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**Unit D-3: Excessive deficit procedure (EDP) 2**

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**FINAL FINDINGS**  
**Eurostat technical visit to Albania**  
**11-12 November 2015**

## **Executive summary**

Eurostat carried out a technical visit to Albania on 11-12 November 2015 with the aim to assess the preparatory work of the Albanian statistical authorities in the EDP statistical framework. In particular, the visit focused on the institutional arrangements, on the underlying sources available to produce government finance statistics (GFS) according to ESA 2010, and on methodological issues for national accounts and EDP statistics, such as delimitation of the government sector, definition and valuation of government debt for EDP purposes, accrual recording, government guarantees and capital injections. Moreover, Eurostat reviewed the latest transmission of EDP tables by the Albanian authorities, explained the content of EDP tables, and clarified their compilation.

As regards institutional arrangements Eurostat pointed out that the National Statistical Institute is the formal EDP reporting authority. Therefore, Eurostat regards the NSI as the key partner for GFS/EDP purposes. Eurostat welcomed the establishment of a national EDP statistics Working Group including representatives from INSTAT, the MoF and the BoA and asked that working arrangements under the Working Group are further developed in order to ensure the lead of INSTAT on EDP compilation issues. Furthermore, Eurostat recommended that a Memorandum of Understanding specific to EDP statistics requirements is agreed by the three institutions (INSTAT, the MoF and the BoA).

Regarding data sources, Eurostat urged the Albanian Statistical Authorities to organise appropriate data reporting systems (through questionnaires, surveys, etc.) covering all elements needed in the context of EDP statistics, and including data for all entities of general government not covered by the AGFIS database. Eurostat also noted the urgent need of developing the necessary IT infrastructure, to support statistical work in the domain of GFS and EDP data.

Eurostat reviewed the latest submission of EDP notification tables by INSTAT. Eurostat noted that financial accounts are crucial in verifying the EDP data and urged the Albanian Statistical Authorities to produce a complete set of financial accounts of the general government as a matter of priority. The Albanian statistical authorities also agreed to transmit to Eurostat the currently available list of extra budgetary units, and to put in place appropriate data collection mechanisms to ensure the availability of data and information on public corporations.

Eurostat discussed the compatibility of the Albanian government debt with the Maastricht debt concept. The Albanian statistical authorities agreed to improve the consolidation of debt between central government and social security funds in the EDP tables. INSTAT should also add any Currency and Deposits liabilities in the general government gross debt reported in EDP table 1 when appropriate. Eurostat stressed that all debt instruments must be valued at face value for EDP purposes. The Albanian authorities agreed in particular to report Treasury bills at face value in the subsequent notifications. The Albanian statistical authorities will add all debt assumed by general government in the general government gross debt.

Eurostat recalled that general government definition under ESA2010 contains all non-market units controlled by government, such as extra-budgetary funds, non-profit institutions and public corporations. In this respect, INSTAT agreed to prepare a complete register of general government units. INSTAT will further refine the calculation of the market/non-market test, obtaining the necessary detailed information from the public corporations. Furthermore, the respective qualitative criteria for government control and market/non-market distinction should also be applied. INSTAT

will analyse in particular the case of the public corporation FAF sh.a to determine if it is a captive financial institution, according to ESA 2010 and the MGDD.

As regards the issue of accumulated unpaid bills of government, INSTAT will collect and provide detailed information on government arrears by categories (flows and stocks). Eurostat recalled that whenever there is a final court decision, the corresponding payable should be accounted in government accounts at the time of the decision, under some conditions following the MGDD provisions. INSTAT and Eurostat agreed that the deficit for previous years will be corrected to accommodate for payments of arrears, only from year 2010 onwards.

Eurostat noted that currently there is no mechanism in place to avoid building-up of new arrears in the local government subsector and urged the Albanian statistical authorities to devise a strategy to ensure recording of all local government expenditure on an accrual basis.

Eurostat recommended moving from cash towards a time-adjusted cash method for the reporting of taxes and social contributions. A similar adjustment method should also be applied to wages.

INSTAT and the Ministry of Finance will work together towards the proper recording of EU flows according to the accrual principles and to the provisions in the MGDD.

The Albanian statistical authorities will establish contacts with the Ministry of Defence in order to meet the delivery accrual principle for military equipment.

INSTAT will check the economic reality for a loan by government to the public corporation KESH to establish if this transaction could be treated as a capital transfer.

INSTAT will refine the table provided on dividends paid to government by public corporations, which currently may include payments which are not dividends. INSTAT will also apply the super-dividend test.

The Albanian statistical authorities agreed to continue regular, biannual transmission of the EDP notification tables to Eurostat, on a best effort basis.

Eurostat very much appreciated the openness and transparency demonstrated by the statistical authorities, the documentation provided before the visit, as well as the fruitful discussions.

## **Eurostat technical visit to Albania, 11-12 November 2015**

### **Agenda**

- 1. Introduction and overview of EDP statistics work**
- 2. Institutional responsibilities for EDP/GFS data compilation and reporting**
- 3. Data sources for EDP/GFS statistics**
- 4. Revision policy, EDP inventory**
- 5. Presentation of EDP tables and the related questionnaires**
- 6. Follow-up of the Oct 2015 EDP reporting of Albania– analysis of EDP tables, discuss any remaining issues from previous notifications**
- 7. Methodological issues and recording of specific government transactions**
  - 7.1. Compliance of the Albanian general government debt with Maastricht debt definition
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- 8. Other issues**
  - 8.1. ESA 2010 Transmission Programme
  - 8.2. Any other business

## **Introduction**

Eurostat carried out a technical visit to Albania on 11-12 November 2015 with the aim to assess the preparatory work of the Albanian statistical authorities in the EDP statistical framework, as well as to review the institutional responsibilities as regards EDP compilation and reporting. In particular, the visit focused on the institutional arrangements, on the underlying sources and methods used to produce government finance statistics (GFS) according to ESA 2010, and on methodological issues for national accounts and EDP statistics, such as delimitation of the government sector, definition and valuation of government debt for EDP purposes, accrual recording, government guarantees and capital injections. Moreover, Eurostat reviewed the latest transmission of EDP tables by the Albanian authorities, explained the content of EDP tables, and clarified their compilation.

