

ALBANIA AND ITS MEMBERSHIP IN
THE IMF AND THE WORLD BANK

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Honorable participants,

Today, ten years later, I have personal reasons to feel really proud that I personally had the historical privilege to sign on behalf of the Albanian government the formal act of Albania's entrance into the IMF and the World Bank.

The day of October 15, 1991, besides a formal act of entrance, has a great importance because for the first time since the creation of

the Bretton Woods institutions, side by side with many consolidated democracies and a number of other aspiring countries for democracy and economy they accepted the membership of our small country. The importance of this day does not lie merely in a simple signature and entrance. For Albania this moment meant the green light to her future, which, at its worst, was seen as much better than the past.

The membership in the IMF and the World Bank would not be converted into a loan account number with these two institutions.

This meant that Albania had now the possibility to elaborate its crisis management and its development strategies, its aid and investments programs, and those for the attraction of foreign investments and advanced technology.

This meant that Albania could begin to carry out the reforms in the economic, social and institutional fields, that it could start the processes of the opening and the liberalization with the only scope of ensuring the installation of democracy and the development of the economy, having as a goal the integration in the Euro-Atlantic structures.

I mentioned earlier that I today I feel proud. But this does not mean that I felt the same thing back then. Albania was just living behind one of the cruelest dictatorships of the century and was experiencing a manifold crisis; economic, political and social.

A SURVEY

For more than four decades in a row, until the beginning of 1991, Albania has been one of the least known-about and one of the most hard-to-reach countries in the world. It totally self-isolated under a totalitarian regime, which claimed to fanatically, pursues the Marxist ideology, trying to succeed in one of the greatest experiments of socialist orthodoxy. Even though little was known about the country's economy, Albania is always spoken of as the poorest and least developed nation in Europe, maybe the only one of the continent where the living standard was in the same level with those of the third world.

Although in the beginning it looked like Albania was resisting the radical changes taking place into the socialist world, by mid-1991 it had joined the reformist movement present in all Eastern Europe those days. In June 1991 the first postwar pluralist coalition

government was created. Diplomatic ties were reestablished and Albania joined the International Monetary Fund (October 15, 1991), the World Bank, the European Bank for Reconstruction and Development, as well as many other international organizations.

The sight we were looking at when Albania was trying to reform and to rejoin the world economic community was that one of a country caught in the middle of a deep economic crisis, maybe even more serious than the ones of the other socialist countries in the reformation process. Albania was experiencing a drastic contraction of the economic activity (30-40% during 1990-1991), a downfall of the international account, decrease of the currency reserves and quick accumulation of the debt.

In this context, the information only recently made accessible on the main variables of the economic and financial development during the last years and on the complications of the pursued policy is helping to determine the causes of the crisis of that period.

Even though it can be said that radical reforms like the abandonment of centralized economy and the embracing of the market economy will take the study of the last developments of the reforming countries' economies in the context of economy history, it is still evident that once it is understood how and why these developments took place, it will be easier to find optimal solutions.

The economic crisis in Albania was not only a result of the recent events. It reflected the stemming of structural problems, shortcomings in the administration as well as financial balancing problems that arouse from the strategies pursued since World War 2. The economic model of Albania, like the ones of other eastern countries, was based on two main principles: the sustenance by the centralized planning and the abdication of the right over working tools. Although the implementation of these principles was done in more extreme measures than those of any other socialist country and every form of private ownership was completely erased, the "Albanian model" was distinguishable because of another principle, the third one: the idealization of self-support, which became the creed of the economic policy, and that practically gave free hand to the exertion of an autocratic economy. This strategy was symbolized in the constitutional barriers created in 1976 for credits, aid and investments coming from other countries, and reached its summit when in 1981 Albania was self-isolated financially.

