

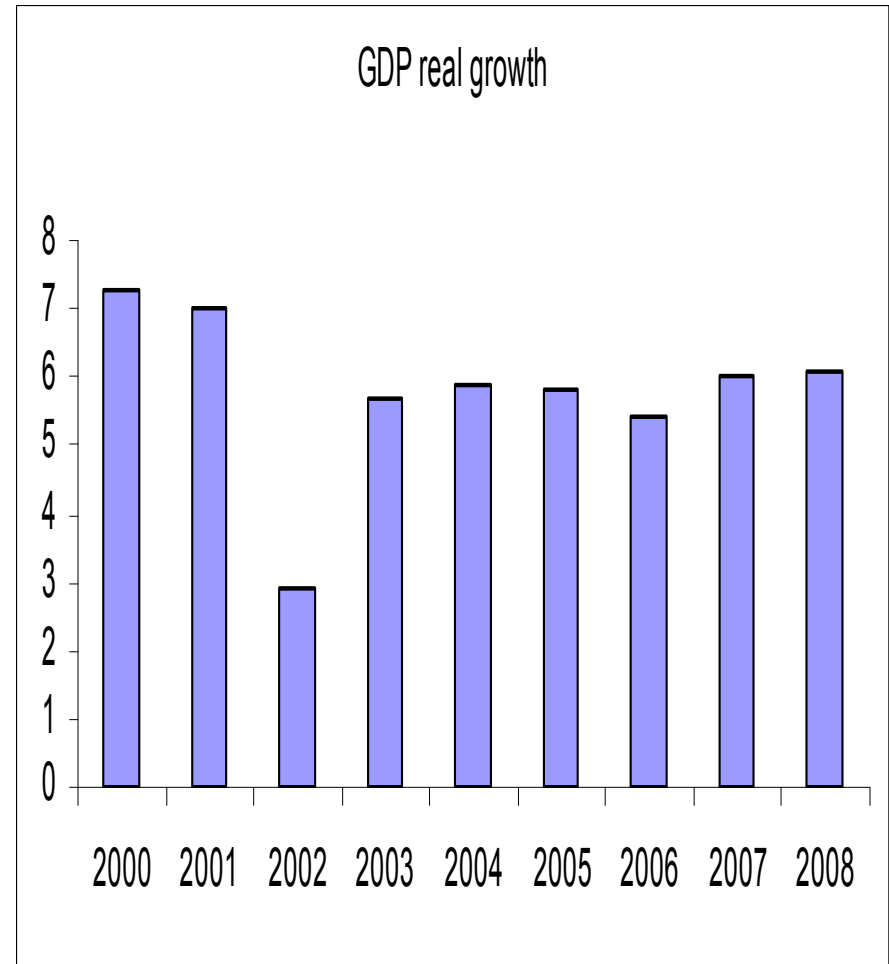
The background features several large, flowing, abstract shapes in light green, light blue, and light purple. Interspersed among these are numerous small, yellow, four-pointed starburst or spark-like shapes, creating a dynamic and celebratory feel.

Albania Economic Growth

Petraq MILO

Albania – an emergent economy

- Fast economic recovery and generation of high positive economic growth
- Sustained high growth, an average rate of growth about 6% during 2000-2008
- Higher speed convergence than other countries, in 2007 Albania reached 20.5 % of the EU -27 level compared to 10% at the beginning of transition
- Potential to grow more than 6% ?



