

Key developments and challenges

The government has made progress in improving the business environment, including simplifying procedures for issuing licences and permits. However, weak law enforcement remains a significant impediment to business development, while property rights need to be developed further.

The completion of the Durres-Kukes highway has created new transit opportunities for regional exports. This potential could be increased through further upgrades of the road networks and modernisation of seaports, especially through public-private partnerships (PPPs).

The financial sector has developed strongly in recent years and adequate regulation and timely monetary interventions helped to limit the impact of the global financial crisis. However, improving access to finance – especially for micro, small and medium-sized enterprises (MSMEs) – remains a serious challenge.

Country data

Population (in millions)	3.2
Area ('000 sq km)	28.7
GDP (in billion US\$, 2008)	13.0
Average transition score (scale: 1 to 4.33)	3.07

Progress in structural reform

Liberalisation and privatisation

The Stabilisation and Association Agreement signed with the European Union in June 2006, has been ratified by all member states and consequently came into force in April 2009. In the same month, Albania submitted its formal application for EU membership. However, the country (with Bosnia and Herzegovina) was not included among those Western Balkans countries recommended by the European Commission to the Council of the European Union for visa-free access to the Schengen area.

Business environment and competition

The government has continued to improve the business climate. Following the establishment of a national business registration centre, the number of newly registered businesses in 2008 increased by 29 per cent compared with 2007. A one-stop shop for licences and permits was opened in June 2009 and legal amendments to reduce the time for issuing construction permits from 60 to 45 days were also adopted. However, in the 2008/09 Business Environment and Enterprise Performance Survey (BEEPS IV), companies continue to report practices of unregistered firms operating in the informal economy as one of the most serious obstacles affecting their operations. Bottlenecks in the bankruptcy process were addressed by introducing further amendments to the

bankruptcy law, although it remains largely untested. Only limited progress has been made towards the establishment of secure property rights, and weak law enforcement and the perceived high levels of corruption remain significant impediments to business development.

Infrastructure

Progress has been made in the power sector by upgrading generation capacities and expanding market structures following the completion of the sector's unbundling. Power supply has become more reliable and in spring 2009 the state-owned power company, KESH, started exporting electricity to Greece. In April 2009 the parliament approved the sale of a 76 per cent stake in the electricity distribution company, OSSH, to the Czech power group, CEZ. However, electricity tariffs do not yet fully reflect costs, while the level of technical and commercial losses continues to be high owing to the low quality of the electricity grid. By mid-2009 there had been a further increase in private sector participation in power generation following the government's award of 50 out of a planned 130 concessions for private companies to operate both small and large hydropower plants. Market rules have been approved to provide the necessary framework for the opening and functioning of the wholesale and retail market for electricity. However, competition has been limited so far and the Energy Regulatory Authority has only just begun to establish itself as an effective, independent regulator.

In the transport sector, significant progress was made in rebuilding road networks although the sector requires further investment. Major improvements include the main road from Tirana International Airport into the city, as well as the north-bound highways (to Shkoder) and south-bound (to Vlore and Saranda) and east-west highways (to Korca and Pogradec). The government has also invested more than €1 billion in the new highway to Kosovo, which opened in June 2009, with plans to develop new export routes for the entire Balkan region via the Durres and Shenjin ports. In September 2009 the second phase of the rehabilitation of the Tirana International Airport was completed, successfully demonstrating the benefits of involving the private sector in public infrastructure projects.

Financial sector

The banking sector developed strongly in recent years from a low base, up until the onset of the global financial crisis. Following the privatisation of the government's 40 per cent equity stake in the United Bank of Albania in March 2009, the banking sector is now fully privatised. The global financial crisis is affecting the sector, although to a lesser extent than in other countries of the region, mainly because of Albania's lower level of integration in the global financial markets. Lending conditions have become more restricted, in particular for MSMEs, and businesses in BEEPS IV reported access to finance as the single most important obstacle affecting their operations. Deposits fell by around 10 per cent between September 2008 and April 2009. In response, the government increased the deposit insurance ceiling from Lk 700,000 to Lk 25,000,000 (around €20,000) in March 2009 and the level of deposits has stabilised since May. The Bank of Albania strengthened banking supervision and further developed its credit registry, which is vital for risk management as the sector's level of non-performing loans doubled in the past 12 months, reaching 8.7 per cent in June 2009. The capital adequacy ratio remained stable at around 17 per cent.

