The Factors that Affect the Economic Growth in Albania

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The economic growth is the most important indicator in determining the welfare of a country, thus affecting the growth of income level. The economic growth is one of the indicators most used by economists, governments and international economic organizations and is also considered as synonymous with development.

Economic growth is an indicator of the performance of the management of economic resources of the period by identifying the economy of a country.

Given the great importance that has the economic growth for a country, the study makes an analysis of the process of economic growth in Albania after 1990 and until our days, by determining which the main sources that have provided growth were. But, despite the problems arising in this regard, the study currently is trying to show which should be the new model that will provide long-term economic growth of the country.

Keywords: economic growth; remittances; FDI; human capital; new model of growth
Introduction

The importance of high growth rates is well known and widely accepted in theory and in practice because without growth there can be no economic and social development. Therefore, any strategy for the development of the country should be oriented towards a high economic growth. High economic growth is not a goal in itself but a necessity that increases the standard of living of a country and, as a basic indicator of economic growth analysis it is taken the Gross Domestic Product (GDP) per capita and its growth rate. It is a complex problem because many factors can contribute to the process of economic growth.

Theories of Economic Growth

We find in the world literature numerous studies dealing with the problems of economic growth. A great contribution in this direction has given Solow (1956) with his model developed based on Cobb-Douglas production function. The basis of this model is declining marginal productivity of capital. Solow's model is based on the following assumptions: economies with competitive markets closed with the same economic entities and rational and with a constant rate of technological change. But these levels of product placement depend on the level of capital stock, the volume of the working force employed and the type of technology. Including an external rate of technological change allows the existence of an external determinant of economic growth. At the same time, other factors such as investment and savings rate have a smaller impact on economic growth in the long term. This model is often used to show differences in economic growth between different countries. At the model it is argued that changes in economic growth can come from two paths:

- Differences in work productivity (increasing of the quantity of work, changes in technology or combinations between them)
- Different levels of capital per worker in different countries; average work productivity (increasing the ratio capital / labor or changes in technology)

Solow emphasizes that the only way for a country to have a stable growth model is investing in search – development and education. This will bring an increase in the country's technological level and will result in
higher productivity per employee through improved efficiency and innovation. In his work, the researcher argues that a country reaches a steady growth (no change in capital per worker from one period to another), if there is a positive change in technology. Solow’s model is part of neoclassical views and is part of the exogenous theories of economic growth. In the 1980s it became clear that the standard neoclassical exogenous growth models were theoretically unsatisfactory as a means to examine the long-term growth. According to them, the economy is supposed to reach a steady state in which all macroeconomic indicators grow at the same rate and in the absence of technological progress, the increasing per capita of these macroeconomic variables will eventually cease.

A new beginning of the theory of economic growth and its sources gave economist Paul Romer (1986), where he tried to explain the process of growth in a different way. Romer (1986) asserts that the growth rates of inputs (work and capital stock) are not sufficient to explain the growth rate of output for the period 1929–69. Then any form of untouchable input enters into the production function which to Romer (1986) are knowledge. Knowledge are embodied in the stock of physical capital in the economy, and the increase of investments in the physical capital will be accompanied by increasing the knowledge embodied in them as a result of the incentives that firms have from competition. He suggested that technological advancement, education and research-development may be all that is needed to support long-term development. He stressed that the long-term economic growth is not defined only by exogenous factors but it can occur within the economy (endogenous growth), without the need of an external factor. These conclusions form the endogenous growth theories. By combining physical capital to human capital in the best and most effective way, an economy may find itself in a sustainable path to long-term growth.

Lucas (1988) gave a significant contribution to the theory of economic growth. Based on neoclassical model of Solow he included the effects of human capital accumulation on the economic growth. This is very important because it shows that the human capital of different types specialized and educated offers interesting possibilities to develop the economy by increasing the ability of workers in production. The factor was previously ignored. So, Lucas argues that there are two types of capital: physical capital in the form of cars, buildings etc. and human capital in the form of skilled and educated workers. Comparative advantages of a country,
according to him, are just intensified with time precisely through human capital accumulation.

