

The Economic Growth of Albania during the First Postcommunist Decade: The Economic Institutions Recommendations

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Abstract

1992-1996 was a very distinctive period for the relationship between EU and the Western Balkan countries, exceptionally for Albania. In the new way of market economies development, each country addressed their problems in distinct manners. The relevant politico-economic institutions, democratic decision-making bodies, central banking policies, the organization of privatization of industries, and the regulation of private firms – all had an impact in this first phase of transition period. When these institutions are inappropriate for the development of free market economies, one reaction in many countries is the spontaneous development of informal economies. One of the main strategies of stabilization and liberalization was privatization and the development of the private sector. The liberalization process, on the other hand, proved to be a complicated and delicate procedure with respect to both economic and social aspects. The economic growth in Western Balkans countries for the period 1992-1996 represents double standards, especially in Albania. This paper presents a study of the role of the informal sector in transition. The Albanian case is used to demonstrate some of the characteristics of this transition. This study seeks to present the economic growth of Albania during the first postcommunist decade. It will analyze the conditions for the informal sector to emerge in a transition country, to wit, Albania. The consequences of these conditions are reflected in the various appearances of the informal sector, and from the other hand are the institutions, that survived and tried to correct the situations. In the other hand the paper examines the role of the economic institutions like European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF), the World Bank, etc. The analyses are based on the existing evidence which examines all the facts for the characteristics of developing economy in Albania and the report with the international economic institutions and their recommendations.

Keywords: economy, transition, growth, privatization, recommendations

1. Introduction

Post-communist development is often described as a triple transition, because post-communist countries simultaneously face economic, political, and ethnic changes (Katatchnovski, 2000). The reviewed studies imply that economic growth would accelerate as soon as, or shortly after, economic reforms and macroeconomic stabilization are implemented (See, for example Fisher, et. al., 1996, 64).

However, forecasts, made by the World Bank, PlanEcon, the United Nations Economic and other organizations, did not anticipate the significant variation of growth rates in post-communist countries. According to the IMF (1999a) data, 8 out of 22 countries recorded negative growth in that period. The different ways to affrontate the situation reflected the capability of each of these countries(IMF, 1994).

The reviewed literature on economic growth shows that post-communist countries with more reformist policies of economic liberalization, low inflation, and no war involvement tend to grow faster than countries with less reformist policies, higher inflation, and war involvement.

A key issue in the study of democratization has been the relationship between the levels of economic development and the level of support democratic institutions. Economic development is associated with a reduction in the state's economic role which increases the chances for democracy later by increasing middle class with independent interests of the state and therefore reduces relations of patronage, nepotism and corruption.

2. Political Economic Changes

However in the Western Balkans old static political systems were not transformed by popular revolutions as has happened elsewhere in Eastern Europe. In many cases, the old elite continue to remain in power even after the introduction of democratic political system.

As a result, generally in the Balkans, by the end of the 90s, there was a noticeable transformation of the political and economic elite and reducing the role of the state in the economy has been small. The companies retained their previous character static societies where power had arbitrary actions by lawlessness, despotic ways of exercising power, institutionalism low, the lack of intermediate structures and hence the weakness of civil society. These features can be found to some degree in many Balkan countries. Persistent role of this type imposes state in many cases a real obstacle to the development of democracy.

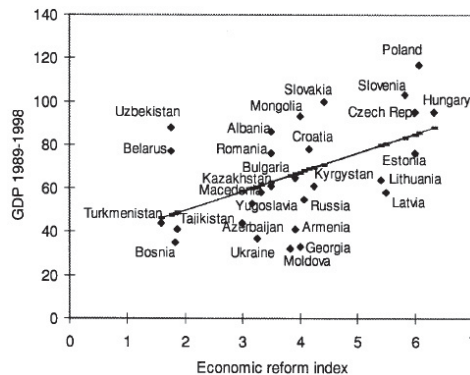
In Albania, anti communists came to power in the 1992 elections, but the nature of the ruling party retained an authoritative character. Successor states of the former Yugoslavia in which centralized planning was abandoned in early 1990 and was replaced by a single form of market socialism. After the division of Yugoslavia's political transition in the Federal Republic of Yugoslavia and Macedonia was similar in some points with him in Romania and Bulgaria, who owed the elements of continuity in the political composition of governments by the previous regimes (Uvalic, 1999).