Macroeconomic performance

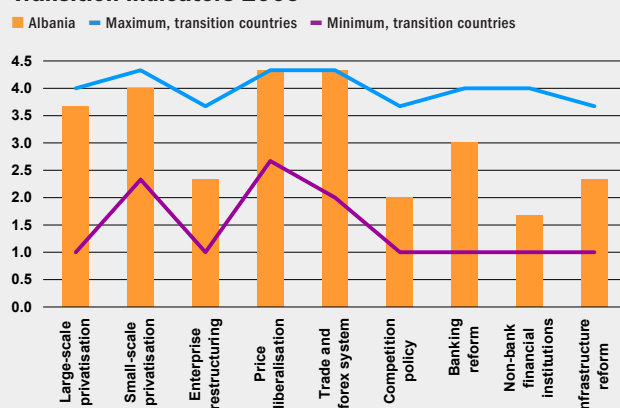
The global economic crisis has had less effect on Albania so far than on most other countries in the region. The economy grew by around 7 per cent in 2008 and 6 per cent in the first quarter of 2009, driven by public infrastructure investments and activity in the services and telecommunications sectors. The 2008 budget deficit increased to 5.7 per cent, up from 3.5 per cent in 2007, mainly due to an increase in the number and size of infrastructure projects. Revenue administration and public debt management were strengthened, leading to increasing tax revenues in 2008 despite a reduction of corporate and personal income tax rates to 10 per cent. The government debt burden remains high at above 50 per cent of GDP, while external debt is manageable at around 20 per cent of GDP.

The biggest impact of the crisis was felt in the real economy due to lower remittances (a fall of 18 per cent in the first half of 2009 compared with a year earlier) and lower exports (down 17 per cent year on year in the first half of 2009) while imports decreased by less than 2 per cent. As a result, the current account deficit continues to remain high at around 15 per cent of GDP. In response to falling foreign currency inflows and tighter lending conditions, the Bank of Albania (BoA) lowered its policy rate from 6.25 to 5.75 per cent in January 2009. Inflation has remained well within the BoA's 2 to 4 per cent target range, and continued its downward trend in 2009, reaching 2.2 per cent year on year in July. International reserves have remained broadly stable at around four months of imports as a result of prudent monetary policy and the flexible exchange rate regime.

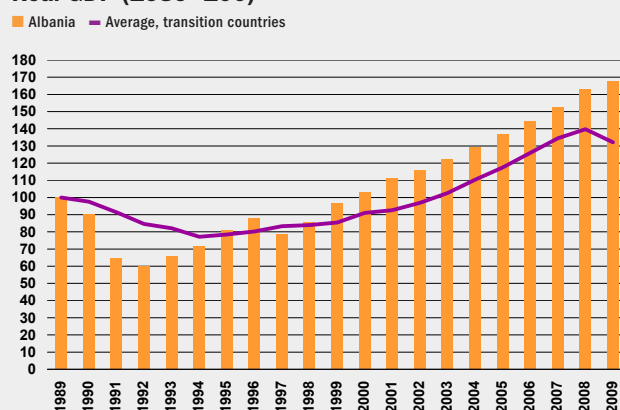
Outlook and risks

Albania's less-advanced financial sector and limited exposure to international goods and capital markets provide buffers against the crisis, and local banks seem well placed to overcome the current crisis due to strong capitalisation, limited reliance on wholesale funding and still-low loan-to-deposit ratios. However, export growth is expected to decline further and the global recession will continue to affect remittances. As a result, it is likely that Albania will achieve a significantly lower, but still positive growth in 2009. Key macroeconomic challenges include financing the large trade and current account deficits. Fiscal risks remain as the government continues to subsidise underperforming state-owned utilities, especially water, power generation and transmission, where revenues do not cover necessary maintenance and investment. Continuing EU approximation, which culminated with the recent formal bid for EU membership, as well as membership of North Atlantic Treaty Organization (NATO), has improved Albania's image as an investment destination and should contribute to a rebound in growth in the second half of 2010 and further catch-up growth over the medium term.