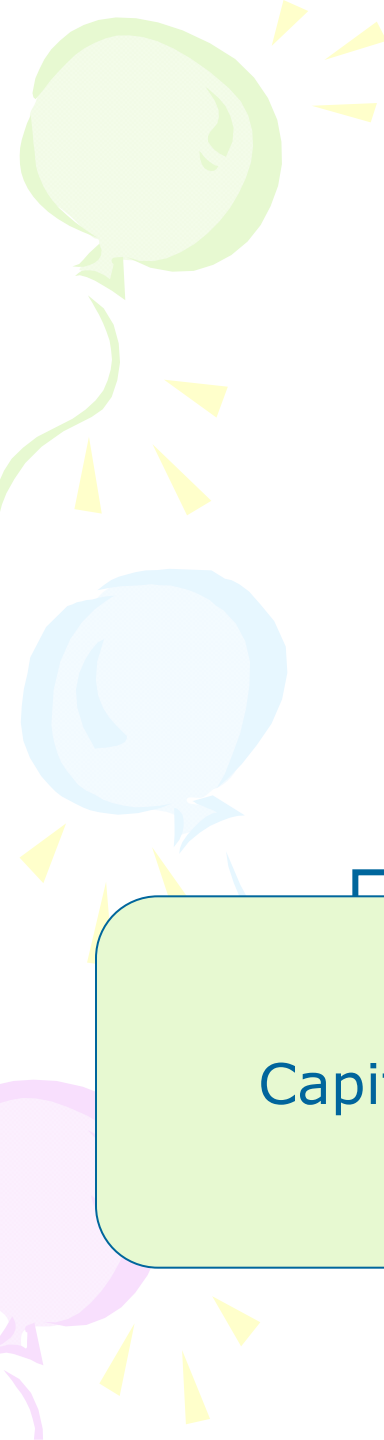
Growth

Economic Growth

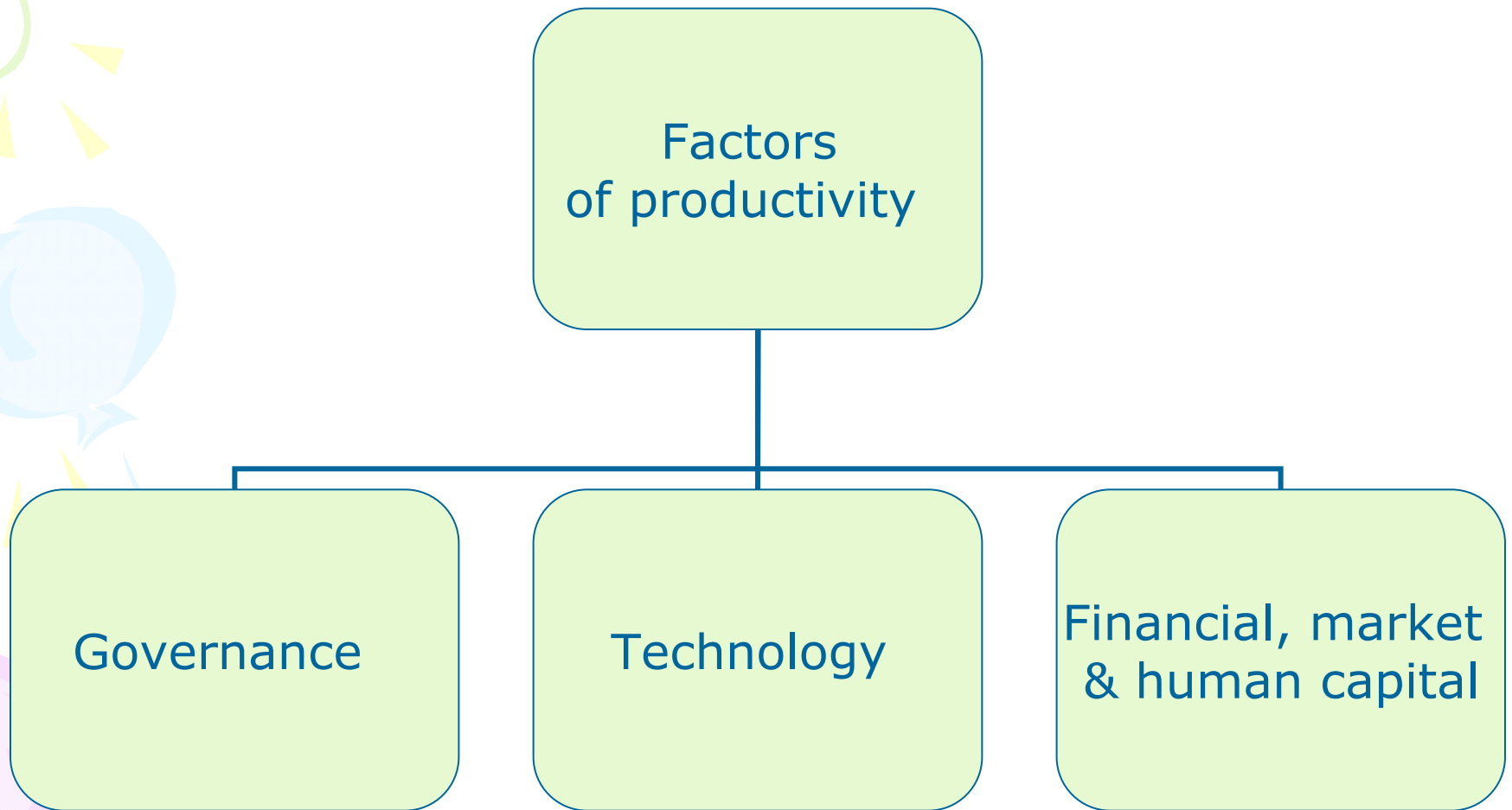
Capital

Labor

Factors
of productivity



Increase factors of productivity – as a main source of increasing growth



A decorative graphic on the left side of the slide features three balloons in green, light blue, and purple, each with yellow triangular streamers. A blue target icon with a white bullseye and an arrow hitting the center is positioned between the balloons and the text.

Governance

- Security
- Rule of Law
- Corruption
- Land market and property rights
- Functioning market economy
- Public administration quality
- Fiscal predictability
- Monetary predictability



Security

- Albania received the invitation to join NATO and has to conclude the negotiations for full membership
