

## **COMPLIMENTARY SPEECH**

**Given by the Governor the of Bank of Albania  
Dr. Shkëlqim Cani  
In the Export-Import Bank regional conference.  
Cavtat, Croatia, October 29, 2001.**

Honorable participants,

It was with great pleasure that some time ago I, as Governor of the Bank of Albania, accepted the invitation of Mr. Robson, chairman and president of EXIM Bank, to introduce Albania at this conference.

Frankly speaking, when I received the invitation to hold this speech, my first thoughts were: Why was Albania chosen? It is just a small country, with an area of 28 000 km<sup>2</sup> and with about 3.1 million inhabitants; poor and with problems of corruption and public order. Having these thoughts in mind, I remembered a sentence written from Mr. Robson: "Albania is an extremely interesting country." I would add that Albania is also a place of many opportunities.

Being an Albanian myself and living every day in Albania, with its many problems, I sometimes become pessimistic about its future and I have difficulties introducing these opportunities to foreigners. However, often I recall the beginning of the '90s and the change of the course of history for Albania and I become convinced that Albania indeed has developed considerably and has a lot to offer to foreign investors. The attention of the EXIM Bank is proof of this fact. In the meeting I had with Mrs. Vanessa Weaver a year ago at the EXIM Bank, I did not expect that this bank would begin activities in Albania soon. Now, it seems this attitude is changing.

### **I. HOW DID ALBANIA ARRIVE HERE?**

Until the end of the 80s Albania was a communist country extremely self-isolated. This impeded its development and progress. The beginning of 90s found Albania in very severe political and economic conditions and with much poverty. The challenges lying in front of her were of all sorts. They were related to changing the political regime, building a new economic system, establishing new institutions and even transforming the mentality and tradition of the people. I believe it is comprehensible for all of us that building something you are not familiar with from scratch is very hard.

If I would express myself using the words of Edmund Hillary: "It is not the mountain we conquer, but ourselves." I would say that, as such, was the Albanian society at the beginning of the 90s. It had to conquer itself in order to embrace something new and unfamiliar, democracy.

Establishing democracy would serve as a basis for ensuring society's prosperity. This required carrying out extensive reforms related to society, mentality, tradition, political behavior and everything else.

Another important step to take was that of attaining economic stability. This was achieved through cooperation and coordination with international institutions such as IMF and WB as well as with the assistance of many other donors. Like any other country that entered the transition path, the stability programs and agreements signed with these institutions served as guides for expected changes.

In the end, institutional and structural reforms would lead to establishing new institutions that would support democratic, as well as the economic development of the country.

All three of these elements were considered as basic pillars for the new regime we were trying to adopt. Albania managed to progress during this decade. I would like to present here what Albania has and has not achieved in the economic area.

## **II. ECONOMIC REFORM AND MACROECONOMIC STABILISATION**

Following the economic crisis of '90-'92 which was associated with hyperinflation, production contraction, fiscal imbalances, and the deepening of trade and current deficit, the Albanian economy acceded to an economic and structural stabilizing policy. This policy was forced by the need to ensure the country's recovery and provide the basis for economic growth. The intensive therapy applied during the second quarter of 1992 showed its results in creating a suitable macroeconomic environment for undertaking further actions and reforms in the future in terms of liberalizing, privatizing and opening the economy.

The period of '93-'96 was characterized by relatively rapid economic growth at an annual average rate of 9-10 per cent; by reduction in the inflation rate from 200 per cent to an annual average rate of 18 per cent; and, by the constant decrease in unemployment rates. This period was also marked by attempts to consolidate Albanian finances; to increase the impact of monetary policy on the economy; to further liberalize the economy; and, integration in the international and regional structures in order to ensure outside support for the democracy that was being built.

Yet, stability was achieved but not consolidated. The newly established equilibrium proved to be fragile. The lack of knowledge on the new regime converged into a brutal interruption of the process. The events resulting from the collapse of pyramid schemes in 1997 might be far away now, but they are still printed in the memory of all Albanians for the destruction that they caused to the country. The year 1997 toppled almost everything that was achieved during the

period of economic development and we found ourselves back to the starting point.