Until the end of the 1970s the Albanian economy followed the same development track with those of the other developing nations, socialists or not, with regard to the deviation from economic initiative, the role of the market components, competition and its advantages, and the financial discipline. Consequently, the economic activity was affected by the price distortion, the financial burden of state subsidy for the enterprises as a result of the fixed prices and from the specialization of the production, which led to inconsistency among demand and proposition. However, for a period of time, consequences of these policies were disguised by the considerable usage of foreign resources taken from the former USSR in 1950 and from the Republic of China in the years 1960-1970. The transfer of the foreign savings not only exposed the accumulated effects of the political errors, but also stimulated a slow development and also the foundation of a considerable amount of money supply.

Albania began to experiment, unlike the others, in 1978 when it dissociated economic and financial relations with China and began to feel the effect of institutional barrier that blocked all forms of help from abroad. Although many countries have been able to face the lack of the foreign financing, usually such a thing demands respective macroeconomic inflection. Albania did not adapt to the new conditions, and the aggregate demand affected by monetary increase and the fiscal imbalance continued to grow rapidly. Economic administration in the conditions of a financial autarky, asked for enforcement of the state control and, as a consequence, the resources' allocation was worsened. This led to acceleration of the product decline as a result of the state attempts to ensure employment of the labor power that was growing rapidly, and the technological inferiority of the capital equipment, which have been so since the moment of their installation. In such conditions, the economic development dropped rapidly from 5 percent in 1970 on the average of 1 percent per year during the 80'.

Although, it was managed that the crisis be hold over for more than a decade as a result of the accumulation of the money supply in the past, maintenance of the commercial balance, mainly in inconvertible currency, positive developments in commercial conditions of Albania and the new exportations of the goods. With time the accumulated consequences from the intensification of the macroeconomic imbalances along with the increase of the budgetary deficiency, monetary expansion (especially in the second part of the 80'), and also exposed the lack of the outlay of the goods in the market. Furthermore, in the end, consequences of the macroeconomic distortion and the deficiency in

macroeconomic management were further clarified through the growth of the import demand as a result of the limitation of the domestic demand, the collapse of the market export in the countries of the Eastern Europe, subversion of the trade conditions and the impoverishment of the money supply.

In 1990, the fiscal situation was worsened and the budgetary deficit reached a level of more than 16 percent of the PBB. The money was increased to 20 percent, whereas the reformation process was not taken seriously. Totally different to the previous policies, which did not accept cross-country financing, during this period, obligation towards foreign trade banks increased rapidly thus damaging the reputation of Albania in the international financial market. Though the bad atmospheric conditions during 1990 affected in the slump of the production, this decreasing continued even during 1991 associated with the aggravation of the fiscal imbalance. In these conditions the way towards the improvement demanded not only macroeconomic modulation but also a deep recovery of the economic system through implementation of the general programs for the institutional and structural transformation.

TOWARDS THE ECONOMIC REFORM

Practically, as far as 1990, in Albania there was not applied any kind of economic reforms. In the 1985, after some decades of centralized leadership, the government began, though really slowly, to detach from the principles of relying on ones own power. But, only in the midst of 1990 in response to the national revolts, Albanian authority declared that the system of the centralized planification had resulted in the accumulation of serious imbalances. Within the frame of "the new economic mechanism", which was adopted at that time, were introduced some limited proceedings that aimed the integration of Albania in the world economy and to promote a gradual transition from the centralized planification to a market system.

The Socialist Government, which was founded after the elections of march 1991 and the Stability Government that was established in June 1991, though at that time there was lack of political stability and limited time of governance, began its first difficult steps in the long road of the economic reform. After passing the law n. 7512, 10.08.1991, "For the sanction and the protection of the proprietorship, of the free initiative and the independent private activities", which would constitute the legal foundation of the economic reform, there were passed other laws or resolutions such

as: enterprise law, price and wage law, assistance law, changes in the law about the Albania State Bank. However, regardless of the vast transformations that some field undergo, such as the privatization agricultural activities, market and price liberalization, financial independence of state enterprises, the pace of the reforms was slow and such was the reform from the weak economic administration. The political situation was aggravated in December 1991 when the government was found in crisis and was obliged to announce premature elections-March 1992.

