

NewsLetter



Years

THE OFFICIAL NEWSLETTER OF THE AMERICAN CHAMBER OF COMMERCE IN ALBANIA

ECONOMIC OPINION

ASSESSING THE FINANCIAL IMPACT AND REQUIRED DISCLOSURES

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Based on the recently issued DCM no. 387, dated 13.5.2020, "On the approval of the state loan guarantee with commercial banks to guarantee the borrowing of entrepreneurs or companies in enabling the necessary financing for the recovery of the commercial activity affected by the situation created by COVID-19, as well as for determining the conditions and criteria of the Guarantee Agreement and the Memorandum of Understanding", published on the Official Gazette no. 87, dated 18.05.2020, the Council of Ministers has decided as follows:

» The approval of a state guarantee in the amount of 15,000,000,000 ALL, in favour of the second tier banks exercising their activity in the territory of the Republic of Albania, part of the guarantee scheme which shall enable the lending process to meet the financial needs

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Fine of 50 thousand ALL for employers who do not apply for financial assistance to employees – Monitor.al

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President Jaço and AmCham representatives meet with Democratic Party leader Mr. Lulzim Basha



May 21st, 2020

AmCham President, Mr. Enio Jaco and AmCham Board members held a meeting today with leader of the Democratic Party Mr. Lulzim Basha and members of his cabinet on important economic topics. The meeting was organized at the Democratic Party's request.

AmCham President was accompanied by Secretary of the Board Mr. Reshard Kellici, Board member Ms. Eni Xheko, and Political and Economic Officer of the U.S. Embassy and Ex-Officio Board mem-

ber Mr. Alex MacFarlane.

The meeting was focused on the latest economic developments created by the COVID-19 pandemic, business priorities in overcoming the adverse effects of the crisis, and the importance of improving the business climate in the country.

AmCham representatives emphasized the importance of implementing recommendations provided aimed at helping the business community and the Albanian economy. Emphasis was also placed on factors that effect the overall business climate and the ability to attract FDI to Albania.

STATE OF EMERGENCY: How tourism is impeded by free movement restrictions

The natural disaster state of emergency, approved by the Parliament of the Republic of Albania, has been extended until June 23, giving authorities the right to limit some of the basic freedoms of citizens and the way companies do business.

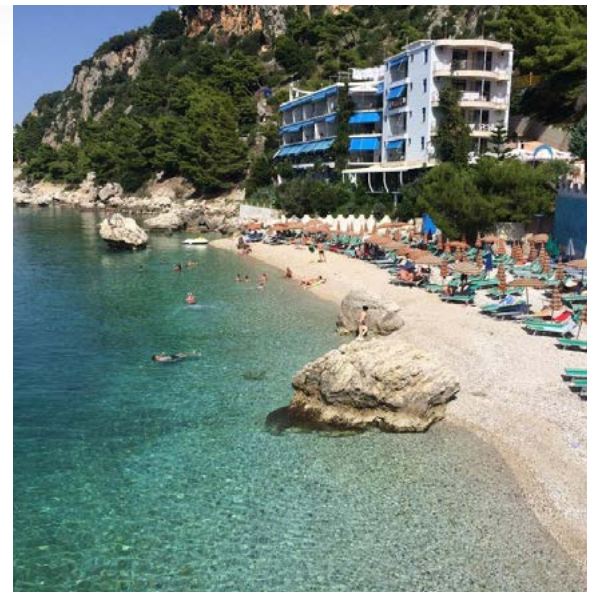
The extension of the natural disaster state of emergency has been met with worry by businesses, especially from the tourism sector, which has suffered greatly under the lockdown and the ban on free movement. Data

from Albania's Institute of Statistics (Instat) show that in April, only 12,000 foreign nationals entered Albania, down 97 percent from the same period a year earlier. For the entire 2020's first four-month period, the number of foreign visitors to Albania has decreased by 47 percent.

The freezing of the tourism sector has a major negative impact on the Albanian economy. Under normal circumstances, the sector makes up 22 percent of Albania's GDP. It is precisely due to that

large role of the tourism and hospitality sector that Albania is projected to have a steeper economic decline in 2020 when compared to neighboring countries. Tourism revenue last year was nearly 2.1 billion euros, the highest figure ever recorded in Albania. According to Albania's central bank, tourism revenue in 2019 increased 12 percent compared to 2018.

Globally, reports indicate the COVID-19 pandemic will lead to a decrease of 20 to 30 percent in tourism revenue -- a value calcu-



lated at \$300-450 billion, accounting for nearly a third of the \$1.5 trillion generated in 2019 by this sector (data from the UN's World Tourism Organization, 2020).

