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Press Release No. 27

September 23 - 25, 1997

Statement by the Hon. **FATOS NANO**,
Governor of the Fund for **ALBANIA**,
at the Joint Annual Discussion

IMF - World Bank Annual Meeting 1997

STATEMENT

by

PRIME MINISTER

H.E. Mr. Fatos NANO

Head of the delegation of the Republic of Albania

HONG KONG, 03. October 1997

Ladies and gentlemen,

First I would like to express my thanks for this opportunity to outline the new Albanian government's policy for the framework of the post-conflict rehabilitation which we have prepared in the collaboration with specialists from the IMF and the world bank. Both institutions have played a crucial role in Albania since 1992 and we place a high value on these on-going contributions.

The tragic period through which our country has passed since the beginning of this year requires little comment from me. The sequence of events, from the collapse of the so-called 'pyramid investment schemes' to the near anarchy which cost the lives of more than 1,500 people, is well known to you all. Our vision for the future of Albania commits us to look forward, while addressing the legacy of economic and social chaos we inherited from the past.

The priority of the new government must be to complete the restoration of the public order which began with the arrival of the multi-national forces participating in Operation Alba and is now being carried on by the country's security forces, while at the same time continuing the re-establishment and the future development of democratic institutions which we see as vital foundations for the stability of our emerging market economy.

An integral part of the restoration of law and order will be the on-going reorganisation of Albania's national police and security forces, as well as the appointment of appropriately qualified judicial authorities, the process of creating a professional, non-partisan civil service - which we recognise will take time - has already commenced. In addition, Albania's parliament has already taken legislative steps to guarantee the freedom of the media by abrogating a controversial press law.

Turning to the macro-economic sphere, the government's priority will be to achieve stabilisation and to begin the process of bringing inflation -which reached 28 percent during the first half of 1997 - under control. This will be achieved through a combination of sound macro-economic policies and broader structural reforms. In support of these aims, we have prepared a program which included immediate action to contain the country's fiscal deficit, to place the remaining assets of the pyramid schemes under administrative control prior to an orderly liquidation, and to press ahead with essential structural reforms, including the development of a well-regulated private sector banking system.

Following the implementation of this program, which will be supported by IMF's six month Emergency Assistance program and by other multilateral and bilateral donors, it is our intention to move forward with a comprehensive strategy of economic adjustment and reform which will allow sustainable growth. Specifically, the new government will take such steps as may be necessary to maintain public order, while aiming to raise revenue collection from taxation and custom duties. At the same time we are committed to reduce all non-essential expenditure, supported by the Bank of Albania, which will maintain a tight monetary policy and a flexible exchange rate policy.

The Albanian government's fiscal policy will aim to impose strict limitations on the budget deficit, which will be less than 16 percent of GDP in 1997 and 12 percent next year, while ensuring that public order is maintained and a basic level of social security is provided for the most vulnerable sections of society. A critical factor in achieving these objectives will be external support for the budget, although steps will be taken to ensure that this does not add to inflationary pressure.

The government is also committed to increase revenue through more efficient tax-collection and through implementing a new package of revenue reforms. A central feature of this package will be an increase

in the uniform rate of VAT from 12,5 percent to 20 percent from October 1, while the range of other measures will include an increase in excise duty on tobacco products and alcohol; the raising of levels of personal income taxes and the ending of import tax exemptions by the end of this year. In addition, in order to avoid distortions of administered prices, VAT will be added as a surcharge to these.

Domestically financed expenditure will also be reduced by a range of measures including a reduction of 10-15 per cent in the number of civil service employees by the end of 1998. However, it is planned to maintain spending on health and education at the levels already budgeted. Long-term reform will be supported by Public Expenditure Review, which could be undertaken with the assistance of the World Bank.

External sector policies will focus on strengthening Albania's balance of payment's position. It is anticipated that these will include increased receipts from exports and tourism, while a high priority will be given to encouraging foreign direct investment. The government is also fully committed to progressing towards accession to the World Trade Organisation.

The government is strongly committed to the privatisation of remaining state-owned enterprises. Those small and medium sized enterprises still in state ownership will be privatised. A final cut-off date for the filing of restitution claims by previous owners or their heirs will be imposed.

Strategic investors will be actively sought for mining enterprises and utilities. We are aiming to bring the national telecommunications company PTT to the point of sale during 1998, while Albpetrol will also be prepared for privatisation. The water and electricity industries will either be fully privatised or the services contracted-out. A regulatory system will also be established for these industries.

Ladies and Gentlemen, I have today outlined the new government's program for immediate and near-term rehabilitation. While it is

undeniable that the civil conflict earlier this year proved a severe set back to the country's economic, institutional and social development, I believe that with the support of the international financial institutions and the wider donor community, Albania can make significant progress towards achieving economic and fiscal stability, leading to sustainable economic growth in the near future.

Thank you for your attention.