

Opportunities for Long Term High Growth Rate

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...if...

- Improving the quality of institutions of:
 - PERU up to Australia level will lead to a quadrupling of FDIs
 - Turkey up to UK level will lead to 60% increase of FDIs
 - (Alfaro, Kalemli-Ozcan and Volosovych, 2005)
- Albanian index of institutions is similar to those of Peru and Turkey

Albania-An emerging market

- Emerging markets benefit from a substantial economic growth based on:
 - Significant productivity gains
 - Technological change
 - Change in economic philosophy
 - (Fuss, 2002)

Albania-An emerging market

- Albanian growth rate
 - With an average of 6% is close to the average of EU emerging economies
(IMF regional economic outlook Apr 2008)
 - Considering 17 years of transition Albanian growth rate is among highest of all transition economies
 - Growth based on:
 - Macroeconomic stability
 - More efficient allocation of resources during years (Total Factor Productivity)
 - Remittances from emigration
(WB Country Economic Memorandum 2004)

Albania-An emerging market

- The essential features of emerging markets:
 - High level of risks
 - Extreme volatility/vulnerability
 - Transitional character
- (Yarbrough V. and Yarbrough M. 2006)

Albania-An emerging market

- Such features were also present in Albanian during transition
 - Fragile external position with large trade deficit, considerable current account deficit
 - Fiscal sustainability at risk
 - High interest rates
 - Structural and sectoral bottlenecks
 - Energy, Education, Administrative barriers, Low modernization rate
 - Low competitiveness

Some improvements

- Continuation of macroeconomic stability
- Improvement of fiscal revenues of government
- Growing financial sectors (banks)
 - Rapid growth of loans and savings, a reduction of interest rate
- Growth of public and public investments
- Growth of Foreign Direct Investments
- Some improvements in education

Albania-An emerging market

- Foreign Direct Investments
 - 2004; 269 MI. Euro
 - 2005; 221 MI Euro
 - 2006; 250 MI Euro
 - 2007; 452 MI Euro(Bank of Albania 2008)
- But still low in per capita bases and/or as % of GDP
- Substantial share of FDIs due to privatization of public assets

Albania-Potential growth

- w/out further reforms
 - SEE; 3,2% to 4,1%
 - Baltics; 5,3% to 6,3%
 - CEE: 3,0% to 3,9%
 - Albania; 3,5% to 4,4%
 - With reforms
 - SEE; 5,2% to 6,1%
 - Baltics; 7,5% to 8,4%
 - CEE: 4,3% to 5,2%
 - Albania; 4,9% to 5,8%
- (IMF regional economic outlook Apr 2008)

Albania-Potential growth

6% GDP growth rate under the following conditions:

- Energy crises
- Low FDIs
- Large trade deficit
- weak competitiveness
- Low level of modernization/Poor infrastructure
- Still low institutional index
- Still problematic country image
- Other problems

Albania-Potential growth

- What is more realistic?
 - To be pessimist - 4,6% growth rate
 - To be optimist – 6,9% growth rate, like in the case of Baltics

Albania-Potential growth

- National Strategy for Development and Integration (NSDI)
 - Aimed growth: high rate (6-8%); sustainable; regional balance; benefits for all
 - Priority policies:
 - investments in infrastructure and ICT
 - Investment in human capital (education...)
 - Improvement of business environment
 - Rule of law and good governance
 - Proactive social policies
 - NATO/EU integration

Baltic vs. SEE

- Real GDP growth 2003-2007
 - Baltics 9.0%
 - SEE 5.4%
- Gross fix capital formation (% of GDP)
 - Baltics 28.9
 - SEE 22.4%
- Economic freedom index (1-10)
 - Baltics 7.7
 - SEE 6.3

(IMF regional economic outlook Apr 2008)

Baltic vs. SEE

- Domestic credit to private sector (% of GDP 2006)
 - Baltics 78.1%
 - SEE 38.3%
 - Interest rate spread (2006)
 - Baltics 3.0
 - SEE 7.5
 - Time required to register a property 2006 (days)
 - Baltics 36
 - SEE 165
 - Time required to enforce a contract
 - Baltics 227
 - SEE 477
- (IMF regional economic outlook Apr 2008)

Baltic vs. SEE

- Corruption (% of managers ranking it as a constrain 2005)
 - Baltics 8.8%
 - SEE 24.8%
 - Tertiary school enrollment (% of age group 2005)
 - Baltics 72.0
 - SEE 34.4
 - Personal computers (per 1,000 people 2004)
 - Baltics 277
 - SEE 82
 - Internet users (per 1,000 people 2004)
 - Baltics 439
 - SEE 175
- (IMF regional economic outlook Apr 2008)



Albania-Potential growth

- If
 - Reforms and implemented with determinism
 - Country image is improved
 - Tourism grows up
 - FDIs increase substantially
 - Agriculture shifts to moderate growth
 - No energy crises in short run, resolved in mid term
 - Better education, training and information
 - Remittances do not reduce rapidly

Albania-Potential growth

- ...So, If achieved the level of Baltics for determinants of growth...
- ...can Albania grow up by more than 6%?

WHY NOT!