In many studies, it is required to understand the reasons why a country is poorer than another and what are the determinants. Answers, as we saw, were different, where in the neoclassical growth models it is emphasized mainly the importance of capital and the effects of economies of scale while newer models highlight the importance of the level of innovation. According to North and Thomas (1973), the above factors are not the cause that brings economic growth; they are the consequence, the economic growth itself. The main reason for the difference between a country’s economic levels with another is the institutions. The representatives of these new models Stiglitz and Hoff (2000) support the Solow model by accepting the main determinants of economic growth as given in this model. But they add the list of possible factors that affect the growth and differences between countries. Their study focuses on factors such as the historical background of the country, institutions, culture, government and rule of law. They argue that the law implementation, market institutions, etc. can have the same impact on economic outcomes as well as limited possibilities of technological progress. Factors such as cultural background, work behavior and corruption can have a significant impact on the economic performance of countries.

**Analysis of Economic Growth in Albania After the ‘90s**

**2.1 Albania and Features Of Economic Growth**

From 1945-1990, Albania was ruled by the communist regime and the economy ran as a central economy and planned by the state. The economic model of Albania, as well as of the other eastern countries, was based on two main principles: support in centralized planning and waiver of private property of the working means. But alongside, the Albanian model included a third principle: idealism of support on its own, which found reflection in the Constitution of 1976 to prohibit lending from abroad for aid and investment, and culminated in 1981 when Albania was financially self-isolated. Economic activity was damaged by distortions of prices, the financial burden of state subsidies for companies as a result of rigid system of fixed prices and the specialization of production which led to large
discrepancies between demand and supply. State efforts to ensure the employment of working force growing rapidly and the technological backwardness (underdevelopment) of capital means brought the acceleration of the production declining. The growth of the economy fell by 5% in 1970 to 1% in ’80. The accumulation of foreign exchange reserves, keeping the balance of trade mainly with a non-convertible currency, some new goods exports, pushed the crisis for a decade. On the second part of the ‘80s, emerged the consequences of accumulated macroeconomic imbalances and the increase of the budget deficit (over 16% of GDP) that were accompanied by lack of consumer goods in the market. (Data taken from the BSH).

The political changes of the years 1990-1991, were accompanied by radical changes in the economic field, from a centralized economy to a market economy. To achieve this important reform was launched a series of steps as:

1. Law protection of private property, free initiative and private independent activities, which would provide the legal basis of all economic reform (Law 7512, August 10, 1991).

2. The removal of legal barriers to investment and foreign credits and the liberalization of foreign trade (with the exception of a separate list of products that required special approval from the Ministry of Economy) (Law 7764, November 2, 1993).

3. The dissolution of agricultural cooperatives who owned 75-80% of arable land (Law "On Land" in July 1991). Land could be inherited by the descendants but it was forbidden selling it. (Law 7501, July 19, 1991).

4. It was created the National Privatization Agency (AKP), which had to administer all the process of privatization in service, trade, industry, etc. State enterprises would be sold at auction through shares, will be shared with part or actions that might take up to 30% of the company value or would be privatized through a combination of these methods. The first two years were privatized only small shops and commercial services and after 1992 would begin the process of large privatizations. (Law 7926; April 20, 1995).

5. Complete price liberalization besides products like bread, sugar, cooking oil which were considered as basic products. (Law 7581, July 7, 1992).
6. The liberalization of the exchange rate of lek, the definition of this course from the market. Since September 1991 the official exchange rate has been associated with ECU European currency (at the rate 1 ECU = 30 ALL), despite that really dominated the American currency in relation to the level 1USD = 25 lek. In January 1991, Albania adheres to the IMF and in April 1991 became a member of the World Bank.

The early years of transition (1991-1992) was dominated by a decline of real GDP, as well as high inflation influenced by pressures for higher wages, lack of food and local currency devaluation. By the end of 1992, the production in real terms has fallen in two/thirds of its level on the year 1989 and the inflation was increased on over 220%. The trade deficit was raised on over two/thirds of the GDP and the fiscal deficit was almost 14% of the GDP. (BSH)

![Figure 1: Economic Growth of Albania in %](image)

Source: INSTAT, FMN, BSH

As a result of measures taken and a great help from the international community in those years, there began to be seen positive results in many indicators such as economic growth, inflation significant reduction, export growth, etc., in general, a satisfactory macroeconomic stability.