REFORMS IN THE FOREIGN DEPARTMENT

Reforms in the foreign department in Albania are focused in the removal of legal barriers on foreign investments and credits, and in the partial liberalization of the foreign trading and the limitations of the exchange.

In July 1990, in the Albanian Parliament there were ratified two ordinances (N. 7406, "On favoring foreign investments in the Socialist Republic of Albania", and N. 7407, "On economic activity of enterprises attended by foreign capital in the Socialist Republic of Albania"), which removed the constitutional barrier on loaning credits from abroad, which was ratified in 1976. These ordinances made way to direct foreign investments, established legal defense on expropriation and arbitrary nationalization and allowed foundations of enterprises of common capital (foreign and Albanian), and also the delivery of the profits abroad.

Bilateral treatise on investments were further ratified among different party countries and in August 1991 the Department of Economic Relations with Overseas countries, founded the Foreign Investment Agency, which was responsible for the promotion of investments and the analysis of the investments propositions.

In August 1991, Albania began the liberalization of the market and the system of exchange. Until then, limited monopolized trades under the government control made trading. After August 1990, all the state enterprises were authorized to make direct operations of the foreign trading. In April 1991, after the resolution of the Cabinet of Ministers for the privatization, the state monopoly on foreign trading came to an end, thus allowing enterprises and individuals to undertake activities of international trading independently from the state. The gradual melting of the state monopoly on foreign trading was companied by the introduction (December 1991) of a license system of import/export and the limited rights of keeping foreign currency, which was broadened in April 1991 by the profits

of the private enterprises. Since August 1991, exports and imports have been liberated, except a list of goods that required a special authorization from the Department of Foreign Economic Relations and the banning of export of some alimentary goods that the country lacked. Since January 1991, all of the trading was made in exchangeable money; all the mutual barriers have been dominated in dollars and there was no distinction among the exchange rates for the trading and non-trading transactions. Since September 1991, the official exchange rate has been bound to European currency ECU (1 ECU = 30 lek) regardless to the fact that it was more bound to the American currency with an exchange rate of 1 USD = 25 lek (1 USD = 10 lek in the early 1991). With the government carry away on the request to hand in foreign currencies and with the total depletion of valuta resources in the early 1992, the official exchange rate was further devaluated in reaching a level of 1 USD = 50 lek. Transactions in the parallel currency market began growing and brought the exchange rate from 40-43 lek/USD in November 1991 to 78-81 lek/USD in February 1992.

REFORMS OF THE DOMESTIC ECONOMY

Reforms of the domestic economy aimed at modifications of the legal and institutional frame that modulates economic activities, thus allowing private initiatives, providing limited financial help for the development of the private sector increasing financial independency of the private enterprises regarding the budget.

Nevertheless, knowing that the control of the price on the most considerable part of the goods continued until late October 1991, the dispersion of the centralized system of the resource parceling was not associated with the simultaneous presentation of the evident inducement of the market. The long lack of the price flexibility, the collapse of the institutional and management frame, non-encouraging the employees to be paid only the 80 percent of the wage without working, and the lack of the raw material blocked the response from the economic offer and influenced the aggravation of the financial imbalance.

Legal and institutional reforms considerably minimized the centralized planning role and began approaching cases of the proprietorship rights. In March-April 1991, the government decided to abandon the traditional 5-year plan and to replace that with a number of annual goals for the year 1991 under an "operative plan". These goals were to the discipline of working that had begun

since 1990 in the whole country. Furthermore, since March-April 1991 with the ordinance N. 7476 "On the authorization and protection of the private proprietorship and activities" and through prearranged constitutional provisions approved by the parliament, private proprietorship of all kind (except land) were allowed and it was guaranteed equal legal protection with those that shared other forms of proprietorship, be that public, mixed or communal.

