Reserve Assets*".

The instruments employed by the Bank of Albania in conducting monetary policy include open market operations and standing facilities. The Bank of Albania provides liquidity in the financial markets through reverse repurchase agreements ("**reverse repos**"), with maturities of one week to three months, although the Bank of Albania's primary tool for implementing monetary policy and its main open market operation is the seven-day maturity reverse repo. Since 1 January 2010, reverse repos have been issued by way of variable-price auctions; previously, these operations were conducted through fixed-price auctions.

In April 2017, a memorandum of understanding was signed among the Bank of Albania, the Ministry of Finance and Economy and the AFSA to further the de-Euroisation policy with the aim of improving the transmission of monetary policy and reducing risks to financial stability. In February 2018, the Bank of Albania adopted a number of reform measures in line with the de-Euroisation policy, including:

- **Changing the mandatory reserve rate.** The mandatory reserve rate for foreign currency liabilities has been raised to 12.5% from 10%, while the mandatory reserve rate for Lek liabilities has been reduced to 7.5% from 10%. For banks with foreign currency liabilities accounting for more than 50% of their total liabilities, the required reserve rate in foreign currency has been increased to 20% in respect of liabilities in excess of this 50% threshold.
- **Increasing the minimum regulatory requirement for the value of liquid assets in foreign currency.** Liquid assets denominated in foreign currency must comprise no less than 20% of short-term liabilities in foreign currency (increased from 15%). The requirement for liquid assets denominated in Lek remains at 15%.
- **Raising borrowers' awareness of the risks of foreign currency borrowing.** The reform measures adopted by the Bank of Albania require banks to: (i) propose alternative Lek-denominated credit to borrowers; (ii) provide borrowers with a concrete example of how a foreign currency loan instalment may change in the case of movements in the exchange rate; and (iii) offer borrowers the option of employing mechanisms that mitigate exchange rate risk.

The Bank of Albania took a number of monetary policy measures in 2020 in response to the outbreak of the COVID-19 pandemic, with the aim of supporting Albanian households' and enterprises' access to credit, reducing risks to banks and supporting bank finance to the economy. As part of such measures, in 2020, the Bank of Albania increased the monetary stimulus measures available and undertook other regulatory measures aimed at maintaining both the uninterrupted flow of funds and financial services to the economy, as well as, preserving monetary and financial stability, including:

- cutting the interest rate to 0.5% and narrowing channels for standing facilities, by reducing the overnight lending facility interest rate to 0.9% (aimed at reducing the cost of debt financing and servicing the economy);
- increasing liquidity injections into the banking system through the adoption of an operational strategy which enables unlimited injections of liquidity (aimed at guaranteeing the smooth functioning of the financial market and the monetary policy transmission mechanism); and
- using forward guidance to inform the market on the stimulating monetary policy stance in the future (aimed at controlling the interest rates curve and the extension of its effect in time).

The Bank of Albania took a number of further monetary policy measures in 2022, primarily in response to rising domestic and global inflation, as a result of the war in Ukraine. Since November 2021, the inflation rate has increased in line with global inflationary trends, reaching a high of 8.3% in October 2022. In an attempt to ease inflationary pressures, the Bank of Albania raised interest rates five times in 2022 and once, in 2023, to 3.00%, its highest level in nine years. Increases to the interest rate in Albania were generally made concurrently with rate increases announced by the ECB. The Bank of Albania expects inflation to decline gradually in 2023 and converge to target in 2024.

Despite a higher interest rate environment, accelerating private investment and a strong household demand led to an average growth rate in the credit portfolio of approximately 12.3% in 2022 and 9.8% in 2021. The Bank of Albania expects economic growth be moderate in 2023 and gradually converge towards historic rates.

## Inflation

The following table sets forth the annual change of the CPI inflation rates based on changes in the annual average CPI and producer price index (“PPI”) in Albania for the periods indicated.

	Inflation Rates by CPI and PPI				
	Annual average for the year ended				
	2018	2019	2020	2021	2022
			%		
CPI Inflation.....	2.0	1.4	1.6	2.0	6.7
PPI Inflation .....	1.7	(0.8)	(3.3)	2.7	19.9

Source: INSTAT

The Bank of Albania has a medium-term annual inflation target of 3.0%. While inflation remained below this target between 2012 and October 2021 and is currently expected to return to targeted levels in 2024, since November 2021, the inflation rate has increased in line with global inflationary trends, reaching a high of 8.3% in October 2022. Inflationary pressures were above target in 2022, with inflation averaging 6.7%. The volatility of inflation in 2022 was primarily driven by oil and food prices, as well as prices of household electricity. Core inflation was 6.5% in 2022. Annual headline inflation, as measured by the CPI, averaged 2.0% in 2018, 1.4% in 2019, 1.6% in 2020, 2.0% in 2021 and 6.7% in 2022.

The IMF forecasts the CPI growth rate to be 4.3% in 2023 and 3.0% in 2024. According to statistics published by INSTAT, the annual rate of the CPI in April 2023 was 4.6 %, as compared to 6.2 % in April 2022.

## Money Supply

Money supply expanded at relatively moderate rates in recent years, reflecting subdued money demand and a preference for non-monetary instrument savings products. Since the November 2019 Earthquake and the outbreak of the COVID-19 pandemic in 2020, measures taken by the Government and the Bank of Albania to support economic activity have resulted in an acceleration of money growth. In the last two years, M3 growth increased to an average of 8.4%, twice as much as the annual growth in the last five years. Expanded Government spending, the introduction of guarantee schemes, as well as liquidity injections from the Bank of Albania, have all contributed to an acceleration in money demand. Credit to the private sector has improved, reflecting the expansion of the Lek credit portfolio and increased lending to corporates. Credit expansion increased to almost 14% as at 30 September 2022, supported by higher demand for liquidity from businesses and for mortgages from households. Credit growth decelerated in the last quarter of 2022, however, reflecting high levels of business credit repayments due to ample business liquidity. There was also a slowdown in household borrowing, in line with higher interest rates and tighter lending conditions.

After a record low in 2014, credit to the private sector has since experienced a moderate increase, as a result of the low interest rate environment that prevailed prior to 2022 and improved lending conditions, as well as higher demand for bank financing. The share of Lek-denominated lending, as a percentage of total lending to the private sector, was 51.8% in 2022, reflecting a 13% increase, as compared to 2014. Low interest rates for Lek-denominated instruments and an increased awareness of credit risks in foreign currency have facilitated this development. See “—Monetary Policy”. The credit portfolio in foreign currency also grew at a faster pace in 2021-2022, supported by an increase in investment lending over the period, as well as an increase in prices and higher liquidity in banks’ funds denominated in foreign currency.

The expansion of money supply has been sustained by the contribution of both credit to the private sector, as well as the net foreign assets of the banking system. The financing of the public sector with domestic financial instruments has also contributed to the expansion of money supply.

Banks primarily finance their intermediation activities with deposits from households. Year-on-year deposit growth was moderate in recent years to mid-2020. The increase in deposits has been led by deposits in foreign currency. Low interest rates have induced households to partially shift their savings to higher earning instruments, such as deposits with a maturity of two years, or to more liquid assets, such as demand deposits or cash held outside of banks. In the

second half of 2022, increased yields for government bills resulted in shifts of savings denominated in local currency to government bills, contributing to reduced growth in local currency deposits as at 31 December 2022.

The table below sets forth certain statistics relating to money aggregates as at the dates indicated.

	<b>Money Aggregates</b>				
	<b>As at 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(annual growth rate (%))</i>				
M1 (banknotes, coins, demand deposits).....	3.7	9.5	21.6	10.1	4.9
M2 (M1 plus deposits in local currency).....	(1.0)	3.6	13.8	6.5	2.3
M3 (M2 plus deposit in foreign currency).....	(0.2)	4.3	10.5	8.6	4.9

*Source: The Bank of Albania*

As at 31 March 2023, the annual growth rate (as compared to 31 March 2022) of M1 was 4.9%, of M2 was 2.7% and of M3 was 3.7%.

### **Foreign Reserve Assets**

The Bank of Albania's current framework for the management of foreign reserve assets was developed with the assistance of the World Bank, following the enrollment of the Bank of Albania in the Reserves Advisory Management Program in September 2005.

In February 2017, the Supervisory Council approved a new regulation "On the policy and management of foreign exchange reserves", which sets out the purposes of maintaining foreign reserve assets. The Bank of Albania's investment policy was approved for the first time in 2000 and was significantly revised in 2006 and has been reviewed periodically thereafter, with the last review occurring in 2020. The objectives of the Bank of Albania's foreign exchange management, as set out in the investment policy, are subject to the approval by the Supervisory Council and primarily consist of liquidity and security, followed by the generation of reasonable returns in the medium- to long-term. The Bank of Albania is committed to maintaining an adequate level of foreign reserves in order to shield against potential pressures originating from adverse developments in the external balance of the economy and to safeguarding financial stability.

Since 2016, the framework for assessing the adequacy of foreign reserve assets has taken into account the cost of holding reserves, while requiring that foreign reserves are sufficient to cover at least four months of imports and 100% of Albania's short-term external debt. Any market interventions made by the Bank of Albania for purposes of increasing reserves are scheduled and announced.

The Bank of Albania's Investment Committee approves the quantitative criteria applied to the management of foreign reserve assets based on the limits set forth by the Supervisory Council and monitors the compliance with the restrictions for permitted levels of risk and foreign reserve investment portfolio performance.

In accordance with the decisions of the Supervisory Council on eligible instruments, foreign reserve assets are invested in fixed or floating rate income securities, in deposits or certificates of deposit and in derivative instruments. The remaining foreign reserve assets are held in SDRs and in monetary gold.

As at 31 December 2022, none of the Bank of Albania's foreign reserve assets were pledged, collateralised or otherwise encumbered.



The table below sets forth the total foreign reserve assets (including gold) held by the Bank of Albania and reserve adequacy indicators as at the dates indicated.

	<b>Total Gross Foreign Reserve Assets</b>				
	<b>As at 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(€ millions)</i>				
<b>Reserve Assets (gross)</b> .....	<b>3,399</b>	<b>3,360</b>	<b>3,938</b>	<b>4,972</b>	<b>4,952</b>
Monetary gold .....	57	120	136	142	166
SDR .....	102	79	198	310	243
Reserve position in the Fund .....	32	31	31	32	32
Other reserve assets .....	3,208	3,129	3,574	4,489	4,510
In months of import .....	7.0	6.5	9.5	8.8	6.9
% of short-term debt .....	179	182	350	460	412
<b>NIR (€ millions)</b> .....	<b>2,192</b>	<b>2,288</b>	<b>2,754</b>	<b>2,881</b>	<b>2,903</b>

*Source: The Bank of Albania*

The majority of Albania's foreign reserve assets is invested with highly-rated institutions. The Bank of Albania's foreign reserve assets as at 31 December 2022 were €4,952 million, which is estimated to cover 6.9 months of imports and 412% of Albania's short-term external debt. The level of foreign reserve assets as at 31 December 2022 has decreased from €4,972 million as at 31 December 2021. The positive effect of the Bank of Albania's presence in the foreign exchange market through auctions has counterbalanced the negative effects arising as a result of a reduction in reserve assets corresponding to foreign exchange liabilities, as well as the negative impact of increases in interest rates for the treasury market benchmark instruments.

The overall increase in foreign reserve assets since 2018 is primarily due to inflows of foreign currency from the disbursement of funds from the IMF and the World Bank, increases in other reserve assets, as well as the issuance of Eurobonds by the Government in October 2018, June 2020 and November 2021 and the purchase of foreign exchange through domestic auctions. See "*Public Debt—Multilateral Financial Institutions—International Monetary Fund*" and "*Public Debt—Multilateral Financial Institutions—World Bank*".

## Interest Rates

The following table sets forth the average Bank of Albania interest rates in Lek as at the dates indicated.

	<b>Average interest rates</b>				
	<b>As at 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(% average)</i>				
Interest rate ( <i>day-to-day money rate, per annum</i> )	1.12	0.98	0.59	0.59	2.93
Lending interest rate ( <i>one year, per annum</i> )	5.93	6.28	5.86	5.93	6.89
Deposit interest rate ( <i>one year, per annum</i> )	0.75	0.43	0.54	0.48	1.13

*Source: The Bank of Albania*

Interest rates in Albania are determined using free market mechanisms. The Bank of Albania does not apply administered interest rates for specific sectors of the economy. In accordance with its monetary policy framework, the Bank of Albania aims to influence short-term interest rates in the interbank market by managing the Bank of Albania's policy rate (currently 3.00%) and conducting open market operations, with the ultimate aim of anchoring inflationary expectations.

Between 2010 and the beginning of March 2022, financial markets activity increased and interest rates were generally on a declining trend. The Bank of Albania's monetary policy in respect of interest rates, policy communication and stimulus reforms was one of the main drivers of these decreasing interest rates. In 2016, the average interest rate for deposits in Lek dropped below the Bank of Albania's then-policy rate, reflecting the then-low liquidity needs, as well as a slowing demand for credit. Subsequent increases in the Bank of Albania's policy rate in 2022 and 2023, to ease

inflationary pressures, have partially (but not fully) been transmitted in the deposit market. As at 31 December 2022, the average interest rate on deposits was 1.89%, or 1.22% higher than as at 31 December 2021.

Between 2010 and 2022, lek lending rates declined, reflecting structural changes in the banking system, as well as monetary policy easing. This decline resulted in the growth of lending in Lek, which has, in turn, contributed to an increase in the share of the Lek portfolio as a percentage of overall lending to the private sector. The average lending interest rate for Lek-denominated deposits fell to a low of 5.8% in 2020 and 2021, after fluctuating around 6.5% in 2018 and 2019. During 2022, the average lending interest rate for Lek-denominated securities began to increase again to 6.6%, following successive repo rate increases.

Interbank market rates and government securities yields also decreased to historically-low levels between 2010 and the beginning of 2022, in line with policy rate decreases during this period. There was increased volatility in yields in 2022, reflecting increased uncertainty related to inflation and monetary policy reactions.

Between 2011 and 2022, the Bank of Albania has pursued an accommodative monetary policy. In March 2022, the Bank of Albania increased the policy rate from 0.5% to 1%, thus marking the beginning of monetary policy normalisation in response to rising inflation. The policy rate was further increased in July 2022 to 1.25%, in August 2022 to 1.75%, in October 2022 to 2.25%, in November 2022 to 2.75% and in March 2023 to 3.00%. The standing facilities rates were also raised in parallel, with the overnight deposit rate and overnight lending rate currently standing at 2.00% and 4.00%, respectively. Prior to 2022, the policy rate had decreased by 50 basis points to 0.50% in March 2020 and the interest rate for overnight lending facilities decreased from 1.9% to 0.9%, as a response to COVID-19. In 2022, the policy rate was raised a total of five times, by a total of 225 basis points over the course of the year. To date in 2023, the policy rate has been increased once, by 25 basis points (to 3.0% as of March 2023).

### **Exchange Rate Policy and Operations**

The Bank of Albania implements a free-floating exchange rate regime, whereby the value of the Lek against foreign currencies is freely determined in the foreign exchange market in accordance with levels of supply and demand. The Bank of Albania intervenes in the foreign exchange market in accordance with the relevant internal regulations. Such regulations were last reviewed in December 2020 with the aim of increasing the transparency and efficiency of interventions. The Bank of Albania may intervene in the domestic exchange rate market to achieve one or more of three objectives: (i) to adjust the level of international reserves; (ii) to stabilise disorderly markets; or (iii) to achieve monetary policy or financial stability objectives in case intervention is deemed necessary.

In line with the Bank of Albania's framework for assessing the reserve adequacy, interventions to increase reserve levels have been pre-announced since 2014. During the period from 2015 to date in 2021, the Bank of Albania generally intervened in the foreign exchange market to encourage an increase in foreign reserves. In addition, in 2018, the Bank of Albania intervened temporarily to correct the misalignment of currency, which was impacting the inflation outlook. On average, intervention volumes for increasing reserves accounted for 1.5% of annual foreign exchange transactions conducted through the Albanian banking system during the period.

The Lek to Euro exchange rate has shown a continuous appreciating trend since mid-2015, reflecting structural improvements in the Albanian economy, as demonstrated by the narrowing of the current account deficit, increased FDI and increased confidence in the domestic currency, with such trend accelerating in 2022 and early 2023.

In the six months ended 30 June 2018, the Lek appreciated by 6.4% against the Euro (as compared to appreciation of 2.3% in 2017). The acceleration of appreciation in the six months ended 30 June 2018 was accompanied by heightened volatility and uncertainty in the foreign exchange market and weakened general inflationary pressures. In response to the appreciation of the Lek against the Euro, and with the aim of supporting the Bank of Albania's medium-term inflation target, the Bank of Albania approved a programme of interventions in the foreign exchange market. In strategic terms, the use of this instrument was aimed at preventing the materialisation of potential negative effects from the exchange rate appreciation on achieving the inflation target. In operational terms, the instrument was aimed at decelerating the exchange rate appreciation and creating the premises for more normal trading activity in the domestic foreign exchange market. The interventions lasted until the end of 2018, and the exchange rate has since stabilised.

As at 31 December 2019, the Lek to Euro exchange rate was ALL 122.8 per €1.00. For the year ended 31 December 2019, the average Lek to Euro exchange rate was ALL 123.0 per €1.00. The Lek also appreciated against the U.S. Dollar in 2018 with an exchange rate of ALL 108.0 per U.S.\$1.00. This trend reversed in 2019, with the exchange rate falling to ALL 109.9 per U.S.\$1.00.

At the end of March 2020, the Bank of Albania intervened by selling €20.4 million to smooth temporary excessive volatility caused by initial disruptions to the introduction of lockdown measures as a result of the outbreak of the COVID-19 pandemic.

As at 31 December 2020, the Lek to Euro exchange rate was ALL 123.7 per €1.00. For the year ended 31 December 2020, the average Lek to Euro exchange rate was ALL 123.8 per €1.00, and the average Lek to U.S. Dollar exchange rate was ALL 108.7 per U.S.\$1.00.

As at 31 December 2021, the Lek to Euro exchange rate was ALL 120.8 per €1.00. For the year ended 31 December 2021, the average Lek to Euro exchange rate was ALL 122.5 per €1.00, and the average Lek to U.S. Dollar exchange rate was ALL 103.5 per U.S.\$1.00.

On 8 March 2022, the Bank of Albania intervened by selling €10.7 million to smooth temporary excessive volatility caused by disruptions in the market arising as a result of the war in Ukraine.

As at 31 December 2022, the Lek to Euro exchange rate was ALL 114.2 per €1.00. For the year ended 31 December 2022, the average Lek to Euro exchange rate was ALL 119 per €1.00, and the average Lek to U.S. Dollar exchange rate was ALL 113 per U.S.\$1.00.

See also “Exchange Rates”.

### The Albanian Banking Sector

The following table sets forth information on the Albanian banking sector as at the dates indicated.

	<b>Banking Sector<sup>(1)</sup></b>				
	<b>As at 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Number of banks (majority foreign-owned)	14 (11)	12 (8)	12(8)	12(8)	11(7)
Asset share of fully foreign-owned banks (%)	77.8	70.7	69.4	73.5	72.3
Non-performing loans (as a % of total loans)	11.1	8.4	8.1	5.6	5.0
Domestic credit to private sector (as a % of GDP)	24.3	21.8	28.4	24.3	24.2
Domestic credit to households (as a % of GDP)	12.2	12.1	13.3	13.7	14.6
<i>of which mortgage lending (as a % of GDP)</i>	<i>6.9</i>	<i>7.6</i>	<i>8.5</i>	<i>9.0</i>	<i>9.8</i>
Capital adequacy ratio	18.7	18.3	18.7	18.5	18.1
Liquidity ratio <sup>(2)</sup>	34.2	35.7	34.8	33.9	29.6
Loan to deposit ratio	49.2	48.3	47.3	46.8	47.1

*The Bank of Albania*

#### Notes:

(1) Certain figures in this table have been revised and may differ from previously published data.

(2) The calculation method for the liquidity ratio was changed in 2018 to reflect more restrictive requirements imposed on liquid assets denominated in foreign currency in line with the Bank of Albania's de-Euroisation strategy. The minimum liquidity ratio for Lek-denominated assets is 15% and for foreign currency-denominated liquid assets is 20%. The overall required minimum liquidity ratio is 20%.

As at 31 December 2022, total assets of the banking sector constituted 91.2% of Albania's total financial assets and represented 87.9% of nominal GDP.

As at 31 December 2022, the Albanian banking sector was comprised of 11 banks, of which five are majority domestically-owned. In 2018, the Kosovo Branch of the National Commercial Bank changed its status from branch to subsidiary, which, with effect from January 2019, resulted in a delay in the financial reports submitted by the National Commercial Bank in order to exclude the activity of the Kosovo subsidiary. In February 2019, the Supervisory Council of the Bank of Albania gave its preliminary approval to Balfin Group in respect of the acquisition of 88.89% of Tirana Bank. In March 2019, OTP Bank Nyrt Hungary received preliminary approval for the acquisition of 88.89% of Societe Generale Albania, and the Supervisory Council of the Bank of Albania approved the merger through absorption of International Commercial Bank by Union Bank, a domestically-owned bank. In June 2019, the Bank of Albania

revoked the licence of the Credit Bank of Albania as the bank has been placed under voluntary liquidation. In July 2022, the Bank of Albania gave preliminary approval for the increase in participation of EUROSIG in the capital of the United Bank of Albania, a domestically-owned bank, from 21.0% to 51.0%. In November 2022, the Supervisory Council of the Bank of Albania gave its preliminary approval for the merger by absorption of Alpha Bank Albania by OTP Bank Albania.

As at 31 December 2022, 66.2% of assets in the banking sector were held by majority foreign-owned banks. The decline in the share of assets of majority foreign-owned banks to total banking sector assets from 77.8% in 2018, 70.7% in 2019, and 69.4% in 2020 and 68.8% in 2021 was primarily the result of: (i) the change in ownership from foreign to domestic of two previously foreign-owned banks, National Bank of Greece (which was absorbed by the American Bank of Investment) and International Commercial Bank (which was absorbed by Union Bank); (ii) the acquisition of a foreign-owned bank (Tirana Bank) by an Albanian non-financial corporation (Balfin Group) (iii) the liquidation of a foreign owned bank (Credit Bank of Albania); and (iv) the increase in participation of Eurosig Sh.a in the capital of the United Bank of Albania.

The recent mergers and restructuring of the activity that affected at least half the banks operating in Albania has resulted in a drop in the value of concentration indices for liabilities by non-residents. During the period from 2020 to 2023, the majority of banking activities were characterised by stable values of concentration indices in respect of loans, deposits, foreign currency assets and liabilities. The most significant expansion in concentration levels was observed in the distribution of government securities held by banks and non-residents assets. See “*Risk Factors—Risks relating to Albania —Domestic banking sector*”.

NPLs accounted for 5.0% of the banking sector loan portfolio as at 31 December 2022, as compared to 5.6% as at 31 December 2021, 8.1% as at 31 December 2020, 8.4% as at 31 December 2019 and 11.1% as at 31 December 2018. The reduction of NPLs has been, and continues to be, a key focus of the Bank of Albania’s supervision activities. As at 31 March 2023, NPLs accounted for 5.1% of the banking sector loan portfolio. See “*—Non-Performing Loans*”.

The following table sets forth details of bank ownership in Albania, by country, as at 31 December 2022.

<b>Bank Ownership in Albania</b>				
<b>Bank</b>	<b>Country of Ownership</b>	<b>Assets</b>	<b>Deposits</b>	<b>Loans</b>
		(%)	(%)	(%)
National Commercial Bank	Turkey	26.3	25.9	12.6
Raiffeisen Bank	Austria	15.3	16	17.1
Intesa San Paolo Bank	Italy	10.3	11	7.9
Credins Bank	Albania	16	17.1	19.7
Tirana Bank	Albania	6.2	6.2	7.1
OTP Bank Albania (ex Societe General Albania)	Hungary	9.6	9.7	15.1
Procredit Bank	Germany	2.2	1.8	4
Union Bank	Albania	4.9	4.5	5.6
American Bank of Investment (ex Credit Agricole)	Albania	6.1	5	6.1
First Investment Bank	Bulgaria	2.6	2.2	3.6
United Bank of Albania	Albania	0.7	0.7	1.2
<b>Total</b>		<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source: The Bank of Albania*

The following table sets forth the aggregate financial position of banks in Albania as at the dates indicated.

<b>Aggregate Financial Position of Banks</b>					
<b>As at 31 December</b>					
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Total Assets</b>	<b>1,453,451.6</b>	<b>1,475,550.9</b>	<b>1,581,466.1</b>	<b>1,773,792.6</b>	<b>1,877,307.7</b>
Treasury and interbank transactions	474,296.6	470,059.3	468,874.5	492,980.2	520,031.0
Operations with customers (gross)	577,911.3	573,354.6	606,434.9	668,609.6	711,928.6
Securities transactions	384,912.9	404,408.7	479,581.1	581,648.1	617,591.9
Provisions	(43,515.0)	(28,751.3)	(32,413.8)	(27,144.6)	(32,815.0)
Other assets	30,568.6	25,712.7	24,667.4	23,190.4	22,714.4
Fixed assets	20,540.1	23,562.1	26,009.7	25,082.4	27,050.6
Accrued interests	8,737.0	7,204.8	8,312.2	9,426.5	10,806.2
<i>Total assets denominated in foreign currency</i>	<i>798,283.4</i>	<i>773,921.6</i>	<i>811,163.1</i>	<i>922,821.4</i>	<i>988,602.4</i>
<i>Total assets of non-residents</i>	<i>385,865.6</i>	<i>351,271.9</i>	<i>333,371.9</i>	<i>390,667.5</i>	<i>395,935.6</i>
<b>Total Liabilities and Capital</b>	<b>1,453,451.6</b>	<b>1,475,550.9</b>	<b>1,581,466.1</b>	<b>1,773,792.6</b>	<b>1,877,307.7</b>
Treasury and interbank transactions	80,235.9	88,013.4	86,880.0	112,730.9	114,306.3
Operations with customers (gross)	1,176,537.9	1,189,632.8	1,282,672.0	1,429,636.9	1,514,236.2
Securities transactions	6936.4	2,526.8	3,556.8	3,106.3	3,113.8
Other liabilities	14,199.0	13,136.1	17,859.0	24,534.1	29,686.8
Permanent resources	171,525.4	178,368.7	186,476.7	199,831.9	211,401.4
Accrued interests	4,016.9	3,873.2	4,021.6	3,952.5	4,563.4
<i>Total liabilities denominated in foreign currency</i>	<i>771,324.6</i>	<i>751,052.4</i>	<i>789,678.5</i>	<i>897,038.8</i>	<i>966,419.4</i>
<i>Total liabilities of non-residents</i>	<i>88,139.0</i>	<i>37,574.2</i>	<i>35,121.2</i>	<i>51,369.3</i>	<i>47,017.4</i>

As at 31 March 2023, banking sector total assets and banking sector total liabilities and capital were ALL 1,872,170.9 million, as compared to ALL 1,877,307.7 million as at 31 December 2022. As at 31 March 2023, total liabilities denominated in foreign currency were ALL 968,581.4 million (as compared to ALL 966,419.4 million as at 31 December 2022) and total liabilities of non-residents were ALL 50,815.1 million (as compared to ALL 47,017.4 million).

The following table sets forth the composition of deposits with all domestically operating banks as at the dates indicated.