Albania is often treated as a "most difficult case" of democratization, or an outlier compared to the other post-communist countries that have experienced regime change. The long, difficult, interrupted, and at times chaotic and certainly ambiguous path to democracy and a market economy however has firmly put the country beyond its initial post-communist ratings in democratic and economic progress (Vickers M and Pettifer J, 1997).

The country's historical "deficit," including little to no experience with independent statehood, a lack of democratic experience, socioeconomic underdevelopment, a deeply divided elite and the prevalence of authoritarian leadership, is often mentioned when explaining Albania's difficult transition path and its current problems.

The anti-communist umbrella organization the Democratic Party (DP), put forth "shock therapy" political and economic reforms. The initial enthusiasm of this period was captured in the references to Albania as a "rising star" and a "model pupil" in domestic and foreign evaluations in the early 1990s.

Table 1: Albania Country Report. Gütersloh: Bertelsmann Stiftung, 2012.



The former Yugoslavia had a special position in the international economy and political relations, which in one way or another benefited all republics. She was a member of the Council for Economic Mutual Assistance (KNRE) but there have been some trade agreements with the European Economic Community (EEC), and all SEE countries, it had the highest proportion of the trade in the EEC countries.

Table 2. General Government Revenues and Expenditure in SEE Countries (as per cent of GDP), 1995-2001

| | 1995 | | 1996 | | 1997 | | 1998 | | 1999 | | 2000 | | 2001 | |
|---------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | Rev | Exp | Rev | Exp | Rev | Exp | Rev | Exp | Rev | Exp | Rev | Exp | Rev | Exp |
| Albania | 23.4 | 33.4 | 18.3 | 30.3 | 16.9 | 29.4 | 20.3 | 30.7 | 21.3 | 32.7 | 22.4 | 31.4 | 23.0 | 31.5 |
| Bosnia & H. | 39.0 | 39.3 | 0.5 | 52.7 | 39.2 | 39.7 | 57.3 | 65.3 | 60.4 | 69.5 | 56.3 | 66.4 | 55.0 | 61.3 |
| Bulgaria | 35.7 | 41.3 | 31.7 | 42.0 | 30.7 | 32.7 | 35.4 | 34.5 | 40.7 | 41.6 | 41.4 | 42.4 | 36.6 | 37.4 |
| Croatia | 43.5 | 44.9 | 44.3 | 45.3 | 42.5 | 44.4 | 45.6 | 46.7 | 43.2 | 49.7 | 41.7 | 48.8 | 40.2 | 46.0 |
| Macedonia | 37.9 | 39.0 | 35.7 | 37.1 | 34.8 | 35.1 | 33.3 | 35.0 | 35.4 | 35.4 | 36.7 | 34.2 | 34.3 | 40.6 |
| Romania | 31.4 | 34.7 | 28.9 | 33.8 | 27.1 | 34.0 | 28.1 | 34.9 | 31.1 | 35.6 | 31.5 | 35.1 | 31.2 | 34.6 |
| FR Yugoslavia | na | na | na | na | na | na | na | na | na | na | 39.2 | 40.1 | 41.5 | 42.8 |

Source: EBRD (2002): 62-63.