The privatization was first thought as a private introduction to small industries, of the market and service. At the same time the separation of the big enterprises in small ones would continue and then these big enterprises would be sold to the public. (Resolution N. 138 "On the development of private activity" implemented by the parliament on April 3 1991, demanded from the government to identify state sectors and enterprises that would be privatized). In the legislation and resolutions ratified in August 1991, the case of the privatization was still present. Under the orientation of the Preparatory Commission for the Privatization Process (PCPP) and National Privatization Agency (NPA), state enterprises would be sold in auctions through shares, would be separate in pieces or shares that reached up to 30 percent of the company worth, or would be privatized through the combination of these methods. PCPP was responsible for the evaluation of the state assets and NPA for the intercession among state and consumers and for the final realization of the state enterprise vending. Selling of the state assets was done by giving the first buying option to the employees of the enterprises and then by auctions for all the Albanian citizens. Assets that were not sold even with the second option were offered to foreign individuals or companies. Profits were transferred to the state budget.

The activity of the private sector was increased limitedly. In the early 1992, only the privatization of small shops and trade services flourished, in the meantime, only 20 percent of the alimentation industry enterprises was privatized. A lot of private trade activities have been founded all over the country making way to the establishment of the parallel trading. In January 1991, began the financial support for the foundation of the private initiatives through realization of a midterm program for their credits (maximal level for credit accorded for each project was 40, 000 lek), however, credits accorded in this framework during 1991, constitute a small amount of the total domestic credit.

In the agriculture sector and in that of the agrarian trading, reforms advanced rapidly. Since the midst of the 1991 there was established the parallel private market of the agriculture products from the homestead were the villagers used to work for self-consuming needs. The market established prices in these markets and the volume of the transactions was increased firstly as a result of the growing of the homestead surface for the members of the cooperatives and after the first trimester in 1991, as a result of the melting of the agriculture cooperatives. The criteria for the land and cooperatives resources allocation (that owned 75-80 percent of the infield) were established by the CM in August 1991 after the share-out of part of the cattle to the members of the cooperative. Until the midst of the 1992, 70-75 percent of the infield that was previously owned by the cooperative was given away among private individuals. The land could be inherited to the descendant but the law passed in July 1991 banned its selling. Furthermore, serious lacks in the field of transportation, allocation and marketing for agricultural products blocked the development of the farm activities. Reformation of the state farms began in the midst of 1992.

After the midst of 1990, a number of reforms were undertaken in order to increase the financial independency of the state enterprises. The backbone of these reforms influenced the financial profits among the state enterprises and the state budget and aimed at making these enterprises more responsible for the their decisions on investments. The report of the profits kept by the enterprise was increased in less than 10 percent in 90 percent, while investments that were previously financed from the budgeted, in this period began to finance from the enterprise funds and bank credits. Projects for big investments, like those for the irrigation and explorative activities were still under the financial dependence of the state budget while they were being financed by the state budget and the enterprises loss. Enterprises loss began to be financed even by the bank credit, which in fact, was granted only to state enterprises not in good financial situation and without conditions. Furthermore, decentralization of the product, setting prices and the decisions for the wages were legally considered only in the last trimester of 1991. The law on state enterprises published in October 1991 authorized independency of the enterprises regarding the product structure, the level of the labor power, setting salaries and prices, and the right to produce according to the contract. However, the law included important limitations. The state had the right to control 2/3 of the productive capacity of the enterprises, and in special cases this interference

reached up to 100 percent. Likewise, even employment was left under the control of the central authorities or the local ones, though there was a liberalization of the prices in November 1991, a considerable part of them were still under the state control.

CONCLUSIONS

I am really pleased and I really feel a quiet pleasure when I see that the beginning was not all it was.

We, altogether, with a great desire and strong efforts, sometimes filled with emotions and rancor shown quite openly for an elaborate politics of a country that aims Europe, have done a remarkable work. We have done more than we attribute to ourselves.

And I also find another reason to feel good. Relying on my modesty and on that of my forthcoming homologous, present or not here today. Because, all of us together, regardless to one another, have given Albania hope and confidence at aiming Europe, have given to our fellow citizens, be them in Albania or abroad, an abiding and convincing motif to be pride of, to be attentive to what is happening in Albania.