	<b>Banking Sector Deposit Portfolio</b>				
	<b>As at 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Local currency deposits</b> .....	<b>456,216.8</b>	<b>466,382.0</b>	<b>517,778.3</b>	<b>552,222.8</b>	<b>551,657.0</b>
Current account and sight deposits.....	203,436.2	232,559.3	292,757.5	335,152.9	348,187.0
<i>Local government deposits</i> .....	1,482.1	1,624.5	1,644.1	1,301.5	1,694.3
<i>Public non-financial corporations deposits</i> .....	8,861.1	10,786.4	13,912.5	18,879.3	18,667.0
<i>Other financial corporations deposits</i> .....	2,586.8	3,780.6	3,797.6	4,821.1	7,082.0
<i>Other non-financial corporations deposits</i> .....	49,221.4	51,972.3	70,043.5	81,311.4	80,159.5
<i>Other resident sectors deposits</i> .....	141,284.9	164,395.5	203,359.8	228,839.6	240,584.3
Time deposits.....	252,780.6	233,822.8	225,020.9	217,069.9	203,470.0
<i>Local government deposits</i> .....	13.1	10.1	10.1	0.0	0.0
<i>Public non-financial corporations deposits</i> .....	1,634.7	709.2	1,465.4	757.3	598.2
<i>Other financial corporations deposits</i> .....	5,050.5	4,167.7	4,868.2	5,136.3	5,113.7
<i>Other non-financial corporations deposits</i> .....	9,687.0	7,977.5	6,836.3	7,597.8	6,378.8
<i>Other resident sectors deposits</i> .....	236,395.4	220,979.3	211,840.9	203,578.5	191,379.3
<b>Foreign currency deposits</b> .....	<b>532,625.3</b>	<b>560,583.5</b>	<b>594,654.7</b>	<b>663,836.3</b>	<b>719,984.5</b>
Current account and sight deposits.....	289,232.7	324,658.7	369,776.5	444,963.8	493,783.0
<i>Local government deposits</i> .....	113.4	157.9	82.3	38.9	75.7
<i>Public non-financial corporations deposits</i> .....	1,407.7	2,823.3	2,343.5	2,558.9	4,001.7
<i>Other financial corporations deposits</i> .....	3,616.5	5,360.3	6,743.5	6,153.0	6,598.9
<i>Other non-financial corporations deposits</i> .....	78,055.3	81,786.9	96,126.3	120,282.6	141,613.2
<i>Other resident sectors deposits</i> .....	206,039.8	234,530.3	264,480.9	315,930.5	341,493.6
Time deposits.....	243,392.6	235,924.8	224,878.1	218,872.5	226,201.5
<i>Local government deposits</i> .....	—	—	—	24.3	963.7
<i>Public non-financial corporations deposits</i> .....	1,696.3	1,521.8	1,731.9	1,519.3	2,606.9
<i>Other financial corporations deposits</i> .....	3,598.1	7,057.6	6,938.6	8,935.6	7,561.1
<i>Other non-financial corporations deposits</i> .....	11,813.8	11,661.7	10,854.2	12,622.5	23,903.3
<i>Other resident sectors deposits</i> .....	226,284.5	215,683.8	205,353.4	195,770.9	191,146.5

*Source: The Bank of Albania*

As at 31 December 2022, 49% of the total banking sector loan portfolio was denominated in Lek, 48% of the total banking sector loan portfolio was denominated in Euros and the remainder was primarily denominated in U.S. Dollars. Although the ratio of foreign currency loans to total loans has decreased since a peak of 72% in 2007, unhedged loans accounted for 34% of total foreign currency loans and 18% of the total loans portfolio as at 31 December 2022.

As at 30 April 2023, ALL 543,312.3 million of banking sector deposits (or 43.3% of the total banking sector loan portfolio) were denominated in Lek, while ALL 711,335.7 million of deposits (or 56.7%) were denominated in foreign currencies.

In April 2017, the Bank of Albania, the Ministry of Finance and Economy and the Financial Supervisory Authority entered into a memorandum of understanding to co-operate to increase the use of domestic currency in the financial system and Albanian economy, a de-Euroisation strategy. The Bank of Albania publishes a semi-annual report on developments and progress relating to this strategy. The most recent report, published in February 2023, noted that during the second half of 2022, two main changes were observed: (i) a further increase in deposits denominated in foreign currency; and (ii) an increase in deposits denominated in Lek with a maturity of over one year. The report concluded that the increase in foreign currency deposits reflects a development in the opposite direction to the objectives of the de-Euroisation measures, while the growth of deposits in Lek with a maturity of over one year reflects a positive development, as banks have more stable sources of liquidity and can offer more alternatives for customers who want to invest in the long term in Lek.

The banking sector's overall profit has been maintained at consistent levels in recent years. The net profit of the banking sector as at 31 December 2022 was approximately ALL 22 billion, which was unchanged from 2021. Net interest income for the sector increased in 2022 due to a larger increase in interest income than interest expense. The increase in interest income was also reflected in the increase of the net interest margin, which reached 3.5%. Expenses relating to loan provisions increased, however such increase was partially offset by the reversal of provisions for other financial instruments.

The stock of total banking sector loans, including loans to non-residents, 31 December 2022, was approximately ALL 715 billion.

The Albanian banking sector remains well-capitalised and liquid. The capital adequacy ratio was 18.1% as at 31 December 2022, as compared to the required minimum level of 12.0%. Liquid assets as a percentage of total assets were 29.6% as at 2022. The capital adequacy of the banking sector is sufficient to cover for a “worse case” scenario that combines slower economic growth, a higher level of depreciation of the Lek and a higher level of NPLs in the banking sector.

### ***Non-Performing Loans***

Since a peak in NPLs of close to 24% of the banking sector loan portfolio in September 2014, NPL levels have been on a declining trend, reaching 5.0% as at 31 December 2022 and 5.1% as at 31 March 2023.

The Interinstitutional Action Plan, which sets out specific tasks for the Bank of Albania, banking industry and the Government aimed at addressing NPLs, was adopted in 2015. Reform measures taken by the Bank of Albania in line with this action plan include: (i) the introduction of regulatory measures requiring mandatory write-offs of NPLs classified in the “loss” category for more than three years from January 2015; and (ii) reforms to speed up collateral execution. Banks operating in Albania are also required to apply more conservative provisioning requirements in respect of NPLs than that required under International Financial Reporting Standards, which results in higher NPL coverage ratios. In 2019 an amendment to the regulation on the administration of credit risk by banks was passed, requiring mandatory write offs of NPLs classified in the “loss” category for more than two years, whose requirement was previously provisioned for three years.

The Bank of Albania passed a regulation in respect of out-of-court settlements of loans held by borrowers in financial difficulty exposed to more than one bank on July 2019. This regulation, which is generally recognised as the “Tirana Approach” was initially expected be in effect until 31 December 2020 but was extended until 1 January 2022 due to the COVID-19 pandemic. On September 2019, loans meeting the Tirana Approach criteria represented approximately 3.4% of the total NPL portfolio. As at 1 January 2022, loans meeting the Tirana Approach criteria represented approximately 1.7% of the total NPL portfolio, representing a reduction in NPLs of approximately ALL 32.6 billion. Following the abolishment of the regulation, a more strict criteria in terms of classification and provisioning, as well as the extension of probation period from nine to twelve months has been introduced in respect of restructured loans.

In line with the Interinstitutional Action Plan, the Assembly approved a new insolvency law aimed at facilitating the restructuring of private balance sheets, which entered into force on 22 May 2016, and made amendments to the Civil Procedure Code and the Law on Securing Charges to improve the process of loan collection, which entered into force on 5 May 2017. Such reform measures provide, among other things, for priority to secured creditors in insolvency proceedings, as well as the payment of success fees to bailiffs.

As part of the implementation of a joint project between the Ministry of Justice and the IFC on debt resolution and business exits, a special regulation on “Out of court of accelerated reorganisation agreements” has been developed for restructuring procedures, which is based on a debtor's ability to simultaneously initiate bankruptcy proceedings and submit a restructuring plan, and aims to shorten the legal time frames for restructuring procedures. This regulation was approved by the Council of Ministers in February 2021.

As a result of these reforms and the combined efforts of the supervisory authority and banking sector to reduce the stock of NPLs and manage the flow of new NPLs into the market, NPLs and the NPL ratio have declined steadily, and the quality of the banking sector loan portfolio has improved. As at 31 December 2022, NPLs accounted for 5.0% of the banking sector loan portfolio, as compared to 5.6% as at 31 December 2021, 8.1% as at 31 December 2020, 8.4% as at 31 December 2019 and 11.1% as at 31 December 2018. The reduction in NPLs from ALL 38 billion, as at 31 December 2021, to ALL 36 billion, as at 30 December 2022, is primarily due to write-offs, loan repayments and restructurings, as well as to the general slowdown in credit growth.

Provisions for credit risk, which covered 65.6% of NPLs or 7.3% of total loans as at 31 December 2018, decreased to 59.4% of NPLs and 5.0% of total loans as at 31 December 2019, before increasing to 65.2% of NPLs and 5.3% of total loans as at 31 December 2020, 68.4% of NPLs and 3.9% of total loans as at 31 December 2021 and 64.4% of NPLs and 3.2% of total loans as at 31 December 2022.

The reduction in the stock of NPLs in 2022, as compared to 2021, is primarily due to the reclassification of NPLs to better quality categories, write-offs of bad loans and the repayment of a portion of NPLs. Quality improvement has been observed in all loan categories by term and sectors, but a slight decline in quality was recorded in the local currency loan portfolio. Repayment flows decreased in 2022, as compared to 2021, while the reclassification of loans from better performing categories to NPLs increased.

As at 31 March 2023 the NPL ratio increased slightly to 5.1%. The Bank of Albania has initiated a discussion process with the affected banks, which were required to stress-test their portfolios and undertake the necessary measures in advance to address increased NPLs, as well as to ensure adequate capital requirements.

### ***Bank Resolution and Resolution Fund***

In July 2017, Law № 133/2016 “On the recovery and resolution of Banks in the Republic of Albania” (“**Law № 133/2016**”) entered into force, which identified the Bank of Albania as the resolution authority in respect of failing banks and bank insolvencies.

In its capacity as resolution authority, the Bank of Albania is responsible for: (i) compiling the rules for the resolution of banks using the different tools set out in Law № 133/2016; (ii) preparing resolution plans; and (iii) establishing a resolution fund. In March 2017, the Bank of Albania established the Resolution Department as the responsible unit to accomplish the Bank of Albania’s mandate with respect to resolution activities.

In October 2017, the Bank of Albania adopted regulations establishing the resolution fund and setting out the procedures regarding the contributions to, and management of the fund. The target funding level for the resolution fund is 0.5% of total liabilities of the banking sector (currently ALL 8 billion), calculated as the difference between the assets and capital of all banks licensed in Albania, to be reached by 2027. Banks in Albania pay annual contributions to the fund in line with the law and methodology of calculation established by the Bank of Albania.

In January 2018, the first contributions to the resolution fund were paid, in proportion to the share of each bank in the liabilities of the banking sector. In April 2019, the banks paid in the second year contributions. The total contributions to the resolution fund for 2023 was set at ALL 896 million, which was fully be paid in April 2023 (as compared to ALL 735.6 million, which was fully repaid in 2022). The target level of the fund and each bank’s contribution is reviewed and updated on an annual basis. In accordance with Law № 133/2016, the resolution fund is managed by the Deposit Insurance Agency, in accordance with its investment policy, which is approved by the Bank of Albania. The investment policy follows the principles of liquid assets, low credit risk debt securities and then reasonable, high return on investments. As at 31 December 2022, the resolution fund totaled ALL 3.5 billion (as compared to ALL 2.7 billion as at 31 December 2021), invested in current accounts and one-week deposits in Bank of Albania and Government treasury bills and bonds.

The resolution fund may also benefit from extraordinary contributions of banks, loans, subsidies and donations. The resolution fund may be used to guarantee the assets or the liabilities of banks under resolution, provide bridge financing to banks and asset management companies, provide liquidity to banks under resolution, purchase assets of banks under resolution, contribute to capital and ensure other necessary funds to provide bridge financing to banks or asset management companies, compensate banks under resolution for uncovered losses arising due to the exclusion of eligible liabilities of certain creditors arising from the application of the bail-in tool, and cover the costs for administration of the resolution fund.

In April 2018, the Supervisory Board of the Bank of Albania approved the Regulation “On Resolution Plans” (the “**RRP**”). The RRP is aligned to the Regulatory Technical Standards of the European Banking Authority (the “**EBA**”) and the Bank Recovery and Resolution Directive and applies to all banks and branches licenced to operate in Albania. The RRP sets out: (i) the content of resolution plans; (ii) procedures on drafting resolution plans; and (iii) best practices for resolution.

To facilitate data collection from individual banks, the Bank of Albania has developed standardised data collection templates aligned with EBA technical standards. The regulations in place and the data collected allows the Bank of Albania to assess and organise meetings with banks in order to prepare efficient resolution plans. In 2019, the Bank of Albania drafted the first version of resolution plans for systemic banks, and a second draft was prepared in 2020. By the end of 2021, the Bank of Albania had finalised all the resolution plans for banks operating in Albania. An executive summary for the plans was formally communicated to each bank, together with the official communication of the binding minimum requirement for own funds and eligible liabilities (“**MREL**”) target. Since 2021, each bank with a



preferred resolution strategy, must meet an MREL to ensure an effective and credible application of the resolution tool. The phase-in period to meet the final MREL target is six years. During the phase-in period, the Bank of Albania will communicate the intermediate MREL target to be reached with the next twelve months and the final MREL target to be reached by the end of 2027.

Since 2018, the Supervisory Board of the Bank of Albania have passed several regulations to bolster the regulatory framework relating to the resolution of banks, including those relating to co-operation between departments, defining powers and competencies of different units within the Bank of Albania, the conditions for granting the prior approval to the intra-banking group financial support agreement, the conditions of implementing early intervention measures and conditions and the methodology of applying temporary administration valuations for resolution, bridge banks, bail-in instruments, regulatory capital instruments and eligible liabilities, contractual recognition of write-downs and conversions, partial transfers of assets and liabilities and the establishment and operation of an asset management company in bank resolution cases.

A cooperation arrangement between the Bank of Albania and the Single Resolution Board (the “SRB”) was signed in October 2018. This agreement focuses on the exchange of information between banking entities operating in Albania and the EU, enabling efficient resolution planning for entities with cross-border operations. Since 2019, the Bank of Albania has participated in the SRB’s resolution meetings involving banking entities with subsidiaries operating in Albania.

### ***Credit Bureau***

The Albanian Association of Banks (the “AAB”) has been working with the EBRD in connection with the establishment of a private credit bureau in Albania to facilitate and establish appropriate infrastructure for credit scoring. The establishment of a credit bureau is expected to assist with the reduction of NPLs in line with the Interinstitutional Action Plan (see “—*Non-Performing Loans*”). Following the completion of a feasibility study, international and local consultants have been selected to assist the AAB in the first phase of establishing the credit bureau, including: (i) raising awareness of the credit bureau among all stakeholders; (ii) identifying and working with the relevant authorities to establish the appropriate legislative and regulatory framework for the credit bureau; (iii) identifying the remit of the credit bureau and preparing bid documents for potential technical providers; and (iv) recommending an institutional and organisational development plan for the credit bureau. The AAB requested technical assistance from the EBRD in connection with the first phase of this project in October 2018.

In April 2019, the EBRD delivered its final report with different options, as well as legal and technical perspectives that, if adopted, would pave the way for the creation of an Albanian credit bureau. Among the suggested options, the AAB considered a model that outsources credit bureau services to an international credit bureau, established outside of the Republic, to be selected by the AAB, as the most appropriate. Under this model, data would be transferred to, stored and managed by the international credit bureau in a dedicated database. The AAB have requested the assistance of the EBRD in drafting a law relating to the creation and operation of the credit bureau.

### **Banking Supervision and Regulation**

Banking supervision in Albania is carried out by the Bank of Albania pursuant to the Bank of Albania Law. As the supervisory authority, the Bank of Albania aims to safeguard the soundness and stability of the banking and financial system and to protect depositors. The three main functions of supervision consist of: (i) licensing financial entities; (ii) regulating their activities; and (iii) maintaining control of and monitoring their activities. In addition, the Bank of Albania acts as banker and advisor to, and fiscal agent of, the Government, in addition to promoting the normal functioning of payment systems.

In November 2022, the Supervisory Council approved the Medium-Term Development Strategy of the Bank of Albania 2023-2025. Among other objectives, the strategy sets out the main objectives of the Bank of Albania in the fields of supervision of banks and financial entities, including: (i) alignment of the supervisory framework with European and global standards; (ii) the adoption of the Basel Committee Standards; (iii) addressing the NPL portfolio, through standardised and improved practices, in line with best European practices; (iv) reviewing the reporting framework of banks, in accordance with the standards of the European supervisory authorities; and (v) developing climate risk management policies. The Bank of Albania also intends to strengthen co-operation with national and international regulatory authorities in the area of supervision.

Bank of Albania's supervision of the banking sector mainly focuses on monitoring of banks' resilience to risks in order to maintain adequate capital and liquidity positions and, in turn, thereby ensuring the stability of the banking system. The overall supervisory process and on-site examinations have emphasised the importance of enhanced governance and risk administration, with a focus on the fastest-growing segments of the banking system and recent ownership changes.

All mergers, acquisitions or transfers of ownership must be approved by the Bank of Albania's Supervisory Council and are subject to the same legal requirements and evaluation standards as those applicable to when establishing a new bank. Over the past five years, there has been significant merger and acquisition activity within the Albanian banking system (see "*The Albanian Banking Sector*"). As a result of such activity, the number of banks operating in Albania decreased from 16 to eleven as at 31 December 2022.

The Bank of Albania has a relatively high level of compliance with the Basel Core Principles for Effective Banking Supervision. The Bank of Albania has continued the further implementation of the supervisory regulatory framework in line with EU directives and Basel Committee recommendations, taking into consideration developments in the Albanian banking system. In 2017, the Bank of Albania issued guidelines "On the Internal Capital Adequacy Assessment Process" ("**ICAAP**"). These guidelines were prepared in accordance with Basel II Pillar 2 requirement and set out a framework for dealing with interest rate in the banking book risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk. ICAAP aims to establish an objective risk profile for banks and improve the risk-based supervision process. It includes certain criteria for the establishment of an internal process by banks to assess risks that are not covered by the existing regulation on capital adequacy and identifies the core requirements to assess additional risks and calculate additional capital to cover these risks based on the bank's risk profile and its strategies. In 2021, Bank of Albania approved new Guidelines "On the Internal Liquidity Adequacy Assessment Process ("**ILAAP**")", which provides certain additional supervisory requirements for banks regarding strategies, policies, processes and internal systems for the identification, measurement, management and monitoring of liquidity risk, to ensure adequate levels of liquidity reserves. The Bank of Albania has implemented risk-based supervision that envisages continuous supervision of banks through the combination of on-site inspections and off-site monitoring. The inspection cycle is scheduled based on the systemic importance of banks, their complexity and risk profile. The Bank of Albania also periodically conducts a detailed risk assessment of each bank and is preparing a Supervisory Review and Evaluation ("**SREP**") framework based on the European Banking Authority Guidelines on Common procedures and Methodologies for SREP. The SREP review process was delayed due to the COVID-19 pandemic and all banks were required to postpone the delivery of ICAAP reports from April 2020 to October 2020. In February 2021, the Bank of Albania's Supervision Department contacted all banks individually to indicate new minimum capital requirements and introducing new indicators.

In March 2019, the Supervisory Board of the Bank of Albania approved the regulation "On liquidity coverage ratio" (the "**LCR Regulation**"). The LCR Regulation aims to enhance and update the current regulatory framework around liquidity and risk administration through the use of a new liquidity coverage ratio indicator (the "**LCR**"). The LCR Regulation defines the criteria used to calculate the LCR and the minimum requirement that banks must meet. In December 2020, a new regulation was approved, which lays down the criteria and rules for calculating the net stable funding ratio of banks and the minimum level required for this ratio. The implementation of this regulation along with the LCR regulation aims to further approximate the regulatory framework of the Bank of Albania with Basel III requirements on liquidity risk management.

In September 2019, the Supervisory Board of the Bank of Albania approved guidelines in respect of stress tests. The guidelines are aligned to those provided by the EBA and were implemented in March 2020. During 2019, the Bank of Albania revised its licensing framework and anti-money laundering and terrorism financing measures through several amendments relevant regulations, to accommodate the recommendations of the fifth Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("**MONEYVAL**") Report and to align with best practice.

A number of regulations were amended or adopted in 2020-2022, with the aim of further approximating the regulatory framework in Albania to the requirements of the Basel Committee and the EU acquis. In particular:

- In 2020, a new regulation was approved, which further approximates the Bank of Albania's legal framework with Basel III requirements on the leverage ratio and with relevant EU regulations.

- The capital adequacy regulation was amended in 2020, 2021 and 2022 to further align it with the requirements of relevant EU regulations regarding capital requirements for credit risk and counterparty credit risk for market risk and securitisation positions.
- Amendments to the risk management regulation were approved in 2020, aiming to further align the regulation with EU requirements and with Basel standards relating to the large exposures regime. The amendments also include the revision of reporting and monitoring requirements for banks.
- In 2021, amendments to the consumer credit and mortgage credit regulation were approved, which aim to increase harmonisation with the requirements of EU Directive 2008/48/EU, regulating consumer credit and mortgage credit agreements for individuals, in order to increase consumer protection requirements.
- In 2021, amendments to the transparency for banking and financial products and services regulation were approved, in the framework of the implementation of global reference rate reform.
- In April 2022, the core management principles of banks and branches of foreign banks and the criteria on the approval of their administrators regulation was amended, which together with new guidelines on the internal and effective governance of banks ensure compliance with the requirements in the European Banking Authority and Financial Stability Board guidelines, regarding the internal governance of credit institutions.

In response to the COVID-19 pandemic, the Bank of Albania took a number of measures at the bank supervisory level, including:

- In March 2020, pursuant to an order of the Governor of the Bank of Albania and the Prime Minister, all banks and non-banking financial institutions (including savings and loans associations) offered payment holidays to all clients economically and financially affected by the COVID-19 pandemic, postponing for three months instalment payments. Such measures were further extended in May 2020 to apply until the end of August 2020.
- The Supervisory Council of the Bank of Albania suspended loan classification and provisioning requirements until the end of August 2020 (extended from May 2020) and requested banks to defer collection of loan instalments without penalties for those entities and households effected by relevant confinement measures.
- In May 2020, the Supervisory Council of the Bank of Albania, adopted temporary regulatory changes permitting banks to restructure loans until the end of 2020 without additional provisioning costs and without deteriorating the status of the borrower. This measure was extended until 31 March 2021 and the entry into force of stricter requirements for loan restructurings have been postponed until January 2022.
- Between March 2020 and December 2020, the Bank of Albania suspended dividend distributions by banks and required banks to limit and efficiently administer administrative expenses, as well as to carefully and conservatively assess annual bonuses for all managing positions. In January 2021, the Bank of Albania suspended the distribution by banks of profits carried over from 2020 and 2021 profits until 31 December 2021. A further suspension of banks' dividend distributions was approved in February 2022 by the Supervisory Council of the Bank of Albania, for profits carried over during 2021 and profits that would be realised during 2022. The measure was aimed at easing economic and financial difficulties created as a result of the COVID-19 pandemic, as well as the global energy crisis.

In October 2020, the Bank of Albania established a working group to commence work on drafting a new regulatory framework for payment services in order to implement the requirements of the payment services law. Several bylaws have been drafted by this working group and approved by the Supervisory Council of the Bank of Albania.

Since 2021, Bank of Albania has been engaged in the transposition of the Payment Account Directive 2014/92/EU (“PAD”) and its relevant EU regulations into the legal and regulatory framework of the Bank of Albania. A draft law “On the payment account with basic services”, is expected to be approved by the Assembly during 2023. In December 2022, Bank of Albania approved the regulation “On the comparability of the fees related to payment account and payment account switching service”, which has transposed those chapters of PAD dealing with the requirements of transparency and comparability of fees, and with the payment account switching, as well as the three relevant EU regulations issued in its implementation.

## Macro-prudential Policy

On 2 August 2017, the Supervisory Council approved the Bank of Albania's macro-prudential policy strategy. Under this strategy, the Bank of Albania has assumed the role of primary authority in implementing macro-prudential policy in Albania. The macro-prudential policy aims to stabilise the entire financial system by preventing and mitigating systemic risks and strengthening its resistance. The strategy provides a general operational framework for the implementation of this policy. The regulatory basis for the adoption of all capital buffers required for the implementation of the strategy. In June 2019, after a two-stage consultation process with the banking industry, the Bank of Albania passed the regulation "On Macro-Prudential Capital Buffers". The regulation, which was prepared in line with European Systemic Risk Board recommendations and EU Directives provides a framework to: (i) link the final objective of the macro-prudential policy with intermediate objectives and macro-prudential instruments; (ii) establish a core framework for the implementation of macro-prudential instruments, including indicators measuring systemic risk, in order to guide decisions related to the implementation, deactivation or calibration of macro-prudential instruments; and (iii) explain decision-making and inter-institutional and public communication processes at the Bank of Albania in relation to the macro-prudential policy.

The Bank of Albania is expected to finalise a consultation process in respect of a draft regulation aimed at improving data collection on real-estate lending and implementing certain ratios on real-estate lending standards as macroprudential instruments.

## Macroprudential Capital Buffers

In accordance with Regulation "On Macro-Prudential Capital Buffers" and decisions issued periodically by the Bank of Albania, banks operating in Albania were required to fulfil a capital conservation buffer equal to 1.0% until 1 January 2022 and 1.5% for the period 1 January 2022 to 31 December 2022. The capital conservation buffer in place for 2023 is 2.0%, which will rise to 2.5% for 2024. In addition to this capital conservation buffer, banks that are identified as being "systemically important" must fulfil a systemic importance buffer, which is proportional to its "systemic importance" score. There were five "systemically important" banks in 2022 and their required buffers were: National Commercial Bank: 1.0% for 2021 and 1.5% for 2022; Raiffeisen Bank: 1.0% for 2021 and 2022; Credins Bank: 1.0% for 2021 and 2022; Intesa SanPaolo Bank: 0.5% for 2021 and 2022; and OTP Albania Bank: 0.5% for 2021 and 2022. In 2023 and 2024, there are four "systemically important" banks and their required buffers are (or will be): National Commercial Bank: 1.5%; Raiffeisen Bank: 1.0%; Credins Bank: 1.0%; and OTP Albania Bank: 0.5%. The regulation also provides for the implementation of a countercyclical capital buffer, which is currently set at 0%.

## Deposit Insurance

In 2002, the Financial Services Volunteer Corps ("FSVC") played a pivotal role in implementing the law on Deposit Insurance by providing highly-skilled volunteer experts to launch the Albanian Deposit Insurance Agency ("ADIA"). ADIA reports to the Assembly, the Council of Ministers and the Bank of Albania. ADIA is a member of the International Association of Deposit Insurers and European Forum of Deposit Insurers. ADIA is authorised to insure and compensate deposits of individuals, entrepreneurs and companies in all banks and savings and credit associations ("SCAs") operating in Albania. Membership in the deposit insurance scheme is obligatory for all deposit collecting institutions licensed by the Bank of Albania.

ADIA's mandate is to collect annual deposit insurance premiums, manage insurance funds and reimburse insured deposits. The quarterly insurance premium for banking institutions is calculated as 0.125% of the arithmetic average balance of the insured deposits registered in the bank on the last day of each month in the previous quarter and, for SCAs, the quarterly insurance premium is 0.075%, calculated on the same basis.

Albania's deposit insurance system provides coverage for deposits of individuals, entrepreneurs and companies, up to ALL 2.5 million for bank depositors covering 33.4% of total banking system deposits and 95.4% of bank's depositors. The deposit insurance system also provides coverage of ALL 2 million for depositors in SCAs, covering 36.3% of total SCA deposits and 95.5% of SCA depositors as at 31 December 2022.

In 2020, with the technical assistance of the World Bank, AIDA prepared a study on the key financial indicators of the deposit insurance scheme, the conclusions of which were intended to provide a basis for future improvements to the scheme.

In June 2021, a second deposit insurance agency agreement was entered into pursuant to which the EBRD provided a stand-by credit line to ADIA in the amount of up to €100 million, available for two years and fully-guaranteed by the Government.

### **Anti-Money Laundering, Terrorism Financing, Organised Crime and Anti-Corruption Regulations**

Albania's legal regime for the prevention of money laundering and terrorism financing comprises two main pieces of legislation. In 2008, Law № 9917 of 19 May 2008 "On the prevention of money laundering and fight against terrorism financing" (the "AML/CFT law") established a framework for the prevention of money laundering and the financing of terrorism. In 2013, Law № 157/2013 "On the measures against terrorism financing", which was enacted in line with the relevant resolutions of the UN Security Council and other international agreements to which Albania is a party, set forth measures allowing the freezing and seizing of funds and properties of activities and individuals who support the financing of terrorism. Albania's anti-money laundering and terrorist financing legislation has been amended on a number of occasions, most recently in 2021, in order to improve the effectiveness of prevention systems and to comply with updated international standards and EU anti-money laundering directives.