 - Albania has signed of Stabilization and Association agreement, and the Interim Agreement has entered in force
 - Albania is moving towards Visa facilitation agreement, and has initiated visa liberalization
 - There is an ongoing comprehensive national security reform, and a new national security strategy has been drafted
 - The defense sector strategy has been drafted and the new Albanian state police law has been approved in 2007
 - The Integrated Border Management strategy was approved by the government in 2007
 - The aim is to complete the electronic register of the population by July 2008; digital ID cards and biometric passports – end 2008
 - According to EU progress report 2007, progress has been achieved towards fighting organized crime
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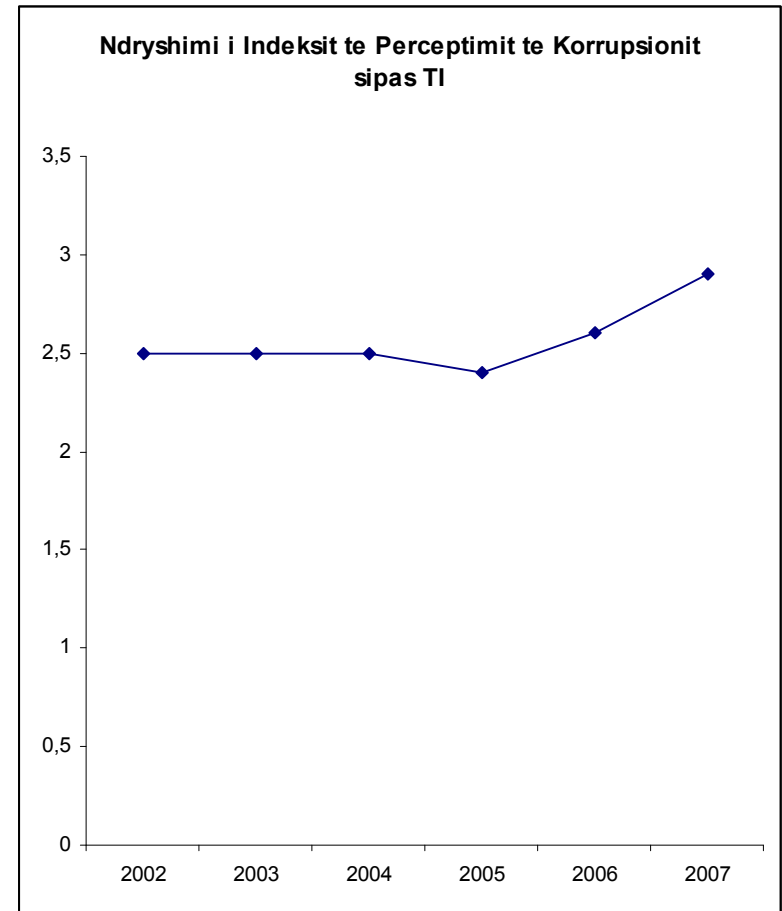