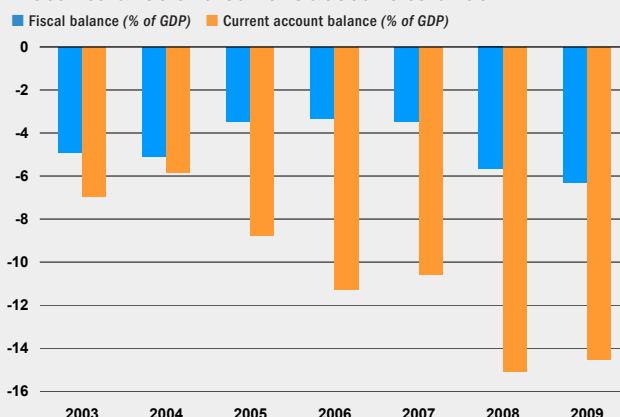
Transition indicators 2009



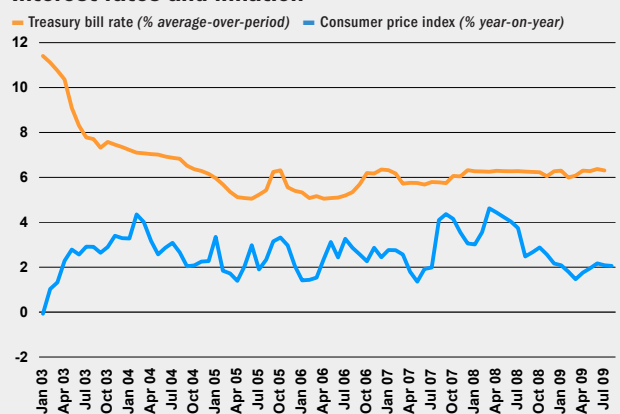
Real GDP (1989=100)



Fiscal balance and current account balance



Interest rates and inflation



Liberalisation and privatisation	Business environment and competition	Infrastructure	Financial sector	Social reform
Current account convertibility - full	Competition office - yes	Telecoms regulatory assessment compliance - high	Capital adequacy ratio - 12 per cent	Share of population living in poverty - 7.8 per cent (2005)
Controls on inward direct investment - no	Quality of insolvency law - high	Independence of the electricity regulator - partial	Deposit insurance system - yes	Government expenditure on health - 2.7 per cent (2008)
Interest rate liberalisation - full	Secured transactions law - advanced	Separation of railway infrastructure from operations - no	Private pension funds - yes	Government expenditure on education - 3.8 per cent (2008)
Exchange rate regime - floating		Independence of the road directorate - partial		Household expenditure on power and water - 5.0 per cent
Wage regulation - no				
Tradeability of land - limited de facto				