The Co-ordination Committee for the Fight Against Money Laundering (the "CCFML") is responsible for planning state AML/CFT policy. The CCFML is chaired by the Prime Minister and also includes, among others, the Minister of Interior, the Minister of Justice, the General Prosecutor, the Minister of Finance and Economy and the Governor of the Bank of Albania. Regulations for the functioning of the CCFML were passed in 2017, which, among other things, task the CCFML with approving national risk assessments ("NRAs") and any related action plans. In 2019, the membership of the CCFML was expanded to include the Head of the Special Prosecution Office, the Director of the National Bureau of Investigation, the General Director of the State Police and the Executive Director of the AFSA. A task force, including representatives of Government ministries and the policy has also been established to investigate and fight organised crime.

The General Directorate for the Prevention of Money Laundering (the "GDPML"), Albania's financial intelligence unit (and which is also known as the Financial Intelligence Unit), is responsible for the collection, analysis and dissemination of information to law enforcement agencies in relation to potential money laundering and terrorism financing activities. GDPML also acts as a supplementary supervisory authority for monitoring the compliance of reporting entities with their legal obligations under the AML/CFT law. Banks operating in Albania report to both the GDPML and the Bank of Albania for AML/CFT compliance matters.

MONEYVAL is a monitoring body of the Council of Europe tasked with assessing compliance with AML/CFT international standards (including Financial Action Task Force (the "FATF") recommendations, UN conventions and Council of Europe conventions) and the effectiveness of their implementation, as well as making recommendations to national authorities in respect of their AML/CFT systems. In December 2020, April 2021 and May 2022, MONEYVAL adopted follow-up reports for Albania. Albania remains in MONEYVAL's enhanced follow-up procedure, with the next report to be made on further progress to strengthen its implementation of AML/CFT measures expected in 2024. In its May 2022 follow-up report, MONEYVAL noted that, overall, Albania has made progress in addressing the deficiencies identified and has been upgraded in three areas of recommendations.

In February 2020, Albania was placed on FATF's list of "Jurisdictions under increased monitoring" (the "FATF List") and the Government committed to working with FATF and MONEYVAL to strengthen the effectiveness of its AML/CFT regime. Following FATF's progress review in 2021, FATF noted Albania's steps on improving its AML/CFT regime. In its publication regarding jurisdictions under increased monitoring published in February 2023, FATF noted that, since February 2020, "*Albania has taken steps towards improving its AML/CFT regime, including by demonstrating a meaningful increase in the number of money laundering cases indicted, particularly those stemming from foreign offences where the criminal proceeds were laundered in Albania. The FATF has made the initial determination that Albania has substantially completed its action plan and appreciates Albania's work to address its strategic deficiencies.*" FATF went on to note, however, that it had existing concerns regarding plans to establish a voluntary tax compliance programme, and that, accordingly, it had not yet decided to authorise an on-site visit to the country to verify the implementation of Albania's AML/CFT reforms.

In July 2020, a memorandum of cooperation was signed between the General Prosecutor Office, the Ministry of Interior and the Ministry of Finance and Economy to increase the effectiveness of investigations related to money laundering, terrorist financing, financial crimes, seizure and confiscation of criminal assets.

In September 2020, a new law on beneficial ownership registers entered into force, pursuant to which businesses and non-governmental organisations were required to register their beneficial ownership by 30 June 2021 or be liable to sanctions for non-compliance.

To streamline the supervisory process, several of the inspections by the GDPML are carried out in conjunction with the Bank of Albania and Financial Supervisory Authority. These inspections target entities such as banks, non-banking financial institutions, insurance companies, investment funds and pension funds. The GDPML carried out 240 inspections during 2021 and 2022, of which 154 were off-site inspections and the remaining 86 were on-site. The inspections targeted eight banks, 41 bureau de change, nine savings and loans associations, 14 non-bank financial institutions, 35 construction companies, 34 lawyers and 60 notaries.

The recommendations of MONEYVAL are implemented at a national level. In accordance with these recommendations, the Bank of Albania has finalised the preparation of the following regulations:

- the prevention of money laundering and terrorism financing;
- consolidated supervision;
- the supervision of electronic banking transactions;
- the granting of licenses and the exercise of banking activity of foreign banks operating in Albania;
- the licensing and exercising the activity of non-banking financial institutions;
- the licensing and activity of savings and credit associations and their unions; and
- the licensing, organisation, activity and supervision of foreign exchange bureaus.

The following table sets forth data on the number of suspicious activity reports (“SARs”) submitted to the GDPML for the periods indicated.

<b>Suspicious Activity Reports</b>					
<b>For the year ended 31 December</b>					
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
SARs .....	1,525	1,424	1,409	1,581	1,790

The following table sets forth data on the number of GDPML cases referred to the law enforcement for the periods indicated.

<b>GDPML Cases Referred to Law Enforcement</b>					
<b>For the year ended 31 December</b>					
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Cases referred to State Police (only).....	343	241	227	208	201
Cases referred to Prosecutor.....	33	25	41	50	23
<b>Total</b> .....	<b>376</b>	<b>266</b>	<b>268</b>	<b>258</b>	<b>224</b>

SARs are submitted to GDPML by the reporting entities. In 2022, the number of SARs submitted to the GDPML increased to 1,790 from 1,581 SARs in 2021 reflecting an increase of 17.3%. A portion of those cases were accompanied by temporary freezing orders (for a period of 72 hours) in order to prevent the alienation of the proceeds suspected to be subject to the laundering process or those suspected to be used in the financing of terrorism.

The following table sets forth data on the number of freezing orders and amounts frozen and seized for the periods indicated.

**Freezing Amounts Frozen by the GDPML and Amounts Seized by the Magistrates**

	<b>Number of Freezing Orders</b>	<b>Total Amounts Frozen by the GDPML</b>	<b>Total Amounts Seized by the Magistrates</b>
		(€)	
2018.....	24	5,428,270	4,536,595
2019.....	16	9,699,690	7,841,091
2020.....	7	1,172,291	1,172,886
2021.....	3	250,240	200,000
2022.....	3	2,426,882	2,426,881
<b>Total</b>	<b>53</b>	<b>18,977,373</b>	<b>16,177,453</b>

*Source: Ministry of Finance and Economy*

The following table sets forth data regarding the number of persons convicted of money laundering offences for the years indicated.

	<b>Convictions for Money Laundering Offences</b>	
	<b>Judgments at Courts of First Instance</b>	<b>Judgments at Appellate Courts</b>
2018.....	10	10
2019.....	3	8
2020.....	5	7
2021.....	14	1
2022.....	9	9

*Source: Ministry of Finance and Economy*

In recent years, through enacting domestic legislation and partnering with international organisations and the EU, Albania has achieved a number of milestones in combating money laundering and terrorist financing, including, most recently: (i) in June 2019, the adoption of amendments to Law № 9917 of 19 May 2008, aimed at strengthening legislation on the prevention of money laundering and terrorist financing; (ii) in December 2021, the adoption of amendments to Law №. 9917 of 19 May 2008 aimed at full alignment with (EU) Directive № 2015/849 “On the prevention of the use of the financial system for the purpose of money laundering and terrorism financing”, as amended; (iii) multiple evaluations and follow-ups by the MONEYVAL Committee, as well as monitoring by the International Co-operation Group (part of FATF); (iv) in February 2021, the opening of the register of beneficial owners (as at 31 October 2022, 38,165 legal persons (of a total 39,270) had registered beneficial ownership data); and (v) in 2021, establishing the national bank account register, which is administered by the General Directorate of Taxes.

In October 2012, the first National Risk Assessment (“NRA”) of Money Laundering and Financing of Terrorism was completed. In June 2015, the NRA was reviewed. The NRA findings suggested that the Government’s adaptation of international standards and best practices has helped to establish a more effective system to deter money laundering and terrorism financing, although some sectors require continued evaluation (including relating to efficiency of investigations and investigations of standalone money laundering). In June 2019, the third NRA of Money Laundering and Financing of Terrorism was completed and approved by the Committee for the Coordination of the fight against Money Laundering. In 2020, the GDPML continued to co-ordinate with other institutions to conduct risk analyses identified in the 2019 NRA and the FATF Action Plan in eight sectors. Based on this and the 2019 NRA, an action plan for the risks of NRA and risk analysis with concrete mitigation measures, was approved by the Anti-Money Laundering Co-ordination Committee. The process was co-ordinated by the GDPML and all measures were implemented between 2020 and 2022. Work has begun on a fourth NRA , which is expected to be completed in December 2023.

In addition to analysis of suspicious cases, supervision of reporting entities, exchange of information with partner financial intelligence units and law enforcement bodies, which comprises the GDPML’s core activities, GDPML also participates in a number of other important initiatives and projects relating to the fight against money laundering and corruption, including performing ongoing verification and checks for members of the judiciary and their family and participating in several task forces focusing on the fight against organised crime and narcotics.

In further support of its domestic anti-money laundering and anti-terrorist financing regime, Albania has signed and ratified a number of international conventions related to anti-terrorism financing and anti-money laundering, including: the Vienna Convention (ratified on 26 December 2000), the Palermo Convention (ratified on 7 November 2002); the Merida Convention Against Corruption (ratified on 25 May 2006); the European Council Convention “On the search, seizure and confiscation of proceeds of crime and terrorism financing” (the so-called “Warsaw Convention”) (ratified on 27 November 2006); and the European Council Convention “For the protection of terrorism” (ratified on 20 November 2006).

In April 2021, the MONEYVAL Committee approved the second enhanced follow-up report to the 2018 mutual evaluation report, positively re-rating Albania for its technical compliance with FATF recommendation 7 as partially compliant and noting that Albania has made some progress in addressing the technical compliance deficiencies identified in the 2018 mutual evaluation report. Following publication of this report, only seven out of the 40 FATF recommendations remain partially addressed, and no recommendations are rated as non-compliant.

In May 2022, the MONEYVAL Committee stated that Albania had improved measures to combat money laundering and terrorist financing, demonstrating good progress in compliance with the FATF standards. Albania’s ratings were upgraded from “partially compliant” to “largely compliant” in two areas related to transparency and beneficial ownership of legal persons (Recommendation 24) and regulation and supervision of financial institutions (Recommendation 26); and from “partially compliant” to “compliant” in the area of “mutual legal assistance regarding freezing of assets and confiscation” (Recommendation 38).

### **Albanian Financial Supervisory Authority**

The AFSA was established in October 2006 to regulate and supervise non-banking financial markets in Albania. The AFSA is an independent public institution, accountable to the Assembly.

The AFSA’s main functions are the regulation and supervision of:

- the insurance market and its activities, which includes all insurance, reinsurance and intermediary activities, as well as operations that stem from such activities;
- the securities market and its activities, which includes the activity of entities linked with securities investments and entities that operate in this market; and
- the private pension funds market and its activities, which includes all private pension fund activities provided by entities that operate in this market.

In 2014, changes to the law regulating AFSA were introduced to set out in law the independence of the AFSA in financial and governance matters.

### **Capital Markets Legislation**

Albania has enacted a body of capital markets legislation to encourage the orderly running of the capital markets in Albania. This legislation includes (i) Law № 62/2020, dated 14 May 2020, “On Capital Markets”, which is the general law regulating capital markets, including the manner and conditions for the offer, purchase and sale of financial instruments in Albania and establishing procedures for the regulation and supervision of the markets in financial instruments; (ii) Law № 56/2020 “On Collective Investment Undertakings”, which regulates the establishment and activities of collective investment undertakings, management companies and depositories, as well as the cross border activities of such entities; and (iii) Law № 10236 of 18 February 2010 “On takeover of companies with public offer”, which regulates takeovers of publicly-listed companies, primarily in line with EU regulations.

### **Capital Markets**

The capital markets in Albania are generally considered to be small and underdeveloped. In recent years, however, capital markets have shown higher growth than in previous years, due to an expansion of investment funds. The collective investment undertakings’ industry in Albania emerged in 2012 with the establishment of two publicly-offered investment funds, one operating in Lek and the other in Euros, administered by the same management company.



As at 31 December 2022, the market structure of collective investment undertakings (“CIUs”) consists of eleven operational publicly-offered investment funds and two alternative investment funds offered only to professional and qualified investors. Five management companies administer the operational CIUs. According to market data analysis, as at 31 December 2022, the total net asset value of the CIU’s market was ALL 46.1 billion, representing a decrease of ALL 35,838 million, or 43.8%, as compared to 31 December 2021, as a result of increased interest rates and their impact on the value of the market’s assets, which caused negative net redemptions. CIUs had 28,953 members during 2022, a decrease of 27.7% compared 2021.

The investment funds market is the second largest financial market in Albania, after the banking market. The assets of the publicly-offered investment funds operating in Lek, are invested mainly in Government securities issued in Lek. The assets of other publicly-offered investment funds denominated in Euros are mainly invested in debt instruments issued by the Government, the governments of other European countries, foreign corporations, units of investment funds and equities of large corporations traded in regulated markets in the United States, the EU, Switzerland and other countries. In 2022, AFSA approved the licensing of a sixth management company for collective investment undertakings.

The most active segments in the securities market are Government securities and corporate bonds issued through private placements. Government securities are traded OTC in the retail market, as well as on the Albanian Securities Exchange (the “ALSE”), which was licensed by AFSA in 2017 and became operational in February 2018. As at 31 December 2022, approximately €123 million in corporate bonds issued by private placement (issued primarily by banks) were outstanding. On 28 April 2023, AFSA approved a prospectus for the first public offering of corporate bonds to be listed on the ALSE. Three members (all of which are banks) trade currently on the exchange on behalf of their portfolios and clients. The trading volume between February 2018 and December 2022 was approximately €32 million.

In January 2019, the Albanian Securities Registry (“ALREG”) was licensed by the Board of AFSA to act as a registrar for non-Government securities. The settlement of Government securities is carried out by the Albanian Financial Instrument and Register (“AFISAR”), which is operated by Bank of Albania. In November 2019, ALREG was licensed by the Bank of Albania to act as a settlement system operator. Since December 2019, ALREG has also been approved by AFSA to provide clearing and settlement services for non-Government securities. On 1 March 2021, ALREG became a member, as an indirect participant, in the Bank of Albania’s Albanian Interbank Payment System for large-value payment, making ALREG’s post-trade infrastructure fully operational. As at 31 December 2022, there had been 31 private placement bond issues registered with ALREG in different currencies for an aggregate amount of €90.5 million.

As of 31 December 2022, there were 13 entities (banks and investment firms) providing investment services, of which ten banks provide custodian services, two banks provide underwriting services, and one bank provides portfolio administration services for individuals, as well as investment advice. In addition, as at 31 December 2022 there were two registrars in charge of clearing and settlement for securities operated within the Albanian securities market (of which one provides the function of settlement for Government Securities, and one provides the clearing and settlement function for non-Government securities and plays the role of a central securities depository).

### **Government Securities Retail Market**

The retail market for Government debt instruments (treasury bills and bonds) is an active securities market segment in Albania. The performance of the Government securities retail market can be followed on a daily basis on the Government Securities Retail Market (the “GSRM”) section of AFSA website. The GSRM platform provides daily updated information on the type and trading volume of transactions, type of government securities, yields, days until maturity of the securities and the performance of Government securities. All financial intermediaries (mainly banks) that have been licenced to provide investment services in relation to government securities and other financial instruments must disclose all the above-mentioned information on the GSRM platform. The platform also includes a historical database of such information.

The volume of secondary market Government securities in 2022 was dominated by transactions in short-term instruments (treasury bills), which represented 50.5% of total transactions in Government securities, while long-term instruments (primarily notes and treasury-bonds) represented 49.5%. In terms of the number of transactions, 80.0% of all transactions in the secondary market for Government securities were in treasury bills.

The following table sets forth certain statistical data relating to the Government Securities Retail Market for the periods indicated.

**Government Securities Retail Market**

	Value					Change			
	2018	2019	2020	2021	2022	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022
	<i>(ALL millions)</i>					<i>(%)</i>			
<b>Purchase in the primary market</b>	<b>25,640.09</b>	<b>17,410.52</b>	<b>17,838.77</b>	18,781.18	52,508.23	<b>(32.10)</b>	<b>2.46</b>	5.38	179.58
Individuals.....	24,833.70	14,752.21	15,847.68	15,678.39	49,573.62	(40.60)	7.43	(1.07)	216.19
Legal Persons.....	806.39	2,658.31	1,991.09	3,102.79	3,104.61	229.66	(25.10)	55.83	0.06
<b>Selling from financial intermediaries portfolio</b>	<b>5,169.33</b>	<b>5,627.06</b>	<b>2,877.65</b>	2,483.91	6,152.19	<b>8.85</b>	<b>(48.86)</b>	(13.68)	147.68
Individuals.....	3,983.53	3,006.20	2,333.10	1,885.37	4,491.87	(24.53)	(22.39)	(19.19)	138.25
Legal Persons.....	1,185.80	2,620.86	544.55	598.54	1,660.32	121.02	(79.22)	9.91	177.39
<b>Purchase from individuals prior to maturity date</b>	<b>3,262.01</b>	<b>2,527.46</b>	<b>2,728.44</b>	2,734.54	3,132.01	<b>(22.52)</b>	<b>7.95</b>	0.22	14.54
Individuals.....	2,668.21	2,291.46	1,728.70	2,257.92	2,777.01	(14.12)	(24.56)	30.61	22.99
Legal Persons.....	593.80	236.00	999.74	476.62	355	(60.26)	323.62	(52.33)	(25.52)
<b>Pledging of Government securities as collateral</b>	<b>488.56</b>	<b>309.32</b>	<b>472.33</b>	525.35	996.85	<b>(36.69)</b>	<b>52.70</b>	11.22	89.75
Individuals.....	296.56	257.70	430.33	425.75	358.05	(13.10)	66.99	(1.07)	(15.90)
Legal Persons.....	192.00	51.62	42.00	99.60	638.80	(73.11)	(18.64)	137.14	541.37
<b>Payment of nominal value in maturity date</b>	<b>18,250.39</b>	<b>19,273.06</b>	<b>16,841.17</b>	12,588.70	14,694.69	<b>5.60</b>	<b>(12.62)</b>	(25.25)	16.73
Individuals.....	17,615.80	18,491.87	16,330.26	11,731.55	13,678.99	4.97	(11.69)	(28.16)	16.60
Legal Persons.....	634.59	781.19	510.91	857.15	1,015.70	23.10	(34.60)	67.77	18.50

*Source: AFSA*

### Pension Funds

The pension fund market in Albania is regulated by Law № 10197 of 10 December 2009 “On Voluntary Pension Funds”, which sets the necessary standards in terms of regulating and supervising voluntary pension funds in compliance with the European Directives, OECD and International Organisation of Pension Supervisors principles.

There were four voluntary private pension funds operating in the Albanian market, with total net assets as at 31 December 2022 of ALL 5.7 billion (€49.9 million). This market also experienced growth of 24.3% in 2022, as compared to 2021. The increase in pension fund assets in 2022 was due to increases in members, members’ contributions to pension funds and the investment activity of the pension funds.

There were 36,518 members participating in the four pension funds as of 31 December 2022, representing an increase of 8.78%, as compared to 31 December 2021.

Pension funds’ assets are invested in long-term treasury bonds and bank deposits.

A draft law on private pension funds, which aims to update the regulatory and legislative framework of the private pension market in Albania in line with EU directives, has been approved by the Council of Ministers and is awaiting approval by the Assembly.

### Insurance Market

The insurance industry in Albania is regulated by AFSA. As at 31 December 2022, twelve insurance companies were operating in Albania, comprising eight non-life insurers and four life insurers, as well as 18 licensed insurance brokerage firms, of which five banks licensed as insurance brokers. Six insurance brokerage firms and one bank are licensed to operate for non-life insurance, three insurance brokerage firms and four banks are licensed to operate for life and non-life insurance and four insurance brokerage firms are licensed to operate for life insurance, non-life insurance and reinsurance. There is one licensed non-life insurance agent firm and four banks licensed as insurance agents, of which three are non-life insurance agents and one operates as a life insurance agent. In 2022, total assets held by Albanian insurance companies amounted to ALL 43.6 billion, or 2.02% of nominal GDP. The investment portfolio of insurance companies accounted for 70% of total assets as at 31 December 2022. As at 31 December 2022, bank deposits accounted for 32% of the total investment portfolio, followed by land and buildings (14.7%), Government securities (11.9%) and investments in other companies (10.1%).

The gross written premiums of insurers in Albania were ALL 21 billion (€184 million) for 2022, representing a 9.2% increase, as compared to 2021. In 2022, the number of issued insurance contracts was over ALL 1.3 million, reflecting a 13% increase, as compared to 2021. The market continued to be dominated in 2022 by non-life insurance products, which accounted for 91.8% of the total volume of written premiums. The life insurance market share represented 8% of

total written premiums, while the reinsurance market share was 0.25%. Voluntary and compulsory insurance gross written premiums represented 67.8% and 32.3%, respectively, of total gross written premiums.

## PUBLIC FINANCE

### The Budget Process

Albania's current organic budget law, the "Law on the Management of the Budget System" №. 9936/2008, as amended (the "**Organic Budget Law**"), was approved on 26 June 2008. The Organic Budget Law sets out the core principles and organisational structures of the budgetary system and is supported by the Constitution and laws regarding local government, public procurement, internal audit, public financial inspection and financial management and control. Part 13 of the Constitution includes provisions relating to a budgetary system composed of the state budget and local budgets. Since 2005, Albania has used an integrated planning system ("**IPS**"), which aims to promote coherence, effectiveness and harmonisation on strategic planning, public finance and policy monitoring. The Organic Budget Law was amended in June 2016 to include a number of fiscal rules aimed at reducing public debt and improving budgetary discipline. These amendments improved the budget programming process, including the development of performance-based budgeting, budgetary rules relating to public investment and a mechanism intended to limit the growth of public debt, the so called "debt-brake". See "*—Fiscal Policies and Budget Performance*".

### Budgeting Process

The Government's fiscal year runs from 1 January to 31 December. The beginning of each budget year is preceded by a detailed IPS calendar with processes and respective deadlines, which is circulated by the Ministry of Finance and Economy. The IPS calendar is first approved by the Strategic Planning Committee, and later receives final approval from the Council of Ministers by September.

In January of each year, the Ministry of Finance and Economy prepares a five-year macro-economic and fiscal framework, which provides the basis for setting out the expenditure ceilings for each line ministry and budgetary institution (*i.e.*, entities whose activities are financed by the central government budget) based on its policies and past performance. Within these ceilings, the line ministries and budgetary institutions prepare their budget requests as part of the MTBP preparation process for the next three years.

In February 2018, the guidelines for the preparation of the MTBP (the "**Standard Guidelines**") were revised to bring them closer to current international best practice. Under the Standard Guidelines, the MTBP document is divided into two parts: (i) budget expenditures that finance existing policies and (ii) budget expenditures for new policy initiatives. The aim of this division is to preserve existing budgetary commitments and to finance new policies with any available fiscal space at a given point in time within the MTBP period. The Standard Guidelines also set out two phases for the MTBP preparation process: (i) the strategic phase (1 March - 30 April); and (ii) the technical Phase (10 July - 31 August). The aim of the strategic phase is to update the budget packages for the existing policies and new policy initiatives in accordance with the Government's policy priorities and the medium-term macro-economic and fiscal framework. The strategic phase aims to determine firm MTBP ceilings that are then utilised in the technical phase, in which budgetary institutions are primarily required to refine the details, expected output and related costs for the relevant budgetary items.

Budget requests are submitted to the Ministry of Finance and Economy by 1 May of each year for the strategic phase and by 1 September of each year for the technical phase. The Ministry of Finance and Economy then analyses the compliance of the budget requests with applicable Government ceilings and objectives and makes recommendations, which are included in a MTBP analysis report. This report is discussed with the ministries and then officially submitted to the ministries and central institutions.

The Ministry of Finance and Economy then prepares the final MTBP document and the annual budget law, which are initially submitted to the Strategic Planning Committee and Council of Ministers by 15 October of each year for review and approval, and then to the Assembly for final approval, by 1 November. In accordance with the Organic Budget Law, each annual budget must be approved by the end of November of the preceding fiscal year. If there is a delay and the budget is approved in December, the Ministry of Finance and Economy proceeds to allocate the minimum necessary expenses (such as salaries and other current expenditures) that would not exceed the respective actual amounts spent in the previous year.

After the approval of the annual budget law, the Minister of Finance and Economy updates the final MTBP document and makes it available to the budgetary institutions for budget management and monitoring purposes.

Following approval, the Ministry of Finance and Economy issues the budget implementation instruction in January. The budget implementation instruction establishes rules, procedures and deadlines for all budgetary institutions during the budget implementation process. The Ministry of Finance and Economy approves the initial breakdown of budgetary funds for each spending unit of the budgetary institutions and takes responsibility for ensuring that the breakdown of budgetary funds is reflected in the treasury system on time and in accordance with the budget implementation instruction.

### ***Budget Monitoring and Reporting***

During the budget year, each budgetary institution may submit requests (for example relating to new policies) to the Council of Ministers to reallocate funds among its own spending programmes, although the reallocation amount may not exceed 10% of the approved fund for that particular spending programme. According to the amended Organic Budget Law, at the end of each four-month period, all budgetary institutions are required to submit to the Ministry of Finance and Economy periodic monitoring reports regarding the status and progress of their budgetary performance in terms of policy and financial achievements.

The Ministry of Finance and Economy analyses the reports and makes recommendations for improvements to the respective budgetary institutions. The Ministry of Finance and Economy's first and second monitoring reports (for the periods January to April and May to August, respectively) provide feedback for the first and second phases of the MTBP. The Ministry of Finance and Economy's annual monitoring report serves as a basis for the new macro-economic and fiscal framework review.

According to the Organic Budget Law, by 31 May of each budget year, the Minister of Finance and Economy submits to the Council of Ministers an annual consolidated budget execution report for the year. In June of each year, the Council of Ministers approves and submits to the Assembly the consolidated annual budget implementation report.

This report includes:

- annual consolidated accounts for state financial transactions;
- a report on annual budget implementation against approved funds;
- a report on public debt and its composition;
- a report on the use of the reserve and contingency fund;
- information on the achievement of objectives, status of financial management and internal control and internal audit; and
- other financial statements required by the Board of Public Financial Internal Control.

The consolidated annual budget implementation report is audited by the State Audit Office each year and published by the Ministry of Finance and Economy in June of each year. The State Audit Office certifies the annual consolidated accounts for state financial transactions and presents to the Assembly a comprehensive report on the previous fiscal year's budget implementation. The annual consolidated budget implementation report is approved by the Assembly in October of each budget year, and is published in the Official Gazette.

In addition, in June of each year, the Minister of Finance and Economy submits a mid-year report to the Council of Ministers on the implementation of the consolidated budget for the ongoing year, which is published on the Ministry of Finance and Economy's website. This report includes:

- an overall assessment of Albania's economic condition and of its macro-economic, fiscal and budgetary indicators, for the period from January to May of that year;
- an assessment of estimated macro-economic, fiscal and budgetary indicators for the remaining period of the year (from June to December);
- measures to be undertaken by the Government to meet forecasts regarding macro-economic, fiscal and budgetary indicators; and

- the Minister of Finance and Economy’s proposals regarding any potential revisions to the budget.

Local government budget monitoring reports are also published on a periodic basis.