The delegation of Eurostat was headed by Mr Eduardo Barredo Capelot (Director of Directorate D "Government Finance Statistics (GFS) and quality"). Eurostat was also represented by Ms Madeleine Mahovsky (Head of Unit D3, "Excessive deficit procedure 2"), Mr Georgios Papadopoulos (Unit D3, EDP desk officer for Albania), and Mr Denis Besnard (unit D1, "Excessive deficit procedure and Methodology"). Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the Delegation of the European Union to the Republic of Albania also participated in the meeting as observers.

Albania was represented by the National Statistical Institute (INSTAT), the Ministry of Finance (MoF) and the National Central Bank (Bank of Albania).

With regard to procedural arrangements, the Main Conclusions and Action Points will be sent within days to Albania for comments. Within weeks, the Provisional Findings will be sent to Albania in draft form for review. After this, Final Findings will be sent to Albania and published on the website of Eurostat.

Eurostat appreciated the good co-operation with the Albanian statistical authorities as well as the documentation provided before and during the visit.

## 1. Introduction and overview of EDP statistics work

The Director of the Eurostat Directorate D "Government Finance Statistics and quality" briefly described the EDP-related procedures, covering in particular the following points:

- Aim of the visit (notably, to review institutional responsibilities, data sources, sector classification issues and the recording of specific government transactions under ESA 2010 rules; to review EDP tables and questionnaires submitted by the Albanian statistical authorities on a best effort basis);
- Legal basis for the EDP/GFS (notably ESA 2010, Council Regulation 479/2009 as amended, Eurostat's Manual on Government Deficit and Debt (MGDD), Eurostat decisions and Eurostat guidance notes on methodological issues);
- Eurostat's Inventory of EDP processes (also available in the GFS section of Eurostat's website): EDP notifications, EDP Inventory, methodological advice to Member States, EDP dialogue visits, the EDP Statistics Working Group, ad hoc information requests by Eurostat, etc.

## 2. Institutional responsibilities for EDP/GFS data compilation and reporting

- *EDP compilation has just started in Albania and the underlying processes are still under development.*
- *The Ministry of Finance is responsible under law for compiling government finance statistics (the IMF's GFSM 2014 is followed).*
- *After Albania gained candidate country status in June 2014, the NSI (INSTAT) is active in the EDP/GFS field.*
- *An inter-institutional Working Group on EDP was established with participants from INSTAT, the Ministry of Finance and the Bank of Albania.*
- *The Bank of Albania (BoA) is responsible for financial accounts; these are still under development.*
- *A Memorandum of Understanding (MoU) between the EDP co-compilers does not exist yet. A MoU is under development, and discussions are ongoing between the three institutions.*

### *Background*

Currently, collection and reporting of Government finance statistics in Albania is under the MoF's responsibility. Since Albania gained candidate country status INSTAT has been active in developing capacity to produce EDP statistics, and has provided EDP tables to Eurostat on a best effort basis since Oct 2014. Under the current setup, INSTAT currently receives the vast majority of the data used for the EDP purposes from the MoF.

A Working Group (WG) focusing on EDP statistics production has been established. The main institutions participating in the WG are those involved actively in compiling General Government national accounts and the first efforts to compile EDP tables:

1. Instituti i Statistikave (INSTAT): Albanian National Statistical Institute.
2. Ministria e Financave: The Ministry of Finance (MoF).
3. Banka e Shqipërisë: The Bank of Albania (BoA).

Regarding GFS and EDP statistics, INSTAT is responsible for the compilation of General Government non-financial accounts, according to ESA 2010 (still on a best effort basis at this stage). INSTAT is also responsible for the classification of institutional units to the General Government sector, following ESA 2010 rules.

The MoF is responsible for deficit and debt in the context of working balance of the budget as well as for all forecasts.

The Bank of Albania (BoA) is responsible for financial accounts, but these are still under development.

The final approval of EDP data to be transmitted to Eurostat is given by INSTAT.

Currently there is no formal agreement (such as a Memorandum of Understanding) between the three institutions involved in GFS/EDP statistics compilation (INSTAT, MoF, and the BoA).

### *Discussion*

Eurostat pointed out that the National Statistical Institute is the formal EDP reporting authority in all member states (notwithstanding one case, in which for historical reasons it is the National Bank). Therefore, Eurostat regards the NSI as the key partner for GFS/EDP purposes. Typically, the Ministry of Finance and often also the National Bank are involved in the compilation of these statistics. In this respect, the pivotal role of INSTAT, the National Statistical Institute of Albania, in the context of EDP was emphasized. INSTAT must take the lead in EDP compilation, and it must solely be responsible for issues of statistical nature.

Furthermore, Eurostat stressed the importance of formalising operational arrangements between the institutions involved in the compilation of GFS/EDP statistics. In this respect Eurostat encourages countries to sign a MoU (or an equivalent service level agreement) formalising working arrangements between the NSI, and the other key co-compilers of EDP statistics, usually Ministries of Finance and National Central Banks.

Eurostat recalled that the main reasons for concluding the formal operational arrangements are to set-up a structure for partnership and formalise GFS working arrangements, to reinforce (at both institutional and EDP process level) the statistical independence of the NSI, to promote transparency and clarify the roles and the interpretations of regulations, and to set out decision-making procedures between the institutions. In this respect Eurostat clarified that the agreement (Memorandum of Understanding or similar) should specifically cover the working arrangements concerning GFS/EDP statistics. The Albanian authorities confirmed that a Memorandum of Understanding (MoU) formalising the working arrangements between the three institutions (INSTAT, MoF, and the BoA) is under development.

