

Managing fiscal risks in Albania: Challenges, comparative insights, and policy recommendations

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Abstract

Fiscal risk management is a key aspect of good public financial management, especially in developing countries such as Albania. This paper presents the principal sources of fiscal risks in Albania, with particular reference to state-owned enterprises (SOEs), public-private partnerships (PPPs), and contingent liabilities arising from natural disasters. Drawing on recent fiscal reports, IMF assessments, and national budgetary documents, the paper discusses the transparency, evaluation, and mitigation of fiscal risks in the Albanian context. Although considerable progress has been made in fiscal reporting and risk disclosure, crucial gaps remain in monitoring and mitigating quasi-fiscal liabilities and climate-related risks. Comparative perspectives with regional peers are included to highlight regional trends and best practices. The findings show that while Albania has made progress, major challenges remain, particularly in integrating climate and disaster risks into fiscal frameworks and in improving the governance of SOEs and PPPs. Our examination suggests that a comprehensive and transparent fiscal risk management framework is needed to support Albania's fiscal sustainability and resilience to potential shocks. The paper concludes with practical recommendations directed to policymakers and fiscal authorities for the construction of a more robust and forward-looking fiscal risk framework. This article addresses the question: "How resilient is Albania's fiscal framework to key economic and structural risks?", using mixed-methods combining scenario analysis, comparative benchmarking, and policy evaluation. Results highlight Albania's progress in fiscal transparency but point to gaps in SOE governance, PPP oversight, and disaster risk financing. This article is among the first to examine Albania's fiscal risks systematically by combining scenario analysis, cross-country benchmarking, and stress testing. By placing Albania's experience in regional and international contexts, the study contributes new empirical evidence on fiscal risk management in emerging economies.

Keywords: Fiscal Risks, Fiscal Risk Statement (FRS), Public Financial Management (PFM) Strategy, Albania, Western Balkans.

Jel Codes: H63, H12

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1. Introduction

Fiscal risk management has become a key priority for governments globally, especially following successive global crises in the last two decades. Fiscal risks, which are deviations from baseline fiscal projections caused by unforeseen shocks, have been heightened globally by macroeconomic volatility, geopolitical instability, climate change, and public finance structural weaknesses. These risks, which the International Monetary Fund (IMF) has identified, include macroeconomic shocks, contingent liabilities, natural disasters, and financial sector vulnerabilities. The COVID-19 pandemic, for instance, has highlighted how health crises can easily spill over into fiscal domains, creating massive, unexpected deficits and debt accumulation among the developed and developing economies. Similarly, higher energy prices globally, supply chain dislocations, and the economic fallout of the Ukraine-Russia war have generated pervasive risk pressures on the fiscal front, forcing governments to reconsider their risk management frameworks. The Western Balkans region in which Albania is located has its own fiscal risks shaped by regional and global forces. The region has conventionally been vulnerable to macroeconomic shocks due to its small open economies, massive public debt, relatively underdeveloped financial markets, and extensive foreign financing dependency. These nations, which also include Serbia, North Macedonia, Montenegro, and Albania, have all experienced the fiscal pressures brought about by the global crises combined with domestic structural problems such as inefficient management of state-owned enterprises (SOEs), ill-regulated public-private partnerships (PPPs), and limited disaster risk financing instruments. Regional nations are also highly exposed to natural disaster risks such as earthquakes, floods, and landslides, which are material contingent fiscal risks (World Bank, 2021). The fiscal risk profile of Albania has been impacted firsthand by five years of built-up shocks and underlying structural issues. The 2019 earthquake incurred damages that totaled approximately €1 billion or 6.4% of GDP, thus placing immense pressures upon the government budget to recover. This was followed by the COVID-19 pandemic that reduced economic activity and forced the government to implement large-scale fiscal support policies, driving the public debt to a record high of 74.5% of GDP in 2020. Subsequently, the 2021 onset of the global energy crisis and the economic spillovers of the Ukraine-Russia war imposed the additional pressures, particularly on Albania's energy SOEs that were forced to absorb the shock of higher electricity prices. Despite progressive budget consolidation that lowered public debt to less than 58% of GDP by 2024, Albania remains vulnerable to a range of sources of fiscal risk. These are macroeconomic shocks, underperformance of SOEs, contingent liabilities from PPPs, and natural disasters.

Against this background, the need for good fiscal risk management can no longer be ignored. Effective management of fiscal risks is crucial to guarantee debt sustainability, maintain fiscal discipline, provide macroeconomic stability, and enhance investor and public confidence. Countries with strong fiscal risk frameworks are better placed to absorb external shocks, avoid procyclical fiscal tightening in times of crisis, and maintain access to domestic and international capital markets (IMF, 2016). For such developing economies as Albania, whose institutional capacity remains in the making and whose fiscal space is very limited, fiscal risk management is not merely a question of technique—it is an imperative of strategy. One of the most important recent actions of Albania in its fiscal management efforts has been disclosing the first Fiscal Risk Statement (FRS) in 2023. While FRS 2023 is not yet officially published, it is prepared annually, and much of its content is included in the government's annual budget reports. According to Ministry of Finance (2023), FRS brings macro-fiscal risk analysis, reviews of SOEs, exposures of PPPs, and disaster risks together in a single reporting framework, constituting a major move towards higher fiscal transparency. The introduction of such an instrument reflects best international practice and is consistent with IMF and World Bank recommendations.