According to the recipes of the IMF and World Bank, there was paid great attention precisely to the economic stability. As a result of this policy, was ensured a sustainable economic growth (excluding the year 1997, because of its characteristics) and this indicator of economic growth is often
seen as the only indicator of the performance of the government’s economic policies.

The Factors of Economic Growth in Albania

The growth rates of the Albanian economy should be seen not only connected with features that provide in general the transition economies in terms of economic growth, but also with the key features or characteristics of the Albanian economy. Based on the opinions of many experts and Albanian researchers, it is believed that the main factors affecting the growth of Albania are:

a) Large Inflows from Remittances of Emigrants

Remittances are called net transfers free of charge from abroad. These kinds of transactions are among the components of the current account in the balance of payments. The high import of transfers from immigrants has played a fundamental role in the growth of domestic consumption and investment, and they are considered as an important factor of economic growth in Albania. “Remittance flows to developing countries are estimated twice the development assistance these countries receive” ... and they “constitute an important financial source for the growth of economic development” ... (Fullani A. 2006). Since the beginning of transition, the volume of remittances in Albania has grown steadily, representing 14% of the GDP from 1993 to 2002 and grew at an average rate of 14% annually.

Table 1: Transfers from Migrants Million / EUR

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<tr>
<td></td>
<td>774</td>
<td>802</td>
<td>937</td>
<td>952</td>
<td>833</td>
<td>781</td>
<td>690</td>
<td>688</td>
<td>675</td>
<td>497</td>
</tr>
</tbody>
</table>

Source BSH

Starting from 2008 the inflow of remittances has decreased (not only in absolute amount and as a % toward GDP reaching 9.3% in 2008, BSH) and this is a consequence of the economic financial crisis that has affected especially Greece and Italy, two countries that have the highest number of Albanian emigrants. Remittances are one of the major channels of the “flow” of the financial crisis, because immigrants are usually the last to
be employed in good weather and the first to be fired in bad weather. Also, according to an economic theory, remittances begin to drop until go to zero after the first decade of immigration because immigrants stabilize their lives in the new country and slowly lose family and spiritual ties with the homeland. In these conditions, it is need another source of revenues in the Albanian economy which will replace the reduction in remittance flows, thus the increase of Foreign Direct Investments.

b) Foreign Direct Investments
FDI impact on development and economic growth of a country and, in economic literature, they are seen as an important factor that stimulates this growth. Concretely, the theory of endogenous growth (Lucas R E 1988) highlights the effects of exports as a factor in achieving a long-term sustainable economic growth by allowing the introduction of technological innovations from the countries of origin of FDI. FDI are needed sometimes to give impetus to a country’s economic growth, especially for developing countries (Adewumi, 2006). FDI can help the host country especially in the transfer of technology and its use for domestic investment, transfer of managerial and professional skills, impaired capital replacement of the host country’s with a new capital (Krkoska, 2001) which gives rise of productivity. Also another effect of FDI is to increase the flow of R & D (research and development) in the host country and its circulation in other companies.

Thus, the Foreign Direct Investments are an important source of capital fluxes and the development of an economy. FDI comprise the investments of foreign individuals and institutions in the domestic economy, in case the investment makes of the investor an owner of more than 10% of an enterprise’s capital. The FDI values have been fluctuating during the last 20 years.

Table 2: FDI in mil/euro

<table>
<thead>
<tr>
<th>Hosting economy</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>782,673</td>
<td>1,164,682</td>
<td>1,534,682</td>
<td>1,208,931</td>
<td>802,041</td>
<td>936,640</td>
<td>1,085,242</td>
</tr>
<tr>
<td>Southeast Europe</td>
<td>3,870</td>
<td>7,885</td>
<td>9,384</td>
<td>8,663</td>
<td>5,446</td>
<td>3,109</td>
<td>4,745</td>
</tr>
<tr>
<td>Albania</td>
<td>213</td>
<td>259</td>
<td>481</td>
<td>665</td>
<td>717</td>
<td>793</td>
<td>742</td>
</tr>
</tbody>
</table>
At the end of 2010, the value of FDI reached 1.11 billion dollars, which is the largest value achieved during the period that is being analyzed. The lowest value was reached in 1999, where the amount of FDI was only USD 41 million. (BSH; MF). For the year 2011, the amount of FDI was 1.03 billion dollars (according to the “World Investment Report 2012”).