In the meantime, it appears that the restrictions on free movement will also lead Albanians to vacation

within the country, something that will give a chance to the local tourism sector. It is estimated that last year Albanians spent 1.6 billion euros as tourists abroad. That figure has raised hopes that the summer season in Albania may find some support in domestic tourists.



THE STATE OF EMERGENCY,

WHICH ARE THE RESTRICTIONS THAT AFFECT US

DELOITTE ALBANIA

The Council of Ministers, by Decision no. 243, dated 24.03.2020

"On the Declaration of the State of Natural Disaster" (the "Decision"), has decided to declare the state of natural disaster throughout the Republic of Albania due to the epidemic caused by COVID-19. Based on such Decision, because of this situation, some of the rights guaranteed by the Constitution may be restricted to the extent considered necessary to achieve the protection of the health of citizens.

THE RIGHTS THAT CAN BE RESTRICTED ARE EXACTLY:

- » The inviolability of residence (article 37);
- » The right to choose residence and freedom of movement (article 38);
- » Expropriation for a just reward (article 41, paragraph 4);
- » The right to freely choose a profession (article 49);
- » The right to strike (article 51).
- » This Decision provides for specific obligations for public institutions, civil defense system operational structures, private entities and all citizens.

Specifically inter alia it provides that:

PUBLIC INSTITUTIONS:

- to carry out organizational plans and make available human and logistical resources;
- » to restrict access to public places;
- » to stop gatherings, manifestations and strikes;
- » to limit activities to the minimum necessary for all public authorities;
- » to quarantine all confirmed or suspected persons and guarantee all the necessary

conditions and qualified staff for specialized treatment at quarantine centers.

OPERATIONAL STRUCTURES OF THE CIVIL PROTECTION SYSTEM:

- » to activate and organize the quarantine procedure for vulnerable populations;
- » to organize controls on housing and private facilities to identify and treat persons affected by the virus;
- » to restrict economic activities of private entities in accordance with the needs dictated by the natural disaster;
- » to organize the procedures required for the funeral service

PRIVATE ENTITIES:

- » to respect all quarantine procedures and measures;
- » to provide necessary information to civil protection institutions and structures;
- » to be involved in specific



tasks, in accordance with their preparation and skills;

- » to close or temporarily limit their activity;
- » to suspend the collection of road toll charges for vehicles engaged in coping with the natural disaster.

CITIZENS:

- » to comply with the orders, measures and instructions of the civil protection authorities;
- » to inform and assist public institutions and civil protection structures by engaging in specific tasks in accordance with their preparation and skills.

The Inter-Ministerial Committee on Civil

Emergencies (KNEC), is the highest body for coordinating the actions of state institutions and private entities, as well as for the financial and material resources for dealing with the natural disaster.

The Decision also states that all rights and freedoms restricted by acts, enacted pursuant to law no. 15/2016, "On the Prevention and Fighting of Infectious Diseases", as amended, and by Normative Act no. 3, dated 15.03.2020, "On Special Administrative Measures during the Infection Period caused by COVID-19", as amended, shall continue to remain in force.



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for working capital and investments of economic units directly or indirectly affected by the legal measures in the context of the COVID-19 situation, ownership of which is 100% non-public.

» The Guarantee agreements shall be executed in accordance with the terms and conditions of the standard agreement draft at-

tached to this decision and will be signed by the Minister of Finance and Economy with each of the representatives of the involved second-tier banks.

- » The amount guaranteed by the Albanian State is set to be at 60% of the principal.
- » The borrower must not

have unpaid tax liabilities for the last 3 tax periods simultaneously December 2019, January-February 2020, excluding taxpayers who have entered into agreements for payment in instalments of their tax liabilities and taxpayers whose unpaid liabilities are in the process of

appeal on all court instances.

- » The value of the loan to be disbursed by the Lender to the Borrower may vary according to the request submitted by the Borrower, but under no circumstances shall it exceed 300,000,000 (three hundred million) ALL.
- » The term on which the

loan must be repaid should be at the discretion of the Borrower, but under no circumstance shall it exceed a 5 (five) years period.

» The borrowed amount can be in the form of a loan, overdraft, or credit line, estimated according to the level of credit risk and the preferences of the borrower. However, despite the form with which the loan will be offered, the principal free period will not be less than 6 months, unless the Borrower prefers a shorter period.

» The loan will be disbursed in local currency, and the applied rate will be the sum of the reference/ index interest rate plus the bank margin (max 3%), in any case the rate should not exceed 5%.

ON SOVEREIGN GUARANTEE FOR THE PURPOSE OF BUSINESS FINANCIAL RECOVERY



KLEDI KODRA,
Managing Partner, Grant Thornton

The novel coronavirus (COVID-19) pandemic is spreading around the globe rapidly. The virus has taken its toll on not just human life, but businesses and financial markets too, the extent of which is currently indeterminate. Entities need to carefully consider the accounting implications of this situation.