The main features of the crisis were the jump of the inflation rate to 42 per cent; the decline in economic growth to 7 per cent; the increase of the unemployment rate to 15 per cent; further and, aggravation of the foreign sector of the economy. Above all, the events of 1997 showed how important correct and sound establishment of the institutions supporting the economy is. This year also confirmed that you couldn't build democracy based on the old mentality.

During the second half of 1997, like in 1992, Albania embarked on an emergency stability program. Again the country's energy would focus on overcoming the crisis. The results of the program became evident in 1998. The following years have continually ensured the establishment of macroeconomic equilibrium and its consolidation. An average annual economic growth rate of 7-8 per cent has been attained. Inflation has been stable at low levels, on average 4 per cent annually. In order to encourage the growth of domestic demand, lending and investments in the economy, the monetary policy has been loosened for three years in a row even though a tight fiscal discipline was maintained. Also, unemployment has reached low levels, about 14.8 per cent in August 2001.

For the first time, GDP per capita passed the level of one thousand US dollars. The privatization process spread over strategic sectors and many important entities were privatized, among which the mobile operator company and National Commercial Bank, the second largest bank in the country, are more distinct.

In terms of macroeconomic stability, authorities have been forced to be more cautious toward institutional reforms, structural adjustments and respect for democracy, always bearing in mind the bitter experiences of 1997 and the need to avoid a repetition of those events.

Attention has now shifted more towards:

- enforcement of law;
- respect for institutional independence;
- increase of transparency and institutional responsibility;
- market development;
- the war against trafficking;
- corruption and monopolies;
- absorption of foreign investments;
- poverty reduction;
- improvement of health and education systems; and,
- protection of the environment.

In the year 2000, Albania attained membership in WTO. Now attention is focused on the process of intensifying integration in the region and then into the EU.

### III. HAS THE TIME TO INVEST IN ALBANIA COME?

While answering this question I will try to neither give neither false assurances nor exaggerated fear. I will introduce what Albania offers to foreign investors. I believe that your conclusions in the end will be positive.

Why should one invest in Albania? Of course for the one reason why every investment takes place: to make profits. I do not have the courage to invite investors to Albania to lose money. On the contrary, it is necessary to create a favorable investment climate in the country.

Foreign direct investments in Albania during the last decade have been at relatively low levels - reaching on average 70 million USD for the period '93 – '00 - and mostly of a secondary nature. Domestic investments, albeit having increased over the last two years, are still at low levels as well, and investments in capital markets cannot be talked about. Also, the relatively low projected budgetary capital expenditures have not been realized for some years, thus restricting public investments. Therefore, it can be stated that there is free room in Albania for foreign investments and moreover, a number of factors which speak on their favor exist:

- *Albania offers macroeconomic stability for over, at least, the last four years.* The Albanian authorities are aware of the importance of consolidating macroeconomic stability and they are committed to carrying out structural reforms. A number of strategies are designed for the development of specific sectors of the economy in order to ensure better-oriented progress for them.
- *Albania is yet a virgin economic territory.* Although the rate of production is relatively high, it is estimated that the level of production is below its economic capacity. This fact is better illustrated by the low level of exports, especially of exports from domestic production; the limited expansion of production businesses; and, the limitations in support by banking loans for this sector. As of the end of August 2001, only 10 per cent of total banking assets were being used for loans to the private sector and individuals. Put another way, this amount comprises 5 per cent of GDP. The financial sector is even more unexplored as it lacks the players of financial markets – banking and insurance which are the intermediaries of financial services. Being the governor of the Bank of Albania I would specifically invite investors to penetrate the financial market by opening banks, insurance institutions, investment funds, etc. Furthermore, the service sector has not been exploited. With services I don't only mean investments in tourism, such as hotels or restaurants, but also those in project designing, etc.