In the United Nations report, “World Investment Report 2013”, Albania is ranked together with Croatia as countries in the region which have received more foreign investment. Before the economic and financial crisis, Southeastern European countries made significant progress in attracting foreign investments, resulting in an increase from 2.1 billion dollars in 2002 to 13.3 billion in 2008. “The low cost of workforce, the easy access to European markets and the privatization of a number of state enterprises gave a high growth of foreign direct investment. Croatia and Albania were the two countries that received the largest investments in the region” – it is said at the report of the United Nations.

The data for sharing the stock of FDI by sector until 2012 show that 31% of this stock is concentrated in the financial sector, 19% in the manufacturing sector and the transport and telecommunications, 10% in the construction sector and on the fourth place stays the wholesale and retail trade with its 8% (METE, MF, INSTAT). The introduction of foreign investors in a large scale in financial services and telecommunications has expanded the products and the efficiency of these services. By country of origin of FDI in Albania, neighboring countries occupy the major part where Greece ranks first with 30%, Italy second place with 13%, US third place with 11%, Turkey fourth place with 9 %, Austria in fifth with 9%, and Switzerland and Cyprus with 5% of the stock of FDI (ME, MF, INSTAT).

Although there are still problems in this regard as the chaos of the properties, electricity, infrastructure, lack of skilled workforce, etc., it seems the measures taken for improving the entire legislative framework and providing various fiscal facilities for foreign investors, have resulted in increased confidence of foreign investors and thus in increasing the value of attracting FDI by our country. In support of private sector development and FDI, it takes even more importance the fact of undertaking by the Albanian government of the economic policies with a special emphasis on
qualification and training of the workforce. Also, besides the intent to absorb more FDI, it is also important leading them to the industries that produce for export, those that improve economic infrastructure and contribute to increasing the technological level of the country.

c) Growth of Exports
Albania’s economy appeared classical features of an economy with "higher remittances" OC means an economic growth based on domestic demand rather than on exports. But, although exports, which reached an average of 7.3% of GDP during 1993-2002 (Data are BSH) are small by international standards and by comparison with the level of imports, they have played an important role in generating the GDP growth.

The pace of growth of exports in value is an important indicator, over which performance we can judge the stability and sustainability of the economy in general, as well as its ability to compete in international markets but which reflects directly and more closely also the international conjuncture.

Potential sectors of the export products in the coming years remain those already called traditional sectors: textiles and footwear remain a considerable potential for increasing export figures. This sector occupies 32% of total exports being ranked in the first place. Minerals and hydrocarbons in Albania are other potential which for 2013 reached 27% of

Figure 2: Albanian Exports mil/euro
Source: BSH
total exports. Construction materials occupied 13.5% of the total after the minerals sector. (METE, INSTAT)

By destination even for 2013 in the majority of them, exports of goods have gone to countries in the EU, occupied 72.5% of total exports. Greater weight of items toward the EU that went for export for 2013 went mainly to Italy, Greece, Spain, Germany, Malta etc. Exports of Albania with members of CEFTA have suffered quite a significant change after the implementation of CEFTA agreement, occupying in 2013 a specific weight of 12.4% to the total. Regarding the extent of coverage of export to import more or less in the past 6 years there has been an increase in this ratio in favor of export. The degree of coverage of exports to imports for 2011 is 36%. The historical report of export import coverage in figures 1 to 4, a report which has been such until 2008 has seen a significant shift in the 1 to 3. (METE)

Despite significant positive growth in value of exports especially in the last three years, to ensure their sustainable and long term growth which will also affect economic growth, it is necessary to identify problems related to exports and to take the necessary measures for their growth. For many products that are entirely Albanian products, it lacks sufficient produced quantity for contracts, lack of quality certificates, are less diversified, making them more susceptible to hits from external factors. In the sector of metal exports, scrap has continued to have a not-so-small weight, but it is considered as an exhaustive source, while the biggest exports are those of the fasson where the profit margin is much smaller than the direct sale of textiles and footwear.