Structural and institutional change indicators

	2003	2004	2005	2006	2007	2008	2009
Enterprises							
Privatisation revenues (cumulative, in per cent of GDP)	9.5	11.4	11.5	11.7	13.1	13.6	na
Private sector share in GDP (in per cent)	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Private sector share in employment (in per cent)	80.0	80.0	80.0	80.0	80.0	83.0	na
Budgetary subsidies and current transfers (in per cent of GDP)	0.7	0.7	0.4	0.4	0.4	0.2	na
Share of industry in total employment (in per cent)	7.3	8.2	8.0	7.9	7.6	na	na
Change in labour productivity in industry (in per cent)	33.0	2.1	15.9	13.6	10.1	na	na
Investment/GDP (in per cent)	25.4	26.3	28.9	29.1	29.9	32.0	na
<i>EBRD index of small-scale privatisation</i>	4.0	4.0	4.0	4.0	4.0	4.0	4.0
<i>EBRD index of large-scale privatisation</i>	3.0	3.0	3.0	3.0	3.0	3.3	3.7
<i>EBRD index of enterprise reform</i>	2.0	2.0	2.0	2.3	2.3	2.3	2.3
Markets and trade							
Share of administered prices in CPI (in per cent)	na	na	na	na	na	na	na
Number of goods with administered prices in EBRD-15 basket	0.0	0.0	0.0	0.0	0.0	0.0	na
Share of trade with non-transition countries (in per cent)	81.6	81.5	78.5	75.9	77.4	74.7	na
Share of trade in GDP (in per cent)	39.0	38.1	37.7	40.5	46.7	49.1	na
Tariff revenues (in per cent of imports)	6.4	6.2	5.6	4.9	2.7	2.1	na
<i>EBRD index of price liberalisation</i>	4.3	4.3	4.3	4.3	4.3	4.3	4.3
<i>EBRD index of forex and trade liberalisation</i>	4.3	4.3	4.3	4.3	4.3	4.3	4.3
<i>EBRD index of competition policy</i>	1.7	2.0	2.0	2.0	2.0	2.0	2.0
Financial sector							
Number of banks (foreign-owned)	15 (13)	16 (14)	16 (14)	17 (14)	17 (15)	16 (14)	na
Asset share of state-owned banks (in per cent)	51.9	6.7	7.7	0.0	0.0	0.0	na
Asset share of foreign-owned banks (in per cent)	47.1	93.3	92.3	90.5	94.2	93.6	na
Non-performing loans (in per cent of total loans)	4.6	4.2	2.3	3.1	3.4	6.6	na
Domestic credit to private sector (in per cent of GDP)	7.3	9.2	14.9	21.5	28.9	35.3	na
Domestic credit to households (in per cent of GDP)	na	2.8	4.6	7.3	10.6	13.2	na
- Of which mortgage lending (in per cent of GDP)	na	1.4	1.9	4.3	na	8.3	na
Stock market capitalisation (in per cent of GDP)	na	na	na	na	na	na	na
Stock trading volume (in per cent of market capitalisation)	na	na	na	na	na	na	na
Eurobond issuance (in per cent of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	na
<i>EBRD index of banking sector reform</i>	2.3	2.7	2.7	2.7	2.7	3.0	3.0
<i>EBRD index of reform of non-bank financial institutions</i>	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Infrastructure							
Fixed-line (mobile) penetration rate (per 100 inhabitants)	8.3 (35.6)	8.9 (40.7)	9.0 (49.2)	9.1 (60.9)	9.6 (73.4)	10.1 (99.9)	na
Internet users (per 100 inhabitants)	1.0	2.4	6.0	15.1	15.1	15.1	na
Railway labour productivity (1989=100)	39.4	35.0	28.6	35.5	34.5	33.3	na
Residential electricity tariffs (USc kWh)	4.1	5.3	5.9	6.6	7.7	9.6	na
Average collection rate, electricity (in per cent)	92	76	74	68	76	76	na
GDP per unit of energy use (PPP in US dollars per kgoe)	6.8	7.6	7.2	na	na	na	na
<i>EBRD index of infrastructure reform</i>	2.0	2.0	2.0	2.0	2.3	2.3	2.3
- Electric power	2.3	2.7	2.7	2.7	2.7	2.7	3.0
- Railways	2.0	2.0	2.0	2.0	2.0	2.0	2.0
- Roads	2.0	2.0	2.0	2.0	2.0	2.0	2.3
- Telecommunications	3.0	3.0	3.0	3.0	3.3	3.3	3.3
- Water and wastewater	1.0	1.7	1.7	1.7	1.7	1.7	1.7