This research relies on Albania's Fiscal Risk Reports and other global sources to provide an extensive examination of the fiscal risk condition in the country. Overall research questions driving this research are:

1. What are the main sources of fiscal risk in Albania?
2. How efficient are current structures for dealing with fiscal risk?
3. What policy reforms need to be introduced to increase Albania's fiscal resilience?

The organization of the paper is as follows: Section 2 provides an overview of the regional and international literature on fiscal risks. Section 3 presents the data and methodology used in analysis. Section 4 provides a close examination of Albania's fiscal risks and comparative lessons from other Western Balkan countries. Section 5 discusses challenges and opportunities and interprets the results. Section 6 offers concrete policy recommendations, and Section 7 summarizes the key conclusions and recommendations for future research.

This research is among the first to comprehensively evaluate Albania's fiscal risks and bring it in line with international fiscal risk governance standards. By situating Albania's practice within the Western Balkan and international contexts, the paper contributes new empirical evidence to fiscal risk literature for emerging economies.

Despite a growing body of literature on fiscal risks, limited empirical research has been conducted focusing on Albania. Most analyses are either regional or diagnostic in nature. This paper fills that gap by providing a structured, country-level assessment aligned with international fiscal risk governance frameworks.

2. Literature Review

Fiscal risks are typically categorized into macroeconomic risks (GDP shocks, inflation, exchange rates), structural risks (SOEs, PPPs), and contingent liabilities (lawsuits, guarantees). Fiscal risks are typically underreported or underestimated, which leads to surprise fiscal stress. (Cebotari, 2008). IMF (2016) asserts that the four pillars of fiscal risk management are identification, assessment, mitigation, and disclosure. SOE risks have been widely studied. SOEs are likely to create quasi-fiscal deficits that expose public accounts to risk (Baldacci et al., 2011). In Serbia, selective privatization and governance reforms reduced SOE risks (IMF, 2023). In North Macedonia, the creation of a centralized PPP unit strengthened risk management (World Bank, 2021). Disaster risk financing incorporates multi-layered approaches, blending budgetary reserves, contingent credit, and insurance (Clarke and Mahul, 2011). Climate risk must be mainstreamed into fiscal frameworks, particularly in countries at risk of disaster like Albania (GFDRR, 2014). Fiscal vulnerabilities of Albania are shared with other small economies, according to World Bank (2021), which stress the necessity of greater transparency, better oversight of SOEs, and more advanced risk-financing instruments. While the typology is conceptually clear, its operational use in fiscal policy planning remains inconsistent across developing countries.

The concept of fiscal risk has been center stage in the world economic discourse, particularly since the global financial crisis in 2008. Fiscal risks as deviations in fiscal performance from the levels expected in the future, arising from events that are not directly within the control of policymakers (OECD, 2015). These may range from macroeconomic shocks such as below-trend growth or commodity price shocks to the triggering of contingent liabilities, such as guarantees on lending or public-private partnerships. IMF (2016) emphasizes that fiscal risks not only impose budgetary pressures but also undermine fiscal sustainability, macroeconomic stability, and the credibility of fiscal policy institutions. The literature on fiscal risk management has expanded a lot over the past twenty years. Allen, Hemming, and Potter (2013) present an international framework for public financial management. They stress the importance of having tools to identify and reduce risks in developing economies. Cottarelli (2011) connects fiscal risks to debt sustainability, claiming that unmanaged contingent liabilities can quickly turn into real costs during crises. However, few studies examine this in small transition economies. Eyraud and Wu (2015) argue that the effectiveness of fiscal rules mostly relies on how well they fit into institutional frameworks and enforcement methods. Despite this, the use of such rules in the Western Balkans is still limited. This paper builds on these key contributions by applying them to the Albanian context and examining their relevance, especially concerning SOEs, PPPs, and liabilities related to disasters.

The IMF and the World Bank have developed comprehensive guidelines and diagnostic tools for nations to identify and address fiscal risks. The IMF's Fiscal Transparency Code and its associated Fiscal Transparency Evaluations (FTEs) offer a consistent framework for assessing fiscal risk disclosure practices. Countries that conduct regular fiscal risk assessments and issue fiscal risk statements tend to benefit from lower borrowing costs and higher fiscal credibility (MF, 2019). The World Bank also developed tools like the Public Expenditure and Financial Accountability (PEFA) framework, which assesses fiscal risk management practices, particularly those relating to SOEs, PPPs, and subnational

governments. While the IMF (2016) offers a robust framework for fiscal risk analysis, its practical implementation in countries like Albania remains underexplored. Furthermore, few studies (e.g., World Bank, 2021) assess the operational outcomes of risk mitigation policies. This paper builds on such frameworks but critically evaluates their adaptation in the Albanian context, considering institutional capacity and local governance dynamics.

Research on SOEs as fiscal risk factors has identified their potential to generate implicit liabilities and exact high budgetary costs. Baldacci et al. (2011) argue that quasi-fiscal deficits, unrecorded fiscal obligations by SOEs that are not shown in the budget, are bound to undermine fiscal discipline and substitute for priority expenditures. This is a key problem in sectors such as energy, water, and transport, where SOEs usually experience soft budget constraints. Serbia's progress in containing SOE-related risks via governance reformation and partial privatization, which have improved operating efficiency and mitigated fiscal exposure has been confirmed by IMF (2023). Similarly, World Bank (2021) finds that North Macedonia has strengthened its PPP setup by establishing a centralized monitoring office and enhancing project appraisal capacity.