The Albanian statistical authorities summarized the current state-of-play, and the efforts undertaken to further develop cooperation between the three institutions. Currently, INSTAT mainly relies on data coming from the database of the MoF. There are known difficulties in obtaining other necessary data and information, for instance, from extra-budgetary units and public corporations (the issue of data sources is covered in detail in par. 3 below). The Bank of Albania is mainly responsible for Financial Accounts but these are still under development. A working group has already been established between the institutions, to discuss GFS/EDP issues.

INSTAT explained that a fundamental problem remains the lack of an adequate IT system underpinning the statistics and sources. This means that a lot of time is wasted in manually completing tasks that one would normally expect to be done automatically.

### *Conclusions and Action Points*

**Action point 1.** Eurostat recommends that a Memorandum of Understanding specific to EDP statistics requirements is agreed by the three institutions (INSTAT, the MoF and the BoA). Eurostat is ready to provide further advice on this issue.

**Action point 2.** Eurostat welcomes the establishment of a national EDP statistics Working Group including representatives from INSTAT, the MoF and the BoA. Eurostat asks that working arrangements under the WG are further developed in order to ensure the lead of INSTAT on EDP compilation issues.

### **3. Data sources for EDP/GFS statistics (presentation by Albanian authorities)**

- *Accounting by General government institutions in Albania is on a cash-basis, but with some accrual elements relating to receivables and payables.*
- *Accounting of the extra-budgetary units is reported to be "according to IFRS" (to be confirmed). Also for public corporations.*
- *INSTAT's data sources are mainly the MoF databases (for budgetary units).*
- *Some extra-budgetary units and most public corporations are not consolidated in General Government. INSTAT is trying to identify such units, collect data and consolidate them to GENERAL GOVERNMENT for the purposes of EDP compilation.*
- *Basis of Public Accounting is mixed accrual/cash: some expenditure is recorded on an accruals basis, revenue is on a cash basis.*

### *Background*

Currently the main data source for GFS compilation is the database of the MoF (also known as the AGFIS accounting system). Information about disbursements of the energy sector, which is not included in AGFIS, is provided by a separate Debt system (known as DMFAS). GFS tables are compiled according to IMF 2014 Manual (GFSM 2014). Data will be revised on an annual basis.

INSTAT also gathers necessary information from the balance sheets of public units. This information is gathered by INSTAT for the estimation of semi-budgetary units which are not included in the AGFIS database.

### *Discussion*

The Albanian statistical authorities briefly explained the current state-of-play as regards data sources. It was noted that currently there are no established data flows for a great number of units and information: some extra-budgetary units and public corporations are not covered and INSTAT does not have an established access to this information. INSTAT noted that it has already started collecting information on extra-budgetary units. Eurostat asked that the currently available list of extra-budgetary units is transmitted to Eurostat, as a first step, although work will continue to further refine and populate the list.

INSTAT explained that the main data source used for EDP compilation is the accounting system of the MoF, known as the AGFIS accounting system (Albanian Government Financial Information System). AGFIS includes information on the financial management of the budgetary General Government of Albania. The budgetary



government entities (Central Government, Local Governments and special funds) are the main financial reporting entities in the system. AGFIS is established on a modified accrual basis. The system is able to produce accrual-based statements – in accordance with main system settings, and also cash basis reports. The system can produce consolidated financial statements for the budgetary general government (monthly and annual reports).

Following the provisions of the Organic Budget Law, expenditure (goods & services) is recorded on an accruals basis, while revenue is on a cash basis. Capital expenditure is on a cash basis.

The coverage of units in AGFIS is almost complete for Central, Local Government and Social Security Funds (budgetary units only). Extra-budgetary units are not included in the system. The system only records flows. Another limitation is that the system cannot distinguish between general government subsectors (i.e. only "general government" reports can be produced). Since the creation of the national WG on EDP issues, INSTAT can directly access the AGFIS system.

Currently, only a small number of public units can access the database directly. Thus, most recording is done centrally in the ministry and by the Treasury District Offices. It should be noted that the units that report to AGFIS are the so-called "spending units", and these may not necessarily correspond to institutional units in ESA terms.

Public Debt is managed through another system, the debt management and financial analysis system (DMFAS).

Other sources used by INSTAT to compile EDP tables are the various reports published by the MoF, such as budget execution/fiscal analysis reports, and debt analysis reports and bulletins.

Information on extra-budgetary units is not available elsewhere. INSTAT contacted directly some known extra-budgetary units, using special requests to the official source. The data collected were the full set of accounts of the Balance sheets of these units.

Although there exists a national registration centre for all corporations (both private and public), the National Centre of Registration and some additional information on semi budgetary units and public corporations can thus be gathered, the information gathered by the Centre does not follow any standardised format. Thus it is impossible to automatically access this information (e.g. through a database). Instead, INSTAT relies on manually accessing the information unit by unit, and analysing on case by case basis the quality and type of data available. Therefore, although a national register of business units exists, this is not managed by INSTAT, and the lack of data standardisation means that, in practice, the register is of very little use for statistical purposes.

Eurostat encouraged INSTAT to devise a strategy which would allow necessary information on extra-budgetary funds and public corporations to be gathered. Until a fully automatic system is set up, Eurostat pointed out that INSTAT can already start gathering information from the units using questionnaires.

The Albanian authorities explained that AGFIS records transactions (flows) on the basis of spending units. Only very few spending units can directly access and record their transactions in AGFIS.

The majority of spending units maintain contacts with debtors and creditors (Suppliers, Tax Payers); raise commitment, expenditure requests, manage receivable transactions (actually, receivables are managed only in cash bases). These units have no authority to directly manage execution of expenses and revenues but they rely on Treasury District Offices (TDOs) for such tasks. There are 36 TDOs in Albania and these have on-line

access to AGFIS. Spending units submit their transactions to their TDO, which records them in AGFIS.

Spending Units manage their own fixed assets and inventory outside of AGFIS. They submit summary accounting reports to TDOs, in order to update accounting balances in the Treasury's General Ledger. This action is performed at the end of the year.

Special Funds have direct access in AGFIS and register their budget execution reports on monthly basis.

Tax Authorities are the controlling unit for the quality of information from semi-budgetary units. Information on semi-budgetary units is not included in AGFIS and separate collection is necessary.