Democracy and rule of law

- The law on the organisation of the judicial system was approved by parliament in 2008
- Comprehensive reform of prosecutorial system - underway
- The electoral system reform was approved by parliament in 2008
- Land management reform, including the creation of an independent agency for the registration of immovable property & digitalization of the system; completion of legalization of illegal construction is underway, compensation of property claims
- Business and investment environment improved Competition and state aid legislation and institutions in place

Corruption

There is a significant improvement of Corruption Perception Index according to the TI - increased from 2.4 in 2005 on 2.6 in 2006 and 2.9 in 2007





Land market and property rights

- Preparation of the new law on the territorial planning
- Complete first registration of 500 000 urban properties
- Complete modernization of immovable properties registration office in order to reduce registration of land from 47 days to 10 days
- Adoption of the Southern Coastal Development Plan and Regulation



Functioning market economy

- **Index of economic freedom**

“ The report published recently by the Heritage Foundation on the Freedom of the economic system ranked Albania at the 56th out of 157 countries compared to the 81st position in 2004 and the 121st position in 2000, which classified it among the ‘generally free’ economies.

Fiscal freedom and financial freedom are at a higher than average level, while progress remain to be done on the property rights and freedom from corruption”



Business environment and bankruptcy procedures

- The unique national registration center has been established in 2007 (one stop shop)
- The electronic business registration and electronic credit registry is an undergoing project
- Amendment of commercial law
- The government is preparing a new bankruptcy law
- Financial reporting is aimed to be in accordance with international standards
- The national strategy for the measurement standards, testing and quality has been approved in 2008
- The government is working for the establishment of industrial parks, as also the creation of the competitiveness and exports guarantees funds

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Public administration

- The government has implemented different reforms in tax and customs administration
- Public administration has been reduced by 16% of civil posts and 33% in administrative posts
- The salaries of public sector have increased especially in customs and tax institutions
- Brain gain project and also higher salaries are measures to attract Albanian graduates from abroad
- The national public training institute has a strategic plan for training especially in the EU context
 - Some other ongoing projects are E – procurement, E - filing and e-taxes
- However change and improvements are needed to improve the quality of personnel and organizations



Fiscal Predictability

- The recent reforms have established a new, simple, modern and uniform tax system, by :
 - introducing a flat tax rate of 10% on personal income
 - reducing to 10 % corporate tax
 - reducing to 30% social contribution
 - reducing by half small business tax
- Remove tax exemption
- New law of tax procedures