Table 3. General Government Balances in SEE Countries (as per cent of GDP), 1994-2002

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 (estim.) | 2002 (proj.) |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|---------------|--------------|
| Albania | -12.6 | -10.1 | -12.1 | -12.6 | -10.4 | -11.4 | -9.1 | -8.5 | -8.0 |
| Bosnia & H. | na | -0.3 | -4.4 | -0.5 | -8.0 | -9.1 | -10.1 | -6.3 | -5.5 |
| Bulgaria | -3.9 | -5.7 | -10.3 | -2.0 | 0.9 | -0.9 | -1.0 | -0.9 | -0.8 |
| Croatia | 1.2 | -1.4 | -1.0 | -1.9 | -1.0 | -6.5 | -7.1 | -5.8 | -4.6 |
| Macedonia | -2.7 | -1.0 | -1.4 | -0.4 | -1.7 | 0.0 | 2.5 | -6.3 | -4.4 |
| Romania | -2.2 | -2.5 | -3.9 | -4.6 | -5.0 | -3.5 | -3.7 | -3.5 | -3.0 |
| FR Yugoslavia | na | -4.3 | -3.8 | -7.6 | -5.4 | na | -0.8 | -1.9 | -5.6 |
| Averages for: | | | | | | | | | |
| - 9 CEE countries (with Croatia) | -2.2 | -2.5 | -2.3 | -2.0 | -2.8 | -4.1 | -3.3 | -3.4 | -4.1 |
| -6 SEE countries | -5.3 | -4.0 | -6.0 | -4.6 | -4.9 | -5.0 | -3.7 | -4.6 | -4.6 |

Source: EBRD (2002): 61.

Table 4. Growth in Real GDP in SEE Countries, 1989-2002

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | GDP in 2001 (1989=100) |
|----------------------------------|------|-------|-------|-------|-------|-------|------|------|------|------|-------|------|------|------|------------------------|
| Albania | 9.8 | -10.0 | -28.0 | -7.2 | 9.6 | 8.3 | 13.3 | 9.1 | -7.0 | 8.0 | 7.3 | 7.8 | 6.5 | 6.0 | 116 |
| Bosnia & H. | n.d. | -23.2 | -12.1 | -30.0 | -40.0 | -40.0 | 20.8 | 86.0 | 37.0 | 9.9 | 10.6 | 4.5 | 2.3 | 3.0 | na |
| Bulgaria | 0.5 | -9.1 | -11.7 | -7.3 | -1.5 | 1.8 | 2.9 | -9.4 | -5.6 | 4.0 | 2.3 | 5.4 | 4.0 | 4.0 | 80 |
| Croatia | -1.6 | -7.1 | -21.1 | -11.7 | -8.0 | 5.9 | 6.8 | 6.0 | 6.5 | 2.5 | -0.9 | 2.9 | 3.8 | 3.5 | 85 |
| Macedonia | 0.9 | -9.9 | -7.0 | -8.0 | -9.1 | -1.8 | -1.2 | 1.2 | 1.4 | 3.4 | 4.3 | 4.6 | -4.1 | 2.0 | 77 |
| Romania | -5.8 | -5.6 | -12.9 | -8.8 | 1.5 | 3.9 | 7.1 | 3.9 | -6.1 | -5.4 | -3.2 | 1.8 | 5.3 | 3.5 | 84 |
| Yugoslavia | 1.3 | -7.9 | -11.6 | -27.9 | -30.8 | 2.5 | 6.1 | 7.8 | 10.1 | 1.9 | -18.0 | 5.0 | 5.5 | 3.0 | 50 |
| Aver. in 27 Transition Countries | 0.3 | -3.3 | -8.1 | -11.0 | -6.9 | -6.1 | -0.2 | 0.1 | 2.3 | -1.0 | 3.0 | 5.5 | 4.2 | 3.4 | 76 |

Source: EBRD (2002): 58.

Table 5. Level of Development of SEE Countries

| | Population 2002 (mln) | Real GDP Index 2002 1989=100 | GDP per capita 2002 US\$ (current prices) | GDP per capita 2002 US\$ (at PPP) | GDP per capita 2000, as % of EU average |
|----------------|-----------------------|------------------------------|---|-----------------------------------|---|
| Albania | 3.2 | 112.4 | 1,470 | 4,200 | 10.7 |
| Bosnia & H. | 4.2 | 69.7 | 1,350 | 5,750 | 12.9 |
| Bulgaria | 7.8 | 83.3 | 1,990 | 7,060 | 21.8 |
| Croatia | 4.4 | 86.9 | 5,050 | 9,950 | 29.4 |
| Macedonia | 2.0 | 78.5 | 1,820 | 6,500 | 13.8 |
| Romania | 22.4 | 88.2 | 2,040 | 6,510 | 18.5 |
| Serbia & Mont. | 10.7 | 50.5 | 1,890 | 4,920 | 12.4 |

Source: Economist Intelligence Unit (2003a): 4; Grabbe (2001). Data on Serbia and Montenegro do not include Kosovo.