Natural disaster risk and climate change are becoming more and more regarded as an essential part of fiscal risk management. Disaster risk financing requires a multi-layered framework that integrates budgetary buffers for minor and frequent disasters, contingent credit lines for shocks of medium scale, and market-based instruments such as catastrophe bonds for frequent but intense disasters (Clarke and Mahul, 2011). The Global Facility for Disaster Reduction and Recovery (GFDRR) (2014) argues that integrating disaster and climate risk into fiscal frameworks is essential for high-exposure nations such as Albania, the Philippines, and Caribbean island states. Without proactive risk management, governments can resort to costly ex-post financing, e.g., budget reallocations, tax increases, or foreign borrowing, which can undermine fiscal sustainability.

The Western Balkan experience provides optimistic comparative lessons for Albania. Serbia has taken the lead in SOE reform, avoiding fiscal risks through restructuring and part-privatization. The steps have successfully resolved operational inefficiencies and fiscal transfers, reports IMF (2023). Centralized PPP oversight has been used in North Macedonia, improving the project appraisal function and reducing contingent liabilities (World Bank, 2021). Montenegro, though, has struggled with higher public debt and macroeconomic risk, as well as a constrained economic foundation and tourism dependence. Regional reviews by the European Commission and World Bank emphasize institutional reforms, in SOE governance, PPP procurement, and disaster risk financing, to ensure fiscal resilience.

Despite this growing amount of global and regional literature, however, there is also a major gap in country studies focusing on Albania. Albania has been included in cross-country analysis and in regional diagnostics but comparatively few studies characterize its unique fiscal risk profile in detail. This is important, as Albania is subject to natural disasters, it has a large portfolio of SOEs, and it has growing use of PPPs for financing the construction of infrastructure. The recent completion of Albania's Fiscal Risk Statement (FRS) is an important step forward in increased fiscal risk transparency but has so far not been the subject of broad-based academic or policy-oriented research. The FRS consolidates macro-fiscal risks analysis, SOE performance, PPP liabilities, and disaster risks into a single reporting framework, and it is an excellent basis for future research (Ministry of Finance, 2023).

Briefly, global literature stresses that there is a requirement for solid fiscal risk management frameworks that consolidate transparency, institutional reforms, and technical tools. Although cross-country analysis offers instructive lessons, there is clearly a need for more in-depth, country-by-country analysis of Albania's fiscal risk environment. This paper has the objective to fill this void by offering a general assessment of Albania's fiscal risks, making use of the FRS and best international practice, and recommending country-specific policy recommendations to strengthen fiscal resilience. In sum, while existing literature outlines the architecture of fiscal risk management, this study contributes a country-specific application with empirical depth, focusing on Albania's evolving risk profile.

3. Data & Methodology

This study is grounded on a mixed-methods approach, combining quantitative analysis of data with qualitative assessments. The primary sources of data include the annual budget reports of the government submitted by the Ministry of Finance of Albania; the World Bank's Albania Country Economic Memorandum (2021); the Draft Disaster Risk Fiscal Assessment (2025); and the IMF Article IV Consultation Reports (2023–2024). Quantitative analysis includes fiscal indicators like GDP growth, debt-to-GDP proportions, fiscal deficit, SOE arrears, and PPP obligations. Qualitative analysis comprises comparison of Albania's fiscal risk management regimes with regional comparators, namely Serbia, North Macedonia, and Montenegro. Stress-testing methods are used in assessing sensitivity of fiscal indicators to macroeconomic shocks, SOE performance, PPP obligations, and disaster risk.

Source	Type of Data	Used For
Ministry of Finance of Albania (2023–2024)	FR Reports, SOE arrears, PPP exposures, macro indicators	Trend analysis, baseline scenarios
World Bank (2021, 2025)	Country diagnostics, fiscal risk benchmarking, PPP management	Regional comparison, good practices
IMF Article IV Reports (2023–2024)	Macroeconomic forecasts, fiscal balance, SOE governance	Stress testing, macro-fiscal modeling
Draft Disaster Risk Fiscal Assessment (2025)	Natural disaster risk and fiscal impact estimates	Contingent liability simulation
National Budget Documents (2020–2024)	Debt, deficit, revenues, projections	Baseline fiscal indicators, verification

Table 1. Summary of Key Data Sources, Variables, and Uses

Source: Author's compilation

The quantitative portion of the analysis uses historical and recent data on key fiscal aggregates. Public debt, GDP growth, fiscal deficit, and SOE arrears were sourced from the Ministry of Finance annual budget documents. Public finance reports, IMF staff papers, and World Bank diagnostics provided data on PPP exposures and contingent liabilities. For comparison within the region, the report uses IMF and World Bank statistics for Serbia, North Macedonia, and Montenegro over the past five years. These statistics allow us to compare Albania's fiscal performance and risk exposure to that of similarly macroeconomic and institutional characteristics of countries.