Amendments to the annual Budget Law may be made in the event of discrepancies or revised targets. Typically, the annual budget is revised at least once per year, as needed, to reflect actual results. The 2018 Budget Law was amended on one occasion, in August 2018. The aim of the revisions were to direct unused budget resources towards specified investment projects and end of year bonuses for pensioners and vulnerable groups. The 2019 Budget Law was revised on two occasions, in October and December 2019, with the aim of redirecting all unused budget resources towards the relief effort carried out by the Government following the November 2019 Earthquake. In response to the outbreak of COVID-19, the 2020 Budget Law was amended four times, on 21 March 2020, 15 April 2020, 2 July 2020 and 16 December 2020, with such amendments (including raising the net borrowing limit for 2020 from ALL 44.4 billion to ALL 72.8 billion) aimed at guaranteeing financial support for the Government’s COVID-19 social packages. It is estimated that the aggregate cost of the financial packages was ALL 42.6 billion. The 2021 Budget law was amended on six occasions: on 5 February 2021 (to reflect commitments and expenses arising from the implementation of the new Electoral Code and the parliamentary elections in April 2021); on each of 22 March 2021, 14 April 2021 and 22 June 2021, among other things, to reflect expenditures for the purchase of vaccines against COVID-19, in line with the national vaccination strategy; on 27 October 2021, to reflect amendments to net borrowing limits; and on 3 December 2021, to direct unused budget resources towards payment of arrears, to support the agriculture sector and to support families affected by the November 2019 Earthquake. The 2022 Budget law was amended on three occasions, in March, July and December 2022, to provide targeted support (0.6% of GDP) to vulnerable groups and public administration employees, comprised of temporary and permanent measures, to increase the minimum wage from ALL 30,000 to ALL 34,000 and to provide financial support aimed at mitigating the impact of inflation as a result of the war in Ukraine and global macroeconomic conditions.

The 2023 Budget law, which was approved by the Assembly in November 2022, has not been amended as at the date of this Offering Circular, in line with policy guidance set out in the 2023-2025 ERP to restrict budget revisions to the regular revision process set out in the Organic Budget Law in the absence of unforeseen significant events (see “—*Fiscal Policies and Budget Performance—Medium Term Priorities—Economic and Reform Program 2023-2025*”).

## Local Budgets

In 2017, Law № 68 of 27 April 2017 “On local self-government finances” (the “**Local Finance Law**”) was adopted. The Local Finance Law, together with its implementing secondary legislation, provides a framework for local budget management and to promote fiscal and local financial autonomy through the provision of more sources of funding for local governments, as well as improving predictability, stability and transparency. The Local Finance Law also strengthens local public finance rules and improves fiscal discipline in accordance with the principles of the European Charter on Local Self-Government and the Constitution. The Local Finance Law increases the funds available for local government in development sectors, such as agriculture, forestry and roads, presents opportunities for local governments, improving the delivery of services to citizens and the general business climate. The Local Finance Law outlines local government financial resources from local government income, shared taxes or central Government assistance. In order to increase the sustainability of unconditional transfers, it is stipulated in the Local Finance Law that such transfers will not be less than 1% of the GDP estimated in macro-economic forecasts adopted by the Council of Ministers. Guidelines and by-laws have been prepared, which aim to improve and unify the reporting formats for budget execution. The Ministry of Finance and Economy has also approved guidelines for the identification of financial problems, including identifying when a local government unit is insolvent. In 2022, the Ministry of Finance and Economy published its report “On financial situation of local units for the year 2021”, with updated reports to be prepared annually. In 2022, a new methodology for three pilot municipalities was implemented for the drafting of the medium-term budget programme, measures were taken to oversee the process of local budget implementation procedures for all expenditures from local revenues and for transfers from the central budget, and fiscal indicators on 2023 budget implementation will be monitored in order to implement more efficient and effective budget policies for local government budgetary funds.

The Organic Budget Law and the Local Finance Law together set out the rules and procedures with regard to the interaction of national and local budgets. Through the budget preparation instructions issued for general Government units twice annually in February and July, the Ministry of Finance and Economy provides local government units with estimates for respective unconditional transfers from the central budget. Upon receiving these instructions, local government units start preparing their budget proposals by reconciling unconditional transfer estimates with their own revenue estimates. Local governments then submit their budget proposals to their respective councils for approval.

In addition to unconditional transfers, local government units are entitled to obtain conditional funds from central Government units for shared functions in sectors, such as civil registrations (*i.e.*, of births, marriages and deaths), social

protection and civil protection, along with specific transfers for functions transferred by law after the administrative territorial reform of 2015. The Local Finance Law and Organic Budget Law also set out the principles and rules for each local government unit with regard to their right to obtain loans for financing investment projects.

The Law № 9869 of 4 February 2008 “On Local Borrowing” permits finance for local government investment programmes. It defines debt broadly to include any monetary obligation or liability created by a financing agreement, the issuance of securities or a guarantee to third parties. Each local government’s long-term borrowing is subject to preliminary approval by the Minister of Finance and Economy in respect of its procedures, limits and effects. The Chairman of the local government units submits a copy of the budget implementation and monitoring reports to the respective Local Government Council.

Put in place in 2002, the unconditional transfer system is primarily a formula-based distribution system. Local governments may utilise the unconditional transfers according to their own priorities, including current operating expenditures and capital investments. The pool of unconditional transfers is allocated to the various local governments according to a multiple-step process, which takes into account factors such as geography, population, economy and infrastructure in allocating the funds.

The Local Government Council is responsible for approving, by special decision, the annual budgetary revenues and appropriations for the local government units and their special funds. Through its approval, the Council gives local governments the right to undertake expenditures in exercising their functions, as well as to borrow for investment projects.

### **Fiscal Policies and Budget Performance**

The soundness of public finances is a key pillar of the Government’s continuing economic reform programme, which aims to safeguard macro-economic stability and sustainability by strengthening the overall fiscal framework, creating mechanisms to ensure that forecasting is realistic and streamlining the MTBP preparation process. See “—*The Budget Process*”.

### ***EU Integration***

Albania has adopted EU principles for good public finance management and fiscal prudence as expressed in the EU 2011 directive on budgeting. Albania’s Public Finance Management Reform (“**PFMR**”) aims to comply with this directive currently such that its provisions will be met upon Albania’s accession to the EU.

### ***Medium Term Priorities***

Albania’s Public Financial Management Strategy 2019-2022 (the “**PFM Strategy**”), was approved on 18 December 2019. The PFM Strategy was adopted following the 2018 mid-term review of the previous Public Financial Management Strategy for the period 2014-2020, which was developed with assistance from the World Bank and the EU, to assist with the transition towards an instrument for pre-EU-accession assistance.

The PFM Strategy intended to address outputs and results agreed after the 2018 mid-term review and to serve as a framework and guideline for improvements during the period 2019-2022. The PFM Strategy aimed to achieve a better balanced and sustainable budget with a reduced debt ratio by implementing policies for stronger financial management and control and audit processes that link budget execution to Government policies. The PFM Strategy also aimed to promote: (i) transparency; (ii) accountability; (iii) fiscal discipline; and (iv) efficiency in the management and use of public resources for improved service delivery and economic development.

The Ministry of Finance and Economy undertook a thorough review the PFM Strategy and action plan with a focus on indicators, targets and their timeline during 2022, in order to address the negative impact of the November 2019 Earthquake and the COVID-19 pandemic. Preparations of a new PFM Strategy began in September 2022 and are expected to be finalised in 2023. The new PFM Strategy is expected to address incomplete reforms, as well as to incorporate certain green practices.

### ***The creation of PFM Strategy instruments***

PFM Strategy instruments that include legislative changes, building activities and the implementation of an integrated financial management system have resulted in:

- the implementation of fiscal rules, oversight and risk management which (prior to the triple shocks of the November 2019 Earthquake, COVID-19 pandemic and increased inflation and energy prices) resulted in the

debt-to-GDP ratio following a downward trajectory from 67.7% in 2018 to 65.8% in 2019, although levels have subsequently increased to 74.3% in 2020; 74.5% in 2021 and 64.6% in 2022, as a result of such shocks.

- improvements in forecasting capabilities and evidence-based policy making, including the introduction of legal provisions to address over-optimistic forecasting, as well as new debt, deficit and primary balance rules, as well as establishing a new sector for analysis and statistics to improve forecasting capabilities (with half the positions filled as at 31 December 2020 and four more vacancies filled during 2021).
- the creation of a procedural framework to ensure a better alignment of strategic plans with the MTBP – (i) in 2020, a review of implementation of the new guidelines was undertaken with technical assistance provided by the EU and the implementation of these guidelines will continue to be closely followed-up; the new MTBP module has been rolled out to all line ministries and the budget institutions; fourteen new sector guidelines have been approved and published; and a policy priority document was approved in March and July 2020 before including such policies in the MTBP; (ii) in 2021, the Ministry of Justice, Ministry of Agriculture and Rural Development and Ministry of Education, Sport and Youth prepared baseline forecasting, new policy initiatives, budget programme classification and key performance indicators; and (iii) in 2022, 128 programme management teams were provided with assistance in MTBP preparation.
- the strengthening of processes and institutional capacity for initiating, evaluating, prioritising and approving public investment projects – (i) in 2020, new developments included approval of the single project pipeline list and the passing of three Council of Ministers resolutions aimed at definitional rules and institutional arrangements for the evaluation of concessions/PPPs and the organisation and functioning of the Albania Investment Corporation; and (ii) an *ex ante* evaluation methodology for each project's appraisal was prepared in September 2021, with the support of PFM technical assistance and templates and guidelines for the application of the new methodology were prepared, and line ministries were trained in the new methodology during 2021.
- the revision of tax policies, increasing the capacity of the tax and customs administration to collect revenue, reform property tax and establish a fiscal cadastre to ensure consolidation of property data: (i) in 2020, further work was undertaken to further align the regulatory framework with EU acquis, and on the design of an automated risk-based procedure for the management of VAT refunds and additional training of staff on risk management; and (ii) the work to implement automatic VAT refunds was 95% completed during 2021.
- improved integrated policy development and strategic governance ensuring that the National Strategy for Development and Integration, sector strategies and MTBPs are aligned with each other: (i) in 2020, there was continued review of strategic documents to ensure conformity and integration of strategies with policy priorities and budget planning; (ii) in 2021, the Prime Minister's office reviewed and commented on 60% of strategic documents and provided comments on over 95% of monitoring reports of sectorial strategies; and (iii) in 2022, all national institutions assisted in the drafting of the NSDEI, which was approved by a decision of the Council of Ministers in February 2023.
- strengthened fiscal management in local government by implementing the Law on Local Finances: (i) in 2020 a monitoring tool was used to help evaluate implementation of the Law on Local Finances and new regulations were issued aimed at promoting effective revenue management for tax debt administration and tax payers services; and (ii) in 2021, an improved framework for budget planning linked to effectiveness and service delivery performance was introduced and the annual MTBP preparation instruction was reviewed and a new template MTBP document was approved and published.
- periodic monitoring of multi-year commitments and liabilities through the system to ensure prevention and settlement of arrears: (i) in July 2020, an arrears working group was established to monitor the arrears of central Government entities and improve co-ordination within the Ministry of Finance and Economy and prevent the accumulation of arrears, since January 2021, automatic monthly reports regarding arrears are generated and, since October 2020, all Government institutions are required to record their arrears in the centralised system; and (ii) in 2022, stock of expenditure (arrears as a percentage of total expenditure of the fiscal year) was 1.9%, achieving the target of below 3%. The main priority in the medium term remains clearing arrears and preventing arrears accumulation, through the setting of specific targets.
- increased the effectiveness of the public procurement system in line with international best practices that guarantee high transparency, accountability, control and value for money: (i) in December 2020 a new public



procurement law was adopted and measures to strengthen commitment and expenditure controls to prevent the accumulation of new arrears were taken during 2020 (see “*The Albanian Economy—Public Private Partnerships*”); and (ii) an electronic e-complaints management system for public procurement was established in 2021.

- the efficient management and control of external funds through the EAMIS system: (i) in 2020, external aid data for 2017 and 2018 were partially recorded; and (ii) external aid data for 2019 and 2020 were also partially recorded.
- accounting reform, including switching to accrual accounting, with certain targets to improve the regulatory framework partially achieved in 2020, with certain items delayed due to COVID-19 restrictions, while a gap analysis of national accounting standards was conducted in 2021.
- timely and more reliable production of Government statistics: (i) in 2020, INSTAT published its “Harmonised Revision Policies for Macroeconomic Statistics”, which aims to address users’ concerns regarding the coordination of statistical reviews and to improve adherence to alignment between national and EU level statistical domains; and (ii) in 2021, automated budget Government compilation systems and auxiliary systems were developed.
- publication of annual and yearly reports containing accessible information on financial and non-financial performance; accountability and transparency through financial and non-financial performance reporting improved during 2022, with 15 out of 39 monitoring reports submitted.
- improvement of regulations for public assets valuation and inventory —the Ministry of Finance and Economy is working with the World Bank to prepare an asset register methodology, which is expected to be approved during 2023.
- more structured and timely engagement with citizens, civil society organizations and academia in budget planning, monitoring and reporting – in 2019, 2020, 2021 and 2022 a citizen’s budget guide was published to encourage interest engagement in the budget process and training relating to the budget process was also provided in 2021.
- strengthening of the public internal financial control system: (i) in 2020, several documents were approved, including a policy paper on the further development of the public internal financial control system for 2021-2022, publication of instructions on the delegation of tasks and a methodology of internal control quality review; the Internal Audit Manual was also revised in January 2020 with the aim of improving the quality of internal audit reports; and (ii) several measures of the aforementioned policy paper were implemented, and technical assistance was provided to five selected units, as well as relevant staff training.
- strengthening of the external audit function by aligning it with international standards: (i) in 2020, the annual audit plan was prepared on the basis of a revised methodology and a review and amendment of the regulatory framework was conducted, including of the compliance, financial and performance audit manuals and the audit regulation, as well as the introduction of a new manual relating to the implementation of recommendations and the institutional register; and (ii) in 2021 the number of thematic audits that were conducted and are not included in the annual plan increased to seven..

The key remaining priorities over the medium-term include:

- prudent macroeconomic framework and fiscal policy with the objective of further decreasing the debt-to-GDP ratio over the medium term. In 2022, the debt to GDP ratio decreased to 64.6%, as compared to 74.5% in 2021;
- further alignment of Government planning documents, such as the National Strategy for Development and Integration, sectorial strategies, MTBP and improved annual budget;
- improved public investment management oversight;
- improved efficiency in collection of revenue resources leading to greater stability in financing the budget at the national and the local government levels;

- full integration of the financial management information system with other public financial management systems minimising manual operations and enabling greater accuracy in reporting across all financial operations of the Government;
- enhanced accountability and transparency through better financial and non-financial performance reporting in line with the international standards;
- strengthened financial discipline, control and transparency through improved internal audit and financial management control at central and local government levels; and
- enhanced capacity of the Albania Supreme Audit Institution, including financial and performance audits.

### *2023-2025 ERP*

In October 2021, the Strategic Planning Committee (which is headed by the Prime Minister and includes, among others, the Deputy Prime Minister and the Minister of Finance and Economy) discussed and approved the draft budget for 2022. The draft budget for 2022 was approved by the Council of Ministers on 22 October 2021 and by the Assembly on 26 November 2021. The draft budget for 2023 was approved by the Council of Ministers on 10 October 2022 and by the Assembly on 24 November 2022. See “—Recent Budgets—2023 Consolidated Budget”. The 2023-2025 ERP was formally published on 31 January 2023. See “*The Albanian Economy—Economic Policies and Priorities*”.

The 2023-2025 ERP prioritises fiscal consolidation as the primary fiscal policy objective aimed at ensuring macroeconomic stability. Pursuant to the 2023-2025 Framework, fiscal policy targets a gradual annual downward trajectory of public debt, fiscal consolidation and maintenance of a healthy ratio of current and capital budget expenditures (with capital expenditures targeted to be an annual average of 5.3% of GDP per year between 2023 and 2025 (5.7%, 5.1% and 5.2% respectively for 2023, 2024 and 2025)). The budget deficit is targeted at an average of approximately 2.3% of GDP per year (2.5% for 2023 and 2.2% for each of 2024 and 2025). The primary balance is targeted at an average of approximately 0.8% of GDP per year over the period 2023-2025, with the primary balance for 2023 expected to return to a positive level (in line with the fiscal rule set out in the Organic Budget Law) of approximately 0.3% of GDP, as compared to a deficit of 1.8% of GDP in 2022. The current fiscal balance is targeted at an average of 3.0% of GDP per year and is expected to be positive in 2023 at 3.1% of GDP (increasing from 1.6% of GDP in 2022).

The 2023-2025 ERP provides that any available fiscal space in the budget will be used to cushion the potential impact of adverse shocks through targeted support to vulnerable households and firms, however, a key priority in the medium term remains lowering general Government arrears below 2.5% of total expenditures and preventing their further accumulation. In recent years this objective has been achieved as the stock of arrears has followed a progressive downward trend, however, factors such as the effects of the war in Ukraine, the energy crisis and fluctuating energy, fuel and other commodity prices led to a slight increase in arrears in 2022, as compared to 2021.

An additional priority of the 2023-2025 ERP is to restrict budget revisions to the regular revision process set out in the Organic Budget Law.

### **Recent Budgets**

#### ***2023 Consolidated Budget***

The budget for 2023 was approved by the Council of Ministers on 10 November 2022. On 10 November 2022, the Assembly approved the draft budget and fiscal package for 2023, with a projected overall budget deficit-to-GDP ratio of 2.5%.

Key elements of the 2023 budget and fiscal package include:

- budget expenditures for the period 2023-2025 of an average of 5.2% of GDP are aimed at supporting public investments of strategic importance, in particular, digitisation and cybersecurity, as well as the finalisation of national road projects and to provide support to national security and the water, health, education, agriculture and rural sectors;
- improving the administration of revenues;

- aligning tax legislation with EU legislation;
- continuing support for families to ease the burden of high inflation, including through increasing wages and the indexation of pensions; and
- continuing support for energy sector management companies and keeping electricity prices unchanged for family consumers and small businesses.

The 2023 budget aims to provide continued support for Albania's economic growth following the negative effects of the November 2019 Earthquake and the COVID-19 pandemic, as well as the impact of inflation. Budget revenues, as a percentage of GDP, are expected to remain constant in real terms in the period 2023-2025 at 28.4% of GDP, increasing from an average of 27.1% of GDP during the period 2019-2022. This expected increase is a result of the implementation of the objectives of the Medium-Term Debt Management Strategy 2022-2026, which aims to improve tax policies to strengthen tax collection and improve monitoring systems.

The following table sets out the budget for 2023, as compared to the actual results for 2022.

	<b>2023 Budget</b>	
	<b>2022</b>	<b>2023</b>
	<i>(ALL millions)</i>	
<b>Revenues and Grants</b> .....	572,790	642,619
Tax Revenue.....	541,342	588,453
Grants.....	9,510	30,558
Non-tax Revenue.....	21,938	23,608
<b>Expenditures</b> .....	651,015	698,117
Personnel Expenditures .....	84,696	96,978
Interest.....	39,624	60,943
Operational and Maintenance.....	68,505	65,203
Subsidies .....	1,650	1,600
Social Insurance Outlays.....	216,515	226,351
Local Budget Expenditure.....	58,694	65,584
Other Expenditures.....	30,306	30,050
Reserve Fund/Contingency .....	—	15,500
Capital Expenditures .....	112,119	123,908
Arrears.....	—	—
Other Transfers (Net Lending) .....	27,907	12,000
Expropriation Fund.....	11,000	—
<b>Cash Balance</b> .....	(78,226)	(55,498)

*Source: Ministry of Finance and Economy*

**Notes:**

- (1) No assurance can be given that the actual financial performance and condition will match the forecasts in the budget.
- (2) For 2023, the Ministry of Finance and Economy's budgeted GDP figure of ALL 2,176,100 million has been used.

**Revenues**

Total revenues and grants for 2023 are budgeted to be ALL 642.6 billion, as compared to ALL 572.8 billion in 2022, representing an annual increase of 12.1%, primarily due to budgeted increases in all revenue line items. Tax revenues are budgeted to increase by 8.7% to ALL 588.5 billion for 2023, as compared to ALL 541.3 billion in 2022. This budgeted increase is primarily due to: (i) an expected improvement in conditions for economic growth; and (ii) the implementation of the Medium-Term Debt Management Strategy 2022-2026. Total grants for 2023 are budgeted to be ALL 30.6 billion, as compared to ALL 9.5 billion in 2022, representing an annual increase of 221%. This increase is primarily due to expected grants from the European Union and Saudi Arabia for social protection and economic development purposes, respectively.

Non-tax revenues comprising mainly profit transfers from the Bank of Albania, the income of budgetary institutions, dividends, service fees and others are budgeted to be ALL 23.6 billion in 2023, as compared to ALL 21.9 billion in 2022, representing an annual increase of 7.7%.

## Expenditures

Government expenditures are budgeted to increase by 7.1% to ALL 698.1 billion in 2023, as compared to ALL 651.0 billion in 2022. This increase is primarily due to an increase in public investments and interest expenditures, in line with the aim of the 2023 budget to support strategically important public investments.

## 2023 Interim Results

The following table sets forth Albania's actual fiscal results for the periods indicated.

	Interim Fiscal Results	
	For the three months ended 31 March 2022	For the three months ended 31 March 2023
	<i>(ALL millions)</i>	
<b>Revenues and Grants</b> .....	139,394	156,107
Tax Revenues .....	132,518	143,527
From tax and customs offices .....	95,732	104,674
From local government .....	7,753	5,070
From social contributions .....	29,033	33,783
Grants .....	1,782	7,309
Non-tax Revenues .....	5,094	5,271
<b>Expenditures</b> .....	117,523	125,232
Personnel Expenditures .....	20,333	21,963
Interest .....	11,029	12,051
Operational and Maintenance .....	9,920	10,294
Subsidies .....	252	378
Social Insurance Outlays .....	45,532	48,598
Local Budget Expenditure .....	11,130	12,528
Other Expenditures .....	5,964	6,685
Reserve Fund/Contingency .....	—	—
Capital Expenditures .....	6,793	12,734
<b>Cash Balance</b> .....	21,871	30,876

Source: Ministry of Finance and Economy

## Revenues

Total revenues and grants increased by 12.0% to ALL 156 billion in the three months ended 31 March 2023 from ALL 139.4 billion in the corresponding period in 2022, primarily due to budgeted increases in almost all revenue line items. Grants increased by ALL 5.5 billion over the same period, primarily due to increased budgetary support and expected grants for specified projects during the year. The increase in tax revenues in the three months ended 31 March 2023, as compared to the corresponding period in 2022, was primarily due to: (i) a 9.3% budgeted increase in tax revenues from the tax and customs offices; and (ii) a 16.4% budgeted increase in taxes from social insurance contributions. The increase in non-tax revenues in the three months ended 31 March 2023, as compared to the corresponding period in 2022, was primarily due to a 24.5% increase in revenue from services tariffs.

## Expenditures

Total expenditures increased by 6.6% to ALL 125.2 billion in the three months ended 31 March 2023 from ALL 117.5 billion in the corresponding period in 2022. This increase was primarily due to: (i) a 87.5% increase in capital expenditures, as a result of a budgeted increase in domestic financing; and (ii) a 6.7% increase in social insurance outlays.

Budget execution in the three months ended 31 March 2023 resulted in an overall surplus of ALL 30.9 billion, as compared to a surplus of ALL 21.9 billion in the corresponding period in 2022.

## Public Accounts

The following table sets forth an overview of the revenues, expenditures and overall balance of the budget sector public accounts for the years indicated.

<b>Overview of Government Fiscal Operations Budget Sector<sup>(1)</sup></b>					
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(ALL millions)</i>				
<b>TOTAL REVENUE</b> .....	<b>449,909</b>	<b>460,349</b>	<b>425,905</b>	<b>510,951</b>	<b>572,790</b>
<b>Grants</b> .....	<b>8,164</b>	<b>10,609</b>	<b>8,294</b>	<b>13,050</b>	<b>9,510</b>
<b>Tax Revenue</b> .....	<b>419,333</b>	<b>426,271</b>	<b>398,658</b>	<b>475,541</b>	<b>541,342</b>
From tax office and customs .....	304,318	304,758	278,984	338,074	390,893
V.A.T .....	143,464	132,412	130,354	161,536	191,412
Profit tax .....	34,461	36,575	28,381	35,610	47,683
Excise tax .....	44,987	46,742	44,521	51,637	53,547
Personal income tax.....	36,517	46,124	33,658	39,312	44,983
National taxes and others.....	38,673	36,423	35,829	42,521	44,821
Custom duties.....	6,217	6,482	6,241	7,457	8,447
Revenues from local government.....	21,863	23,102	21,975	26,666	27,638
Property tax (buildings).....	5,192	5,208	5,124	6,116	6,138
Small business tax .....	316	355	384	385	72
Local taxes .....	16,354	17,539	16,468	20,166	21,428
Social insurance contributions.....	93,153	98,411	97,699	110,872	122,811
Social insurance .....	79,421	84,267	83,515	94,900	105,640
Health insurance .....	12,430	13,129	13,023	14,541	16,266
Revenue for owners compensation .....	1,303	1,015	1,161	1,431	905
<b>Non-tax revenue</b> .....	<b>22,412</b>	<b>25,267</b>	<b>18,953</b>	<b>22,289</b>	<b>21,938</b>
Profit transferred from Bank of Albania.....	900	576	1,398	1,486	0.0
Budgetary institutions revenue .....	13,934	16,624	11,885	12,960	12,311
Dividends .....	38	267	265	15	64
Revenue from services tariffs.....	2,214	2,194	1,586	2,863	2,771
Other revenue.....	5,326	5,607	3,818	4,964	6,793
<b>TOTAL EXPENDITURE</b> .....	<b>476,147</b>	<b>491,897</b>	<b>536,279</b>	<b>596,279</b>	<b>651,015</b>
<b>Current expenditures</b> .....	<b>397,345</b>	<b>416,852</b>	<b>421,366</b>	<b>461,065</b>	<b>499,989</b>
Personnel expenditures.....	73,582	76,962	76,895	83,268	84,696
Wages.....	62,174	65,636	65,800	71,179	72,103
Social insurance contributions .....	10,304	10,579	10,563	11,403	11,784
Interest.....	36,513	35,143	34,393	35,822	39,624
Domestic.....	23,158	22,838	22,351	23,470	24,210
Foreign.....	13,355	12,305	12,042	12,352	15,414
Operational & maintenance.....	45,498	47,215	48,906	59,363	68,505
Subsidies .....	1,883	1,421	1,478	1,422	1,650
Social insurance outlays .....	168,249	175,628	179,364	199,457	216,515
Social insurance .....	125,364	131,238	134,151	148,030	163,037
Health insurance .....	40,154	42,118	43,289	49,130	52,244
Compensation in value to owners.....	2,731	2,272	1,924	2,297	1,234
Local budget.....	49,615	56,227	51,626	52,585	58,694
Other expenditures.....	22,004	24,257	28,703	29,149	30,306
Unemployment insurance benefits.....	336	505	888	952	746
Social assistance .....	20,671	20,189	23,996	23,981	25,464
Compensation for the politically persecuted .....	997	1,199	1,000	913	996
Birth (new-born) bonus .....	—	2,364	2,820	3,303	3,100
Reserve fund / contingency .....	—	—	<b>12,052<sup>(2)</sup></b>	<b>461</b>	—
<b>Capital expenditures</b> .....	<b>78,434</b>	<b>74,993</b>	<b>101,672</b>	<b>128,044</b>	<b>112,119</b>
Domestic financing.....	51,552	50,641	59,547	72,116	63,675
Foreign financing .....	26,210	23,462	24,494	25,699	18,676
From higher education system's own revenues.....	672	890	1,040	708	892
<b>Arrears</b> .....	—	—	—	—	—
Infrastructure obligations.....	—	—	—	—	—
Tax liabilities.....	—	—	—	—	—
Others .....	—	—	—	—	—
<b>Other Transfers (Net Lending)</b> .....	<b>368</b>	<b>53</b>	<b>988</b>	<b>3,709</b>	<b>27,907</b>
<b>Expropriation fund<sup>(2)</sup></b> .....	—	—	<b>200</b>	<b>3,000</b>	<b>11,000</b>

**Overview of Government Fiscal Operations Budget Sector, cntd.**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(ALL millions)</i>				
<b>OVERALL DEFICIT</b> .....	<b>(26,238)</b>	<b>(31,549)</b>	<b>(110,374)</b>	<b>(85,328)</b>	<b>(78,226)</b>
<b>Deficit Financing</b> .....	<b>26,238</b>	<b>31,549</b>	<b>110,374</b>	<b>85,328</b>	<b>78,226</b>
Domestic .....	(6,866)	40,932	49,426	(18,701)	87,765
Privatisation receipts .....	104	242	228		191
Domestic borrowing .....	19,591	17,846	48,380	48,705	26,156
Other .....	26,561	22,844	818	(67,712)	61,417
<b>Foreign</b> .....	<b>33,104</b>	<b>(9,383)</b>	<b>60,948</b>	<b>104,029</b>	<b>(9,539)</b>
Long-term loan (drawings) .....	83,761	20,493	97,467	93,491	11,140
Change of stat account .....	106	(1,729)	1,386	1,161	589
Repayments .....	(51,678)	(29,791)	(61,698)	(33,164)	(38,386)
Budgetary support .....	916	1,643	23,793	42,541	17,117

*Source: Ministry of Finance and Economy*

**Notes:**

- (1) Certain figures in this table have been revised and differ from previously published figures.
- (2) Anti-COVID 19 social package expenditures.