Many experts in the trade sector suggest for the Albanian fasson processors an expansion and diversification of markets with which they operate and possibly switching to direct export which would increase their value, while for the sector of the production of metals and construction materials, the exploitation of the internal market and an increase of investment in technology (Gjergji A, 2009). By the government, there should be a clear development scheme to support exports and well-defined financing schemes. But above all, it is needed an identification of production sectors with competitive advantage in international markets and support for those sectors from the Albanian government. (Kristo I, 2009)

d) Tourism and its Development
Tourism as a phenomenon, general activities and relations, as intersectoral (multisectoral) economy combines with many areas of economic development, administration, infrastructure, heritage, economic and social relations and plays an important role in the economy of the country. Increasing the number of tourists and increase the flux of the incomes they bring have contributed to increasing levels of economic growth in Albania. Imports of services, which are dominated by tourism reached an average of 8.2% of GDP during 1993-2002 (Data are of the BSH). According to INSTAT for the years 1998-2008 tourists prefer overland border crossing, because a considerable part of them consists of our neighbors. While division of visitors according to the reason of entry into the territory of our country (according to INSTAT) for 2010:

- 82% for holidays
- 5% for business
- 2% for daily visits
- 10% for other reasons

Clearly, tourist purposes constitute the largest percentage among the reasons given above. This shows that tourism plays an important role in the economic development of the country.

To see the real development of tourism in Albania, we will see the most important indicators that reflect this development, such as: the number of visitors; the income received from tourism and touristic capacities. According to INSTAT, the number of Albanian and foreign citizens staying in hotels are given in the table below:

![Figure 3: Foreign and Albanian Citizens Staying in Hotels](https://via.placeholder.com/150)

Source: INSTAT
The Factors that Affect the Economic Growth in Albania

The chart shows that especially after 2005, the number of local and foreign visitors in Albanian hotels has increased significantly, and the greatest weight on this number certainly has visitors who come for tourism. There are improvements, but we are behind our neighbors who have experience advantage in tourism, property problem solving and who have understood with time that tourism is the main industry.

While referring to the data presented by Bank of Albania, incomes from travel (even here the brunt of their income from tourism) are:

![Figure 4: Incomes From Travels mil/euro](source)

The growing number of foreign and domestic visitors is associated with an increased accommodation capacity across the country. The indicator related to the accommodation capacity of the country is given below:

**Table 3: Beds and Hotels**

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<tbody>
<tr>
<td>Beds</td>
<td>2018</td>
<td>3719</td>
<td>3423</td>
<td>3423</td>
<td>3575</td>
<td>5919</td>
<td>7677</td>
<td>7996</td>
</tr>
<tr>
<td>Hotels</td>
<td>62</td>
<td>81</td>
<td>85</td>
<td>85</td>
<td>102</td>
<td>147</td>
<td>185</td>
<td>194</td>
</tr>
</tbody>
</table>

Source: INSTAT
Despite that both the above indicators have increased year after year, what should be noted is that the standards are lacking, lacking quality accommodation units (mainly hotels classified as resorts).

Although important steps have been taken leading to the development of tourism as: the construction of road infrastructure, investment in energy resources, energy and drinking water supply in the tourist areas, etc., to have a successful tourism, only these are not sufficient. In order to achieve sustainable development, it is required a permanent system of management of the tourism industry, solving the problems of waste management, management of beaches, increasing service quality, increased promotional activity, promotional and awareness, expansion of tourism throughout the year and in all areas, etc. As for the government, it is viewed positively the tourism ranking in priority sectors of the economy, but there should be added incentive policies and reduce high taxes in this sector which put Albania in an unfavorable position with regional competitors who are playing hard because of their experience and evaluation of tourism as a priority industry. It should be well understood by both the business community operating in this industry as well as by the government that tourism is the only industry with secure income, which creates job vacancy and keeps the rural population engaged, influencing in this way the sustainable growth and long-term economic development.

e) Growth of budget expenditure

It is known that the private sector plays a determinant role in the allocation of resources in a market economy, providing an important contribution to the creation of GDP. However, through the public sector it is distributed and redistributed a significant part of the monetary values of a country. Having the appropriate legal and financial instruments for attracting a considerable part of the income from the private sector through the system of taxes, the government becomes thus an important factor in the development and progress of the country.