Macroeconomic indicators

	2003	2004	2005	2006	2007	2008 Estimate	2009 Projection
Output and expenditure	<i>(Percentage change in real terms)</i>						
GDP	5.8	5.7	5.7	5.4	6.0	6.8	3.0
– Private consumption	11.1	9.4	6.0	7.2	11.5	na	na
– Public consumption	-1.9	7.4	2.6	1.4	7.2	na	na
– Gross fixed capital formation	18.0	2.7	4.9	9.3	6.5	na	na
– Exports of goods and services	19.5	16.6	18.1	14.9	15.8	na	na
– Imports of goods and services	12.7	6.4	14.0	7.0	18.5	na	na
Industrial gross output	29.0	14.1	14.4	12.1	8.6	3.8	na
Agricultural gross output	2.9	6.3	0.9	3.0	-1.9	2.5	na
Employment¹	<i>(Percentage change)</i>						
Labour force (end-year)	-0.3	-0.1	-0.3	0.0	-0.2	3.1	na
Employment (end-year)	0.7	0.5	0.1	0.3	3.3	0.9	na
	<i>(In per cent of labour force)</i>						
Unemployment (end-year)	15.0	14.4	14.1	13.8	13.2	12.7	na
Prices and wages	<i>(Percentage change)</i>						
Consumer prices (annual average)	2.3	2.9	2.4	2.4	2.9	3.4	1.7
Consumer prices (end-year)	3.3	2.2	2.0	2.5	3.1	2.2	1.8
Producer prices (annual average)	6.2	10.8	5.1	0.1	4.1	6.5	na
Producer prices (end-year)	4.4	12.3	1.5	0.2	6.6	4.3	na
Gross average monthly earnings in economy (annual average)	12.0	2.8	5.0	9.2	25.2	12.0	na
Government sector <i>(In per cent of GDP)</i>	<i>(In per cent of GDP)</i>						
General government balance	-4.9	-5.1	-3.5	-3.3	-3.5	-5.7	-6.3
General government expenditure	29.0	29.6	28.5	29.0	29.1	33.0	na
General government debt	60.7	57.7	58.2	56.1	53.2	55.9	na
Monetary sector	<i>(Percentage change)</i>						
Broad money (M2, end-year)	7.6	12.0	8.9	12.1	5.3	10.3	na
Domestic credit (end-year)	8.7	8.8	16.1	19.6	24.1	18.0	na
	<i>(In per cent of GDP)</i>						
Broad money (M2, end-year)	50.4	52.1	52.3	53.6	51.3	52.2	na
Interest and exchange rates	<i>(In per cent per annum, end-year)</i>						
Refinancing rate ²	6.5	5.3	5.0	5.5	6.3	6.3	na
Treasury bill rate (3-month maturity)	7.3	6.2	5.4	6.4	6.3	6.3	na
Deposit rate (1 year)	7.6	6.0	5.6	5.5	6.0	6.9	na
Lending rate (1 year) ³	10.5	13.7	12.2	11.2	13.6	11.1	na
	<i>(Leks per US dollar)</i>						
Exchange rate (end-year)	106.4	92.6	98.1	94.1	82.9	87.9	na
Exchange rate (annual average)	121.3	102.8	98.1	98.1	90.4	83.5	na
External sector	<i>(In millions of US dollars)</i>						
Current account	-398.0	-427.0	-726.0	-1,024.4	-1,147.8	-1,923.8	-1,679.7
Trade balance	-1,336.0	-1,583.0	-1,821.0	-2,089.5	-2,899.6	-3,551.9	-3,537.0
– Merchandise exports	447.0	601.0	656.0	792.9	1,078.7	1,355.6	1,125.2
– Merchandise imports	1,783.0	2,184.0	2,477.0	2,882.3	3,978.3	4,907.5	4,662.1
Foreign direct investment, net	178.0	324.0	258.0	314.7	647.4	843.7	650.0
Gross reserves, excluding gold (end-year)	1,009.4	1,357.6	1,404.1	1,768.8	2,104.2	2,319.8	na
External debt stock	1,253.5	1,519.4	1,752.1	1,807.6	1,950.8	2,600.6	na
	<i>(In months of imports of goods and services)</i>						
Gross reserves, excluding gold (end-year)	4.7	5.0	4.4	4.4	4.3	3.8	na
	<i>(In per cent of exports of goods and services)</i>						
Debt service	3.1	3.1	2.8	3.1	2.4	4.2	na
Memorandum items	<i>(Denominations as indicated)</i>						
Population (end-year, million)	3.1	3.1	3.1	3.2	3.2	3.2	na
GDP (in billions of leks)	694.1	750.8	814.8	891.0	980.1	1,064.0	1,110.0
GDP per capita (in US dollars)	1,844.7	2,341.7	2,648.7	2,883.0	3,422.8	4,005.9	na
Share of industry in GDP (in per cent)	8.7	10.0	10.6	11.0	10.3	10.4	na
Share of agriculture in GDP (in per cent)	23.5	22.3	20.7	19.8	21.0	21.5	na
Current account/GDP (in per cent)	-7.0	-5.8	-8.7	-11.3	-10.6	-15.1	-14.5
External debt - reserves (in US\$ million)	244.0	161.8	348.0	38.8	-153.4	280.8	na
External debt/GDP (in per cent)	21.9	20.8	21.1	19.9	18.0	20.4	na
External debt/exports of goods and services (in per cent)	107.4	95.0	94.7	80.4	64.5	67.8	na

¹ Figures do not include emigrant workers abroad.

² The figures show the repo rate of the central bank.

³ The figures show the weighted average monthly rate for new credit in leks for maturities between 6 months and 1 year in December each year.