Currently all revenue including taxes, interest, wages, social contributions is recorded on a cash basis. Eurostat explained the principle of time-adjusted cash which can be used in for instance for taxes and social contributions, instead of pure accrual recording.

Recording of receivables and payables is also an issue, especially for Local Government (see par. 7.3 for more details).

Details on general government debt are presented in par. 7.1 below.

As regards external audit arrangements of the accounts of public units, Eurostat enquired about the current state-of-play. The Albanian authorities explained that the National Court of Audit audits the budget. It was noted that the recommendations of the Court of Audit are currently no mandatory. Eurostat encouraged the Albanian statistical authorities to establish areas of possible cooperation with the National Court of Audit on EDP/GFS related issues.

#### *Conclusions and Action Points*

**Action point 3.** INSTAT is urged to modernise their IT system, taking into account all data compilation and reporting requirements.

**Action point 4.** Eurostat urges the Albanian Statistical Authorities to organise appropriate data reporting systems (through questionnaires, surveys, etc.) covering all elements needed in the context of EDP statistics, and including data for all entities of general government not covered by the AGFIS database.

**Action point 5.** The Albanian statistical authorities will transmit to Eurostat the currently available list of extra budgetary units, and will put in place collection mechanisms (questionnaires, surveys, etc.) to ensure the availability of data on public corporations. Data collected will also include questions on changes in government's participation in the equity of the corporations, as well as the outstanding amounts of government's participation in the equity. Deadline (for transmission of the current list of extra budgetary units<sup>1</sup>): end Nov 2015.

#### **4. Revision policy, EDP inventory**

- *INSTAT does not have an EDP data revision policy yet.*
- *INSTAT has provided a first draft of the EDP inventory.*

Eurostat explained the importance of an adequate revision policy in the government accounts, both as regards standard revisions as well as ad-hoc cases. In particular,

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<sup>1</sup> The list of extra budgetary units available at the time has been provided.

Eurostat highlighted the need that EDP data reported in the April notification period are as complete as possible, so that revisions between the October and April notification are minimised for the data of the previous year.

INSTAT has provided a first draft of an EDP inventory to Eurostat. Eurostat encouraged the Albanian authorities to keep updating and completing the document.

## **5. Presentation of EDP tables and the related questionnaires (by Eurostat) &**

## **6. Follow-up of the October 2015 EDP reporting – analysis of EDP tables -**

- *Since Oct 2014 Albania has been sending to Eurostat EDP notifications on a best effort basis. Progress is still needed to arrive to a submission close to ESA2010 and MGDD requirements.*
- *Financial accounts for government are still under development by the Bank of Albania*

### *Background*

In the Oct 2015 submission INSTAT completed and sent the EDP notification tables to Eurostat on a best effort basis. Although several compulsory rows in all tables contain missing information, Table 1 was fully completed except for planned data. As regards the EDP questionnaire tables, only tables 1.1, 1.2, 3, and 9.1 contain some entries.

The supplementary table on the financial crisis have not been completed. Eurostat is not aware of any government support intervention towards financial institutions.

Financial accounts do not yet exist in Albania. Bank of Albania has undertaken the project to compile financial accounts. According to information received by the Albanian authorities prior to the visit, some progress has been made for financial accounts of the financial sector.

### *Discussion*

Eurostat reviewed the latest transmission of EDP tables by the Albanian authorities, explained the content of EDP tables, and clarified their compilation. As Albania had provided the EDP notification for Oct 2015 just prior to the visit, Eurostat used the latest submitted tables (Oct 2015 notification) as a reference.

Eurostat enquired about the method used to calculate the working balance for each government subsector. The Albanian authorities explained that, until recently only a working balance figure for general government was available. However, since 2014 information is available to allow splitting the working balance per subsector. The working balance split reported in the EDP tables for earlier years is estimated.

The Albanian authorities confirmed that no financial transactions are included in the working balance. Reimbursement of VAT tax is treated as negative revenue in government accounts.

The Albanian authorities confirmed that currently interest is recorded on a cash basis. By end 2016, the authorities estimate that the updated debt system will allow them to compute interest on accrual basis.

Eurostat noted that as regards EDP questionnaire it seems that information is available for at least some of the tables, and encouraged INSTAT to start completing more tables in the Questionnaire.

Eurostat explained some issues of consistency between T2A and 3B which is currently not fully respected, for the information already reported.

Eurostat stressed the importance of compiling financial accounts for general government. Eurostat explained that financial accounts are essential in order to verify data in the tables. The Albanian authorities explained that compilation of financial accounts is work in progress; there are many difficulties, including lack of sources. For instance, since there is no information available about public corporations, there is no information readily available for the category *Shares and other equity*. Moreover, a full balance sheet of government accounts does not exist, and it is not expected that the authorities will be able to produce one in the near future.

Eurostat also enquired about the underlying reasons for some revisions noted in the latest transmission, as regards the Apr 2015 transmission.

### *Conclusions and Action Points*

**Action point 6.** Eurostat urges the Albanian Statistical Authorities to produce a complete set of financial accounts of the general government as a matter of priority. Deadline: This work should be completed in 2016 (a progress report should be sent together with the Apr 2016 notification).

## **7. Methodological issues and recording of specific government transactions**

### **7.1. Compliance of the Albanian general government debt with Maastricht debt definition**

- *The MoF regularly publishes in its website a report on government debt, however, the national definitions do not follow the "Maastricht debt" concept.*
- *INSTAT has been making an effort to calculate a Maastricht debt stock (reported in EDP table 1) based on various sources, mainly the MoF. Some issues still remain to be clarified.*

### *Background*

The MoF compiles and publishes reports on government debt quarterly. These reports provide information on Domestic public debt of the Central Government, Guaranteed domestic debt by the Central Government, External public debt of the Central Government, Guaranteed external debt by the Central Government, and Local Government Debt.