Since the early 1990s, the Yugoslav economy was adversely affected by a number of external shocks, first dissolution of the Yugoslav federation, a series of armed conflicts and the various sanctions imposed by the international community. Although these shake their nature are called "external", are all directly caused by the internal policies of the government of Serbia / Yugoslavia (Bianchini, S Uvalic, M, 1997).

3. Economic Development in the Western Balkans. Privatization Features, the Case of Albania

Political instability and administrative chaos that accompanied desintegration 1991-1992 planned economy produced a budget deficit, while the immediate liberalization of prices and the collapse of production brought a strong inflationary shock (De Waal C 1996).

As elsewhere in the region, the initial phase of transition was characterized by a significant reduction of production. As a result, the macro-economic situation in the country deteriorated. (Miranda Vickers and James Petiffer 1997). Production fell by more than 50% by the end of 1990 until mid 1992. External debt became too large, 30% of GDP. The budget deficit reached 44% of GDP by the end of 1991 and expanded to more than 50% in the first half of 1992 (Muco M and Minxhozi L, 1992, p: 9-105). At the end of 1991, the change in inflation reached three figures in a change of 104.1% from the previous year, and in early 1992 monthly inflation rate was 10-15% (Ruli, G. and Belortaja, S, 2003).

This initial transformation crisis followed by sudden deterioration of social indicators such as unemployment, social

services, and general uncertainty (Fatos Tarifa, 1993). The Albanian economy was a "small economy". (Sjöberg O. 1991). On the other hand it should be mentioned that the "cost" of the transition was too heavy for the population of Albanian society. Liberalization and privatization brought forced closure of many state industries what produced that unemployment in 1992-1993 reached 28.5% level which figure so far despite statistics measured on the basis of the records of job seekers think that continues to be at high levels. Social whole categories of pensioners, unemployed state employee was found in personal income levels that classify them in the poorest categories of the society (World Bank, 1994).

Economic trajectories in the post-communist Balkan countries have been strongly influenced by the level and extent of privatization and the pace of development of small business. Economic development models in performance reflect the Balkan states which have been developed such reforms in each of the countries of the Balkans. In general, countries with fixed privatization, and that followed a gradual approach to economic transition, have passed various types of economic crisis. (Gërkhani, K., 1998).

In Albania, a massive privatization program began in 1995 using a securities scheme. However securities were viewed with great skepticism by the public and quickly stopped. The privatization process was extremely slow and only 20 enterprises were privatized in the first year. Privatization is considered by a broad consensus as the main action in economic transition toward a market economy. It represents a key issue as the inefficiency of the State-owned Enterprises (SOE) has been clear not only in the East but in West Europe too (Dăianu,D and Veremes,, 2001). The privatization process for the countries of Eastern Europe, where the main parts of the assets of the society was state property, has a broader meaning and involves a fundamental transformation of the economy. Under these circumstances the privatization, as Lipton and Sachs (1990) pointed out, represents "a complete redefinition of property rights". Obviously the performance of this action is complex and influences strongly all the other elements of economic reform.

As in all other countries in transition Albania is seriously involved in a privatization program, considering its fast implementation as a priority of the transition.

In all Balkan countries, therefore, the ruling elite has been able to maintain government positions and influence in relation to ownership and control of the majority of economic assets. Where privatization took place this control is done directly through continued state ownership of most companies. Elsewhere, the privatization of the managers, or politicized privatization resulted in a political elite executive control and management of privatized companies first (Barlett, 2000).