The following table sets forth an overview of the revenues, expenditure and overall balance of the budget sector public accounts, as percentages of GDP, for the years indicated.

<b>Overview of Government Fiscal Operations Budget Sector in Percentage Terms</b>					
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	( <i>% of GDP</i> )				
<b>TOTAL REVENUE</b> .....	<b>27.5</b>	<b>27.2</b>	<b>25.6</b>	<b>27.5</b>	<b>26.8</b>
<b>Grants</b> .....	<b>0.5</b>	<b>0.6</b>	<b>0.5</b>	<b>0.7</b>	<b>0.4</b>
<b>Tax Revenue</b> .....	<b>25.6</b>	<b>25.2</b>	<b>24.2</b>	<b>25.6</b>	<b>25.4</b>
From tax office and customs .....	18.6	18.0	16.9	18.2	18.3
V.A.T .....	8.8	7.8	7.9	8.7	9.0
Profit tax .....	2.1	2.2	1.7	1.9	2.2
Excise tax .....	2.7	2.8	2.7	2.8	2.5
Personal income tax .....	2.2	2.7	2.0	2.1	2.1
National taxes and others .....	2.4	2.2	2.2	2.3	2.1
Custom duties .....	0.4	0.4	0.4	0.4	0.4
Revenues from local government .....	<b>1.3</b>	<b>1.4</b>	<b>1.3</b>	<b>1.4</b>	<b>1.3</b>
Property tax (buildings) .....	0.3	0.3	0.3	0.3	0.3
Small business tax .....	0.0	0.0	0.0	0.0	0.0
Local taxes .....	1.0	1.0	1.0	1.1	1.0
Social insurance contributions .....	5.7	5.8	5.9	6.0	5.8
Social insurance .....	4.9	5.0	5.1	5.1	4.9
Health insurance .....	0.8	0.8	0.8	0.8	0.8
Revenue for owners compensation .....	0.1	0.1	0.1	0.1	0.0
<b>Non-tax revenue</b> .....	<b>1.4</b>	<b>1.4</b>	<b>1.2</b>	<b>1.2</b>	<b>1.0</b>
Profit transferred from Bank of Albania .....	0.1	0.0	0.1	0.1	0.0
Budgetary institutions revenue .....	0.9	0.9	0.7	0.7	0.6
Dividends .....	0.0	0.0	0.0	0.0	0.0
Revenue from services tariffs .....	0.1	0.1	0.1	0.2	0.1
Other revenue .....	0.3	0.3	0.2	0.3	0.3
<b>TOTAL EXPENDITURE</b> .....	<b>29.1</b>	<b>29.1</b>	<b>32.6</b>	<b>32.1</b>	<b>30.5</b>
<b>Current expenditures</b> .....	<b>24.3</b>	<b>24.6</b>	<b>25.6</b>	<b>24.8</b>	<b>23.4</b>
Personnel expenditures .....	<b>4.5</b>	<b>4.5</b>	<b>4.7</b>	<b>4.5</b>	<b>4.0</b>
Wages .....	3.8	3.9	4.0	3.8	3.4
Social insurance contributions .....	0.6	0.6	0.6	0.6	0.6
Interest .....	<b>2.2</b>	<b>2.1</b>	<b>2.1</b>	<b>1.9</b>	<b>1.9</b>
Domestic .....	1.4	1.3	1.4	1.3	1.1
Foreign .....	0.8	0.7	0.7	0.7	0.7
Operational & maintenance .....	2.8	2.8	3.0	3.2	3.2
Subsidies .....	0.1	0.1	0.1	0.1	0.1
Social insurance outlays .....	10.3	10.4	10.9	10.7	10.1
Social insurance .....	7.7	7.8	8.1	8.0	7.6
Health insurance .....	2.5	2.5	2.6	2.6	2.4
Compensation in value to owners .....	0.2	0.1	0.1	0.1	0.1
Local budget .....	3.0	3.3	3.1	2.8	2.7
Other expenditures .....	1.3	1.4	1.7	1.6	1.4
Unemployment insurance benefits .....	0.0	0.0	0.1	0.1	0.0
Social assistance .....	1.3	1.2	1.5	1.3	1.2
Compensation for the politically persecuted .....	0.1	0.1	0.1	0.0	0.0
Birth (new-born) bonus .....	—	0.1	0.2	0.2	0.1
Reserve fund / contingency .....	<b>0.0</b>	<b>0.0</b>	<b>0.7</b>	<b>0.0</b>	<b>0.0</b>
<b>Capital expenditures</b> .....	<b>4.8</b>	<b>4.4</b>	<b>6.2</b>	<b>6.9</b>	<b>5.3</b>
Domestic financing .....	3.1	3.0	3.6	3.9	3.0
Foreign financing .....	1.6	1.4	1.5	1.4	0.9
From higher education system's own revenues .....	0.0	0.1	0.1	0.0	0.0
<b>Arrears</b> .....	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Infrastructure obligations .....	0.0	0.0	0.0	0.0	0.0
Tax liabilities .....	0.0	0.0	0.0	0.0	0.0
Others .....	0.0	0.0	0.0	0.0	0.0
<b>Other Transfers (Net Lending)</b> .....	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>1.3</b>
<b>Expropriation fund</b> .....	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>	<b>0.5</b>
<b>OVERALL DEFICIT</b> .....	<b>(1.6)</b>	<b>(1.9)</b>	<b>(6.7)</b>	<b>(4.6)</b>	<b>(3.7)</b>
<b>Deficit Financing</b> .....	<b>1.6</b>	<b>1.9</b>	<b>6.7</b>	<b>4.6</b>	<b>3.7</b>
Domestic .....	(0.4)	2.4	3.0	(1.0)	4.1
Privatisation receipts .....	0.0	0.0	0.0	0.0	0.0
Domestic borrowing .....	1.2	1.1	2.9	2.6	1.2
Other .....	(1.6)	1.4	0.0	(3.6)	2.9
<b>Foreign</b> .....	<b>2.0</b>	<b>(0.6)</b>	<b>3.7</b>	<b>5.6</b>	<b>(0.4)</b>
Long-term loan (drawings) .....	5.1	1.2	5.9	5.0	0.5
Change of stat account .....	0.0	(0.1)	0.1	0.1	0.0
Repayments .....	(3.2)	(1.8)	(3.7)	(1.8)	(1.8)
Budgetary support .....	0.1	0.1	1.4	2.3	0.8

*Source: Ministry of Finance and Economy*

**Note:**

(1) Certain figures in this table have been revised and differ from previously published figures.

## **Overview**

Total budget sector revenues grew between 2018 and 2019 before decreasing in 2020, primarily due to the impact of the November 2019 Earthquake and the COVID-19 pandemic on the Albanian economy, and then increasing in each of 2021 and 2022. Total budget sector tax revenues increased by 4.5% and 2.3% in 2018 and 2019, respectively, before decreasing by 7.5% in 2020, increasing by 19.3% in 2021, and by 13.8% in 2022.

Principal factors in the overall growth of revenues between 2018 and 2022 have included the growth of tax revenues, including from tax offices and customs and social insurance contributions.

Total current budget sector expenditures have grown over the past five years, from ALL 397.3 billion in 2018 to ALL 500.0 billion in 2022. Total current budget sector expenditures increased by 3.9% in 2018, 4.9% in 2019, 1.1% in 2020, 9.4% in 2021 and 8.4% in 2022. Principal factors in the overall growth of current expenditures since 2018 include the growth of local government expenditures and social insurance outlays.

The overall fiscal deficit was ALL 78.2 billion in 2022 (3.7% of GDP), as compared to ALL 85.3 billion in 2021 (4.6% of GDP), ALL 110.4 billion in 2020 (6.7% of GDP), ALL 31.5 billion in 2019 (1.9% of GDP) and ALL 26.2 billion in 2018 (1.6% of GDP).

### *2022 Revenues*

Total revenues and grants increased by 12.1% to ALL 572.8 billion in 2022 from ALL 511.0 billion in 2021, primarily due to a 13.8% increase in tax revenues which was, in turn, primarily due to: (i) a ALL 29.9 billion, or 18.5%, increase in VAT, which was, in turn, due to economic growth during 2022, as well as the effect of inflation and administrative improvements targeting a reduction in the informal economy; and (ii) a ALL 11.9 billion, or 10.8%, increase in social insurance contributions, due to an 11.3% increase in social insurance, which was, in turn, due to a decrease in the deviation between salaries actually received by employees and salaries declared by employees. This increase was partially offset by an ALL 0.4 billion, or 1.6%, decrease in non-tax revenue, which was primarily due to an ALL 1.5 billion, or 100.0%, decrease in profit transferred from the Bank of Albania.

### *2022 Expenditures*

Total expenditures increased by 9.2% to ALL 651.1 billion in 2022 from ALL 596.3 billion in 2021. This increase was primarily due to an 8.4% increase in current expenditures from ALL 461.1 billion in 2021 to ALL 500.0 billion in 2022, which was, in turn, primarily due to: (i) a ALL 17.0 billion, or 8.6%, increase in social insurance outlays due to an 10.1% increase in social insurance; (ii) an ALL 9.1 billion, or 15.4%, increase in operational and maintenance expenses; and (iii) an ALL 27.9 billion increase in other expenditures, of which ALL 20 billion comprised budget support for the energy sector, as compared to 2021 where there was no budget support for the energy sector. This increase was partially offset by an ALL 15.9 billion, or 12.4%, decrease in capital expenditures, which was primarily due to an ALL 8.4 billion, or 11.7%, decrease in domestic financing.

### *Subsidies*

Historically, certain sectors of the economy have benefited from subsidies from the Government.

The Government's subsidy policy consists of: (i) subsidies to support loss-making strategic sectors (such as railroads and water supply); and (ii) subsidies to incentivise priority sectors through the funding of new policies, such as employment schemes.



The following table sets forth the details of the actual subsidies for 2018 to 2022 and the budgeted subsidies for 2023.

	State Subsidies <sup>(1)</sup>					
	For the year ended 31 December					
	2018	2019	2020	2021	2022	2023 Budgeted
	<i>(ALL millions)</i>					
Water supply and sanitation.....	1,000	400	300	358	360	310
Railways .....	400	400	400	400	501	490
School books and student accommodation ..	0	0	0	0	0	0
Employment scheme <sup>(2)</sup> .....	490	490	390	393	452	550
Other.....	200	200	200	270	328	250
<b>Total.....</b>	<b>2,090</b>	<b>1,490</b>	<b>1,290</b>	<b>1,421</b>	<b>1,641</b>	<b>1,600</b>

*Source: Ministry of Finance and Economy*

**Notes:**

- (1) Support to the energy sector is generally provided through project-based financing and guarantees (including by international financial institutions) and, accordingly, subsidies are not granted to this sector.
- (2) Employment subsidies target specific categories of persons, including young women, jobseekers with disabilities *etc.*

In 2018, the Government adopted a national strategy for the integrated management of water resources for the period 2018 to 2027 and is estimated to cost around €1.7 billion. The new strategy aims at making Albania a water efficient country through the implementation of functional management of water resources, as well as broadening the focus of water subsidies, from strictly cost-based subsidies to performance-based subsidies and to encourage improved water sector performance. In line with this aim, the Government approved the increase of subsidies available in respect of water supply and sanitation in the 2017, 2018, 2020 and 2021 budgets. Water sector subsidies in 2022 were ALL 360 million and water sector subsidies for 2023 are budgeted at ALL 310 million.

After several rounds of consultations with stakeholders, a new national strategy on water supply and sanitation for the years 2020-2030 has been developed and is in final form, save for measures regarding water supply and sewerage reform which are currently being revised. The World Bank has published the draft strategy, which is expected to be signed in June 2023. The draft strategy focuses on, among other matters: (i) improving the accuracy and quality of data collected from providers; (ii) expanding and improving access to the water supply and sewage services; (iii) making water supply and sewage services more affordable; (iv) improving governance and regulation within the sector; and (v) enhancing the capacity of the workforce. The national strategy is expected to cost approximately €1.7 billion, with 45% of funding expected to come from tariffs, 25% through the collection of taxes and the remaining 30% by way of transfers. The process of reforming and reorganising 58 public water utility companies into 15 regional companies in accordance with the strategy, has already begun.

The budgeted ALL 350 million decrease in subsidies available for schoolbooks and student accommodation in 2018-2021, as compared to subsidies granted in 2017 relate to the reclassification of these funds as “current domestic transfers”, rather than subsidies, in accordance with a decision of the Council of Ministers adopted in February 2018.

Estimated subsidies in 2022 and subsidies budgeted for 2023 have remained level (ALL 1,641 million in 2022, as compared to ALL 1,600 million budgeted for 2023) and are primarily focused on: (i) reforms aimed at restructuring the railway sector; and (ii) incentivising priority sectors through the funding of new policies, such as employment schemes, which is an annual scheme financed by the budget.

**Budget Deficits**

The budget deficit in 2018 represented 1.6% of GDP, as compared to 1.9% in 2019, 6.7% in 2020, 4.6% in 2021 and 3.7% in 2022. The 2023 budget provides for a budget deficit of 2.5% of GDP with a public debt to GDP ratio of 64.2% however, each of these figures may be subject to further upward revisions during 2023.

In the 2014 budget, a strategy was introduced to pay down budgetary arrears. In 2014, ALL 34 billion in arrears were paid, which amounted to 97% of the planned allocated funds (from a planned fund of ALL 35 billion). The payment of arrears increased the deficit for 2014 by the amount paid for arrears. In 2015, ALL 17.6 billion in arrears were paid. Since 2015, no arrears payment has been budgeted for. Quarterly reports regarding the arrears of budgetary institutions are published on the Ministry of Finance and Economy’s website.

The following table sets forth an overview of the overall deficit and deficit financing for the periods indicated:

	<b>Overall Deficit and Deficit Financing</b>				
	<b>As at 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(ALL millions, unless otherwise stated)</i>				
<b>OVERALL DEFICIT</b> .....	<b>(26,238)</b>	<b>(31,549)</b>	<b>(110,374)</b>	<b>(85,328)</b>	<b>(78,226)</b>
<b>Overall Deficit in % of GDP</b> .....	<b>(1.6)</b>	<b>(1.9)</b>	<b>(6.7)</b>	<b>(4.6)</b>	<b>(3.7)</b>
<b>Deficit Financing</b> .....	<b>26,238</b>	<b>31,549</b>	<b>110,374</b>	<b>85,328</b>	<b>78,226</b>
Domestic .....	(6,866)	40,932	49,426	(18,701)	87,765
Privatisation Receipts .....	104	242	228	306	191
Domestic Borrowing .....	19,591	17,846	48,380	48,705	26,156
Other .....	(26,561)	22,844	818	(67,712)	61,417
Foreign .....	33,104	(9,383)	60,948	104,029	(9,539)
Long-term Loans (Drawings) .....	83,761	20,493	97,467	93,491	11,140
Chang. of Stat. Account .....	106	(1,729)	1,386	1,161	589
Repayments .....	(51,678)	(29,791)	(61,698)	(33,164)	(38,386)
Budgetary Support .....	916	1,643	23,793	42,541	17,117

*Source: Ministry of Finance and Economy*

### Primary Balance

The primary balance represents total revenues less primary expenditures (*i.e.*, total expenditures excluding debt service).

In 2018 and 2019, Albania recorded a primary surplus (as a percentage of GDP) of 0.6% and 0.2%, respectively, as a result of fiscal consolidation reforms introduced. Due to the negative shocks of the November 2019 Earthquake and the COVID-19 pandemic, in each of 2020, 2021 and 2022, Albania recorded a primary deficit (as a percentage of GDP) of 4.6%, 2.7% and 1.8%, respectively.

In June 2020, the Organic Budget Law was amended to introduce a new fiscal rule requiring a positive primary balance from 2023. In July 2021, the Organic Budget Law was further amended to defer the application of this fiscal rule and requiring a positive primary balance from 2024.

The table below shows the evolution of primary balance for the years indicated.

	<b>Primary Balance</b>				
	<b>For the year ended 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(ALL millions, except where indicated)</i>				
Total Revenues .....	449,909	460,349	425,905	510,951	572,790
Total Expenditures .....	476,147	491,897	536,279	596,279	651,015
Debt Service <sup>(1)</sup> .....	36,513	35,143	34,393	35,822	39,624
Primary Balance .....	10,276	3,594	(75,980)	(49,506)	(38,602)
Primary Balance/GDP (%) <sup>(2)(3)</sup>	0.6	0.2	(4.6)	(2.7)	(1.8)

*Source: Ministry of Finance and Economy*

#### Notes:

- (1) Including interest payments on both foreign currency debt and domestic currency debt.  
(2) See “*The Albanian Economy—Gross Domestic Product*”.  
(3) At current market prices.

### Descriptions of Principal Budgetary Components

#### Tax Revenue

Taxes are the principal source of revenues for the consolidated budget. The tax system in Albania consists of three main categories of taxes: (i) direct taxes on income; (ii) social and health contributions; and (iii) indirect taxes on consumption. Taxes on personal income are the most important direct taxes. Budget revenues in Albania rely heavily on

indirect taxation, namely VAT and excise duties, which accounted for 45.3% of total tax revenues in 2022 and 42.8% of total preliminary consolidated budget revenues. In 2022, taxes on personal income accounted for 8.3% of tax revenues and revenues from social insurance contributions accounted for 22.5% of total tax revenues. Other taxes levied in Albania are corporate income tax, small business tax (local), customs duties, property tax (local), taxes on vehicles, and other local and national taxes, such as environmental taxes.

With the exception of duties levied on imports (*e.g.*, customs duties, VAT on imported goods and excise duties), which are collected by the Customs Administration, central government taxes are collected by the Tax Administration.

## VAT

VAT was introduced in Albania in 1995. Since 1 January 2015, VAT has been regulated by Law №. 92/2014, dated 24 July 2014 “On Value Added Tax in the Republic of Albania”, as amended (the “**VAT Law**”). The VAT law targeted aligning Albania’s domestic law with current EU VAT rules. From January 2021, taxable persons must be VAT registered if they have an annual turnover of ALL 10 million or more per calendar year. Taxable persons may elect to be subject to VAT if they have annual turnover of more than ALL 5 million. With effect from 5 January 2022, the minimum VAT registration threshold for taxable persons who provide services, including notarial and state and private bailiff services, is zero regardless of their annual turnover. The standard VAT rate is 20% for both domestically produced and imported goods and services. For supplies of goods and services, the taxable value must include everything that constitutes the corresponding value that the supplier of the goods or service receives or will receive from the buyer, customer or a third party, in exchange for the supply, including subsidies directly related to the price of these supplies, excluding VAT. Exports, goods in a traveller’s personal luggage, international transport, supplies similar to exports, supply of gold to the Bank of Albania, intermediary service, actions related to customs and other similar regimes, supplies of goods to the sea and related services are zero-rated.

Certain exemptions to VAT apply, including medicines, the supply of medical services from private and public health institutions, the supply of private and public educational services, the supply of financial services, gold supplied to the Bank of Albania, postal services, the sale of buildings, services by non-profit organisations, services intended only for the research phase of hydrocarbons operations, the supply of goods by the contractors for each other or subcontractors, imported according to paragraph 39, of Article 56, of the VAT Law, gambling, the supply of newspaper printing services, the supply of newspapers and magazines of any kind, the supply of advertising services by the written media, the supply of agricultural machines, the supply of veterinary services, the supply of goods and services carried out by construction workers during natural disasters, the supply of new and unused vehicles with electric motors not previously registered for circulation in any other state, the import of yachts and other watercraft for tourism and entertainment purposes and goods intended for the realisation of projects financed with funds received on the basis of a donation or grant agreement concluded between the Council of Ministers or the Republic and a foreign donor (if in the agreement it is foreseen that the funds received will not be used to pay taxes).

Since June 2017, a reduced VAT rate of 6% has been applied for the supply of accommodation services, in support of tourist sector initiatives. This reduced VAT rate of 6% is also applied to businesses that develop specified activities, including agro-tourism, “Five star Hotel/Resort, special status” accommodation structures, advertising services by audio visual media, licensed electric public transport vehicles of passengers and the supply of books. With effect from January 2021, this reduced rate of 6% is also applied to the service supply of construction works for state investments of sports clubs and sports federations or for investments of private entities in sports infrastructure. From January 2022, a reduced rate of VAT of 10% is applied to the supply of agricultural inputs, which includes chemical fertilisers, pesticides, seeds and seedlings. Special VAT schemes also apply in certain cases, including small businesses, farmers, travel agencies, second hand-goods, works of art, collector’s items and antiques (profit margins and auction sales) investment gold and the Albania Power Exchange.

VAT reimbursements have increased annually since 2004. In 2022, 37.5% of gross collected domestic VAT and 10.5% of gross total VAT was refunded.

## Excise Duty

Excise duties are levied on products such as: energy products; alcohol and alcoholic beverages; tobacco and tobacco products and other products set out in the law. All excise duties are expressed in Lek per unit of product. Exemptions to excise duties apply on exports and approved customs or tax suspension regimes, as well as energy products used in mineralogical processes, dual-use energy products, fuel for fishing boats and fuel used by international aircraft for international trade and transport.

Excise duty is refundable on exports, approved suspension regimes, fuel used by producers of electricity resources of 5 MW or more for each energy resource and fuel used in the production of industrial and agro-industrial products in heated greenhouses until 31 December 2023.

From 1 January 2022, there will be an automatic indexation of specific excise tariffs every two years for all goods (with the exception of tobacco for which specific growth is forecasted for the next five years), at the official inflation rate announced by INSTAT or, for petroleum gases and other gas hydrocarbons, the unified excise rate (from 1 July 2022, an excise tax rate of ALL 6 per litre will be applied for both personal use and business purposes).

On 1 January 2023, the excise duty for a category of accumulators was removed and excise duty for beer and alcoholic beverages (Spirituos Beverages) was unified for each level of production, for beer (at ALL 710 per hectolitre) and for alcoholic beverages (at ALL 84,500 per hectolitre of anhydrous alcohol).

#### *Personal Income Tax*

Personal income tax applies to all income sources of individuals, including wages, salaries, bonuses and other remunerations, income from interest payments, dividends, capital gains, intellectual property rights, the sale of immovable property, rental income and other additional minor categories.

Individual residents pay personal income tax during the taxable period for all sources of income worldwide, while non-resident individuals pay personal income tax during the taxable period for sources of income generated within the territory of Albania.

Income from wages and salaries are taxed progressively. Individuals with an income of lower than ALL 40,000 per month, are exempted from the tax, individuals with an income between ALL 40,001 and ALL 50,000 are exempt from tax on income up to ALL 30,000 and taxed at a rate of 6.5% of the amount exceeding ALL 30,000; and individuals with a monthly employment income exceeding ALL 50,000 per month are exempt from tax on income up to ALL 30,000, taxed at a rate of 13% on income between ALL 30 000 and ALL 200,000 per month, plus 23% of amounts in excess of ALL 200,000.

With effect from 1 June 2023, income from wages and salaries will be taxed as follows: individuals with an income of lower than ALL 50,000 per month, will be exempted from the tax; individuals with an income between ALL 50,001 and ALL 60,000 will be exempt from tax on income up to ALL 35,000 and taxed at a rate of 13% of the amount exceeding ALL 35,000; individuals with a monthly employment income exceeding ALL 60,001 per month will be exempt from tax on income up to ALL 30,000, taxed at a rate of 13% on income between ALL 30 000 and 200,000; and ALL 200,001 per month, plus 23% of amounts in excess of ALL 200,000.

Other personal income such as interest, royalties, rental income, income from capital gains and income from the sale of immovable property, amongst others, are taxed at a rate of 15%. Since January 2019, dividends and other profit distributions are taxed at a rate of 8%.

#### *Corporate Income tax*

All sources of income for domestic and foreign companies engaging in economic activities in Albania are subject to corporate income tax.

Foreign companies based abroad but with activities in Albania are taxed only on the basis of their Albanian operations. Albanian companies are taxed on income from within and outside the territory of Albania.

Since 2020, for companies with a turnover up to ALL 14 million, corporate income is taxed at a rate of 0%. For companies with a turnover over ALL 14 million, the taxable rate increases to 15%.

Since January 2018, software development and production companies, companies in the automotive industry and agricultural cooperatives are subject to corporate income tax at a reduced rate of 5%. Since January 2019, agricultural co-operatives also benefit from this reduced rate of 5%. Certain accommodation and hotel companies in the tourism sector also benefit from a 10-year exemption from corporate income tax with the condition of obtaining the status as a "certified agro tourism provider", until 31 December 2021. Moreover, companies in the automotive industry benefit from the 5% reduced rate since January 2020.

Taxable income includes corporate earnings, distributed stock dividends, income from the lease and transfer of real property and interest on bank deposits and securities. There is a withholding tax of 15% on, among other things, royalties, interest, rent, technical services and financial services and of 8% on dividends and profit sharing. For non-Albanian residents, the withholding tax rate may be reduced by an applicable double tax treaty.

#### *Small Business Tax*

Tax on small businesses (called the “simplified profit tax for small businesses”) defined as those with an annual turnover of less than ALL 8 million. This tax is applied in the place of the standard corporate income tax at is currently set at 0% for small businesses with an annual turnover of up to ALL 8.0 million.

Simplified income tax forms part of local taxes, as it is declared and paid by small taxpayers in the central tax administration system, and is then transferred to local governments.

#### *Social Contributions*

Employers pay a rate of 15% on gross wages as a social contribution on behalf of employees. In addition, employees pay a rate of 9.5% on gross wages as a social contribution, resulting in a combined total social contribution of 24.5% of gross wages. Since January 2021 the tax base for social contributions is for employees who earn between ALL 40,000 and ALL 176,416 per month.

Self-employed persons pay social contributions at a rate equivalent to 23% of the monthly minimum gross wage of ALL 40,000.

#### *Health Insurance Contributions*

Employers pay a rate of 1.7% on gross wages as health insurance contributions on behalf of employees, which is matched by employees, resulting in a combined total health insurance contribution of 3.4% of gross wages.

Self-employed persons pay health insurance contributions of 3.4% of the twice monthly minimum gross wage of ALL 80,000.

#### *National taxes and tariffs*

National taxes include road circulation tax, carbon tax, annual used vehicle tax, port tax, royalty tax, stamp tax, tax on plastic materials and packaging, tax for fishing activities, tax on transactions of used motor vehicles, tax on insurance written premiums (excluding premiums for life, healthcare and travel insurance), tax on initial vehicle registration and an annual tax on luxury vehicles, tax on the right of use of state land in use.

#### ***Expenditures***

##### *Special Funds*

While Albania’s public finance system does not include extra-budgetary funds, the Organic Budget Law includes a concept of special funds, which are consolidated in the budget. A special fund has its own revenues and expenditures, but is not self-funding. Local government special funds are proposed to the Minister of Finance and Economy by the council of the relevant local government.

There are three such specific funds: the Social Insurance Fund, the Healthcare Fund and the Property Compensation Fund.

Since 2020, a reserve/contingency fund has been used to support COVID-19 measures in compliance with provisions of the Organic Budget Law relating to the use of the Council of Ministers reserve fund. In 2020, funds allocated from the reserve/contingency fund to cover the costs of anti-COVID-19 measures were ALL 14.1 billion. In 2021, funds allocated from the reserve/contingency fund to purchase vaccines against COVID-19 were ALL 3.4 billion.

#### **International Tax Agreements**

Albania has signed 45 double tax treaties with the following countries: Poland, Romania, Malaysia, Hungary, Turkey, the Czech Republic, Russia, Macedonia, Croatia, Italy, Bulgaria, Sweden, Norway, Greece, Malta, Switzerland, Moldova, Belgium, China, France, Egypt, the Netherlands, Kosovo, Serbia, Montenegro, Austria, Slovenia, Latvia,

South Korea, Bosnia-Herzegovina, Luxembourg, Ireland, Estonia, Germany, Kuwait, Spain, Singapore, Qatar, India, Great Britain and Northern Ireland, United Arab Emirates, Saudi Arabia, Iceland, Israel and Finland.