Domestic Debt includes government securities (treasury bills and treasury bonds) issued on the domestic market by the Central Government and debt guaranteed in the domestic market by the Central Government. External Debt includes external loans contracted between external creditors and the Central Government and the instruments issued on the international financial markets by the Central Government.

As noted in the MoF debt reports, the classification of the debt data used in the bulletins mostly complies with the international standards indicated in the TFFS's "Public Sector Debt Statistics - Guide for Compilers and Users".

Since October 2014, INSTAT provides to Eurostat (on a best effort basis together with the EDP notifications) a general government gross debt figure. In the EDP debt figure

only amounts of Guarantees called are included (i.e. those paid by government); remaining guarantees (i.e. those paid by the borrowers) are not included.

As General Government sector coverage is currently incomplete (see also par. 7.2 below) debt of missing entities (such as non-market public corporations) is currently not taken into account in the reported debt.

### *Discussion*

Eurostat explained the Maastricht debt concept and pointed out that it should not include government guarantees, as long as the corresponding debt has not been assumed. Eurostat pointed out that, if the corresponding debt has not been assumed, Government guarantees are considered as contingent liabilities in national accounts. Furthermore, Maastricht debt should not include any accrued interest (some exceptions are specified in the MGDD), it should be reported on a consolidated basis (also between general government subsectors) and it should also include debt of public corporations which have been reclassified to general government. Clearly, the general government sector delineation should be the same for both Maastricht debt and government net borrowing/lending (see next point on the delimitation of general government for the further details).

The Albanian authorities explained that the national concept is the "public debt", which comprises all debt of central and local government units plus guaranteed debt. The categories of reported public debt are Loans and Securities.

Eurostat pointed out that general government debt should be reported at face value. The Albanian authorities explained that Securities are sold at par. Treasury bills are sold at a discounted value, and they are reported in discounted value and not at face value. Eurostat asked the Albanian authorities to start reporting all debt instruments at face value.

Eurostat explained the concept of consolidating debt in a subsector, as well as, between the subsectors of general government.

Eurostat explained the concept of debt assumed by government, such as, for instance, in the case of a public corporation's loan which is actually serviced by the government. Eurostat noted that all cases of assumed debt must be duly reported in the tables and added to government gross debt.

Eurostat also recalled that under specific cases noted in the MGDD restructured trade credits may be added to government debt.

Eurostat also recalled that Maastricht debt also includes the category of "Currency and deposits". In that respect, Eurostat enquired about a specific case of deposits, previously reported as part of general government debt. The Albanian authorities explained that these are deposits in special government accounts; however the funds do not actually belong to government. Eurostat confirmed that any deposits in government accounts that do not actually belong to government should be included in the "currency and deposits" liabilities of government and added to the government debt.

### *Conclusions and Action Points*

**Action point 7.** The Albanian statistical authorities will improve the consolidation of debt between central government and social security funds in the EDP tables, starting from the April 2016 notification.

**Action point 8.** INSTAT should add F.2 liabilities (Currency and Deposits) in the general government gross debt reported in EDP table 1 when appropriate, starting from the April 2016 notification, onwards.

**Action point 9.** Eurostat stressed that all debt instruments must be valued at face value for EDP purposes. Starting from the April 2016 notification onwards, all debt instruments reported in the general government gross debt in EDP table 1 should be reported at face value, notably T bills currently reported at discounted value.

**Action point 10.** The Albanian statistical authorities will ensure that all debt assumed by general government has been included in the gross debt reported in EDP table 1, starting from the April 2016 notification, onwards.

## **7.2. Delimitation of general government, 50% rule and qualitative criteria**

### **7.2.1. Register of general government units**

### **7.2.2. Register of entities controlled by general government**

### **7.2.3. Review of specific units (railway, motorway, transportation companies, airports, ports, public utility companies, public hospitals etc.)**

- *The current delineation of general government in Albania contains budgetary units of central and local government, some extra-budgetary units of central government, and the social security funds.*
- *There is no information available for most extra-budgetary units, as well as for the public corporations. Therefore, these are not included in the general government sector.*

#### *Background*

The currently used General Government definition does not include all extra-budgetary units. Additionally, no data are available as regards public corporations to distinguish between the market and non-market corporations, and it may also be the case that some government controlled corporations are not identified as such. The result is that the current delineation of general government is not complete.

INSTAT is aware of these deficiencies as they had also been discussed in the clarification rounds of the EDP notifications, and is working towards identifying all units that should be included in general government.

The current definition of general government sector in Albania is as follows:

- Central Government: this sub-sector of government is composed of the majority of budgetary spending units and also extra-budgetary units.
- State Government: this sub-sector does not exist in Albania.
- Local Government: this sub-sector of government is composed of several spending units which perform their activity under local government. These spending units are classified in local government because their activities are performed in a particular territory of Albania.
- Social security funds: this sub-sector of government comprises two institutional units: "Institute of Social Security" and "Insurance Fund of Compulsory Health Care".

It should be noted that the definition of a unit in the Albanian budget is the "spending unit", and this may not necessarily correspond to the ESA concept of institutional unit.

Prior to the visit INSTAT provided the completed questionnaire on government controlled entities classified outside general government, on a best effort basis.

### *Discussion*

Eurostat explained the ESA concept of general government and the ESA 2010 criteria used to decide if a unit is under government control, and if a unit is market or non-market. Eurostat stressed that it is the responsibility and role of INSTAT, as the national statistical institute, to develop and maintain the Albanian general government statistical register, following ESA2010 and MGDD rules, to be used for EDP/GFS purposes.

Eurostat recalled that under ESA 2010 there several qualitative criteria to determine if a unit is under government control. Under ESA 2010 a unit is judged to be market or non-market according to the so-called market/non-market quantitative test, as well as several qualitative criteria. Eurostat explained that all these rules should be applied by INSTAT to determine whether a unit should be classified in general government or not. Eurostat recalled that the Albanian authorities should start gathering necessary information, focusing as a priority on the largest units. Already available information should be used where feasible to determine the classification of units.