Unfortunately, in some of the Balkan economies has been a significant increase small business sector. One of the key reasons has been the lack of a coherent policy for the development of this sector despite continuing commitment to international assistance programs sponsored by the EU (through the PHARE program) and the World Bank and a number of bilateral and multilateral economic assistance programs. Why was this so? For in static societies such as those that exist in the Balkans, the development of competitive small businesses will be a threat against the interest of the ruling elite, the future of which was closely associated with economic income large companies owned by the state or privatized (INSTAT, 1998).

In these initial conditions, and after some confusing efforts during 1991 to mid 1992 launched a comprehensive short-term and medium-term economic reform program. This program was designed to start a market economy reform to stabilize the economy, liberalized prices and trade, and also to privatize and convert state property. Forced out of the starting conditions, economic stabilization was the first step in Albania's economic reform, which aimed to: reduce the budget deficit, reduce inflation and supervised, to create a modern legal framework necessary to become a market economy (Pasko G.1991Ruli G, Belortaja S. 2003).

Further in 1992-1993, Albania achieved significant progress during the transition from rigid communism to a market economy. Although it started from a low base, it has been on the rise, while the controlled inflation, despite the crisis of local and regional instability. She attended and economic structural reform with a wide range and there was progress in building democratic institutions (Fischer, Stanley, Sahay,R and Vegh C., 1996).

In late 1992, after the short program began to implement measures "severe" in the budget, began to show some improvement signals. Also, in 1993 the deficit was reduced again to about 16% of GDP, while in 1994 it dropped to 14% of GDP. A further reduction of the deficit was recorded in 1995, when the deficit amounted to 8.7%. Product growth was showing signs of continuous improvement compared to other countries in similar circumstances (Muco, M, 1994). Unemployment, though still high, is seated slowly, while the private sector is developing rapidly. At the same time, according to official statistics, the rapid decline of inflation in Albania, from 237% at the end of 1992 to 21% at the end of 1993, 16% by the end of 1994 and 6% by the end of 1995, was one of the excellent results of the reform of the Albanian economy. In the manufacturing sector, agriculture, which was almost completely privatized, was the first who responded to price signals, increasing food supply in the domestic market (Aslund A. and Sjöberg O. 1992)

Stabilization process was soon followed by price and trade liberalization, and privatization. The liberalization process was also extended in the external sector and foreign trade, thus allowing for a reliable integration of the Albanian economy in the world economy (Ruli, G. and Belortaja, S. 2003). Liberalization program began in the mid 1992 legalizing a variable exchange with an active market outside banks and continuing to implement the most important trade reforms. Part of the new private sector in foreign trade was becoming important, covering 80% of imports and 50% of exports. Starting mate in foreign trade, caused by the collapse of state enterprises and other factors forced internal transition was reflected in the decline in the volume of exports by 50% in 1994.

Geographical distribution schemes for exports of the former eastern bloc countries fell drastically from 46.3% of total exports in 1989 to around 2% in the first quarter of 1995. The situation was quite the opposite for imports, which changed from 44.8% to 13.2%. In contrast, the volume of imports nearly doubled between 1989 and 1993. Evidence shows that, if exports to the former communist countries were insignificant Balkan region, imports represented a larger share in 1995. Bulgaria only cover about 9% of Albania's imports (EBRD,1999).

After decades under a trading system more controlled, rapid liberalization that took place in 1991, brought the Albanian products should already meet international standards. The ability of these products to compete in the world market was still limited. Protecting Albanian products currently in the new liberalized system is weak. Statistics show that in 1995, 80% of Albania's total imports came from EU and EFTA countries (WB, 1994).

This situation emerged clearly highlights during one of the largest trauma has passed Albania: serious political and social crisis of 1997. Results of a progress achieved in the five years before through hardship high social costs, showed that they had a strong base as well as social institutions (Ruli G and Belortaja S, 2004).