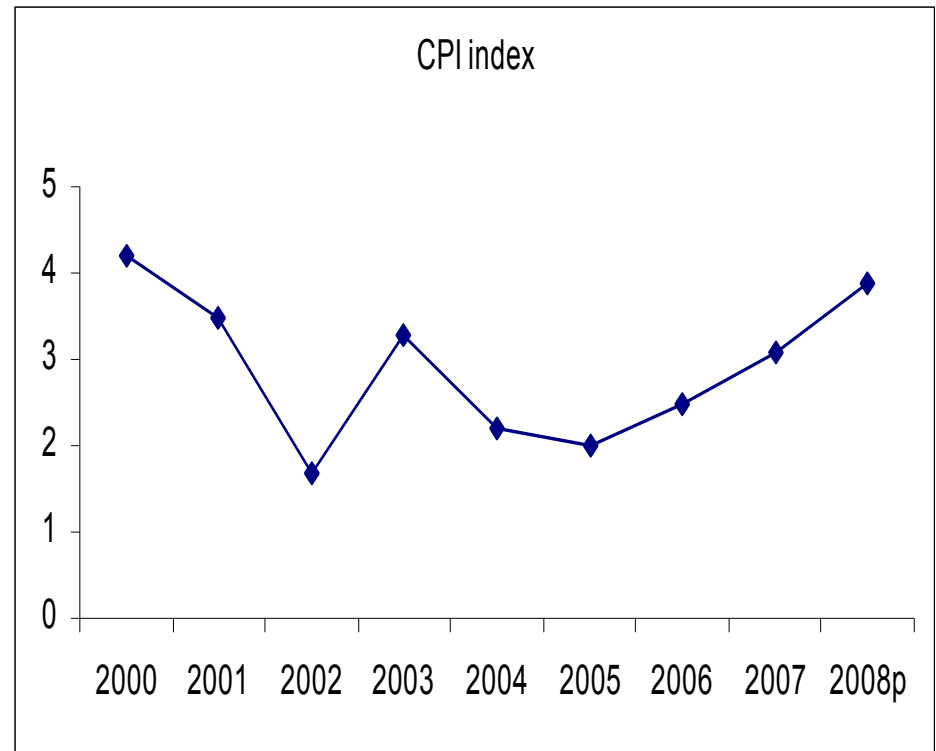


Monetary predictability

- Inflationary expectations anchored to law levels, supported by:
- Flexible and stable exchange rate
- Prudent fiscal policy characterized by a lower frame budget deficit in general, and domestic in particular

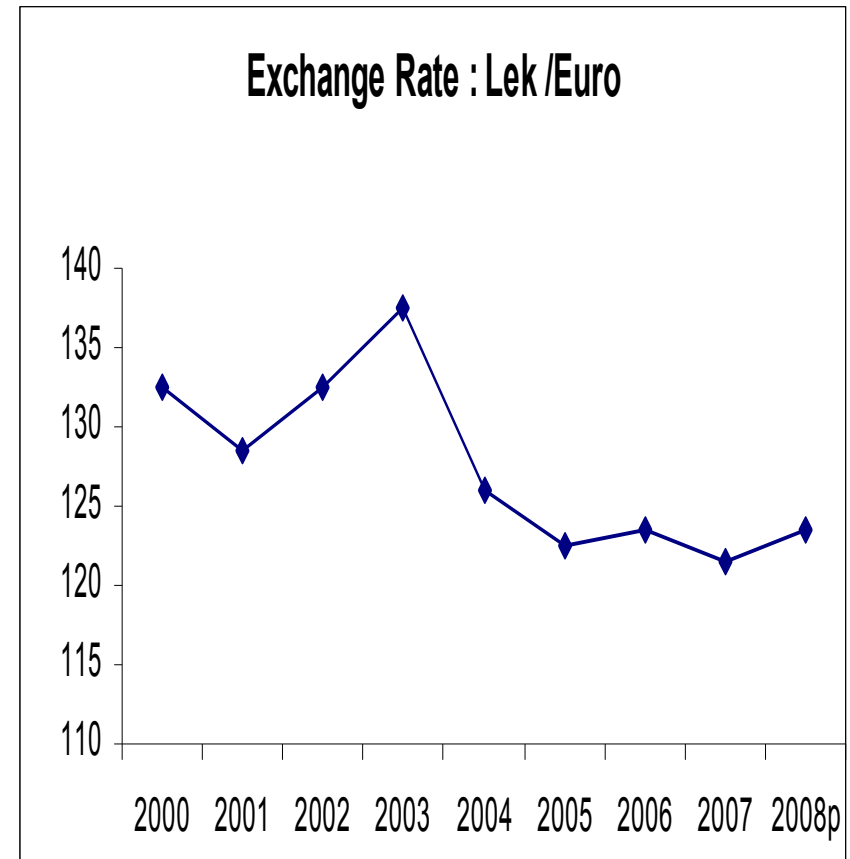
Monetary policies to maintain prices stabilization

- Inflation target band on a $3 \pm 1\%$
- Sound monetary policies
- Strengthened regulation and supervision
- Credit growth
- Credit risk