INSTAT briefly described the current state-of-play in Albania. The main problem is the lack of data sources on extra-budgetary units and public corporations. Since necessary data and information are often missing, INSTAT cannot apply the ESA government control criteria. Eurostat suggested, as a first step, that INSTAT obtains lists of government controlled units directly from the ministries. Additionally, INSTAT can develop questionnaires to be sent to the public corporations for data collection.

Eurostat discussed the questionnaire on government controlled entities classified outside general government, provided prior to the visit by INSTAT. Data on the financial results are missing for some units. Consequently the market / non-market test cannot be calculated for these units. Data are reported for most of the larger enterprises. Some entities appear to clearly fail the test and Eurostat explained that in such cases INSTAT should further check. If the unit is indeed controlled by government and non-market that it should be classified in general government.

Eurostat noted that, judging on the data provided, the largest public corporation in Albania is KESH (largest in terms of liabilities). KESH (Albanian Power Corporation jsc) is the government controlled and owned electricity company of Albania.

Eurostat also explained that, according to ESA 2010 rules and the MGDD, publicly controlled units classified in the financial corporations sector could be captive financial institutions. According to the rules, captive financial institutions controlled by government should be classified in the general government sector. Therefore, all such units should be tested against the criteria for captive financial institutions described in the MGDD. In this respect, Eurostat noted in particular the company Shoqëria e pare Financiare e Zhvillimit FAF sh.a, a public financial institution financing small businesses and SMEs in Albania.

### *Conclusions and Action Points*

**Action point 11.** Eurostat recalls that general government definition under ESA2010 contains all non-market units controlled by government, such as extra-budgetary funds, non-profit institutions and public corporations. INSTAT should prepare as a matter of priority a complete register of general government units. Deadline: Work should be completed in 2016. Annual updates should be taking place thereafter.

**Action point 12.** INSTAT will further refine the calculation of the market/non-market test, obtaining the necessary detailed information from the public corporations. Furthermore, the respective qualitative criteria for government control and market/non-market distinction should also be applied.

**Action point 13.** INSTAT should analyse the case of the public corporation FAF sh.a (Shoqëria e pare Financiare e Zhvillimit) to determine if it is a captive financial institution. Deadline: end Feb 2016

### 7.3. Implementation of the accrual principle

- *Arrears, unpaid government obligations, have been accumulating during the last 10 years. The amount recognised so far (2014) is 72 billion LEK (~5.2% of GDP).*
- *These arrears were not previously recorded in the deficit of the corresponding years when the expenditure was incurred.*
- *Part of this amount (~33 billion LEK) was paid within 2014. For the paid amount, information on the initial due date was recorded, thus allowing INSTAT to recognise the impact on the deficit of the corresponding year.*
- *Measures have been taken so that unrecognised, unpaid bills cannot accumulate in the future. The current set of measures does not effectively cover the local government units.*

#### *Background*

The Albanian authorities provided information on the issue of accumulated unpaid bills of government prior to the visit. The total outstanding amount had been estimated at 72 billion ALL (Albanian LEK, ISO 4217 code: ALL). This amount concerns unpaid bills and outstanding tax refunds and were not previously captured by official statistics. Since 2014, the government adopted a clearance and prevention strategy. It aims, with the support of loans from the IMF and the World Bank, to clear arrears within three years and implement substantial improvement in public finance management to avoid their re-emergence.

In the April 2015 INSTAT provided more information on the arrears and the steps of the project undertaken to recognise and settle them:

1. *In a first step, the government units presented to government all the supposed claims that they had with the government. The information gathered at this stage is general and includes general information on the type of transaction and the unit responsible.*
2. *In the second step all invoices were checked for consistency. If the claim was approved then the MoF approved the final transaction toward the unit responsible. If not, the arrear should be cancelled out. During 2014 only claims which were clearly an obligation of government were paid. The remaining claims would be further checked in the following years.*
3. *Step three was the actual payment of the recognised obligations. During this step the full information on the invoices was recorded and more detailed information was thus available. Only in this step the original date when the arrear had been issued was recorded electronically.*



Since April 2014 a strategy has been put in place to eliminate the arising of new arrears: reports on obligations can be generated in AGFIS (in which purchase orders are also recorded) and any outstanding obligations are inherited automatically in the new fiscal year's budget, reducing it.

### *Discussion*

Eurostat enquired about the state-of-play regarding the known arrears (unpaid bills, previously not recorded in the deficit). Eurostat also enquired about the strategy adopted in order to avoid new arrears building up.

The Albanian authorities explained that in the past it was possible for units in the Central and Local government subsector to order and receive (e.g. goods and services), or postpone payment of outstanding refunds. Information on such outstanding amounts was not always recorded in the system. After the issue of outstanding bills and obligations was discovered, government adopted a new strategy to help eliminate arising of new arrears. Under the new setup (effective from 2014 onwards), a government unit cannot register an order in AGFIS if there is no commitment for the expense in the budget. Therefore, every order and invoice is registered in the system only if funds can be expected to realise the payment. This is currently the situation for all budgetary Central government units. However, as regards Local Government units there could still be a possibility that a unit orders goods or services, beyond the amounts earmarked in the budget, as the units do not need pre-authorization and they present the invoice to the Treasury only at a later stage.

The Albanian authorities clarified that the currently estimated amount of 72bn ALL concerns only central government. Until 2014 an amount of about 33 bn ALL had been paid out of the total of 72bn ALL. The plan is to settle the total amount until 2017. However, obligations will be recognised and paid only if they are accompanied by appropriate official documents (i.e. official invoices). Therefore, it may well be the case that part of the total amount is written off eventually.

INSTAT explained that detailed information is only available for the paid invoices, because information on the date of issuance of the invoice is only recorded in the system when the obligation is recognised and the decision is taken to pay it. Therefore, INSTAT was able to record in the deficit of the corresponding year, the paid amount only (~33 bn ALL), but no detailed information is yet available on the remaining (currently unpaid) amount. The Albanian authorities explained that, in fact, information is available only for the year 2010 onwards, and added that it is very difficult, if not impossible, to allocate expenditure to years prior to 2010, because no information exists for earlier years.