Full and immediate paralysis of state institutions, the loss of public order, social anarchy and the acts of violence and destruction that invaded Albania were not accidental events or caused by random factors. Causes of the crisis lie in a broad historical context of the development of Albanian society, but certainly a decisive influence on their production had some phenomena produced during the transition period itself. The weakness and fragility of state institutions, public confidence in political institutions themselves, were most pronounced manifestation of the crisis, and the collapse of pyramid schemes, where over 50% of Albanians had placed their savings, was perceived as a direct cause. The events of 1997 were a major warning to the arbitrary and irresponsible policies (Ruli, G. and Belortaja, S., 2003).

One indicator of this energy during the transition period was the country's ability to recover quickly and economically. After a production decline of 30% in early 1992, during the years 1993-1996, the economy had increased that ranged from 7 to 11 percent of GDP.

But regenerative ability appeared clearer after the 1997 crisis. After a decrease of -7%, starting from 1998 till date has recorded an annual GDP growth of 7-8% value (EBRD, 1999).

Table 6. Indicators of economic growth, reform, initial conditions and culture in post-communist countries

| Country | 1998 real GDP level (1989=100%) ¹ | Economic reform index ² | Repressed inflation, 1987-1990 ³ | GDP per capita, PPP, \$ 1989 ⁴ | 1998 price level (1989=1) ⁵ | Proportion of ethnic minorities, Percent ⁶ | Corruption index, 1998 ² | Civil society Index 1998 ² | Proportion of Catho- lics and Protestants, Percent ⁷ |
|------------|--|------------------------------------|---|---|--|---|-------------------------------------|---------------------------------------|---|
| Albania | 86 | 3.50 | 4.3 | 1400 | 20.1 | 5 | 4 | 3.75 | 10 |
| Bulgaria | 65 | 3.92 | 18 | 5000 | 1855.4 | 15 | 3 | 4.25 | 1 |
| Croatia | 78 | 4.17 | 12 | 6171 | 1215.1 | 22 | 3 | 4.50 | 77 |
| Czech Rep. | 95 | 6.00 | -7.1 | 8600 | 3.6 | 6 | 2 | 6.50 | 44 |
| Macedonia | 58 | 3.33 | 12 | 3394 | 856.9 | 33 | 3 | 4.25 | 0 |
| Hungary | 95 | 6.33 | -7.7 | 6810 | 6.3 | 9 | 1 | 6.75 | 93 |
| Poland | 117 | 6.08 | 13.6 | 5150 | 25.6 | 2 | 1 | 6.75 | 95 |
| Romania | 76 | 3.50 | 16.8 | 3470 | 608.1 | 11 | 3 | 4.25 | 12 |
| Yugoslavia | 53 | 3.17 | 12 | 4542 | 44976.3 | 37 | 4 | 3.00 | 5 |
| Bosnia | 35 | 1.83 | 12 | 3394 | 35845264 | 56 | 3 | 2.00 | 19 |

Sources: ¹ EBRD (1999, 6).

4. IMF and WB, Recommendations

Albania's emergency to change was great. The main aim was to halt further deterioration of the economy and to move towards a market economy. The establishment of relationship between Albania and international institution like IMF and WB was urgent for the country. The support of international financial institutions and particularly by the International Monetary Fund, in the designing and implementation of transition reforms, as in other countries has been complex and of an importance and positive impact on Albania.

After the collapse of the totalitarian system are established diplomatic relations with many countries and Albania joined the International Monetary Fund (15 October 1991), the World Bank, the European Bank for Reconstruction and Development etc, as well as many other international organizations.

According to Mr. Bufi: "This meant that Albania had already the opportunity to elaborate its strategies of crisis transition and of the development also, the aid programs, the investment programs, the programs of attracting the foreign investments and of advanced technology" (Ylli Bufi, 1991). It is important to note that until 1990 year, Albania has not undertaken any economic reform. An important step in this direction was the adoption of Law no. 7512 dated 10.08.1991 "On the establishment and protection of private property, free initiative and independent private activities" (ibid), this law will constitute the legal basis of all economic reforms, but in this framework was approved the law on enterprises, the law on salaries and prices, the law for the assistance, the amendments on the law for the State Bank of Albania. During the first steps and in following, the monetary aid and technical assistance of international economic organizations has been essential for the creation of the market economy. In the conditions of a lack of knowledge and experience about the market economy toward them we will go through reforms, the need for expert advices was indisputable.