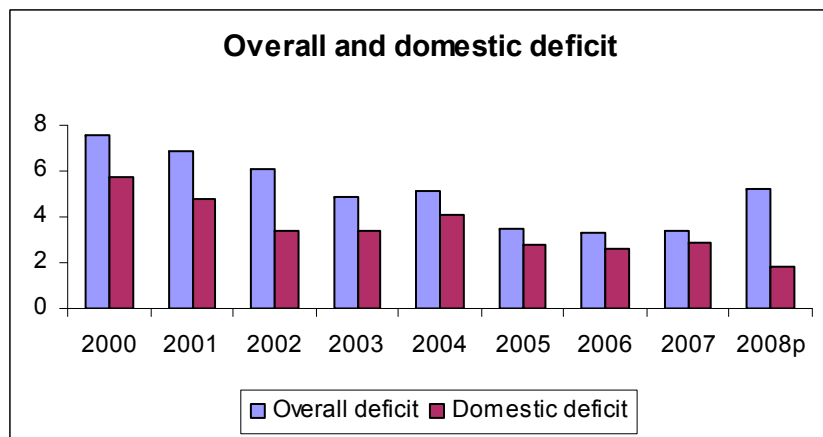
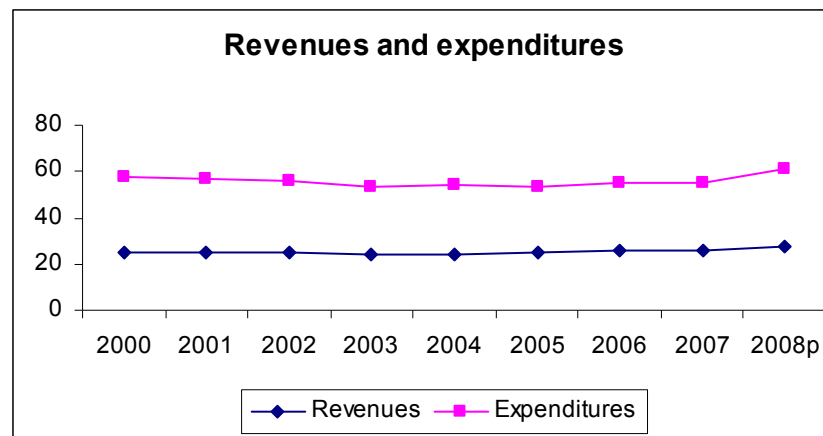
Flexible and stable exchange rate

- Flexible exchange rate regime
- Stable exchange rate of Lek/Euro in 2000-2008



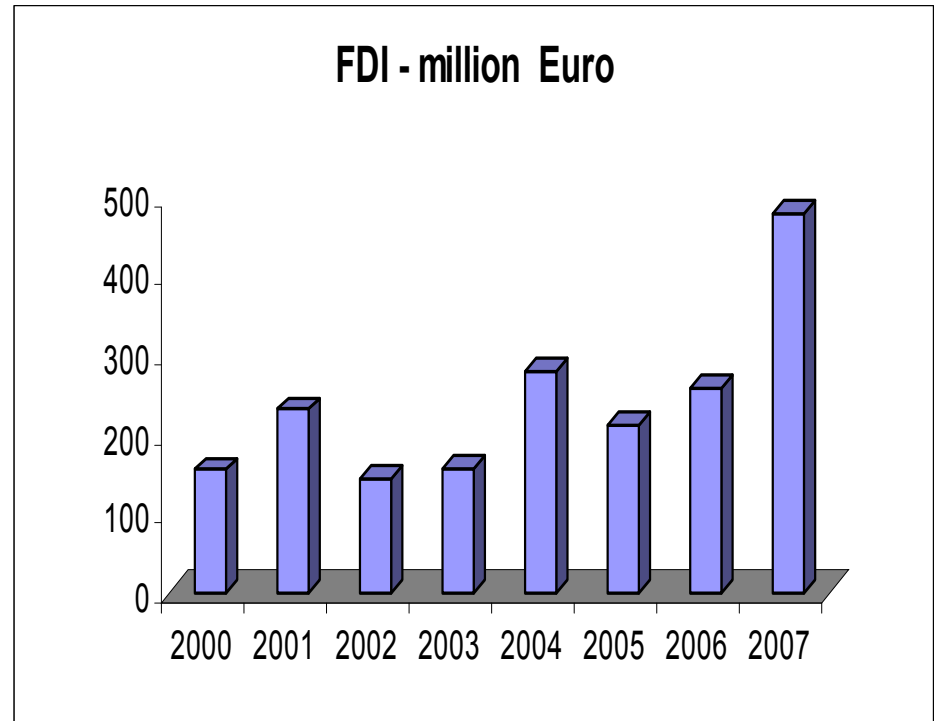
Fiscal sustainability

- Simple and lower fiscal burden policy reform combine with fiscal administration enforcement
- Expenditures financed mainly by an increase of the tax capacity