Trend analysis deals with movement in the key fiscal variables over time, particularly before and after major shocks such as the 2019 earthquake, the COVID-19 pandemic, and the 2021–2022 energy crisis globally. Ministry of Finance (2023) shows that public debt sharply rose after the COVID-19 crisis, to 74.5% of GDP in 2020, but fell to below 58% in 2024. This resulted from fiscal consolidation. SOE arrears have fallen by 15% since 2023, reflecting improved liquidity management, and PPP liabilities have remained below the statutorily imposed 5% of last-year tax collections. Trends are benchmarked against regional comparators to capture structural trends and gaps.

The relative regional comparison examines Albania's fiscal risk profile in relation to its Western Balkan peers. Serbia has progressed significantly in reform of SOE and limited privatization, and in reducing fiscal exposures (IMF, 2023). North Macedonia has established a centralized PPP supervision unit, enhancing risk management in infrastructure projects. Montenegro, however, remains beset by excessive debt and constricted fiscal space, and reflects the dilemma of small tourist economies. Comparing Albania's indicators and institutional framework to these peers, the analysis points out what are the strength points and which areas need development.

A main element of methodology includes scenario analysis and stress testing. Stress testing is employed for the estimation of possible effects on Albania's public finances from macroeconomic, financial, and catastrophe-related shocks. For example, using historical fiscal elasticities and multipliers, the study estimates the effects of a 2% GDP shock on the fiscal deficit, debt-to-GDP ratio, and primary balance. Such a shock would increase the debt-to-GDP ratio by around 4 percentage points and widen the fiscal deficit by 1–1.5% of GDP, as reported by Ministry of Finance (2023). Similarly, the analysis considers SOE performance shocks—such as liquidity shortages or revenue underperformance—and their probable budgetary implications. PPP risks are estimated using contingent liability models following World Bank (2016) guidelines. Finally, the analysis incorporates Draft Disaster Risk Fiscal Assessment (2025) estimates to estimate the average annual fiscal losses of natural disasters, which are estimated at around \$130 million per year in Albania. While the analysis does not rely on an econometric simulation model, it applies internationally recognized scenario-based methods using parameter estimates reported by the IMF and Ministry of Finance.

3.1. Limitations and Assumptions

This study assumes fiscal elasticities and shock responses based on IMF benchmark estimates for emerging markets. These assumptions help make comparisons across countries, but they may not fully reflect Albania's unique fiscal dynamics or institutional traits. While the approach converges the richest information available on fiscal risk, it has some limitations. First, using government sources underestimates and may exclude specific risks associated with contingent obligations, municipal bodies, and litigation case risks. By way of example, discretionary allocations to and guarantees under some PPP contracts for each dollar have things buried hidden, reducing fiscal exposure determinations. Secondly, the timeliness and quality of SOE data vary markedly across sectors, with energy and water SOEs possessing more robust reporting frameworks compared to transportation or postal services. Thirdly, regional comparison is made using internationally available public data that may not fully capture country-specific institutional particulars or recent reform efforts. Finally, stress testing can be useful in delivering indicative estimates, but it relies on past relationships that may not hold in unprecedented or extreme shocks.

Despite these limitations, the mixed-methods approach used in the study allows for a balanced and multi-faceted assessment of Albania's fiscal risks. Through the intersection of quantitative trend analysis, regional benchmarking, and scenario-based stress tests, the paper aims to provide policymakers and researchers with insightful information regarding Albania's fiscal risks and potential policy responses.

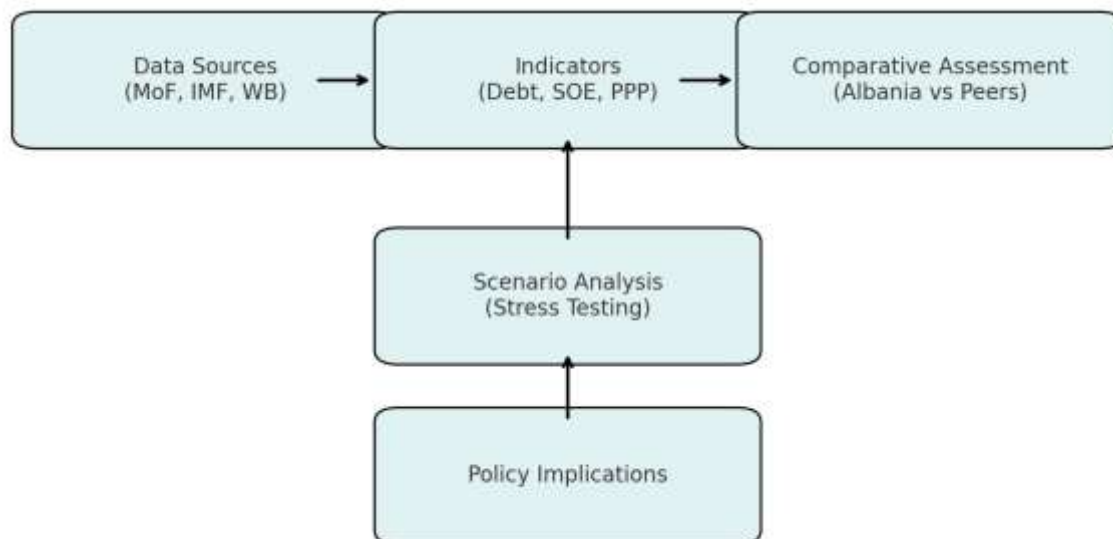


Figure 1. Methodological Flow: From Data Sources to Policy Implications

Source: Author's elaboration based on institutional and international datasets.