In accordance with EU and OECD recommendations, Albania has signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the “**Multilateral Instrument**”), which aims to implement tax treaty measures, update international tax rules and reduce the opportunity for tax avoidance by multinational enterprises. The Multilateral Instrument was ratified by the Assembly and entered into force in January 2021.

In August 2019, Albania became a member country of the Organisation for Economic and Cooperative Development’s Inclusive Framework on Base Erosion Profit Sharing.

## PUBLIC DEBT

Public debt is comprised of central Government debt and Government-guaranteed debt, both external and domestic, as well as local government domestic debt. It is the sum of (i) all financial liabilities created through borrowing by the central Government and local government (municipalities) and (ii) Government-guaranteed debt. External debt includes debt to external multilateral, external bilateral and external private creditors. Domestic debt includes debt owed to domestic creditors.

### Public Debt

The following table sets out Albania's public debt broken down into domestic debt and external debt, both in millions of Lek and as a percentage of GDP, as at the dates indicated.

	<b>Total General Government Debt<sup>(1)</sup></b>					<b>As at 31 March 2023<sup>(2)</sup></b>
	<b>As at 31 December</b>					
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	
	<i>(ALL millions)</i>					
<b>Central Government Debt<sup>(3)</sup></b>						
Securities .....	565,093	582,136	630,791	678,881	712,779	725,222
Loans <sup>(4)</sup> .....	15,218	15,154	13,297	23,375	19,875	19,284
<b>Total Domestic Debt</b> .....	<b>580,310</b>	<b>597,290</b>	<b>644,088</b>	<b>702,256</b>	<b>732,654</b>	<b>744,506</b>
Securities .....	92,565	91,328	142,255	217,368	205,614	203,778
Loans .....	433,693	423,427	437,695	463,001	440,154	428,510
<b>Total External Debt<sup>(5)</sup></b> .....	<b>526,258</b>	<b>514,754</b>	<b>579,950</b>	<b>680,369</b>	<b>645,768</b>	<b>632,288</b>
<b>Total Central Government Debt<sup>(3)</sup></b> .....	<b>1,106,569</b>	<b>1,112,044</b>	<b>1,224,038</b>	<b>1,382,625</b>	<b>1,378,421</b>	<b>1,376,793</b>
<b>Local Government Debt</b>						
Securities .....	—	—	—	—	—	—
Loans .....	716	582	432	315	202	175
<b>Total Local Government Debt</b> .....	<b>716</b>	<b>582</b>	<b>432</b>	<b>315</b>	<b>202</b>	<b>175</b>
<b>Total Public Debt</b> .....	<b>1,107,285</b>	<b>1,112,626</b>	<b>1,224,470</b>	<b>1,382,940</b>	<b>1,378,623</b>	<b>1,376,968</b>
GDP .....	1,636,731	1,691,903	1,647,431	1,856,172	2,134,464	2,176,100
	<i>(% of GDP)</i>					
<b>Public Debt</b> .....	<b>67.7</b>	<b>65.8</b>	<b>74.3</b>	<b>74.5</b>	<b>64.6</b>	<b>63.3</b>
<b>Central Government Debt</b> .....	<b>68</b>	<b>66</b>	<b>74</b>	<b>74</b>	<b>65</b>	<b>63</b>
Domestic Debt .....	35	35	39	38	34	34
External Debt .....	32	30	35	37	30	29
<b>Local Government Debt</b> .....	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

*Source: Ministry of Finance and Economy*

#### Notes:

- (1) Certain figures in this table have been revised and differ from previously published figures.
- (2) Preliminary data.
- (3) Includes central Government and central Governmental guaranteed debt.
- (4) Includes only domestic guarantees.
- (5) Representing external debt in Lek terms. See “–External Debt” for details of external debt presented in Euro terms.

As at 31 March 2023 (according to preliminary figures), Albania's total public debt was ALL 1,376,968 million, as compared to ALL 1,378,623 million as at 31 December 2022, representing a decrease of 0.1%. Albania's total domestic debt (excluding local government debt) as at 31 March 2023 was ALL 744,506 million, as compared to ALL 732,654 million as at 31 December 2022, representing an increase of 1.6%. This increase was due to the issuance of debt to finance budget requirements. Albania's total external debt (excluding local government debt) as at 31 March 2023 was ALL 632,288 million, as compared to ALL 645,768 million as at 31 December 2022, representing a decrease of 2.1%. When presented in Euro terms, Albania's external debt decreased to €5,585 million as at 31 March 2023, as compared to €5,653 million as at 31 December 2022. Albania's total public debt decreased to an estimated 63.3% of GDP as at 31 March 2023, as compared to 64.6% of GDP as at 31 December 2022. Albania's domestic debt decreased to an estimated 34.2% of GDP as at 31 March 2023 (as compared to 34.3% of GDP as at 31 December 2022) and Albania's external debt decreased to an estimated 29.1% of GDP as at 31 March 2023 (as compared to 30.3% of GDP as at 31 December 2022).

Public debt decreased to 64.6% of GDP as at 31 December 2022, from 74.5% as at 31 December 2021, after having increased from 74.3% as at 31 December 2020. The overall decrease in public debt, as a percentage of GDP, since 31 December 2021 was primarily due to the exchange rate effect (as a result of the proportion of public debt denominated in Euros and other foreign currencies). When presented in Euro terms, Albania's external debt decreased to €5,653 million as at 31 December 2022, as compared to €5,634 million as at 31 December 2021 and €4,688 million as at 31 December 2020. See "*—External Debt*".

The average cost of public debt was 2.99% as at 31 December 2022, as compared to 2.86% as at 31 December 2021, 3.06% as at 31 December 2020, 3.30% as at 31 December 2019 and 3.48% as at 31 December 2018. While efforts have been made to maintain debt costs as low as possible, the average cost of public debt increased as at 31 December 2022, as compared to as at 31 December 2021, as a result of interest rate rises implemented by the Bank of Albania concurrently with those implemented by the ECB and other monetary authorities, in an attempt to ease inflationary pressures.

## **Debt Management Policy**

The Ministry of Finance and Economy prepares the medium-term debt management strategy for the evaluation and development of Albania's debt portfolio (the "**Debt Management Strategy**"). The Debt Management Strategy is updated on an annual basis in line with the annual budget law, the Government's wider macro fiscal framework and the medium term monetary policies implemented by the Bank of Albania and in circumstances where it is estimated that the conditions of the domestic and external markets and macroeconomic and fiscal indicators have changed as a result of extraordinary events or circumstances, such as catastrophes or natural disasters, war and financial crises, as well as events that result in deviation of fiscal principles and rules related to debt sustainability.

The most recently adopted Debt Management Strategy is the Medium-Term Debt Management Strategy 2022-2026, which covers a five year period and was approved by the Council of Ministers in July 2022. This strategy sets updated risk management targets and is focused on further developing the Government's debt management operations and, in particular, reducing risk exposure in the debt portfolio, which is expected to contribute to reducing risk premiums, thereby lowering the cost of debt servicing. In the medium term, the Medium-Term Debt Management Strategy 2022-2026 aims to continue the downward trajectory of the debt-to-GDP ratio to 45% and to focus on two key objectives: (i) optimising long-term debt costs, while maintaining acceptable levels of risk exposure; and (ii) improving and sustaining primary market efficiency, supported by further development of the secondary market.

Key features and objectives of the Medium-Term Debt Management Strategy 2022-2026 include:

- *Reducing the cap on the ratio of public debt denominated in foreign currencies from 55% of total public debt to 50%. As at 31 December 2022, the ratio of public debt denominated in foreign currencies was 46.8% of total public debt, as compared to 49.8% as at 31 December 2021, 47.4% as at 31 December 2020, 45.6% as at 31 December 2019 and 47.7% as at 31 December 2018.*
- *Extending the overall maturity of the debt portfolio. As at 31 December 2022, the weighted average maturity of Albania's domestic debt was 780 days, as compared to 793 days as at 31 December 2021, 783 days as at 31 December 2020 and 787 days as at 31 December 2019. The reduced average maturity as at 31 December 2022, as compared to 31 December 2021, was due to increased issuances of short-term instruments for liquidity purposes.*



- *Preparing and publishing an annual borrowing plan in order to provide greater transparency and predictability for investors.* An annual borrowing plan for 2023 was prepared and published on 15 December 2022.
- *Diversifying the investor base and development of Government Securities Market,* which is expected to be achieved through increased communication with market participants and a more efficient and effective implementation of the market maker programme (initially introduced with technical assistance from the World Bank). The Government is also considering the use of other alternative financing instruments such as Green Bonds, Social Bonds, Sustainability Bonds and Sustainability-Linked Bonds.

The public debt to GDP ratio has decreased in recent years from 67.7% as at 31 December 2018, to 65.8% as at 31 December 2019 before increasing to 74.3% as at 31 December 2020 and 74.5% as at 31 December 2021. As at 31 December 2022 the debt to GDP ratio was estimated at 64.6% of GDP. The driving factors that contributed to the reduction of the debt to GDP ratio during the 2018 to 2019 period were fiscal consolidation, GDP growing faster than debt and the appreciation of the Lek against a number of foreign currencies in which external debt is denominated. The overall increase in the public debt to GDP ratio in 2020 and 2021 was primarily due to increased Government borrowing and the contraction of GDP due to increased financing needs following the November 2019 Earthquake, the COVID-19 pandemic, and the need to stimulate economic recovery after the recession in 2020. The decrease in the public debt to GDP ratio in 2022 was primarily due to the exchange rate applied to public debt denominated in foreign currencies.

In 2016, Albania's Organic Budget Law was amended to introduce a requirement to target lower public debt each year (subject to certain exceptions) and for independent GDP estimates to be used in budget preparation. The amendments to the Organic Budget Law also require contingency funds to be maintained in order to manage potential risks arising from fluctuations in interest rates and foreign exchange rates. See "*Public Finance—Fiscal Policies and Budget Performance*". This target was not met in 2020 and 2021 due to the exceptional impact of COVID-19 on the Albanian economy. In 2022, the debt to GDP ratio resumed its downward trajectory. In line with the amendments to the Organic Budget Law and the Debt Management Strategy, the Government aims to continue the declining trend in the debt to GDP ratio.

Albania has historically relied on domestic and foreign borrowing (primarily from multilateral financial institutions) as its main sources of funding. Domestic borrowing forms the main constituent of Government borrowing, with short-term securities primarily used to refinance existing securities and for liquidity management purposes, while long-term securities are used to cover the budget deficit. However, in 2022, there was an increase in demand for short-term bonds as a result of the interest rate rises implemented by the Bank of Albania (and concurrently with rises implemented by the ECB). Accordingly, for liquidity purposes, any new debt in the domestic market was financed entirely through short-term instruments. External commercial borrowing, including international bank debt, provides an important complementary source of funding for the Government. Multilateral and bilateral external borrowing are the main sources of finance for new and existing priority Government projects. See "*—Multilateral Financial Institutions*". Albania has also accessed the international capital markets through five Eurobond issuances, in 2010, 2015, 2018, 2020 and 2021.

The majority of Albania's external debt is denominated in Euros. The portion of Albania's external debt denominated in Euros has increased, increasing from 60.2% of external debt as at 31 December 2018 to 71.0% as at 31 December 2022. Maintaining a significant portion of Albania's external debt as debt denominated in Euros is consistent with the Debt Management Strategy, as Euro-denominated debt often provides financing sources with more favourable terms than Lek-denominated debt and, furthermore, reduced the pressure on the domestic market. The orientation of external debt borrowing primarily towards Euro-denominated borrowings, where possible, is also in compliance with Albania's trade activity with EU member countries, and its objective of joining the EU.

In each annual budget, the Assembly sets a net borrowing limit for the relevant year. The net borrowing limit for 2023 in the 2023 budget is ALL 50.4 billion, as compared to ALL 16.2 billion of actual borrowing in 2022, ALL 151.8 billion of actual borrowing in 2021, ALL 108.2 billion of actual borrowing in 2020, ALL 9.6 billion of actual borrowing in 2019 and ALL 50.1 billion of actual borrowing in 2018. The decrease in actual borrowing in 2022, as compared to 2021 was primarily due to the Government not accessing the international markets through a Eurobond issuance in 2022, as well as decreases in domestic borrowing as a result of an increase in interest rates and lower levels of budget support and loans disbursed for project financing in 2022, as compared to 2021. With the Assembly's approval, the Ministry of Finance and Economy may exceed the borrowing limit if the limit is breached due to currency exchange

rate fluctuations. In addition, the Assembly may authorise the Government to exceed the borrowing limits in case of emergencies.

## Domestic Debt

Domestic debt includes debt owed to domestic creditors. It is comprised of: (i) central Government securities issued to finance the budget deficit; and (ii) central Government guarantees issued to domestic creditors for loans extended primarily to state-owned enterprises (“SOEs”) (at present, limited to two energy sector companies).

As at 31 December 2022, domestic debt was ALL 732.7 billion (representing 53.2% of total public debt), as compared to ALL 702.3 billion as at 31 December 2021, 644.1 billion as at 31 December 2020, ALL 597.3 billion as at 31 December 2019 and ALL 580.3 billion as at 31 December 2018. The increase in domestic debt since 31 December 2018 until 31 December 2021, is primarily due to increased financing needs which have been funded through domestic market instruments. In 2022, there was an increase in demand for short-term bonds, and, for liquidity purposes, any new debt was financed entirely through short-term instruments. Treasury bills and bonds are issued through public auctions and purchased principally by the banking sector in Albania. Treasury bills are short-term instruments, with maturities of up to one year (of which the Government currently offers instruments with maturities of three months, six months and 12 months), and treasury bonds are long-term instruments, with maturities of more than one year (of which the Government currently offers instruments with maturities of two years, three years, five years, seven years, ten years and 15 years). Albania’s total domestic debt (excluding local government debt) as at 31 March 2023 was ALL 744,506 million, as compared to ALL 732,654 million as at 31 December 2022, representing an increase of 1.6%. This increase was due to the issuance of debt to finance budget requirements.

In recent years, the Ministry of Finance and Economy has undertaken several initiatives aimed at reducing the fragmentation of investor demand for Government securities and creating benchmark sizes for long-term securities issuances (including through decreasing the frequency of issuances and re-opening series of existing securities). Since 2017, the Government has been working with the World Bank to develop further measures aimed at diversifying and developing the investor base for domestic Government securities. As part of such efforts, in June 2018, the Ministry of Finance and Economy entered into an agreement with five “market-maker” banks to conduct a pilot project to test the preparedness of the Albanian market for further development of the primary market and establishment of a secondary market for Government securities, as well as to identify impediments and related solutions to the development of such markets. This project began with the issuance of a five-year benchmark bond with subscription to be made through the market making banks and was expanded to include three-year benchmark bonds in February 2019. Following the initial success of this pilot programme, with effect from January 2019, the market-maker programme was made permanent. As at 31 December 2022, ALL 57.4 billion in three-year reference benchmark bonds and ALL 92.4 billion in five-year reference benchmark bond remained outstanding in the primary market. Secondary market activity remains at a low level, as compared with issuances of reference instruments in the primary market.

The following table sets forth details of the instruments offered by the Ministry of Finance and Economy through auctions in the periods indicated.

	<b>Instruments Offered through Auctions<sup>(1)</sup></b>					<b>For the three months ended 31 March 2023</b>
	<b>For the year ended 31 December</b>					
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	
	<i>(ALL millions)</i>					
Offered by Ministry of Finance and Economy .....	310,993	308,600	364,163	343,000	406,491	121,999
Requested .....	401,130	398,392	470,711	463,248	445,656	199,361
Difference .....	90,137	89,792	106,547	120,248	39,165	78,361
Bid/Cover .....	1.29	1.29	1.29	1.35	1.10	1.65

*Source: Ministry of Finance and Economy*

**Note:**

(1) Certain figures in this table have been revised and differ from previously published figures.

As at 31 December 2022, 33.2% of Albania’s total central government domestic debt was comprised of short-term treasury bills, as compared to 29.8% as at 31 December 2021, 31.8% as at 31 December 2020, 33.3% as at 31 December 2019 and 34.4% as at 31 December 2018. Treasury bonds, as a percentage of total central government

domestic debt, had been increasing year-on-year, from 65.6% as at 31 December 2018, to 66.7% as at 31 December 2019, to 68.2% as at 31 December 2020 and to 70.2% as at 31 December 2021, in line with the Debt Management Strategy's aim of reducing refinancing risk. In 2022, the share of treasury bonds as a percentage of total domestic debt decreased to 66.3%, as a result of increased demand for short-term bonds. Since September 2016, treasury bonds are issued with only fixed interest rates in order to avoid demand fragmentation and to reduce interest rate risk. Ten-year bonds were first issued in 2013, and their share of total domestic debt has increased from 12.0% of Albania's domestic debt as at 31 December 2018 to 17.0% as at 31 December 2022. Fifteen-year treasury bonds were first issued in 2021. As at 31 March 2023, 34.8% of Albania's total central government domestic debt was comprise of short-term treasury bills.

The following table sets forth a breakdown of Albania's domestic debt, by maturity, as at the dates indicated.

	Domestic Debt					As at 31 March 2023
	As at 31 December					
	2018	2019	2020	2021	2022	
	(ALL millions)					
<b>Central government debt</b> .....	<b>565,093</b>	<b>582,136</b>	<b>630,791</b>	<b>678,881</b>	<b>706,760</b>	<b>719,202</b>
Short-term debt.....	194,545	193,739	200,437	202,112	234,470	250,552
Long-term debt.....	370,548	388,396	430,355	476,769	472,290	468,650
<b>Central government guaranteed debt</b> .....	<b>15,218</b>	<b>15,154</b>	<b>13,297</b>	<b>23,375</b>	<b>19,875</b>	<b>19,284</b>
<b>Foreign Exchange Reserves Revaluation</b>	—	—	—	—	<b>6,020</b>	<b>6,020</b>
<b>Total domestic debt ((I) + (II))</b> .....	<b>580,310</b>	<b>597,290</b>	<b>644,088</b>	<b>702,256</b>	<b>732,654</b>	<b>744,506</b>

Source: Ministry of Finance and Economy

The table below sets forth the composition of central Government domestic debt, by instrument, as at the dates indicated.

	Central Government Domestic Debt by Instrument Type											
	As at 31 December										As at 31 March	
	2018		2019		2020		2021		2022		2023	
	(ALL millions)	(% of total)	(ALL millions)	(% of total)	(ALL millions)	(% of total)	(ALL millions)	(% of total)	(ALL millions)	(% of total)	(ALL millions)	(% of total)
3M Bills....	0.0	0.0	0.0	0.0	1,498	0.2	2,644	0.4	2,978	0.4	3,475	0.5
6M Bills....	2,906	0.5	354	0.1	1,901	0.3	2,717	0.4	5,809	0.8	6,590	0.9
12M Bills..	191,639	33.9	193,385	33.2	197,038	31.2	196,750	29.0	225,682	31.7	240,487	33.2
<b>Total short-term debt .</b>	<b>194,545</b>	<b>34.4</b>	<b>193,739</b>	<b>33.3</b>	<b>200,437</b>	<b>31.8</b>	<b>202,112</b>	<b>29.8</b>	<b>234,470</b>	<b>32.9</b>	<b>250,552</b>	<b>34.5</b>
2Y Bonds..	100,751	17.8	86,791	14.9	97,455	15.4	101,932	15.0	96,203	13.5	94,989	13.1
3Y Bonds..	18,679	3.3	26,201	4.5	43,358	6.9	59,858	8.8	57,376	8.0	49,117	6.8
5Y Bonds..	101,266	17.9	107,569	18.5	112,837	17.9	117,754	17.3	105,003	14.7	107,211	14.8
7Y Bonds..	81,788	14.5	88,306	15.2	83,675	13.3	84,728	12.5	85,931	12.1	84,381	11.6
10Y Bonds	68,064	12.0	79,530	13.7	93,029	14.7	111,347	16.4	121,392	17.0	124,267	17.1
15Y Bonds	—	—	—	—	—	—	1,150	0.2	6,385	0.9	8,685	1.2
<b>Total long-term debt .</b>	<b>370,548</b>	<b>65.6</b>	<b>388,396</b>	<b>66.7</b>	<b>430,355</b>	<b>68.2</b>	<b>476,769</b>	<b>70.2</b>	<b>472,290</b>	<b>66.3</b>	<b>468,650</b>	<b>64.6</b>
<b>Foreign Exchange Reserves Revaluation</b>	—	—	—	—	—	—	—	—	<b>6,020</b>	<b>0.8</b>	<b>6,020</b>	<b>0.8</b>
<b>Total domestic debt</b> .....	<b>565,093</b>	<b>100.0</b>	<b>582,136</b>	<b>100.0</b>	<b>630,791</b>	<b>100.0</b>	<b>678,881</b>	<b>100.0</b>	<b>712,779</b>	<b>100.0</b>	<b>725,222</b>	<b>100.0</b>

Source: Ministry of Finance and Economy

The following table sets forth the weighted average original yield (at issuance) of Lek-denominated Government securities as at the dates indicated.

<b>Weighted Average Yield at Issuance of Lek-Denominated Government Securities</b>						
	<b>As at 31 December</b>					<b>As at 31</b>
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>March</b>
	<i>(%)</i>					<b>2023</b>
<b>Treasury Bills</b> .....	<b>2.10</b>	<b>1.56</b>	<b>1.82</b>	<b>1.73</b>	<b>3.15</b>	<b>4.47</b>
3 months.....	1.31	—	1.10	1.07	1.84	2.85
6 months.....	1.74	1.03	1.56	1.44	2.72	4.13
9 months.....	—	—	—	—	—	—
12 months.....	2.13	1.57	1.86	1.78	3.23	4.55
<b>Bonds</b> .....	<b>4.09</b>	<b>2.88</b>	<b>3.24</b>	<b>3.25</b>	<b>4.41</b>	<b>6.09</b>
2 years.....	2.63	1.97	2.22	2.26	3.21	5.13
3 years.....	3.61	2.24	2.69	2.69	3.72	4.87
5 years.....	5.28	3.28	3.99	3.62	4.48	5.42
7 years.....	5.60	3.93	4.20	3.98	5.70	5.64
10 years.....	6.82	5.40	5.20	5.01	5.55	5.55
15 years.....	—	—	—	5.88	6.85	6.80

Source: Ministry of Finance and Economy

## External Debt

As at 31 December 2022, Albania's external debt, in Euro terms, was €5,653 million (representing 46.8% of total public debt), as compared to €5,634 million (representing 49.2% of total public debt) as at 31 December 2021, €4,688 million (representing 47.4% of total public debt) as at 31 December 2020, €4,227 million (representing 46.3% of total public debt) as at 31 December 2019 and €4,264 million (representing 47.5% of total public debt) as at 31 December 2018. When presented in Euro terms, Albania's external debt decreased to €5,585 million as at 31 March 2023, as compared to €5,653 million as at 31 December 2022.

The increase in external debt between 31 December 2018 and 31 December 2022 was primarily due to increased funding from private creditors, which increased from €1,099.6 million (ALL 135.7 billion) as at 31 December 2018 to €2,028.3 million (ALL 231.7 billion) as at 31 December 2022, primarily as a result of an increase in Government Eurobonds reflecting the borrowing policies adopted in recent years aimed at reducing borrowing pressure in the domestic market to facilitate the restructuring of domestic debt and stimulate lending to the private sector. External borrowing from multilateral financial institutions increased from €2,417.5 million (ALL 298.4 billion) as at 31 December 2018 to €2,745.4 million (ALL 313.6 billion) as at 31 December 2022. External borrowing from bilateral institutions increased from €735.2 million (ALL 90.7 billion) as at 31 December 2018 to €879.4 million (ALL 100.5 billion) as at 31 December 2022.

When presented in Lek, Albania's external debt (excluding local government debt) has increased, increasing by 0.7% from ALL 526.3 billion as at 31 December 2018 (representing 47.5% of total public debt), to ALL 645.8 billion as at 31 December 2022 (representing 46.8% of total public debt). Albania's total external debt (excluding local government debt) as at 31 March 2023 was ALL 632,288 million, as compared to ALL 645,768 million as at 31 December 2022, representing a decrease of 2.1%.

The proceeds from external borrowing are used for project financing and budget support. Project financing covers projects in different economic sectors, such as transport, energy, water supply and healthcare. The proceeds of budget support loans are used to finance the budget deficit and are not linked to any specific project.

The majority of Albania's external debt, 71.0% as at 31 December 2022, is denominated in Euros. A substantial portion consists of loans from the International Development Association (the "IDA"), an agency of the World Bank and the IMF, which are denominated in SDRs. Overall, 14.1% of Albania's total external debt as at 31 December 2022 was denominated in SDRs. Most of the remaining external debt (10.8% as at 31 December 2022) is denominated in U.S. Dollars. As at 31 March 2023, according to preliminary figures, 71.6% of Albania's external debt was denominated in Euros, 13.6% was denominated in SDRs and 10.8% was denominated in U.S. Dollars.

The following table sets forth Albania's total external debt, by currency, as at the dates indicated.

	<b>Denomination of External Debt by Currency</b>										<b>As at 31 March 2023</b>			
	<b>As at 31 December</b>													
	<b>2018</b>		<b>2019</b>		<b>2020</b>		<b>2021</b>		<b>2022</b>		<b>(€ millions)</b>		<b>(%)</b>	
	(€ millions)	(%)	(€ millions)	(%)	(€ millions)	(%)	(€ millions)	(%)	(€ millions)	(%)	(€ millions)	(%)	(€ millions)	(%)
ACU .....	60	1.4	54	1.3	45	1.0	40	0.9	34	0.6	34	0.6	34	0.6
AED.....	59	1.4	61	1.4	49	1.0	45	1.0	39	0.7	36	0.7	36	0.7
EUR.....	2,566	60.2	2,546	60.2	3,037	64.8	3,922	64.5	4,015	71.0	3,999	71.6	3,999	71.6
JPY.....	82	1.9	80	1.9	72	1.5	64	1.4	55	1.0	53	1.0	53	1.0
KWD .....	25	0.6	32	0.8	43	0.9	57	1.2	67	1.2	66	1.2	66	1.2
KRW .....	18	0.4	17	0.4	15	0.3	14	0.3	13	0.2	12	0.2	12	0.2
SAR .....	25	0.6	26	0.6	23	0.5	23	0.5	23	0.4	22	0.4	22	0.4
SDR .....	948	22.2	902	21.3	947	20.2	896	18.8	797	14.1	759	13.6	759	13.6
USD.....	482	11.3	508	12.0	458	9.8	571	11.5	610	10.8	603	10.8	603	10.8
<b>Total.....</b>	<b>4,264</b>	<b>100.0</b>	<b>4,227</b>	<b>100.0</b>	<b>4,688</b>	<b>100.0</b>	<b>5,634</b>	<b>100.0</b>	<b>5,653</b>	<b>100.0</b>	<b>5,585</b>	<b>100.0</b>	<b>5,585</b>	<b>100.0</b>

Source: Ministry of Finance and Economy

As at 31 December 2022, 32.0% of Albania's external debt was on concessional terms, including lower than market rates (from 0-3%) and long-term tenors (over 20 years on average), as it was obtained from international financial institutions and bilateral creditors for development support. Albania's rescheduled debt, which was originally incurred prior to 1992 by previous Communist governments and then rescheduled, was entirely on concessional terms and was fully paid-up in 2021. The level of Albania's concessional external debt, however, has reduced as Albania's economy has developed. Since July 2010, the World Bank has classified Albania as an upper middle income country, reducing its ability to obtain concessional funding from the World Bank and the IMF. This change, together with an increase in commercial foreign borrowing in recent years with a floating rate interest rate, has contributed to an increase in non-concessional floating rate debt, as a percentage of total external debt. Notwithstanding this general trend, the portion of Albania's external debt granted on concessional terms has decreased since 2018, primarily reflecting disbursements under the EFF with the IMF and other budgetary support prior to 2018. The final disbursement under the EFF was made in February 2017. See "*Multilateral Financial Institutions—International Monetary Fund*".

The following table sets forth Albania's total external debt, by creditor, as at the dates indicated.