- *Albania is thirsty for foreign investments.* The thirst is the outcome of the need for economic prosperity through absorbing capital necessary to raise the level of employment and technology and know-how.
- *Albania welcomes foreign investments.* Unlike some other countries, Albania has not developed the feelings of xenophobia or that of hindering forging capital penetration in the country. It is enough that I present one example - the banking system in Albania. Out of 13 banks operating in Albania, 12 of them are foreign or have a major foreign shareholder. Foreign capital in the Albanian banking system as of August 2001 accounts for 84 per cent of the total banking capital. The 14<sup>th</sup> bank was recently licensed and it is a foreign bank too. Moreover, the Albanian government has clearly expressed its interest to attract foreign strategic investors for the privatization of Savings Bank. This will turn the Albanian banking system into a system with entirely foreign capital.
- *Albania has domestic investors unable to undertake large investments.* Personally, I do not enjoy this fact, however I believe that it is an attractive element for foreign investors. Since they have relatively small and medium domestic businesses, they are unable to undertake large investments and therefore do not provide strong competitiveness for foreign investors.
- *Albania is in the process of privatizing large enterprises and strategic sectors.* Albanian authorities, in order to improve the efficiency of these sectors, are interested in having foreign strategic investors in the most important sectors such as: the Savings Bank, INSIG, Telecom, electrical distribution enterprise etc.
- *Albania, according to both its legal framework and practice, does not apply protectionist measures and does not hinder the free flow of capital for non-residents, especially for repatriation of profits.* Thus, foreign capital is not in danger of being impounded in the country.
- *Albania offers cheap and relatively educated labor force.* This enables investors to reduce costs. This is one of the advantages that Albania is expected to continue to have in the coming years.
- *Albania offers a mobile and easily adaptable labor force.* The labor force is not connected to a specific craft activity or service. It can be easily moved from one sector to another in search of better wages and it can adapt to new activities very easily.
- *Albania offers cheap domestic capital.* It is possible that serious foreign investors, who by doing so limit the risk of investing their own capital, can employ this capital.

- *Albania offers protection from political risk.* Given that the country is located in a troubled region, such as Balkans, and also considering its internal problems, it was deemed necessary to establish the Agency for Investments Guarantee, which insures foreign investments from political risks.
- *Albania is close to Western European markets.* This enables every investor an opportunity to penetrate those markets at a relatively low cost.
- *Albania offers a developed legislation system; and, in general, one that is in compliance with international standards.* Moreover, legal defects can be easily repaired. Albanian authorities have shown their willingness to be flexible in this respect.
- *Now, Albania belongs to a region whose perspective does not seem that dim anymore.* The Balkans is a region which, for at least ten years, has been engaged in wars, even the bloodiest of ones. However, recent developments are leaning towards the integration of these countries. This integration provides a more attractive economic territory for foreign investors.

Yet, there are factors that act in the opposite direction. Otherwise, it would not have been necessary to stress encouraging of foreign investments. These factors are under the attention of Albanian authorities and they provide strategic objectives to be worked out in the near future:

- *Factors, such as organized crime and the low level of cooperation of political forces in the country, still do not provide a calm environment for investments, thus increasing the possibility for crisis.*
- *Poor governance as well as the lack of transparency, bureaucratic practices and corruption are additional factors that discourage foreign investors.*
- *Country's infrastructure is under developed but that can be rehabilitated at relatively low expense given the restrictive area it covers.*
- *The Albanian market is a small one, but with an increasing buying power. Moreover, the Albanian market passed the level of saturation and is more oriented toward quality now.*
- *The legal system is not yet fully developed in that laws are on record but not enforced, the judicial system is inefficient, and there are cases of corruption.*

#### **IV. LOOKING AHEAD**

I have always liked the Spanish proverb: "The one who does not look ahead, remains behind". We ought to think about the future or we cannot have one. The future is obvious to everyone. It is connected to Albania's integration in the European Union. It is also clear that the process of integration will not finish in

the next one or two years. It will be a long and demanding process. In the following 10-15 years, Albania should be able to prove that it can fulfill the requirements of the integration process. I cannot say that this period of time will be discouraging. During this period, Albania should show its willingness to ensure its membership in the Stability Pact with dignity. Attaining the integration in the region of Southeastern Europe is a step towards integration with the European Union. But, this process reveals a chain of actions in the economic, political, judicial aspects that will help the development and prosperity of the country. These actions include structuring the Albanian legislation so that it is more in line with the European one; intensifying the fight against money laundering and trafficking; developing the financial system and capital markets; ensuring, on average, sustainable economic growth of 7 per cent with an annual inflation rate at 3 per cent and the continuous reduction of fiscal deficit as well as increasing the efforts to further reduce poverty. The strategy adopted by the Albanian authorities on promoting growth and reducing poverty will be our guide for the next 2-3 years. For this reason, the process of integration is highly desirable and supported.

Thank you kindly,