4. Results

Macroeconomic Risks: Albania grew at an estimated level of 3.6% in 2024, with projections of around 3.8% growth in 2025. Inflation eased to around 3.9% in 2024, helped by monetary tightening and improved global supply chains. Public debt, which peaked at 74.5% of GDP in 2020, has declined steadily to around 58% as of 2024, in accordance with persistent fiscal consolidation. Nevertheless, the economy remains vulnerable to external shocks like commodity price volatility and regional tensions. The Ministry of Finance (2024) approximates that a 1% GDP shock would increase the fiscal deficit by 0.5–0.7% of GDP and the debt-to-GDP ratio by approximately 2–3 percentage points.

State-owned enterprises (SOEs) have experienced some improvement on the financial side but remain plagued by major challenges. SOE arrears decreased by about 17% in 2024, with notable improvements in the energy sector, particularly by OSHEE and KESH. Water utilities, however, are still not financially viable, depending on municipal subsidies and accumulating arrears. While energy SOEs' liquidity has

improved, structural problems persist, including deteriorating infrastructure, governance problems, and political interference (Ministry of Finance, 2024).

Public-private partnerships (PPPs) are becoming an ever-increasing tool for Albania's infrastructure development. The payments have been below the statutory threshold of 5% of previous-year tax collections for the state, but concerns regarding project appraisal, risk allocation, and reporting standards continue. North Macedonia's experience with having a central unit for PPPs has strengthened risk assessment and transparency and represents a good model to follow by Albania, as evaluated by the World Bank (2021). Albania at present lacks an institution that focuses on PPPs, raising the likelihood of budgetary slippages, cost overruns, and hidden liabilities.

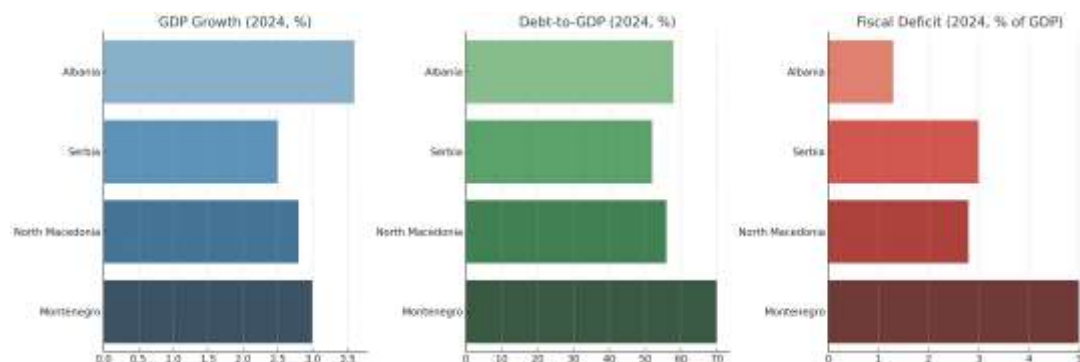
Natural hazard risk is the major fiscal threat to Albania, one of Europe's most hazard-prone nations. The earthquake in 2019 caused losses equivalent to ~6.4% of GDP and provides the fiscal benchmark. According to the Draft Disaster Risk Fiscal Assessment (2025), the average annual loss in Albania as a result of natural disasters now amounts to some \$140 million, which considers new risk assumptions including the influence of climate change, such as rising floods, landslides, and coastal erosion. Areas exposed to the risk include Shkodra, Lezha, and Vlora. Although the government now has a national plan for managing disaster risks at the national level, pre-established financing instruments such as contingency funds and insurance products remain scarce, and Albania depends on ad hoc re-allocations and donor assistance in the aftermath of high-magnitude disasters.

Contingent liabilities from legal litigation, court judgments, and international arbitration cases are uncertain fiscal charges. Various high-profile cases involving PPP contracts, expropriation, and investor-state arbitrations have attracted significant budget payments in recent years. Strengthening legal risk management skill in the Ministry of Finance, improving contract drafting, and undertaking fiscal provisioning are critical steps in reducing such liabilities.

Albania is compared to its regional peers, Serbia, North Macedonia, and Montenegro, in an informative manner. Serbia has made substantial improvement in SOE reform through partial privatization, the implementation of performance-based management contracts, and corporate governance improvement, which has reduced fiscal transfers and arrears (IMF, 2023). North Macedonia has improved its PPP framework through centralized administration and greater project appraisal capacity (World Bank, 2021). Montenegro, however, continues to grapple with high public debt, tight fiscal space, and a narrow economic base reliant on tourism, making it highly vulnerable to external shocks and natural disasters.