While the outbreak has had an impact on almost all entities either directly or indirectly, some of the worst hit sectors are aviation, hospitality and retail with more and more sectors coming under its radar with widespread lockdowns being enforced across the world. The aviation industry is facing massive disruption with travel restrictions imposed by most jurisdictions. The hospitality sector has been impacted with low occupancy in business and holiday destinations having to close down entirely. Other affected sectors are automobiles, apparel, consumer durables, pharmaceuticals, leather goods, electronics and others where the supply chain is dependent on countries worst hit by COVID-19. Financial services have also been affected with the inability of borrowers to keep up with repayment schedules. This article identifies key financial reporting areas that entities need to consider when determining the impact on their business, and on the results, financial position and disclosures in their financial statements. This is not an exhaustive list and there may be other areas not included in this article that entities should consider. The areas are not listed in order of importance.

WHAT DISCLOSURES NEED TO BE MADE IN THE FINANCIAL STATEMENTS?

Even if the entity does not see a direct impact of the outbreak, there will be an indirect impact for practically all entities. Whilst some entities may not be severely impacted, and some entities may even benefit, very few entities will remain unaffected. Therefore, entities need to consider the financial impact on

Assessing the financial impact and required disclosures



the entity and the areas of the financial statements that will be affected to determine the disclosures required. As well as the specific financial reporting areas, IAS 1 'Presentation of Financial Statements' requires disclosures of sources of estimation uncertainty and areas of significant judgement.

IMPAIRMENT

An entity is required to test its assets for impairment when indicators of impairment are present. An impairment test must be performed in response to indicators of impairment in addition to a mandatory impairment test for goodwill and intangible assets with indefinite useful lives at least annually.

Although some indicators of impairment are based on internal information (eg damage to property, plant and equipment, plans to remove the asset from use), others are triggered by events and

circumstances external to the entity. Below are some examples of indicators of impairment that may exist as a result of the economic conditions caused by the spread of COVID-19:

• Investments other than portfolio investments (eg subsidiary that is not consolidated)

- significant financial difficulty of the investee
- a breach of contract (eg default or delinquency in debt payments)
- it is probable that the investee will enter bankruptcy or other financial re-organisation
- a significant adverse change in the economic or legal environment in which the investee operates (eg recession)
- the disappearance of an active market for the investment because of financial difficulties of the investee.

• Property, plant and equipment and intangible assets (other than goodwill)

- significant changes in the extent or manner in which the asset is used or is expected to be used (eg idling of a machine such that its future productive capacity may be affected, a machine being used in a manner different from its intended purpose – such as to produce items to support the battle against COVID-19 – which may reduce its future productive capacity)
 - significant changes in the legal factors or business climate that could affect the value of the asset (eg an entity expects a decrease in its exports to a particular foreign market as a result of lengthy border closings)
 - an increase in market interest rates which would cause a decrease in the asset's value in use
 - a decline in, or cessation of, the need for the services provided by the asset.
- In addition, doubt about the entity's ability to continue as a going concern is a general indicator of impairment for all assets.

GOODWILL

Goodwill is required to be tested annually for impairment. COVID-19 could impact goodwill through:

- a significant adverse change in legal factors or in the business climate (eg an entity expects a decrease in its exports to a particular foreign market as a result of lengthy border closings)
- a loss of key personnel that is other than temporary (eg death)
- the testing for write-down or impairment of a significant asset group
- the recognition of a goodwill impairment loss in an investee's separate financial statements
- a significant decline in the entity's share price which could result in the carrying amount of the entity's net assets exceeding its market capitalisation. Whilst IFRS requires a best estimate to be made, multiple scenarios around the best estimate should be evaluated. In addition, the interaction of the discount rate needs to be carefully assessed, in light of the level of uncertainty involved.

IN THE NEXT ISSUE WE CONTINUE WITH:

- Financial instruments and the measurement of expected credit losses
- New employee benefits and termination benefits
- Revenue
- Inventory
- Debt repayments and classification
- Profit tax accounting
- Events after the balance sheet date; and
- The principle of business continuity



RAMA: BY MAY, THE COUNTRY WILL BE COMPLETELY OPEN – MONITOR.AL

Prime Minister Edi Rama told parliament that within May Albania will be fully open, while the country will be preparing for the new tourist season.

FROM JANUARY 2021, BANKS REPORT TO THE BOA THE NAMES OF THE 20 LARGEST BORROWERS – MONITOR.AL

Starting from January next year, commercial banks in our country will report every three months to the Bank of Albania the 20 largest borrowers. Reporting is being done in the context of amending the Regulation on Large Exhibitions which is currently in the consultation phase.