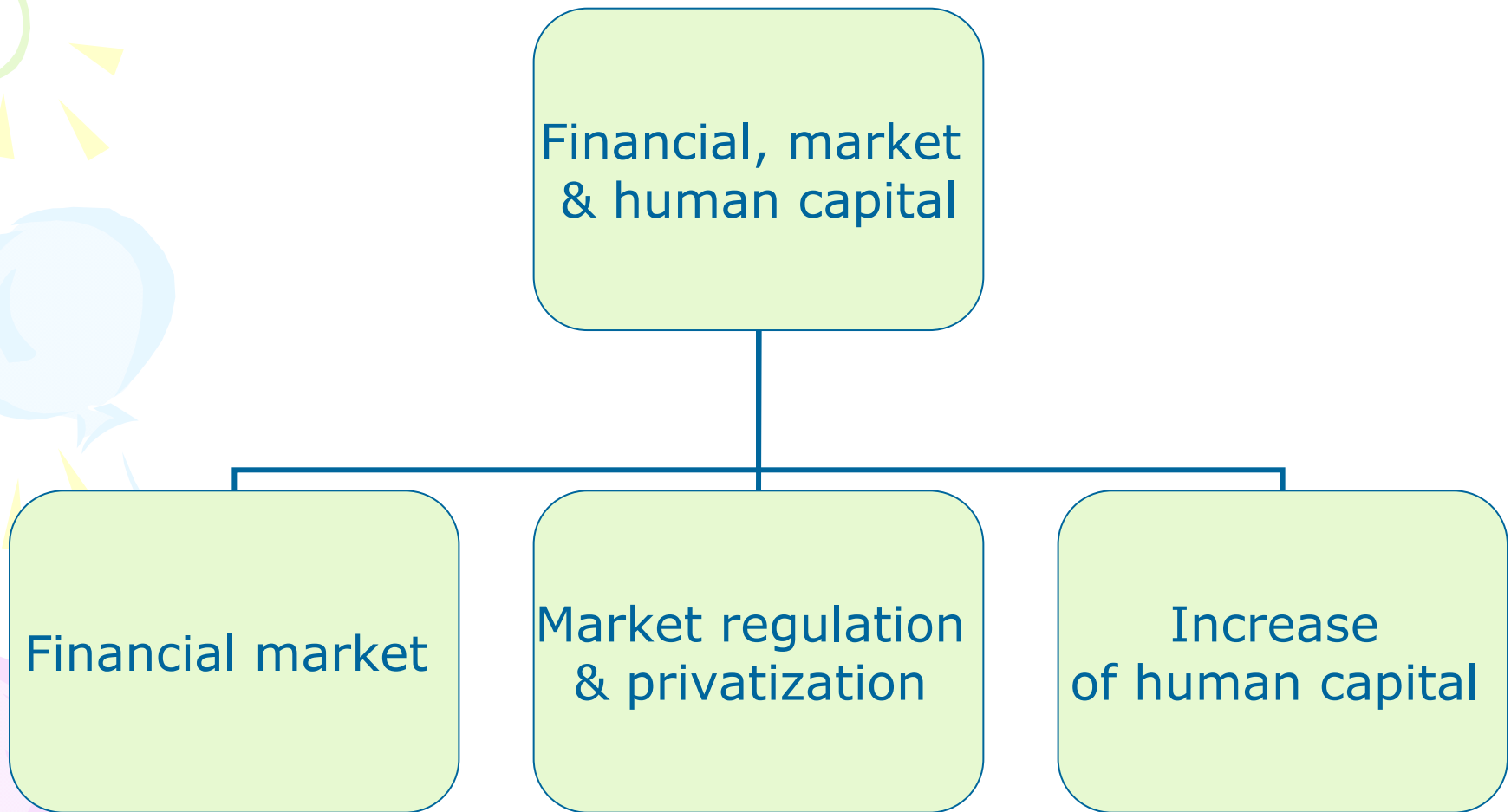


Technology

- Sharply increase of Foreign Direct Investment
- Strong presence of foreign companies, in banking insurance sectors, energy, telecom, construction and infrastructure
- Creation of National Agency for Information Society