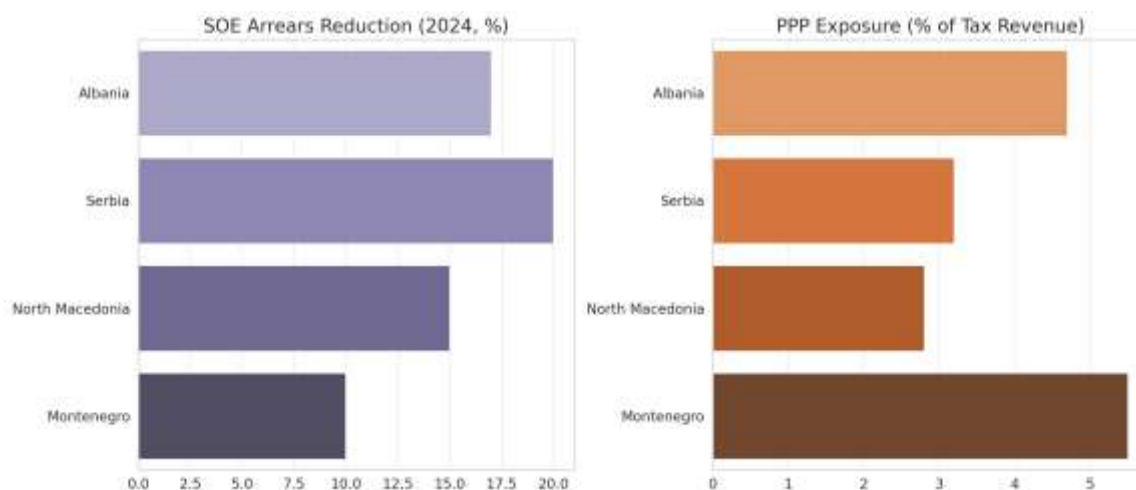
Based on key indicators, Albania's public debt-to-GDP ratio of ~58% is superior to Montenegro's ~70%, but remains above Serbia's ~52% and North Macedonia's ~56%. Fiscal imbalances have been better contained in Albania at ~1.3% of GDP, compared with Serbia (~3.0%), North Macedonia (~2.8%), and Montenegro (~5.0%). Arrears clearance in SOEs in Albania (17% in 2024) compares with regional peers as a whole, but the reform tempo in sectors other than energy, particularly water utilities, lags. PPP exposures are still under control, but the governance frameworks of Albania lag behind best-practice models seen in North Macedonia.

Tables and charts integrated into this analysis highlight these comparative patterns:



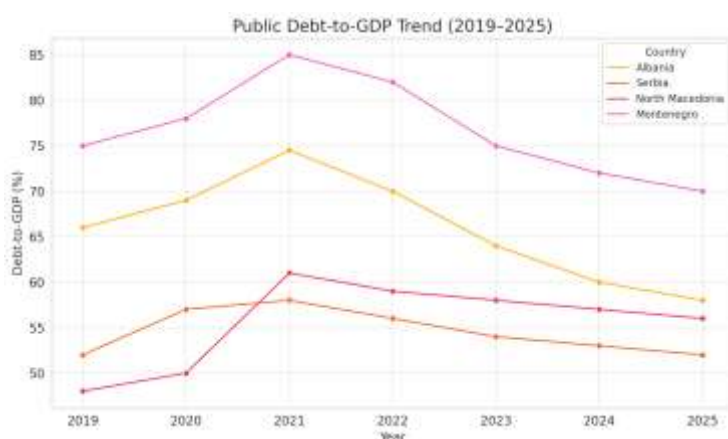
Graph 1. GDP growth, debt-to-GDP, and fiscal deficit (Albania and peers)

Source: Ministry of Finance (2024); IMF Article IV Reports (2023–2024); World Bank (2021–2024)



Graph 2. SOE arrears reduction and PPP exposure

Source: Ministry of Finance (2024); IMF (2023–2024); World Bank (2021–2024)



Graph 3. Public Debt to GDP Trend (2019-2025)

Source: Ministry of Finance (2024); IMF Article IV Reports (2021–2024); World Bank Macro Outlook (2023–2024)

These graphical indicators underscore Albania's achievement in lowering the public debt and SOE arrears management, along with underlining the vulnerabilities that currently exist relating to disaster risk and contingent liabilities.

In conclusion, Albania has achieved notable progress toward managing macroeconomic and SOE-related fiscal risk, but it still faces difficulties in managing PPPs, disaster risk finance, and addressing contingent liabilities. Regional peer lessons highlight that sustainable reforms are essential, supported by reinforced institutions and the adoption of global best practices. To increase fiscal resilience, Albania must further SOE restructuring, enhance PPP governance, and develop pre-agreed fiscal risk finance instruments.

5. Discussion

The findings of this paper represent a novel contribution to the understanding of fiscal risks in transition economies. By examining multiple dimensions—macroeconomic shocks, SOEs, PPPs, and climate-related risks—the study delivers a comprehensive and policy-relevant diagnosis for Albania, which can inform both domestic reforms and international technical assistance.

Albania made important progress: the FRS, SOE monitoring, PPP oversight, and a national disaster response strategy. Nevertheless, there are challenges: weak SOE governance; limited restructuring

plans; PPP contracts lacking independent feasibility studies; no dedicated disaster reserve fund or catastrophe insurance; and limited fiscal buffers. Regional best practices are Serbia's SOE restructuring, North Macedonia's PPP oversight, and Montenegro's diversification needs. Synchronizing institutional reforms with advanced risk instruments is crucial for long-term resilience as reported by IMF (2023).