During the first phase Albania benefited a great help (about USD 1 billion by 1996) from donors and international financial institutions. Democratic legal framework was produced in these few years, along with the construction of basic democratic institutions and a better quality of public administration more efficient than the previous one.

The program was performed in two phases. From mid-1992 to mid- 1993, during a one-year program, the fiscal and monetary control combined with a comprehensive price and exchange system reforms, were introduced. Në Shqipëri, ashtu si edhe në vende të tjera të Europës Juglindore, u zgjodh regjimi fleksibël i kursit të këmbimit (Kule Dhori, Hadëri Sulo, 1996). The program was generously supported by various international financial and technical sources. One of them was a 12-month International Monetary Fund (IMF) stand-by arrangement of the amount of SDR 20 million (equivalent to about \$29 million). Financial aid was also provided by a World Bank critical imports target loan. European Community as well coordinated a balance of payment support and emergency assistance. Other supports, financial and in form of food aid, was also provided by individual countries as Italy, Turkey, Germany, USA, Greece, etc. An important element was the support and remittances sent by the Albanians working abroad.

After the good implementation of the almost one year emergency program, a medium term program was represented in the parliament in November 1993 for the period 1993-1996. To sustain this program, Albania has been "graduated" to an IMF enhanced structural adjustment facility (ESAF) by July 1993 in a three year arrangement for the amount of SDR 42.4 (about \$60 million). Other aids continued to flow from humanitarian sources and G-24. European Union also had a very important role in helping Albanian economy.

The first year's efforts, till mid-1993, were mostly dedicated to stabilizing the emergent situation of the Albanian macroeconomics imbalance. Still, most of the planned measures, or those which are already realized in the medium-term 1993-1996 program, have a strongly stabilization nature. Macroeconomic stabilization and sustainable policies explain very well the rapid revitalization of the product after the fall at the beginning of the transition period and after the 1997 crisis. Financial assistance provided by international financial organizations has been crucial not only for Albania but for all countries in the region. Its three main directions have been as financial support through various programs, technical assistance programs that have helped adjusting monetary and fiscal systems, according the market economy demands and by advising on policies and reforms undertaken by the Albanian government. This partnership continues today to be a very important asset for Albania.

5. Conclusion

Post-communist countries experienced a significant variation in their levels of economic growth in the 1990s. Although with similar socialist legacy, the peculiarities of Albania and its low level of incomes set it apart from other ex-communist countries in Eastern Europe. Considering the initial conditions, the path to a new market economy along with a new democratic society will be painful and not short. Besides the macroeconomic imbalances, several political, social and mentality constraints determine endogenously the speed and the strategy of the reform. The delayed entering and rapid

changes are accompanied with social uncertainty. Yet, the initial political instability and the lack of democratic tradition set their own marks on the Albanian transition and make it more difficult. Privatization was considered as the main action in the Albanian economic transition toward a market economy. The performance of this action is complex and influences strongly all the elements of the economic reform. Considering its fast implementation as a priority, the Albanian privatization began immediately after the political changes in 1991. But restructuring process and the large-scale privatization are going slowly in Albania. The role of the foreigners will continue to have a significant importance for the Albanian recovery and more in general for the transition to an open market economy. The recent crisis of 1996-1997 had some painful costs for Albanian economy. The complete demise of state in a short time and political instability ruined the results achieved in a five-year effort of transition. The main conclusion is that political instability could lead to an economic slowdown and that lack of institutions is a clear obstacle to a successful economic transition. The progress and problems of the Albanian transition lead to the conclusion that the process can not be implemented in a short time. A pragmatic approach is urgently needed. Energetic measures by all Albanian political forces and more consensus and support by international sources are necessary for a better performance, but the costs of the transition will continue to be high for Albania.

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