Eurostat agreed that expenditure related to the clearance of the old outstanding bills and refund obligations can be allocated to the deficit of the years 2010 onwards only, since no information is available for earlier years.

Eurostat recalled that, generally speaking, trade credits could be added to the Maastricht debt under certain conditions, as explained in the MGDD and the Eurostat Decision on trade credits of 31 July 2012.

Eurostat noted that whenever there is a final Court decision, any corresponding payable amount should be recorded in government accounts at the time of the Court decision according to the MGDD provisions.

Eurostat welcomed the newly adopted strategy to avoid the building-up of new arrears. However, Eurostat noted that, as regards local government units, the current setup does not exclude the possibility that new unpaid obligations accumulate in the future.

Finally, Eurostat noted that part of the amount of outstanding bills concerns goods and services. Eurostat recalls that in that case, the corresponding amounts are in fact trade credits and as such they should be reported in EDP Table 4.

#### *Conclusions and Action Points*

**Action point 14.** INSTAT will collect and provide detailed information on government arrears by categories (flows and stocks). Information on current state-of-play should be provided by April 2016 and an updated table should be sent with each notification.

**Action point 15.** Eurostat recalls that whenever there is a final court decision, the corresponding payable will be accounted in government accounts at the time of the decision, according to MGDD provisions.

**Action point 16.** INSTAT will correct the deficit for previous years to accommodate for payments of arrears, only from year 2010 onwards.

**Action point 17.** Eurostat notes that currently there is no mechanism in place to avoid building-up of new arrears in the local government subsector and urges the Albanian statistical authorities to devise a strategy to ensure recording of all local government expenditure on an accrual basis.

### **7.3.1. Taxes and social contributions**

- *Albania reports taxes and social contributions on a cash basis.*

#### *Discussion*

Eurostat recalled that under ESA 2010 taxes and social contributions receivables and payables should be recorded on an accrual basis. Since this is difficult in practice for taxes and social contributions, most countries use a time-adjusted cash method instead. Eurostat explained the concept of time-adjusted cash, and invited the Albanian authorities to adopt this recording in the Albanian government accounts.

#### *Conclusions and Action Points*

**Action point 18.** Eurostat recommends moving from cash towards a time-adjusted cash method for the reporting of taxes and social contributions. A similar adjustment method will also be applied to wages.

### **7.3.2. Interest**

- *Currently Albania reports interest expenditures on a cash basis.*

#### *Discussion*

The issue was covered under par. 5 & 6 above. The Albanian authorities confirmed that currently interest is recorded on a cash basis. By end 2016, the authorities estimate that the updated debt system will allow them to compute interest on an accrual basis.

Eurostat explained that under ESA 2010 interest should be recorded on an accrual basis.

## **7.4. Recording of specific government transactions**

### **7.4.1. Government operations relating to the financial crisis**

- *There are no reported cases of direct interventions of government to support financial institutions.*

#### *Discussion*

Eurostat explained that supplementary data on government interventions to support financial institutions are collected and published alongside EDP data with every EDP notification. Eurostat enquired if in Albania there have been cases where government had to intervene to support a banking institution, e.g. in the context of the recent financial crisis.

The Albanian authorities explained that until this moment, there have been no such cases. Eurostat recalled that the situation as regards financial institutions should be monitored regularly so that any occurring government interventions can be recorded appropriately.

### **7.4.2. Government guarantees (one-off, standardised), guarantee calls**

Guarantees were covered under par. 7.1.

Eurostat clarified that only guarantees called should be added to government debt. Debt guaranteed by government and not assumed is a contingent liability of government and as such it is not added to government debt.

### **7.4.3. Recording of EU flows**

- *The current arrangements for managing EU funds/foreign aid need to be streamlined.*

#### *Discussion*

Eurostat recalled that under ESA 2010, as a general rule, EU transfers (and other foreign aid) have no impact on government net lending/borrowing (B.9). In other words, possible time lags observed between the revenue and expenditure flows, or in the financing of these transactions, should not result in improving (or worsening) the net lending/net borrowing of the general government in national accounts.

The Albanian authorities briefly presented the current setup as regards managing EU funds. The Albanian authorities agreed that the issue should be carefully checked, and a strategy should be devised to allow identification and proper recording of EU flows in government accounts, following ESA and MGDD provisions.

#### *Conclusions and Action Points*

**Action point 19.** INSTAT and the MoF will work together towards the proper recording of EU flows according to the accrual principles and to the provisions in the Manual.

### **7.4.4. Recording of military equipment procurement**

- *Military expenditure is currently reported on a cash basis.*

#### *Discussion*

Eurostat explained that according to the MGDD military expenditure should be recorded on a delivery basis, and not when payment is made, or goods are ordered.

INSTAT confirmed that currently this is not the case in Albania.

Eurostat noted that the issue of military expenditure should be reviewed by INSTAT in cooperation with the ministries involved. A strategy should be developed to allow the necessary information to reach INSTAT on a regular basis.

#### *Conclusions and Action Points*

**Action point 20.** The Albanian statistical authorities will establish contacts with the Ministry of Defence in order to meet the delivery accrual principle for military equipment.

#### **7.4.5. Debt assumptions, debt cancellations and debt write-offs**

- *INSTAT stated that there have been no debt assumptions, debt cancellations and debt write offs for 2011-2014, however, there is evidence that debt assumption could exist.*

These issues were covered under par. 7.1. Eurostat clarified the applicable rules.

#### **7.4.6. Capital injections in public corporations**

- *It is currently difficult to obtain information on capital injections into public corporations, since information is fragmented in various ministries and departments.*

#### *Discussion*

Eurostat enquired about cases where government supported public corporations by injecting capital. In particular, Eurostat recalled that KESH (the public electricity company) is one of the largest public corporations in Albania. KESH (Albanian Power Corporation jsc) is the government controlled and owned electricity company and it is a very important corporation in the Albanian economy. KESH state joint stock trading company has the leading role and is the key producer of electricity in Albania. The production of electricity in Albania relies mainly on hydropower and electricity theft was widespread especially in the past. It is known that the government has been providing support to KESH in various forms, including for example through guarantees and subsidies.