<b>External Debt by Creditor<sup>(1)</sup></b>						
	<b>As at 31 December</b>					<b>As at 31</b>
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>March</b>
	<i>(ALL millions)</i>					<b>2023</b>
<b>Multilateral<sup>(2)</sup></b> .....	<b>298,365</b>	<b>295,455</b>	<b>313,303</b>	<b>332,647</b>	<b>313,620</b>	<b>303,647</b>
CEB.....	12,219	12,345	11,666	10,027	15,199	14,700
EBRD.....	23,172	20,832	31,371	28,907	30,388	29,094
EC.....	666	438	223	21,737	20,561	20,378
EIB.....	22,064	19,341	19,792	17,770	14,635	14,412
IBRD.....	70,409	79,509	85,238	96,332	93,861	91,935
IDA.....	69,788	64,901	57,687	53,920	46,324	44,350
IDB.....	47,287	47,141	42,736	44,632	43,315	42,801
IFAD.....	3,491	3,310	3,019	2,913	2,606	2,521
OPEC.....	5,559	5,977	5,088	5,051	4,674	4,383
IMF.....	43,710	41,661	56,484	51,359	42,057	39,074
<b>Bilateral</b> .....	<b>90,735</b>	<b>90,005</b>	<b>89,492</b>	<b>99,681</b>	<b>100,451</b>	<b>99,164</b>
Germany.....	26,633	25,536	26,421	38,272	35,380	35,701
Greece.....	201	167	139	105	71	61
Austria.....	6,742	6,265	5,905	5,224	4,245	4,054
Italy.....	30,217	30,462	31,030	30,347	28,632	28,385
Japan.....	10,127	9,779	8,873	7,779	6,262	6,025
China.....	200	202	187	198	199	193
Kuwait.....	3,048	3,954	5,346	6,925	7,676	7,454
Norway.....	—	—	—	—	—	—
Netherlands.....	—	—	—	—	—	—
Spain.....	1,003	967	857	862	823	778
South Korea.....	2,249	2,044	1,884	1,688	1,475	1,384
Abu Dhabi Fund.....	7,267	7,412	6,016	5,471	4,466	4,121
Saudi Arabia.....	3,047	3,217	2,835	2,811	2,654	2,516
France.....	—	—	—	—	8,567	8,491
<b>Private Creditors</b> .....	<b>135,714</b>	<b>128,367</b>	<b>176,850</b>	<b>248,041</b>	<b>231,697</b>	<b>229,477</b>
Private Creditors <sup>(3)</sup> .....	43,149	37,040	34,595	30,673	26,083	25,699
Eurobond.....	92,565	91,328	142,255	217,368	205,614	203,778
<b>Rescheduled Debt</b> .....	<b>1,444</b>	<b>927</b>	<b>306</b>	—	—	—
Paris Club.....	1,444	927	306	—	—	—
Italy.....	94	58	19	—	—	—
Russia.....	1,350	870	287	—	—	—
Others.....	—	—	—	—	—	—
Turkey.....	—	—	—	—	—	—
Greece.....	—	—	—	—	—	—
China.....	—	—	—	—	—	—
Hungary.....	—	—	—	—	—	—
Romania.....	—	—	—	—	—	—
Slovakia.....	—	—	—	—	—	—
Croatia.....	—	—	—	—	—	—
Montenegro.....	—	—	—	—	—	—
North Macedonia.....	—	—	—	—	—	—
Czech Republic.....	—	—	—	—	—	—
Slovenia.....	—	—	—	—	—	—
Bosnia-Herzegovina.....	—	—	—	—	—	—
Serbia.....	—	—	—	—	—	—
<b>Total (I+II+III+IV)</b> .....	<b>562,258</b>	<b>514,754</b>	<b>579,950</b>	<b>680,369</b>	<b>645,768</b>	<b>632,288</b>

Source: Ministry of Finance and Economy

**Notes:**

- (1) Includes Central Government external debt and Central Government external guaranteed debt.
- (2) See “—Multilateral Financial Institutions”
- (3) Private Creditors include Alpha Bank, London Branch, National Bank of Greece, London Branch and Deutsche Bank AG, London Branch.

The following table sets forth Albania's external debt, by category of creditor and maturity, as at the dates indicated.

<b>External Debt by Category of Creditors and Maturity Profiles<sup>(1)</sup></b>												
	<b>As at 31 December</b>										<b>As at 31 March 2023</b>	
	<b>2018</b>		<b>2019</b>		<b>2020</b>		<b>2021</b>		<b>2022</b>			
	<i>(ALL millions)</i>	<i>(%)</i>	<i>(ALL millions)</i>	<i>(%)</i>	<i>(ALL millions)</i>	<i>(%)</i>	<i>(ALL millions)</i>	<i>(%)</i>	<i>(ALL millions)</i>	<i>(%)</i>	<i>(ALL millions)</i>	<i>(%)</i>
Long-term Debt												
.....	526,258	100.0	514,754	100.0	579,950	100	680,369	100.0	645,768	100.0	632,288	100.0
Multilateral....	298,365	56.7	295,455	57.4	313,303	54.0	332,647	48.9	313,620	48.6	303,647	48.0
Bilateral.....	90,735	17.2	90,005	17.5	89,492	15.4	99,681	14.6	100,451	15.6	99,163.7	15.7
Private												
Creditors.....	135,714	25.8	128,367	24.9	176,850	30.5	248,041	36.5	231,697	35.9	229,476.7	36.3
Rescheduled...	1,444	0.3	927	0.2	306	0.1	—	—	—	—	—	—
Short-term.....	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total.....</b>	<b>526,258</b>	<b>100.0</b>	<b>514,754</b>	<b>100.0</b>	<b>579,950</b>	<b>100.0</b>	<b>680,369</b>	<b>100.0</b>	<b>645,768</b>	<b>100.0</b>	<b>632,288</b>	<b>100</b>

Source: Ministry of Finance and Economy

### Debt Service

The following table sets forth Albania's historical public debt service as at the dates indicated.

<b>Historical Public Debt Service<sup>(1)</sup></b>						
	<b>As at 31 December</b>					<b>As at 31 March</b>
	<b>2018</b>	<b>2017</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>(ALL millions, except for ratios)</i>					
Interest payments.....	36,513	35,143	34,393	35,822	39,624	12,051
Domestic.....	23,158	22,838	22,351	23,470	24,210	9,120
Foreign .....	13,355	12,305	12,042	12,352	15,414	2,932
GDP.....	1,636,730	1,691,903	1,647,431	1,856,172	2,134,464	2,176,100
Interest payments/GDP (%).....	2.23	2.08	2.09	1.93	1.86	0.55
<b>Total debt service/GDP (%).....</b>	<b>5.39</b>	<b>3.84</b>	<b>5.83</b>	<b>3.72</b>	<b>3.65</b>	<b>0.92</b>

Source: Ministry of Finance and Economy

The following table sets forth Albania's external debt service projections, by type of debt, for the years indicated. The projections are based on Albania's existing external debt stock as at 31 March 2023 and without taking into account the issuance of the Notes.

<b>External Debt Service Projections for Public Debt by Type of Debt</b>						
	<b>2023<sup>(1)</sup></b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027-2054</b>	<b>Total Payments</b>
	<i>(ALL millions)</i>					
<b>Principal</b> .....	<b>34,196</b>	<b>46,395</b>	<b>120,049</b>	<b>31,953</b>	<b>399,694</b>	<b>632,288</b>
Guaranteed.....	3,810	4,801	4,637	3,704	13,964	30,916
<i>Floating rate</i> .....	2,902	3,834	3,532	2,751	8,868	21,888
<i>Fixed rate</i> .....	908	967	1,105	953	5,096	9,028
Government debt.....	30,386	41,594	115,412	28,249	385,731	601,372
<i>Floating rate</i> .....	19,891	28,729	23,365	16,499	131,911	220,396
<i>Fixed rate</i> .....	10,495	12,866	92,047	11,749	253,819	380,976
<b>Interest</b> .....	<b>16,114</b>	<b>18,155</b>	<b>16,549</b>	<b>12,919</b>	<b>58,342</b>	<b>122,079</b>
Guaranteed.....	616	567	459	365	847	2,854
<i>Floating rate</i> .....	513	473	384	304	638	2,312
<i>Fixed rate</i> .....	103	94	75	62	209	542
Government debt.....	15,498	17,588	16,089	12,554	57,496	119,225
<i>Floating rate</i> .....	6,437	8,111	6,929	6,147	36,544	64,168
<i>Fixed rate</i> .....	9,061	9,477	9,161	6,406	20,951	55,057
<b>Total</b> .....	<b>50,309</b>	<b>64,550</b>	<b>136,598</b>	<b>44,872</b>	<b>458,037</b>	<b>754,366</b>

Source: Ministry of Finance and Economy

**Note:**

(1) 1 April 2023 – 31 December 2023.

The following table sets forth Albania's central Government domestic debt service projections, by type of debt, for the years indicated, based on Albania's existing domestic debt stock as at 31 March 2023.

<b>Central Government Domestic Debt Service Projections for Public Debt by Type of Debt</b>							
	<b>2023<sup>(1)</sup></b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028-2038</b>	<b>Total</b>
	<i>(ALL millions)</i>						
<b>Principal payments</b> .....	237,982	193,766	76,476	59,349	40,636	117,013	725,222
Loans.....	—	—	—	—	—	—	—
Securities.....	237,982	193,766	76,476	59,349	40,636	117,013	725,222
<b>Interest payments</b> .....	19,559	21,449	13,222	10,014	7,546	19,101	90,890
Loans.....	—	—	—	—	—	—	—
Securities.....	19,559	21,449	13,222	10,014	7,546	19,101	90,890
<b>Total</b> .....	257,540	215,215	89,698	69,363	48,182	136,115	816,112
Loans.....	—	—	—	—	—	—	—
Securities.....	257,540	215,215	89,698	69,363	48,182	136,115	816,112

Source: Ministry of Finance and Economy



## Contingent Liabilities

The following table sets forth the contingent liabilities that arise from guarantees given by Albania as at the dates indicated.

	Contingent Liabilities Arising from Guarantees					As at 31 March 2023
	As at 31 December					
	2018	2019	2020	2021	2022	
	(ALL millions)					
Publicly-guaranteed debt .....	44,672	41,853	48,813	54,896	52,221	50,199
<i>Domestic guarantees</i> .....	15,218	15,154	13,297	23,375	19,875	19,284
<i>External guarantees</i> .....	29,454	26,698	35,516	31,521	32,346	30,916

*Source: Ministry of Finance and Economy*

Prior to the outbreak of the COVID-19 pandemic in 2020, domestic guarantees were only provided in respect of KESH, reflecting the Government's support for the energy sector. See "*The Albanian Economy—Principal Sectors of the Economy—Energy—Energy Sector Reform*".

During 2018, a portion of this domestic guaranteed debt was refinanced through a guaranteed loan entered into with the EBRD (see "*Multilateral Financial Institutions—EBRD*"). In April and May 2020, the Government issued two domestic guarantees to help support businesses during the COVID-19 pandemic. In 2022, the Government issued a domestic guarantee as part of a package of measures aimed at supporting citizens and businesses impacted by the increase in the price of commodities, as well as inflationary pressures, caused by the impact of the war in Ukraine. As at 31 December 2022, domestic guarantees represented 38.1% of total guaranteed debt.

External guarantees issued cover different economic sectors, such as the energy, water supply and railway sectors, and have fluctuated since 2013 in line with the needs of such sectors. Currently, more than half of the guaranteed debt portfolio consists of external guarantees, while in terms of composition by sector, more than 60% of total Government guarantees relate to the energy sector. Limits on domestic and external guarantees are set out in the annual budget law and agreements providing external guarantees are subject to approval by the Assembly.

## Defaults

Albania has not defaulted or delayed interest payments on any of its indebtedness since 1991. Albania did have certain indebtedness originally incurred before 1992 by previous Communist governments, which was rescheduled on concessional terms, and is now fully paid.

## Credit Ratings

Albania's long-term foreign currency is rated B1 (outlook stable) by Moody's and B+ (outlook stable) by S&P. In March 2023, S&P affirmed Albania's long-term foreign currency credit rating. In April 2023, Moody's affirmed Albania's long-term foreign currency credit rating.

## Multilateral Financial Institutions

Albania has entered into a number of loans with, and benefits from a number of grants from, multiple multilateral financial institutions. See "*External Debt*."

### *European Bank for Reconstruction and Development*

The EBRD is one of the largest institutional investors in Albania. Albania has been a member of the EBRD since 18 December 1991, owning 0.1% of the EBRD's shares. The EBRD has supported Albania's transition to a market economy through the financing of projects in various economic sectors, with an emphasis on energy and infrastructure projects. Since the beginning its activities in Albania, the EBRD has committed €1,937 million, and has made €1,391 million in disbursements, to 136 projects in infrastructure, energy, industry, commerce and agribusiness and financial

sectors, with 53% of such funding granted to private sector projects. As at 19 April 2023, there were 56 active portfolio projects and the portfolio was valued by EBRD as €1,046 million (including undisbursed commitments).

In July 2016, the EBRD granted KESH, the state-owned electricity generation company, a €218 million loan to support its company reform and support efforts. The loan benefits from a sovereign guarantee. In 2018, a first tranche of €118 million was disbursed under the loan, which permitted the repayment of a number of short-term guaranteed loans (see “—*Contingent Liabilities*”). The second tranche of €100 million was disbursed in 2019.

In July 2016, the EBRD and the Government launched the Albania Agribusiness Support Facility. This facility is aimed at enhancing access to finance for local agribusinesses by providing direct credit lines or by sharing the risk of lending to the agribusiness sector with partner financial institutions. In 2020, the facility was extended to include support for the tourism sector, including investment incentives for tourism sector sub-borrowers. The EBRD, together with the partner banks are providing up to €180 million of financing to agribusiness and tourism entities. Six financial institutions have signed agreements to participate in the programme. The Government will make available a total of €36.0 million under the facility to cover the first losses and to provide up to 10% of investment incentives to the agribusiness loan recipients. In November 2016, the EBRD approved a €36.9 million sovereign loan for the benefit of Albanian Railways. This loan is aimed at financing the rehabilitation of the railway line between the cities of Tirana and Durrës (with a length of approximately 34.2 km) and the construction of a new 5 km-long railway line connecting the Tirana-Durrës line with Tirana International Airport. The loan is being used to co-finance the construction works of this project. The project is part of Route 2 of the Western Balkans Core Network connecting the cities of Podgorica in Montenegro and Vlore in Albania and has been established as an indicative extension to the Trans-European Transport Networks (“**TEN-T**”) to the Western Balkans core railway network. In May 2018, the EBRD announced the availability of an additional €35.5 million from the Western Balkans Investment Framework to complement the EBRD loan. The EBRD loan and the Western Balkans Investment Framework grant became effective in December 2020, and the first disbursement took place in August 2021. Following successful resolution of the land valuation impasse in October 2022, the EBRD approved a Land Acquisition and Restoration Plan (“**LARP**”) and confirmed it had no objection to proceeding with works on sections not requiring expropriation. The implementation of works on these sections is now progressing and the land acquisition process based on the LARP is ongoing. Approximately 33% of the total contract amount is complete.

In February 2020, the EBRD signed a U.S.\$50 million sovereign loan for the benefit of the Albanian Development Fund to finance the rehabilitation of key regional and local roads in Albania. The project is part of a larger investment programme targeting the rehabilitation of Albania’s regional and local road network, which is in parallel financed by a loan from the World Bank. The loan is comprised of two tranches: (i) a U.S.\$40 million tranche committed at signing; and (ii) a U.S.\$10 million tranche to be committed following satisfactory completion of all necessary due diligence and the satisfactory implementation of the Environmental and Social Action Plan in relation to the project components financed under the first tranche.

In October 2020, the EBRD signed a €60 million loan for the benefit of the Albanian Development Fund to support the tourism sector and general municipal and transport infrastructure (the “**AITP**”). Tourism-enabling infrastructure investments are planned to be carried out in the regions of Berat, Korca, Fier and Shkoder, whereas the general municipal and transport infrastructure investments will be made across the entire country. The AITP will be co-financed via a €40 million grant received from the EU that will be used, among other purposes, for the rehabilitation of cultural and natural heritage sites. Several infrastructure subprojects have already been tendered and works commenced, while two subprojects are expected to commence in the coming months.

In June 2021, the EBRD signed a €100 million stand-by credit line to Albanian Deposit Insurance Agency aimed at strengthening the stability of the local banking sector and boosting customer confidence. The credit line is guaranteed by the Government.

In September 2021, the EBRD signed a €70 million sovereign-guaranteed loan, which consisted of a €55 million tranche for emergency liquidity to mitigate the impact of COVID-19 and a €15 million tranche to fund the construction of a new substation in Tirana. The liquidity tranche was used to finance salaries and the acquisition of renewable electricity produced in Albania, but not electricity imports. This first tranche was fully disbursed in 2022, while the second tranche was committed in December 2022 and is expected to start disbursing in the second half of 2023.

On 27 April 2022, the EBRD approved a senior secured loan of up to U.S.\$28 million to Albanian companies in the mining sector, Yildirim Albanian Mining Investments Sh.p.k. and Albchrome Sh.p.k., for the acquisition of Albchrome Holding Sh.p.k. by Yildirim Holding A.S.

On 15 November 2022, the EBRD approved a senior loan of up to €33 million to finance the construction and operation of Karavasta Solar Power Plant (“SPP”), a 140 MWp solar power plant. The project will be implemented by a special purpose vehicle incorporated in Albania that is 100% owned by Voltaia.

In August 2022, the EBRD approved a loan of up to €62.9 million to the Republic of Albania for the benefit of HSH Albanian Railways, the Albanian railway operator, for the rehabilitation of the Vora–Hani Hotit railway line. See “*The Albanian Economy—Principal Sectors of the Economy—Transport and Infrastructure—Roads*”.

### ***International Monetary Fund***

Albania joined the IMF on 15 October 1991. As at 19 April 2023, Albania’s quota was SDR 139.3 million, with 2,852 votes or 0.06% of the total votes of all IMF members. A member country’s quota determines its maximum financial commitment to the IMF, its voting power and has a bearing on its access to IMF financing. Since Albania’s membership, eight arrangements have been entered into with the IMF.

In February 2014, the IMF approved a 36-month, SDR 295.42 million (approximately €330.9 million) arrangement under the EFF for Albania in support of the Government’s reform programme. The conditions under the EFF arrangement included the implementation of Government objectives regarding economic growth, fiscal performance, inflation expectations, pension reforms, arrears clearance and prevention reforms, NPL reduction and improved financial sector supervision. In February 2017, Albania drew down the last instalment of the EFF arrangement, successfully concluding the three-year programme.

On 10 April 2020, the IMF approved financial assistance of SDR 139.3 million (approximately U.S.\$190.5 million) to Albania under its rapid financing instrument scheme. The application was approved by the Council of Ministers on 23 April 2020 and was approved by the Assembly on 28 May 2020. In November 2020, the IMF completed its first post-programme monitoring with Albania in respect of the funds allocated under the rapid financing instrument noting, among other things, that Albania’s capacity to repay the IMF remained adequate, although risks had arisen in light of the November 2019 Earthquake and the COVID-19 pandemic. The IMF Executive Directors commended the Government for maintaining macroeconomic and financial stability and welcomed their responses to support lives and livelihoods in respect to the November 2019 Earthquake and the COVID-19 pandemic. In May 2021, the IMF renamed “post-programme monitoring” as “post financing assessment”. In each of its post financing assessments in November 2021 and November 2022, respectively, the IMF noted that Albania’s capacity to repay the IMF remained adequate.

In August 2021, the IMF made a general allocation of SDRs, in proportion to existing IMF quotas, of approximately U.S.\$650 billion, pursuant to which, Albania benefitted from an allocation of SDR 133.5 million (approximately U.S.\$190 million) to be generally used or maintained as reserves and was issued to help countries mitigate the impact of the COVID-19 pandemic. As at the date of this Offering Circular, the allocation has not been used. If the allocation is used by Albania, in whole or in part, it will be reflected and recorded as public debt.

In June 2021, following a remote staff visit, the IMF reported that economic recovery in the country was underway, albeit subject to the uncertainty of the COVID-19 pandemic. The IMF stated that the “*fiscal policy in 2021 provides adequate support to the economy. New spending initiatives by the authorities should be underpinned by revenue-enhancing measures that are consistent with a credible medium-term fiscal consolidation, so as to rebuild room for fiscal policy manoeuvre*”.

In May 2022, following a remote staff visit, the IMF reported that: (i) the economy was facing headwinds from the economic fallout of the war in Ukraine, including through rising prices and tighter global financing conditions; and (ii) as a result, the 2022 Budget should be reprioritised to protect the more vulnerable sectors of society from inflation. The IMF also stated that “*saving any revenue overperformance and achieving a credible revenue-based consolidation over the medium-term are crucial for rebuilding room for fiscal policy manoeuvre*” and that “*further monetary policy tightening in a timely manner is warranted to contain inflationary pressures and steer inflation expectations back toward the Bank of Albania’s target*”.

In October 2022, the IMF stated in its Staff Concluding Statement of the 2022 Article IV Mission that “*the Albanian economy has weathered multiple shocks since 2019 relatively well*”, however, “*prudent policy and vigilance are required to stem rising risks and entrench the positive momentum in the economy*”. The IMF recommended that: (i) fiscal consolidation, underpinned by a sound Medium-Term Revenue Strategy, be utilised to allow policy manoeuvre and reduce demand pressure. Fiscal support should be temporary and targeted at the vulnerable, and the efficiency and credibility of public finances be improved in order to preserve market confidence and mitigate higher borrowing costs; (ii) further monetary tightening be utilised to decrease inflation, safeguarding financial stability; and (iii) the authorities increase their efforts on structural reforms.

On 9 December 2022, the IMF released a statement following the conclusion of its 2022 Article IV consultation, noting, among other things that “*Growth is expected to remain solid in 2022 before decelerating in 2023, and inflation is projected to return to the central bank’s target only in 2024.*” With the reduction of Albania’s credit outstanding to the IMF to below 200% of its quota as at the end of February 2023, the IMF noted that Albania’s capacity to repay the IMF remained adequate, and that an extension of the post financing assessment was not needed.

As at 31 December 2022, Albania had SDR 295 million (approximately €370 million) in outstanding loans to the IMF.

### **World Bank**

The World Bank started its co-operation with Albania in 1991. It has supported a number of projects aimed at alleviating poverty and providing the tools for long-term development to foster further growth. The World Bank has provided more than U.S.\$2.4 billion in assistance through commitments from the IDA, the IBRD, the International Finance Corporation (“**IFC**”) and the Multilateral Investment Guarantee Agency (“**MIGA**”). The current portfolio consists of 7 projects with a total commitment amount of U.S.\$310 million in IDA and IBRD loans, which increased from a total committed amount of U.S.\$139 million as at 31 December 2022. Current projects include investments in the energy, water supply and sewerage, health, social assistance, environment, infrastructure, public administration, urban development and tourism and innovative consumer services sectors, regional trade and transport.

With support from the World Bank, the Government has undertaken structural reforms (in particular in the energy sector and in respect of local government consolidation and decentralisation efforts) to promote growth and improve public finance management, including the development of a liquidation and prevention strategy with respect to new arrears. The World Bank is supporting Government programmes to strengthen the financial sector and reduce vulnerability.

On 21 May 2015, the World Bank endorsed the 2015-2020 Country Partnership Framework (the “**2015 CPF**”) for Albania, which set out a lending programme of up to U.S.\$1.2 billion over a five-year period aimed at supporting Albania’s aspirations to achieve steady growth and EU integration.

In September 2020, a Country Program Adjustment Note set out an interim strategy for the World Bank to help support the Government’s main priorities and was adjusted to respond to the November 2019 Earthquake, as well as COVID-19. The ongoing Health System Improvement Project is expected to be restructured, and additional financing will help respond to the Government’s request for hospital reconstruction in the areas affected by the November 2019 Earthquake (Laci Hospital is being reconstructed as a result of these efforts). The Emergency COVID-19 Project was approved by the World Bank’s board on 30 July 2020.

A Fiscal and Growth Development Policy Loan to support reforms required for restructuring and recovery following the COVID-19 pandemic in the amount of U.S.\$80 million was disbursed in March 2021.

On 12 May 2022, the World Bank approved a programme aimed at improving the operational and financial performance of Albania’s water supply and sanitation utilities and to increase access to safe water services. The programme includes a U.S.\$6.3 million grant funded by the Swiss State Secretariat for Economic Affairs (“**SECO**”) and managed by the World Bank and a U.S.\$75 million loan, which is part of a U.S.\$135 million financing programme for the Albania National Water Supply and Sanitisation Sector Modernisation Program, that is co-financed by the Government.

On 16 March 2023, the World Bank approved a new Country Partnership Framework for Albania (the “**2023 CPF**”). The 2023 CPF aims to support climate friendly, inclusive and resilient growth, focusing on the priorities set out in the National Strategy for Development and European Integration and findings of the World Bank. The main focuses of the strategy are: (i) decreased unemployment; (ii) strengthened human capital; and (iii) enhanced resilience to economic shocks. The lending programme under the 2023 CPF anticipates is expected to value U.S.\$900 million. As at 7 April 2023, the total value of active projects under the 2023 CPF was valued by the World Bank at U.S.\$485 million and includes: (i) a project aimed at enhancing resilience to climate change and other natural hazards of Albania’s critical bridge infrastructure (U.S.\$100 million) and to improve road and bridge asset management; (ii) a project aimed at increasing the competitiveness and resilience of priority agri-food value chains (U.S.\$70 million); (iii) a project aimed at improving service delivery quality and increase the use of new technologies in the public sector (U.S.\$65 million); and (iv) a project aimed at increasing the resilience of the Albanian energy market and economy by strengthening the foundations for greener development and reducing the country’s carbon footprint (U.S.\$120 million). Additional projects are expected to be added to the portfolio by April 2024.

### ***The Council of Europe Development Bank***

The Council of Europe Development Bank (the “CEB”) represents a major instrument of the policy of solidarity for its 41 member states, using its resources in the financing of social projects in order to help member states achieve sustainable and equitable growth. Albania has been a member of the CEB since 24 April 1999 and, as at 19 April 2023, its share in the capital of the CEB was 0.244%. The CEB has provided €222.7 million in funding for investments in education, healthcare (including for the emergency response to the COVID-19 pandemic) and MSMEs sectors, as well as support for job creation, aid to refugees and migrants, and recovery from natural disasters (figures as at 22 March 2022). Albania also benefits from grant funding from the CEB’s own resources and its trust funds.

In June 2021, the CEB approved a €60 million public sector financing facility to support the Government in its efforts to mitigate the effects of the COVID-19 pandemic by providing medical services, consumables, vaccines and equipment to those affected by the virus. The agreement was signed on 3 November 2021 and the loan has been fully disbursed.

On 22 March 2022, the CEB approved, and signed a disbursement notice for, a €42 million loan to Albania to assist it in its ongoing efforts to mitigate the impact of the COVID-19 pandemic. The loan aimed to partially finance the Government’s extraordinary expenditures, including the cost of: (i) medical and pharmaceutical supplies; (ii) specialised equipment required for COVID-19 patients; (iii) hardship and overtime payments for medical and non-medical staff; (iv) the hiring of additional medical staff; and (v) the vaccine programme.

### ***European Union***

EU funding for projects in Albania is provided in the form of grants, contracts and budget support. The EU has provided Albania with financial assistance through a range of programmes, notably the Instrument for Pre-Accession Assistance (“IPA”) 2014–2020, pursuant to which the EU has allocated Albania funding of €628.1 million for 2014–2020, of which €430.2 million was allocated to initiatives in 2014–2018 and €197.9 million to initiatives in 2019–2020.

In November 2019, the European Commission launched IPA III programming for beneficiary countries, including Albania, and the process for preparing country strategic responses and action plans for the 2021 and 2022 IPAs continued throughout 2020 and 2021. A total amount of €105.4 million was allocated to Albania’s 2020 IPA programme and the total amount for Albania’s 2021 IPA programme was approximately €81.9 million.