FINE OF 50 THOUSAND ALL FOR EMPLOYERS WHO DO NOT APPLY FOR FINANCIAL ASSISTANCE TO EMPLOYEES – MONITOR.AL

The Council of Ministers has decided to fine employers who do not apply for financial assistance to their employees with an amount of 50 thousand ALL. This administrative measure is sanctioned in some changes and additions to the normative act no.3, dated 15.3.2020.

KLOSI: WE WILL SEE THE POSSIBILITY OF REOPENING TOURISM FROM JUNE 1ST ; AGENCIES ARE REQUIRED TO PROVIDE HOLIDAY COUPONS – MONITOR.AL

Representatives of the Tourist Union announced that they held a meeting with the Minister of Tourism Mr. Blendi Klosi, where they discussed the current situation and plans for the reopening of tourism. Minister Klosi said that he would personally engage in the implementation of the requirements and would lobby for the reopening to be possible starting

COVID-19

from June 1, of course respecting the protocols of anti-covid measures.

2019, BANK PAYMENTS FROM THE INTERNET AND CARDS INCREASE AT DOUBLE-DIGIT RATES – MONITOR.AL

Last year, 11 of the country's 12 commercial banks offered home banking services. The Bank of Albania analyzes that these services are finding an increasing use in the Albanian market, being used more and more not only for basic account information services, but also for making online payments.

THE ACTION FOR THE CONTROL OF THE BUSINESS STARTS, THE FORM THAT COMPLETES ISHMT: THE CONTROL AIMS AT THE AWARENESS FOR THE IMPLEMENTATION OF ANTI-COVID MEASURES – MONITOR.AL

For several weeks now, employees of the tax administration, the State Inspectorate of Market Surveillance (under the Ministry of Finance and Economy), and the state police have launched a business awareness campaign to implement measures against Covid-19. "The control is not intended to fine the business, but to sensitize it to respect the measures since the use of masks, gloves, disinfectants, posting the rules published by e-Albania on the outside of the business so that it can be viewed by customers", claim the inspectors contacted in the field by the Monitor during the inspections of some businesses in Tirana.

THE FIGHT AGAINST COVID / USA, 900 THOUSAND ADDITIONAL DOLLARS TO ALBANIA – MONITOR.AL

The United States government, through USAID, has committed an additional \$ 900,000 to Albania to help continue efforts against COVID-19 pandemics.

PRIVATE BONDS / CREDINS AND FIBANK WILL ISSUE NEW ISSUES – SCAN-TV.COM

Credins Bank and Fibank will carry out a new issuance of private offering bonds. The Financial Supervisory Authority has announced that in the next meeting of the Board of Directors it will review the prospectus of offering long-term bonds of the two banks in question. Credins Bank has been issuing bonds regularly for more than seven years with private offer, convertible into ordinary bank shares. Based on the information of Credins Bank's financial statements, on March 31, 2020, the bank's dependent debt was worth about ALL 6.9 billion.

HOW DO ALBANIAN FAMILIES SPEND THEIR MONEY? - WB: \$ 24.6 BILLION A YEAR, ONLY 1.6% CONSUMED IN NEIGHBORHOOD MARKETS AND SHOPS – SCAN-TV.COM

According to the latest publication of World Bank, the final consumption of Albanian households for individual goods and services, excluding other expenses such as bills or rent, is fixed at about \$ 24.6 billion per year,

according to the purchasing power parity (PPP), thus standardized with all countries of the world to eliminate the effect of the exchange rate. Per capita, the average Albanian consumption per year is fixed at about \$ 8,500 expressed in PPP.

AT THE PEAK OF COVID-19, THE NUMBER OF TOTAL DEATHS FALLS IN THE FIRST QUARTER (246 LESS), THE LOWEST IN THE LAST 4 YEARS – MONITOR.AL

INSTAT has previously reported a declining trend of deaths in the first quarter of the year, compared to the same period a year ago. According to demographic indicators published today by INSTAT, 6,115 people lost their lives in January- March, compared to 6,361 in the first quarter of 2019, with a decrease of almost 4%, or 246 fewer lives lost.

THE PANDEMIC INCREASES THE BUDGET DEFICIT BY 463% IN JANUARY/APRIL, SIGNIFICANTLY INCREASING SOCIAL SPENDING – MONITOR.AL

As budget revenues declined dramatically during April, by about 30 percent, due to the constraints caused by Covid pandemics, budget expenditures increased slightly compared to April 2019, thus affecting the significant deepening of budget deficit.

THE VIRUS HITS THE BUDGET. 110 MILLION EUROS LESS IN APRIL, CONSUMPTION FELL 44% - A2 NEWS.COM

The pandemic hit the state coffers heavily in April, when austerity measures were in place that kept most of the economy closed. Official data from the Ministry of Finance show that for April, tax revenues, customs and local government were 34% lower than the plan for the beginning of the year.