INSTAT recalled that there has been a case of a loan which government acquired on behalf of KESH. Eurostat asked the Albanian authorities to gather further information on this case. Eurostat noted that in ESA terms the decisive factor is not the legal form of an instrument or transaction but the economic substance.

Eurostat encouraged INSTAT to enquire about capital injections directly to the ministries involved, until data from the public corporations themselves can be obtained.

#### *Conclusions and Action Points*

**Action point 21.** INSTAT will check the economic reality for the 4.4 bn Lek loan by government to the public corporation KESH to establish if this transaction could be treated as a capital transfer. Deadline: end Feb 2016

#### **7.4.7. Dividends, super dividends**

- *Currently, there is no centrally available information on dividends paid.*

#### *Background*

INSTAT provided before the visit some information on dividends is available in the IT system of the ministry.

#### *Discussion*

Eurostat recalled that according to the MGDD any dividend paid should be analysed to establish whether the amount is a real dividend or withdrawal of equity, the so-called super-dividend test. With the help of the Albanian authorities, Eurostat reviewed the information on dividends paid, provided by INSTAT before the visit. Eurostat and INSTAT concluded that at least some of the reported payments are not dividend payments, but more likely taxes/fees collected by a specific government unit on behalf of government.

Eurostat suggested that the Albanian authorities will further check the information provided in the table, and make the necessary corrections. Additionally this work should also benefit from the inclusion of relevant information from the public corporations survey.

#### *Conclusions and Action Points*

**Action point 22.** INSTAT will refine the table provided on dividends paid to government by public corporations, which currently may include payments which are not dividends. INSTAT will also apply the super-dividend test. Deadline: April 2016

#### **7.4.8. Public-Private Partnerships (PPP) and concessions**

- *In the EDP clarification request of Oct 2014 INSTAT indicated that no data on PPPs can yet be provided.*

Eurostat briefly explained the MGDD rules on PPPs and the distinction between PPPs and concessions. Eurostat asked the Albanian statistical authorities to obtain and analyse PPP contracts.

The Albanian authorities explained that there exists specific legislation on PPPs in Albania. INSTAT agreed that contracts should be analysed.

#### 7.4.9. Privatization

- *INSTAT indicated that no information is available for privatizations currently. In various reports/sources there are references to privatization activity both past and current.*

Eurostat enquired about cases of privatization. INSTAT commented that there was a recent case where government directly sold a fixed asset. Eurostat asked the Albanian authorities to start collecting information on privatizations. Eurostat noted that disposing shares (a financial asset) is a financial transaction without impact on the deficit.

The Albanian authorities noted that information on privatization will be available once a data flow covering public corporations is established.

#### 7.4.10. Others: emission trading permits, sale and leaseback operations, UMTS, securitisation, financial derivatives

Eurostat enquired about the sale of mobile phone licences. INSTAT recalled that there are recent sales and promised to investigate.

Eurostat noted that according to the MGDD a key issue to check is whether the licence is transferable. If the license is transferable it may be treated as a sale of asset, otherwise the operation is treated as rent.

As regards financial derivatives, the Albanian authorities noted that swaps are currently used to hedge exchange risks. It was agreed that the Albanian authorities will investigate in more detail the terms of such agreements.

### 8. Other issues

#### 8.1. ESA 2010 Transmission Programme

As regards ESA 2010 Transmission Programme, Albania provided Table 2 General government aggregates with the Oct 2014 notification, on a best effort basis. INSTAT has included the ESA Transmission Programme in the Eurostat requirements annexed to the draft MoU between the EDP co-compilers.

#### 8.2. Any other business

No further issue had been identified.

As a general point, Eurostat and the Albanian authorities agreed that the current practice of providing biannually the EDP notification tables and the EDP questionnaire on a best effort basis should continue. The following action point has been agreed:

**Action point 23.** The Albanian statistical authorities will continue regular transmission of the EDP notification tables to Eurostat, on a best effort basis.

Furthermore, Eurostat and the Albanian authorities agreed that for all action points for which a specific deadline is not mentioned, INSTAT should send progress reports on the implementation of the action points together with the EDP notification. A first progress report on all points will be sent together with the Apr 2016 EDP notification.

**Eurostat technical visit to Albania**  
**11-12 November 2015**  
**List of participants**

**European Commission - DG ESTAT**

Eduardo Barredo-Capelot, Director D

Madeleine Mahovsky, Head of Unit D3

Denis Besnard, Unit D1

George Papadopoulos, Unit D3

**European Commission - DG ECFIN**

Andras Tari, DDG2.D.1

**Delegation of the European Union to Albania**

Ledia Muço – Economic and Trade Advisor

**ALBANIA**

**INSTAT**

Gjergji Mano - Director of National Account Directory

Elton Alika – Head of sector of National Account of Public Administration and Regional Accounts

Gentian Sinakoli – Specialist of sector of National Account of Public Administration and Regional Accounts

Eva Xhava – Specialist on Quarterly National Accounts

**Bank of Albania**

Sonila Taçi – Head of Sector

Monetary and Financial Statistics Sector

Financial Stability and Statistics Department

Refika Fejzo – Head of Financial Accounts Office

Monetary and Financial Statistics Sector

Financial Stability and Statistics Department

## **Ministry of Finance**

Mimoza Dhembli – General Director of Budget Department

Aurela Velo – Director of Business Process Directory, Treasury Department

Mimoza Peco – Director of Treasury Operations Directory, Treasury Department

Irena Gjika – Head of Sector, Public Debt Department

Anxhela Kasapi –Financial Reporting specialist, Financial Reporting and Accounting Sector, Treasury Department

Erisa Radhani – Expert in Central Harmonization Unit of Financial Management and Control

Mimoza Pilkati – Director of Treasury Operations

Marsed Harizi – Specialist of Macro Department

Elida Fara – Head of Office Treasury