On 15 September 2022, the Assembly ratified an agreement with the EU under a third IPA for the receipt of €600 million in funding between 2022 and 2029. On 24 March 2023, the Council of Ministers approved financing agreements between the European Commission and Albania for 2022 and 2023 under the third IPA. The 2022 programme includes an EU contribution of €82.6 million to be used for environmental protection, strengthening democracy, EU alignment, fighting organised crime, strengthening the judiciary as well as supporting reforms required to meet EU standards and norms. The 2023 programme is expected to provide a further €80 million to be used to support the socio-economic consequences of the energy crisis

The programming of future EU funding and the effectiveness, quality and co-ordination of the implementation of ongoing EU funding programmes is discussed at an annual meeting of the EU IPA Monitoring Committee and Albanian authorities.

In addition, between 2018 and 2020, Albania entered into separate loan and grant agreements with Germany in an aggregate principal amount of €168.4 million, with the aim of further developing the energy and water supply sectors and to provide support for farmers and small enterprises.

Albania also received further support from the EU following the November 2019 Earthquake and to help COVID-19-related measures.

In November 2021, the European Commission, on behalf of the EU, disbursed €90 million in Macro-Financial Assistance to Albania.

See “*The Republic of Albania—International Relations—European Union*”.

### ***European Investment Bank***

Since 1995, the EIB has disbursed over €0.64 billion of loans in support of the Albanian economy (figures as at 1 February 2023), in particular, supporting infrastructure projects, such as the construction of the national road network

and port infrastructure. See “*The Albanian Economy—Principal Sectors of the Economy—Transport and Infrastructure*”.

### ***The Islamic Development Bank***

The Islamic Development Bank (the “**IDB**”) is an international financial institution, which aims to foster the economic development and social progress of member countries and Muslim communities. Albania joined the IDB in 1993 and owns 0.02% of the IDB’s total capital. In 2022, IDB extended an additional €56.8 million loan for the completion of the Qukës-Qafë Ploçë road construction project. The IDB has financed 40 projects in Albania, primarily in the transportation, agricultural, water, sanitation, and urban services sectors, as well as infrastructure projects, microfinance interventions and job creation strategies, of which 35 have been completed and 5 remain active, with a total amount of more than U.S.\$654 million of funding approved (figures as at 19 April 2023).

### ***The OPEC Fund for International Development***

The OPEC Fund for International Development (the “**OFID**”) is a development finance institution that aims to promote cooperation between member states of the Organisation of Petroleum Exporting Countries (“**OPEC**”) and other developing countries. Co-operation with Albania began in 1992, with the OFID providing financial support to infrastructure projects in the agriculture, education, healthcare, transportation and water supply sectors, as well as providing direct support to private sector initiatives. As at 19 April 2023, total funding approved under the project portfolio with the OFID was U.S.\$120.3 million, which has primarily been allocated to the transportation sector.

## TAXATION

*The following is a summary of certain income tax consequences resulting from the purchase, ownership and disposition of the Notes and is not intended to reflect the individual tax position of any beneficial owner.*

*Persons considering the purchase of the Notes should consult their own tax advisers concerning the application of Albanian tax laws to their particular situations, as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of Albanian legislation, tax law and practice in Albania is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or, that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to Noteholders could become subject to taxation, or that tax rates currently in effect could be increased, in ways that cannot be anticipated as at the date of this Offering Circular.*

### **Albanian Taxation**

*This section summarises the basic Albanian tax consequences of issue and redemption of the Notes for non-residents and residents of the Republic of Albania pursuant to applicable Albanian tax legislation. The following summary is included for general information only.*

#### ***Non-residents of the Republic of Albania***

##### *Tax on Issue of the Notes*

No stamp, registration or state duty or similar tax will be payable in the Republic of Albania upon the issue or transfer of the Notes.

*Tax exemption under Law № 9665 of 18.12.2006 “On state borrowing, public debt and state guaranteed loans in the Republic of Albania”, as amended by Law № 181/2014 of 24 December 2014 and Law № 92/2022 of 22 December 2022*

The Assembly has enacted Law № 9665 of 18 December 2006 “On state borrowing, public debt and state guaranteed loans in the Republic of Albania”, as amended by Law № 181/2014 of 24 December 2014 and Law № 92/2022 of 22 December 2022. Pursuant to Article 26 of this law, payments in respect of the Notes to individuals that are not resident in Albania or to non-resident entities without a permanent establishment in Albania, are exempt from Albanian income tax, Albanian value added tax and all and any other taxes in the Republic of Albania that may arise as a result of all transactions and activities in relation to the issue, management, holding and trading of the Notes. Accordingly, there will be no withholding tax chargeable in respect of the Notes.

##### *Gross-Up Obligation*

Pursuant to Condition 8 of the Conditions, all payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Albania or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law, in circumstances where the tax exemption provision under Article 26 of the Law № 9665 of 18 December 2006 “On state borrowing, public debt and state guaranteed loans in the Republic of Albania”, as amended by Law № 181/2014 of 24 December 2014 and Law № 92/2022 of 22 December 2022, is for some reason no longer valid (e.g., due to a change in legislation). In such an event, the gross-up provisions in Condition 8 of the Conditions will apply.

#### ***Residents of the Republic of Albania***

Albanian resident holders of the Notes, in respect of any payments related to the issue, management, holding and trading of the Notes, can be subject to income tax and/or any other direct or indirect tax provided under the tax laws of the Republic of Albania, as applicable.

## United States Federal Income Taxation

The following discussion is an overview of certain U.S. federal income tax consequences relevant to the purchase, ownership and disposition of the Notes. This discussion addresses only U.S. Holders (as defined below) who purchase Notes in the original offering at the issue price (as defined below), hold the Notes as capital assets and use the U.S. Dollar as their functional currency. This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the “Code”), final, temporary and proposed U.S. Treasury Regulations thereunder, administrative and judicial interpretations, all as in effect as of the date of this Offering Circular and any of which may be repealed, revoked or modified or subject to differing interpretations, possibly with retroactive effect, so as to result in U.S. federal income tax consequences different from those discussed below. There can be no assurances that the Internal Revenue Service (the “IRS”) will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruling from the IRS with respect to the U.S. federal income tax consequences of purchasing, owning or disposing of the Notes.

This discussion is not a complete description of all U.S. federal tax consequences relating to the Notes and does not address U.S. state, local, foreign, gift, estate or other tax laws. This summary does not address aspects of U.S. federal income taxation that may be applicable to U.S. Holders that are subject to special tax rules, such as U.S. expatriates, “dual resident” companies, banks, thrifts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, a U.S. or non-U.S. partnership or other entity treated as a partnership for U.S. federal income tax purposes, grantor trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations or investors, dealers or traders in securities, commodities or currencies, traders in securities that elect to use a mark-to-market method of accounting, holders that will hold a Note as part of a position in a “straddle” or as part of a “synthetic security” or as part of a “hedging”, “conversion”, “integrated” or constructive sale transaction for U.S. federal income tax purposes. Moreover, this summary does not address the U.S. federal estate and gift tax, U.S. Holders liable for alternative minimum tax or the Medicare tax applicable to net investment income and investors holding the Notes in connection with a trade or business conducted outside of the United States, and does not address special rules for the taxable year of inclusion under Section 451(b) of the Code. Each prospective purchaser should consult its tax adviser with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding, retiring or other disposition of Notes.

For the purposes of this discussion, a “U.S. Holder” is a beneficial owner of the Notes that is, for purposes of U.S. federal income taxation, (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organised in or under the laws of the United States or any U.S. state or the District of Columbia, (iii) a trust (A) with respect to which a court within the United States is able to exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of its substantial decisions or (B) that has made a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes, or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source.

If a partnership (or any entity or arrangement treated as a partnership for U.S. federal income tax purposes) purchases or holds the Notes, the U.S. federal income tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner in a partnership that holds the Notes, such holder is urged to consult its own tax adviser regarding the specific tax consequences of the purchase, ownership and disposition of the Notes.

The “issue price” of a Note will equal the initial offering price to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money.

**THE OVERVIEW OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCE TO THEM OF OWNING THE BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

### *Interest*

Except as set forth below, interest paid on a Note will be included in a U.S. Holder’s gross income as ordinary interest income at the time it is received or accrued in accordance with the U.S. Holder’s usual method of accounting for U.S. federal income tax purposes. Interest income on the Notes will be treated as income from sources outside the United States for U.S. federal income tax purposes, including U.S. foreign tax credit limitation purposes.

### *Foreign Currency Denominated Qualified Stated Interest*



Except as set forth below, the amount of income realized by a U.S. Holder will be the U.S. Dollar value of any qualified stated interest (as defined below under “*Original Issue Discount*”) paid on a Note in euros, including the amount of any applicable withholding tax thereon and any additional amounts paid with respect thereto, regardless of whether the euros are converted into U.S. Dollars. Generally, a U.S. Holder that uses the cash method of tax accounting and that receives a payment of qualified stated interest will determine such U.S. Dollar value using the spot rate of exchange on the date of receipt. Generally, a U.S. Holder that uses the accrual method of tax accounting may determine the U.S. Dollar value of accrued interest income using the average rate of exchange for the accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within each taxable year) or, at the U.S. Holder’s election, at the spot rate of exchange on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within each taxable year) or on the date of receipt, if that date is within five business days of the last day of the accrual period. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS. A U.S. Holder that uses the accrual method of tax accounting will recognize U.S. source foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date payment is received differs from the rate applicable to an accrual of that interest, regardless of whether the payment is converted to U.S. Dollars at such time. This foreign currency gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income received on the Note.

### ***Original Issue Discount***

U.S. Holders of Notes issued with original issue discount (“**OID**”) with a term of over one year (each an “**Original Issue Discount Note**”), will be subject to special tax accounting rules, as described in greater detail below. Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. Dollar are described below under “—*Foreign Currency Discount Notes*”.

For U.S. federal income tax purposes, a Note will be treated as issued with original issue discount (“**OID**”) if the excess of the Note’s stated redemption price at maturity over its issue price equals or exceeds a specified *de minimis* amount (0.25% of the Note’s stated redemption price at maturity multiplied by its weighted average maturity). The “issue price” of each Note will be the first price at which a substantial amount of the Notes are sold (other than to an underwriter, broker, placement agent or wholesaler). The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate. In the case of a Note whose stated redemption price at maturity exceeds its issue price by less than the specific *de minimis* amount (“*de minimis* **OID**”), a U.S. Holder of such Note will recognize capital gain with respect to any *de minimis* **OID** as stated principal payments on the Note are made. The amount of such gain with respect to each principal payment will equal the product of the total amount of the Note’s *de minimis* **OID** and a fraction, the numerator of which is the amount of the principal payment made and the denominator of which is the stated principal amount of the Note.

U.S. Holders of Original Issue Discount Notes must, in general, include **OID** as ordinary income, calculated on the constant yield method, as described in this paragraph, in advance of the receipt of some or all of the related cash payments, regardless of their method of accounting. The amount of **OID** includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the “daily portions” of **OID** with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note (“**accrued** **OID**”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the **OID** allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of **OID** allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. **OID** allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating **OID** for an initial short accrual period. The “stated redemption price at maturity” of a Note is the sum of all amounts payable on the Note that are not payments of qualified stated interest. The “adjusted issue price” of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued **OID** for each prior accrual period and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. The “yield to maturity” of a Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of such Note. Under these rules, a U.S. Holder will generally have to include in income increasingly greater amounts of **OID** in successive accrual periods. Persons considering the purchase of Notes should consult their own tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of such Notes, including the potential application of the **OID** rules.

### *Foreign Currency Discount Notes*

OID for any accrual period on an Original Issue Discount Note will be determined in Euros and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above under “—*Foreign Currency Denominated Qualified Stated Interest.*” Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale, exchange or disposition of a Note), a U.S. Holder will recognise foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. Dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

### ***Fungible Issue***

The Issuer may, without the consent of the Noteholders of outstanding Notes, issue further securities with identical terms as the Notes. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes. Any U.S. federal income tax considerations which apply to a separate series of additional Notes issued with OID will be described in the applicable offering circular.

### ***Sale, Exchange, Redemption or Other Disposition of Notes***

A U.S. Holder’s adjusted tax basis in a Note generally will be its U.S. Dollar cost (as defined herein) increased by the amount of any OID included in the U.S. Holder’s income with respect to the Note and reduced by the amount of any payments that are not qualified stated interest payments. The U.S. Dollar cost of a Note (including a Note purchased with a foreign currency) generally will be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

A U.S. Holder generally will recognise gain or loss on the sale, exchange, redemption or other disposition of a Note in an amount equal to the difference between the amount realised (less any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the U.S. Holder’s adjusted tax basis in the Note. The amount realised on a sale, exchange, redemption or other disposition for an amount in foreign currency will be the U.S. Dollar value of such amount on the date of sale, exchange, redemption or other disposition or, in the case of Notes traded on an established securities market, within the meaning of the applicable U.S. Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such settlement date election (described in this and the preceding paragraph) by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

Gain or loss recognised on the sale, exchange, redemption or other disposition of a Note (other than gain or loss that is attributable to OID or to exchange rate fluctuates) generally will be treated as capital gain or loss. A U.S. Holder will have long-term capital gain or loss if it has held the Note for more than one year at the time of such disposition. Gain or loss realised by a U.S. Holder on the sale, exchange, redemption or other disposition of the Notes generally will be U.S. source capital gain or loss. The long-term capital gains of non-corporate U.S. Holders may be taxed at lower rates. Deductions for capital losses are subject to significant limitations. Gain or loss recognised by a U.S. Holder on the sale, exchange, redemption or other disposition of a Note that is attributable to changes in the exchange rates will be treated as U.S. source ordinary income or loss; however, exchange gain or loss (including with respect to accrued interest) is taken into account only to the extent of total gain or loss realised on the transaction.

### ***Sale, Exchange or Disposition of Foreign Currency***

A U.S. Holder will have a tax basis in any foreign currency received as interest on a Note or on the sale, exchange, redemption or other disposition of a Note equal to its U.S. Dollar value at the time such interest is received or at the time of such sale, exchange, redemption or other disposition. Any gain or loss realised by a U.S. Holder on a sale, exchange, redemption or other disposition of foreign currency (including its exchange for U.S. Dollars or its use to purchase Notes) generally will be U.S. source ordinary income or loss.

### ***Information Reporting and Backup Withholding***

In general, payments of principal, interest on and the proceeds from the sale, exchange, redemption or other disposition of a Note payable to a U.S. Holder by a U.S. paying agent or other U.S. related intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. U.S. backup withholding tax will apply to amounts subject to reporting if the U.S. Holder fails to provide an accurate taxpayer identification number, to certify that such U.S. Holder is not subject to backup withholding or certification of exempt status, or otherwise fails to comply with the applicable backup withholding requirements. Certain U.S. Holders (including corporations) are not subject to information and backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding imposed on a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS. U.S. Holders of Notes should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their purchase, ownership or disposition of the Notes.

### ***Reportable Transaction Reporting***

Under certain U.S. Treasury Regulations, U.S. Holders that participate in “reportable transactions” (as defined in the U.S. Treasury Regulations) must attach to their U.S. federal income tax returns a disclosure statement on Form 8886. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.\$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amount for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty of up to U.S.\$10,000 in the case of a natural person and U.S.\$50,000 in all other cases may be imposed in any taxable year on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. U.S. Holders should consult their own tax advisors as to the possible obligation to file Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any foreign currency received as interest or as proceeds from the sale, exchange or retirement of the Notes.

### ***Foreign Financial Asset Reporting***

Certain U.S. Holders that own “specified foreign financial assets,” including securities issued by any foreign person, either directly or indirectly or through certain foreign financial institutions may be subject to additional reporting obligations, if the aggregate value of all of those assets exceeds U.S.\$50,000 on the last day of the taxable year or U.S.\$75,000 at any time during the taxable year, or certain other requirements are met. The Notes may be treated as specified foreign financial assets, and U.S. Holders may be subject to this information reporting regime. Significant penalties and an extended statute of limitations may apply to a U.S. Holder that fails to file information reports. U.S. Holders should consult their own tax advisers regarding these potential information reporting obligations.

### **The Proposed Financial Transactions Tax (“FTT”)**

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The Commission’s Proposal, however, remains subject to negotiation among participating Member States. It may, therefore, be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## CLEARING AND SETTLEMENT ARRANGEMENTS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Republic believes to be reliable, but neither the Republic or the Joint Lead Managers takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Republic or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Clearing Systems

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

### Registration and Form

Interests in the Unrestricted Global Certificate and the Restricted Global Certificate will be in uncertificated book-entry form (“**book-entry interests**”). The holdings of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the relevant Register to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg, respectively. Beneficial ownership of Notes will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

So long as Euroclear or Clearstream, Luxembourg or the nominee of their common depository is the registered holder of the Global Certificates, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Global Certificates for all purposes under the Agency Agreement. Consequently, none of the Republic, the Fiscal Agent, any other Agent or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Certificate to such persons will be limited. Because Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The Republic will not impose any fees in respect of holding the Notes; however, holders of book-entry interests in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream, Luxembourg.

### Clearing and Settlement Procedures

Upon their original issue, the Notes will be in global form represented by the Global Certificates. Interests in the Notes will be in uncertificated book-entry form. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures

of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

The book-entry interests will trade through participants of Euroclear or Clearstream, Luxembourg and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any book-entry funds where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

### **General**

Neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the Republic or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

## SUBSCRIPTION AND SALE

Pursuant to and subject to the terms and conditions of a subscription agreement dated 9 June 2023 (the “**Subscription Agreement**”) between the Republic and the Joint Lead Managers, each of the Joint Lead Managers has severally agreed to purchase, and the Issuer has agreed to sell to each of the Joint Lead Managers, the principal amount of the Notes set forth opposite each Joint Lead Manager’s name below:

<b>Joint Lead Manager</b>	<b>Principal amount of Notes</b>
Deutsche Bank AG, London Branch .....	€120,000,000
Intesa Sanpaolo S.p.A., London Branch .....	€120,000,000
J.P. Morgan Securities plc .....	€120,000,000
MUFG Securities (Europe) N.V. ....	€120,000,000
Standard Chartered Bank .....	€120,000,000
<b>Total</b> .....	<b>€600,000,000</b>

The Issuer has been informed that the Joint Lead Managers propose to resell the Notes at the issue price set forth on the cover page of this Offering Circular within the United States to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A) in reliance upon Rule 144A, and to persons outside the United States in reliance upon Regulation S. See “– *United States*” and “*Transfer Restrictions*” below. The issue price at which the Notes are offered may be changed at any time without notice.

The Issuer will reimburse the Joint Lead Managers in respect of certain of their expenses, and have agreed to indemnify the Joint Lead Managers and their controlling persons against certain liabilities (including liabilities under the Securities Act), incurred in connection with the issue of the Notes.

The Subscription Agreement provides that the obligations of the Joint Lead Managers to subscribe for Notes are subject to certain conditions precedent, including (among other things) receipt of legal opinions from legal counsel, and the Subscription Agreement may also be terminated in certain circumstances prior to payment of the issue price to the Issuer. The offering of the Notes by the Joint Lead Managers is subject to the Joint Lead Managers’ right to reject any order in whole or in part.

Offers and sales of the Notes in the United States will be made by those Joint Lead Managers or their affiliates that are registered broker-dealers under the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), or in accordance with Rule 15a-6 thereunder.

Allocations of the Notes to potential investors in the offering will be made in accordance with customary allocation processes and procedures following the completion of the book-building process for the offering of the Notes and will be made at the sole discretion of the Issuer.

The Notes are a new issue of securities for which there currently is no market. The Issuer cannot provide assurance that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Joint Lead Managers have advised the Issuer that following the completion of the offering of the Notes, they intend to make a market in the Notes. They are not obligated to do so, however, and any market-making activities with respect to the Notes may be discontinued at any time at their sole discretion without notice. In addition, such market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, the Issuer cannot give any assurance as to the development of any market or the liquidity of any market for the Notes.

In connection with the offering of the Notes, the Joint Lead Managers may engage in over-allotment, stabilising transactions and syndicate covering transactions. Over-allotment involves sales in excess of the offering size, which creates a short position for the Joint Lead Managers. Stabilising transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Any of these activities may prevent a decline in the market price of the Notes, and may also cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. The Joint Lead Managers may conduct these transactions in the over-the-counter market or otherwise. If the Joint Lead Managers commence any of these transactions, they may discontinue them at any time.

The Issuer expects that delivery of interests in the Notes will be made against payment therefor on the Issue Date specified on the cover page of this Offering Circular, which will be the third Business Day following the date of pricing

of the Notes (this settlement cycle being referred to as T+3). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two New York business days, unless the parties to any such trade expressly agree otherwise. Accordingly, investors who wish to trade interests in the Notes on the date of pricing of the Notes or the next New York business day will be required, by virtue of the fact that the Notes initially will settle in T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Investors in the Notes who wish to trade interests in the Notes on the date of pricing of the Notes or the next New York business day should consult their own adviser.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Joint Lead Managers and their affiliates have performed certain investment and commercial banking or financial advisory services for the Issuer and their affiliates from time-to-time, for which they have received customary fees and commissions, and they expect to provide these services to the Issuer and their affiliates in the future, for which they expect to receive customary fees and commissions.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. If the Joint Lead Managers or their affiliates have a lending relationship with the Issuer, they routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes, including in the event that certain conditions precedent are not delivered or met to their satisfaction on the Issue Date. In this situation, the issuance of the Notes may not be completed. Investors will have no rights against the Issuer or Joint Lead Managers in respect of any expense incurred or loss suffered in these circumstances.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented, warranted and undertaken to the Republic that it proposes to offer the Notes for resale (a) to persons they reasonably believe to be QIBs, within the meaning of Rule 144A under the Securities Act, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) in "offshore transactions" (as defined in Rule 902(k) under the Securities Act) in accordance with Rule 903 of Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

### **United Kingdom**

Each Joint Lead Manager has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Republic; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

## The Republic of Albania

In accordance with Article 10(d) and Article 245 of Law № 62/2020 of 14 May 2020 (the “**Law on Capital Markets**”) (Official Journal № 131 of 14 July 2020, page 7739), the issuance of securities by the Albanian state, which would include the issue of the Notes by the Republic, is exempted/excluded from the application of the rules set forth in chapter III and chapter VI of the Law on Capital Markets.

In accordance with Article 12 of the Law on Capital Markets, a “reverse inquiry” shall not be considered as an activity related to the sale and distribution of the Notes. The Joint Lead Managers may, therefore, accept “reverse inquiry” offers from Albanian investors that are ‘eligible counterparts’ without any need for licensing or any other permission of whatever nature from the Albanian Financial Supervisory Authority (the “**Authority**”).

In respect of the marketing, sale and distribution of the Notes by the Joint Lead Managers within the territory of the Republic of Albania, this may be performed subject to recognition requirements set out in Article 27 of the Law on Capital Markets to the extent that pursuant to Article 3, paragraph 87 and Article 9 of the Law on Capital Markets, the marketing and sale activities in respect of the Notes in the Republic of Albania, is considered a regulated activity with transactions in securities and as such must be carried out by entities that are licensed and/or recognised for such activities by the Authority.

## Republic of Italy

The offering of the Notes has not been and will not be registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 2 of Regulation (EU) № 2017/1129 (the “**Prospectus Regulation**”) and any applicable provision of Legislative Decree № 58 of 24 February 1998, as amended (the “**Financial Services Act**”) and Italian CONSOB regulations; or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-ter of CONSOB Regulation № 11971 of 14 May 1999, as amended from time to time, and the applicable Italian laws.

Any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must:

- (a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation № 20307 of 15 February 2018 (as amended from time-to-time) and Legislative Decree № 385 of 1 September 1993, as amended (the “**Banking Act**”); and
- (b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time-to-time) and/or any other Italian authority.

## Hong Kong

Each Joint Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (“**SFO**”) and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “**CWUMPO**”) or which do not constitute an offer to the public within the meaning of the CWUMPO; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with



respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

## Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2002 (2020 Revised Edition) of Singapore (as amended or modified from time to time, the “SFA”)) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferable within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) of the SFA or Section 276(4)(c)(ii) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) pursuant to Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

**Notification under Section 309B(1)(c) of the SFA** – The Issuer has determined, and hereby notifies all relevant persons (as defined in section 309A(1) of the SFA) that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## **Switzerland**

Each Joint Lead Manager has represented and agreed that this Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Notes and the Notes may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (“**FinSA**”) and no application has or will be made to admit the Notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Notes constitutes a prospectus pursuant to the FinSA, and neither this Offering Circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

## **Belgium**

Each Joint Lead Manager has represented and agreed that an offering of the Notes may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a “**Belgian Consumer**”) and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Notes, directly or indirectly, to any Belgian Consumer.

## **General**

No action has been or will be taken in any jurisdiction by the Republic or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, each Joint Lead Managers has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## TRANSFER RESTRICTIONS

*As the following restrictions will apply with respect to the Notes, purchasers of the Notes are advised to consult legal counsel prior to making an offer, resale, pledge or transfer of any of the Notes. References to “Notes” in this section should, as appropriate, be deemed to refer to the Notes themselves and/or beneficial interests therein.*

By its purchase of Notes, each purchaser of Notes will be deemed to have acknowledged, represented and agreed with the Joint Lead Managers and the Issuer as follows:

1. the purchaser (a) (i) is a QIB within the meaning of Rule 144A, (ii) is acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (iii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A or (b) is purchasing the Notes in an offshore transaction pursuant to and in accordance with Regulation S;
2. the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws;
3. the Restricted Global Certificate and any Restricted Certificate will bear a legend to the following effect, unless the Republic determines otherwise in accordance with applicable law:

“THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”) OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE REPUBLIC OF ALBANIA THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“**QIB**”) WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), OR (4) TO THE REPUBLIC OF ALBANIA OR ITS AFFILIATES.”

4. it understands that the Republic, the Joint Lead Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Notes is no longer accurate, it shall promptly notify the Republic and the Joint Lead Managers;
5. if it is acquiring any Notes for the account of one or more investor accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
6. it acknowledges that neither the Republic, the Joint Lead Managers nor any person representing the Republic or the Joint Lead Managers, has made any representation to it with respect to the Republic or the offer or sale of any of the Notes, other than (in the case of the Republic) the information contained in this Offering Circular, which Offering Circular has been delivered to it and upon which it is relying in making an investment decision with respect to the Notes. It acknowledges that the Joint Lead Managers make no representation or warranty as to the accuracy or completeness of this Offering Circular.

## GENERAL INFORMATION

### Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in the Republic of Albania in connection with the issue and performance of the Notes. The issue of the Notes is authorised pursuant to Law № 9665 of 18 December 2006 “On state borrowing, public debt and state guaranteed loans in the Republic of Albania”, as amended as amended by Law № 92 of 22 December 2022.

### LEI Code

The Issuer’s LEI code is 254900EDM43U3SGRND29.

### Listing of Notes

An application has been made to the FCA for the Notes to be admitted to the Official List and an application has been made to the London Stock Exchange for the Notes to be admitted to trading on the Market; however, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or around the Issue Date, subject only to the issue of the Notes.

The expenses in connection with the admission of the Notes to the Official List and to trading on the Market are expected to amount to approximately £6,750.

### Clearing Systems

The Global Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg.

In respect of the Regulation S Notes, the ISIN is XS2636412210 and the common code is 263641221. In respect of the Rule 144A Notes the ISIN is XS2636412301 and the common code is 263641230.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L 1855 Luxembourg.

### Legal and Arbitration Proceedings

Save as described in “*The Republic of Albania—Legal Proceedings*” and set out on pages 58-60 of this Offering Circular, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware) which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial position of the Issuer.

### Foreign Language

The language of the Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

### No Significant Change

There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2022.

## **Documents on Display**

Copies of the following documents (together with English-language translations thereof, where applicable) will, when published, be available for inspection on the website of the Republic (<http://www.financa.gov.al/eurobondi-2/>):

- (a) this Offering Circular;
- (b) the Deed of Covenant;
- (c) English translations of Law № 9665 of 18 December 2006 “On state borrowing, public debt and state guaranteed loans in the Republic of Albania”, as amended by Law № 92 of 22 December 2022;
- (d) the budget of the Issuer for the current fiscal year; and
- (e) budgetary review bulletins for the last three fiscal years.

## **Yield**

As at the Issue Date and on the basis of the issue price of the Notes, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes, as calculated on the pricing date, the yield to maturity of the Notes is 6.125% *per annum*. This is not an indication of future yield.

## THE ISSUER

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