The result of this analysis shows that Albania has made considerable progress in enhancing fiscal risk management, namely through macroeconomic consolidation and increased transparency. The creation of the Fiscal Risk Statement (FRS) is a milestone reform that has enhanced the government's ability to detect, monitor, and disclose fiscal risks. The downward adjustment of the public debt level from 74.5% of GDP in 2020 to about 58% by 2024 is an indicator of a successful fiscal consolidation journey, aided by sustained economic growth and cautious fiscal management. Sustained gains in SOE performance, highlighted by the reduction of arrears in the energy sector by 17%, also point toward improvement in mitigation of structural risks. The maintenance of PPP payments within the statutory ceiling of 5% of last-year tax revenues is also an indication of Albania's fiscal discipline.

Despite all these achievements, several weaknesses still persist. Management of SOEs remains weak, and restructuring has had little success outside the energy sector. Water utilities, municipal-owned enterprises, and transport SOEs remain on soft budget constraints, which continue to lead to chronic deficits and arrears. The lack of independent feasibility studies in PPP contracts threatens value for money, risk management, and fiscal exposure. Disaster risk financing is underdeveloped, with no reserve fund or catastrophe insurance mechanisms in place, exposing Albania to post-disaster fiscal shocks. Fiscal buffers are thin, constraining the government's capacity to absorb external and domestic shocks without borrowing or budget relocations.

Compared to regional peers, Albania has a mixed performance. On the positive side, Albania's fiscal deficit (~1.3% of GDP) is smaller than Serbia's (~3.0%), North Macedonia's (~2.8%), and Montenegro's (~5.0%). Debt-to-GDP ratios have been reduced more forcefully than in Montenegro but remain above Serbia and North Macedonia. SOE arrears reduction in Albania (17% in 2024) aligns broadly with regional trends but has been sectoral unbalanced. Serbia advanced SOE management through part privatization and performance contracts, with Albania trailing. North Macedonia's centralized PPP department provides a model of best practice for project appraisal, monitoring, and risk management—a function which Albania lags behind on. Montenegro's case points to the importance of diversification because Albania's openness to remittances, tourism, and energy exports exposes it to concentrated sectoral risks.

Institutionally and politically, Albania also faces several issues that hinder the full operationalization of fiscal risk management reforms. Institutional capacity within the Ministry of Finance has also been strengthened in macro-fiscal analysis and reporting but is weakened in specialized roles such as SOE monitoring, PPP risk assessment, and legal risk management. Coordination between government institutions, including line ministries, municipal governments, and regulatory institutions, is typically weak, leading to weak risk management initiatives. The political economy dimension is important too: SOE reform, especially in the power and water industries, is politically unpalatable due to apprehension regarding social impact, employment, and tariffs. Similarly, better PPP governance requires political will to apply transparency, accountability, and competitive procurement practices.

One of the most important strengths of Albania's fiscal risk management system is its growing promotion of transparency. Publication of fiscal data, budget implementation reports, and medium-term fiscal perspectives has grown in the past five years. The FRS, while not yet published in full, has provided a basis for the institutionalization of fiscal risk reporting, putting Albania in alignment with best global practice. Transparency is not merely vital for strengthening domestic accountability but is also critical to maintaining investor confidence, increasing credit ratings, and achieving access to international capital markets.

But all this is necessary without adequate risk mitigation measures. For the SOEs, this means more than monitoring to concrete restructuring measures, including cost recovery, tariff reforms, governance improvement, and where appropriate, privatization or public-private partnerships. For PPPs, the legal and institutional framework needs to be tightened in order to ensure that projects are subjected to rigorous appraisal, competitive tendering, and regular performance monitoring. For risk of disasters,

developing a multi-layered financing plan—blending budgetary buffers, contingent credit lines, and market instruments such as catastrophe bonds—would improve Albania's capacity for shock absorption.

Regional examples are helpful. Serbia's reform of its SOEs shows that clearly spelled-out performance objectives, independent auditing, and governance changes can keep fiscal risks in check and improve the delivery of services. North Macedonia's centralized PPP unit focuses on the necessity of strong institutions to provide value for money and risk management. Montenegro's exposures underscore the necessity to preserve fiscal buffers and attain economic diversification. Albania's key takeaway is that technical reforms must be supported by political commitment and cross-government coordination to make actual progress.

Generally, Albania has progressed significantly in the identification and oversight of fiscal risks as well as mitigation and building resilience gaps but still faces significant gaps in institution-building capacity, policy reform, and political will. Without them, Albania is susceptible to a range of fiscal risks to macroeconomic stability, debt sustainability, and long-term development prospects.

The findings hold fiscal authorities, investors, and partners for development policy relevance. Better fiscal disclosure and institutionalized SOE and PPP management are able to reduce risk premia, improve Albania's credit profile, and underpin long-run macroeconomic stability.

6. Policy Recommendations

As Albania's fiscal risks analysis indicates, there is no doubt that the country has achieved tremendous progress, but some areas are in need of further reform to enhance fiscal resilience. Achieving these priorities will not only make public finances more sustainable but also increase Albania's shock resilience, improve investment, and align its policies with international best practices.

1. SOE Governance:

Albania needs to move away from monitoring and reporting and go for concrete SOE reforms. Restructuring strategies in the poorly performing firms must be introduced, especially in the energy, water, and transport sectors. Implementation of performance-based management contracts tied to quantifiable operation goals is effective in enhancing efficiency and accountability. Independent external auditing must be made mandatory for improving transparency, identifying operating inefficiencies, and building investors' and citizens' confidence. Where appropriate, public-private partnerships (PPPs) or partial privatization would bring in capital, technology, and management expertise, particularly into non-core areas. Proper municipal utility governance is also essential because they bear a massive share of local fiscal risk.