Financial, market regulation and human capital





Financial markets

- Sound financial institutions, including the independent of central bank and restructuring of the financial supervisory authority
- A sound develop and consolidation of the private banking sector, increase of intermediation degree and the amount of credit
Developing interbank and secondary market
- Strengthen incentives for banks to analyze risk
- Strengthen banking, insurance and mikrocredit supervision
- Finalize of credit registry
- Review of insurance law and enlarge insurance products
- Preparation of the strategy and the legal framework governing the private pensions industry

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Market regulation

- Progress in standardization, field of certification and accreditation
- Progress in market surveillance for industrial and food products
- Progress as regards the right of establishing company
- National competition policy document for establishing of free and efficient competition in the market
- Strengthen the Competition Authority
- Approximation of legislative framework with EU on product safety, procurement law
- Strengthen the capacity of office of intellectual property rights

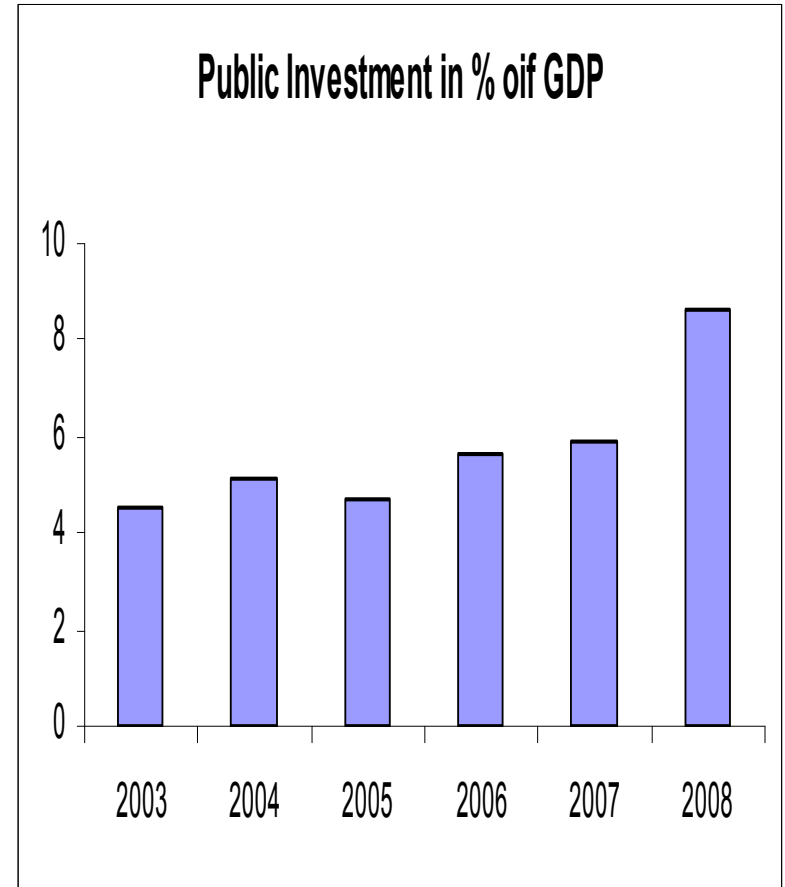


Human capital

- **Human Development Index (UNDP) which compares** health, education and living standards level
 - In 2008 Albania has entered in the group of countries with a high level of this indicator
- Increase of education and health public funds, but limited progress in area of research

Capital factor

- There is growth potential from capital and labor accumulation
- Higher rate of capital accumulation in energy, roads, infrastructure, agriculture
- Building a national and regional road network
- Net flow of FDI increased from 1.1 % of GDP in 1999 in 6.2 % in 2007
- Progressing towards privatization – KESH distribution, ARMO, INSIG etc
- Need to increase savings





Labor factor

- Despite progress on implementing the national strategies for vocational education, specific programs to facilitate the integration of young graduates in the labor market, and improvement on labor force participation,
- There is still potential to increase human capital stock by job creation, Increase rate of labor participation compared to the region. reduce informal economy, increase the quality of education