

CEFTA Deputy Ministers Meeting

Budva/Montenegro, 27 May 2009

Distinguished participants,

Dear colleagues,

From the beginning of the global financial crisis last fall, the world is almost focused in the impact in the advanced countries and recently in the emerging market economies. IMF is preoccupied with the insufficient attention paid to the impact in the smaller and more vulnerable economies, especially in developing countries, which obviously had no role in the creation of the crisis, but which will be regardless of that much affected.

The **Albanian** economy has enjoyed a positive and non-inflationary growth during the last decade with sustainable growth of 6% in real terms. In 2008, the official sources of the Government of Albania presented an 8% economic growth while the inflation remained within the 2-4% target of the Bank of Albania.

The last quarter of 2008 increasingly put forth the effects of the global crisis in the Albanian economy. It created liquidity problems followed by upward pressures on interest rates. Further, it has influenced the banks' disposition to lend which was reflected in a slowdown of the credit growth rate.

In response, the Bank of Albania undertook measures to inject liquidity and preserve the public's confidence in the banking system, along with other measures which resulted effective, and the Albanian banking system was able to withstand successfully the first shocks of the global economic and financial crisis.

Allow me to portray the situation in Albania through the IMF analyses and prospects.

Albania is in a different situation than most other countries with low income and it has been relatively less at risk by shocks of traditional low income countries, such as are the shocks to exports, prices, remittances and FDI.

However, if we pay attention to the trade data we will see that there is an overall reduction of trade exchange of Albania with CEFTA countries. Comparing first quarter of 2008 with that of 2009, we see that our export to CEFTA decreased by 60%, more in agriculture than in industrial, and our imports from CEFTA decreased by 8% which is only in industrial products. In addition to trade reduction we are facing from the last quarter of 2008 decreases in remittances and capital inflows.

In sum to all these, IMF although foresees economic slowdown during 2009 in Albania it does not foresee a crisis yet. Regardless of the slowdown Albania will still have a positive growth in 2009.

For the first quarter of this year Albanian official source show the 4.4% growth while the IMF projection for the economic growth in Albania during 2009 is 3.7%.

WHY this situation:

1. Albanian banking system is not well integrated into the international financial system. This has been considered a weakness of our economy for quite long time but in these gloomy days of global crises it saved Albania for being affected.
2. An improved business environment and prudent macroeconomic policies resulted in rapid productivity growth and therefore provided a solid engine for the economic growth. Albania is considered one of the countries with the lowest tax burden in the region. From January 2008, the profit tax is reduced to 10%, health & insurance contributions reduced to 21.7% of the gross wage. Due to very radical reforms we are ranked the second among top ten reformers in DB 2009.
3. The openness index of Albania (X/GDP) is at around 10%. This shows that Albania is in its transition phase. In fact this is right now helping. When exports decline —because they're declining in Albania as in other countries—they will not draw down the economy with them as it has happened in other countries.
4. Efforts to reduce informal economy (e.g fiscal evasion) minimized to some extent the negative effect of the crises. Formalization of economy is considerably improved. The % of revenues collected versus GDP increased from 19% in 2005 to 25% in 2008.

Dear colleagues,

The era we are living in is full of opportunities for a more prosperous society and certainly we have been experiencing such happy realities for almost two decades now. Never the history of economic development had registered such an explosive growth and consequently improved standard of living for the whole world population despite the last year crises. What we can do in CEFTA to address the impact of the global crises in our trade.

Without underestimating many measures on the economic and financial sector taken by government to address the global crisis, we believe that we have two main instruments to minimize the negative effect in trade

1. **Have a liberal trade regime.** We already liberalized trade and have to the maximum extent possible created free trade area among us. Thus there is little we can do in this regard.
2. **Increase efforts to reduce NTB's.** To allow our traders and economy to benefit from the liberalized trade regime we should focus on minimizing NTB's and impeding them to offset the positive impact of tariff reduction.

By concluding I would like to thank all of you for the attention and I would encourage the strengthening of the cooperation to assure an effective implementation of CEFTA.