2. PPP Management with International Standards

For more effective management of PPPs, Albania must establish a centralized unit for monitoring and overseeing PPPs similar to that in North Macedonia. This unit must undertake project appraisal, contract negotiation, risk analysis, and post-contract monitoring. Compulsory independent cost-benefit analysis and feasibility tests for all significant PPP projects will guarantee value for money and optimum risk allocation. Also, the government can make standardized PPP contracts along international guidelines (such as those of World Bank and OECD) to improve transparency, lower the risks of renegotiation, and lower fiscal exposure. Transparent, competitive tendering procedures and timely release of contract details are also important for improving governance and trust in government.

3. Budgeting for Climate and Disaster Risks:

Because Albania is very vulnerable to earthquakes, floods, and climate change, mainstreaming climate and disaster risks in the national budget process is imperative. This means establishing a specific national disaster reserve fund to pay for emergency response and recovery. Albania should also look into the use of catastrophe bonds, parametric insurance, and contingent credit lines as a way of diversifying the disaster risk financing instrument. Mainstreaming the analysis of climate risk into planning public investment, particularly in the infrastructure sector, will ensure assurances for long-term resilience. Support to strengthening early warning systems, investment in adaptation measures to climate, and integrating climate considerations into medium-term fiscal plans are also recommended.

4. Fiscal Transparency and Reporting:

Enlarging the Fiscal Risk Statement (FRS) to cover a wider list of risks—such as municipal contingent liabilities, climate risk, and legal contingencies—will significantly increase fiscal transparency. The FRS should be published periodically as a standalone report or part of the budget package every year. Strengthening the law framework to enable timely, comprehensive, and accessible fiscal risk reporting will improve domestic accountability and Albania's international image with partners and credit rating agencies. In addition, improving public financial management systems to increase the coverage, consistency, and quality of fiscal information will allow policymakers to make better-informed decisions.

5. Macro-Fiscal Resilience:

Fiscal buffers should be strengthened in order for Albania to withstand future shocks without sacrificing macroeconomic stability. This would mean maintaining primary fiscal surpluses during economic growth, employing prudent macroeconomic assumptions in budgeting, and strengthening medium-term fiscal frameworks. Implementing a formal fiscal rule, such as a debt or spending ceiling, would anchor fiscal discipline and reduce procyclicality. Improving the efficiency of public spending, for example, through performance budgeting and expenditure reviews, will create room for priority spending without increasing fiscal risks.

7. Conclusion

Albania has made considerable progress in regards to fiscal risk management, such as the development of the Fiscal Risk Statement (FRS) and the Public Financial Management (PFM) Strategy. The aforementioned reforms have strengthened the government's capacity for identifying, monitoring, and reporting fiscal risks, increasing transparency, and bringing Albania to best international standards. Albania has achieved noteworthy improvements in reducing public debt, improving SOE liquidity, and maintaining PPP exposures within the legislation. Concurrently, macroeconomic stability has been supported by stable GDP growth and declining inflation levels.

Despite this breakthrough, there remain major institutional and technical gaps. Governance reforms in SOEs have been uneven, with the power sector leading the way but municipal utilities and transport companies lagging behind. PPP oversight remains weak, including the lack of independent feasibility studies and central monitoring. Albania's exposure to natural disaster and climate risk remains high, and the absence of special disaster financing instruments renders the country vulnerable to post-shock fiscal distress. Strengthening SOE and PPP oversight, integrating climate and disaster risks into the budget process, and improving the coverage and quality of fiscal disclosure are thus critical next steps.

For policymakers, these findings reaffirm the imperative of moving beyond disclosure and identification toward anticipatory avoidance of risk. Adoption of a multi-layer disaster risk financing system, strengthening contingent liability legal underpinnings, and a bolstering institutional capacity of the Ministry of Finance are essential in building fiscal resilience. Reforms must also focus on improving coordination among government agencies, depoliticization of SOE management, and ensuring PPP projects are value for money. Importantly, building fiscal buffers during periods of economic growth can buffer the requirement for procyclical adjustment during periods of crisis.

The Albanian experience provides valuable lessons to emerging economies facing fiscal vulnerabilities in the face of increasing shocks. Albania's experience highlights the need to combine fiscal discipline with institutional reform, technical innovation, and political will. For countries facing similar risks, adopting fiscal risk statements, developing disaster financing frameworks, and improving SOE and PPP governance can improve fiscal sustainability and assist in protecting macroeconomic stability.

Later research should focus on more in-depth examinations of Albania's fiscal risks, including municipal debt, pressures in the pension system, and climate adaptation expenses to the fiscal balance. Additional empirical research, namely through scenario modeling and stress tests, can determine the fiscal implications of varied shocks and better inform policy responses accordingly. Cross-country analysis can also provide valuable benchmarking of Albania's progress as well as indicate best practices transferable to the country environment.

Furthermore, future researchers could explore subnational fiscal risks, conduct econometric simulations of climate-induced fiscal stress, or use machine learning to identify early-warning signals in SOE data. Longitudinal studies tracking FRS implementation over time would enrich the empirical understanding of reform effectiveness.

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