Budget expenditures represent the investments and expenses incurred by public institutions using the tools provided by the budgetary revenues.

<table>
<thead>
<tr>
<th>Table 4: Budgetary Expenses</th>
<th>mil/leks</th>
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The Factors that Affect the Economic Growth in Albania

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<tbody>
<tr>
<td>Expenses</td>
<td>50,6</td>
<td>60,9</td>
<td>77,1</td>
<td>87,6</td>
<td>100,7</td>
<td>165,7</td>
<td>165,7</td>
<td>170,6</td>
<td>186,0</td>
</tr>
</tbody>
</table>

As it can be seen from the graph, there is a steady increase in total expenditures of the State Budget. These rates are higher mainly in the periods 2007-2008 by 23% and 2008-2009 by 14.3%. Among the key factors that have contributed to this increase of expenditures for 2008 are investments, which are about 37 billion leks higher than in 2007. While in 2009 the main cause was mostly the current expenditure which increased by approximately 35 billion leks since 2008.

### Table 5: The Growth in Percentage of the Expenses

<table>
<thead>
<tr>
<th>Period</th>
<th>01-00</th>
<th>02-01</th>
<th>03-02</th>
<th>04-03</th>
<th>05-04</th>
<th>06-05</th>
<th>07-06</th>
<th>08-07</th>
<th>09-08</th>
<th>10-09</th>
<th>11-10</th>
</tr>
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<tbody>
<tr>
<td>Growth in %</td>
<td>9,0</td>
<td>3,5</td>
<td>4,5</td>
<td>10,6</td>
<td>4,5</td>
<td>11,4</td>
<td>10,4</td>
<td>23</td>
<td>14,3</td>
<td>-7,5</td>
<td>10</td>
</tr>
</tbody>
</table>

Interesting is the shrinking suffered by expenses in 2010, dropping to 7.5% where the principal place was occupied by investments with a decrease by 30 billion leks or 30% versus 2009.

Economic classification of budget expenditures serves to indicate the purpose of the use of budget revenues, thus enabling us knowing the directions of the use of budget funds according to the nature of these
expenses. According to economic classification, the budget expenditures are divided in current expenditure and capital expenditure, i.e. expenses for salaries and contributions for staff in the public sector, subsidies, interest expenses, maintenance expenses, capital expenditures, etc. The structure of budget expenditures as current and capital expenditure is given by the graph below.

Figure 6: The Structure of Budget Expenses in %
Source: MF, BSH, INSTAT

It is noted that until 2005, the main item of expenditure were those current, while after this year, the trend begins to change, always giving more priority to capital expenditures, as a necessity to support economic growth.
The above graph gives a clear idea of the advantages that have received investments over the years. Their rise steadily, mainly from 2005 is made possible thanks to a high performance of the incomes from the tax sector, the incomes from the privatization of some important facilities and support from foreign financing. The years 2008 and 2009 mark the highest figures, which in fact, coincide with payments made for works on the “Reshen – Kalimash” road.

The Model of Economic Growth

Low rates of economic growth in Albania in recent years, except for being a reflection of the consequences of the crisis, have also come because many of the factors that have contributed so far reached their maximum and actually result as completed. Can the current economic model guarantee a sustainable economic growth for the future? The actual guaranteeing model of economic growth has so far been supported by a high level of emigration and large inflows of immigrants income (which in some years have been higher than 1 billion Euros per year); soft loans and grants from abroad received as a developing country; massive privatizations; a high degree of informality; self-employment in agriculture which is more for their own consumption rather than for business; weak competitive ability which is reflected in the low level of exports to imports. The high deficit of the current account, the fall in remittances, increased foreign currency debt, etc. are considerable risks of the actual model that inhibit growth. To promote growth and its sustainability, it is time that through more structured policies to create a new economic model of the future.

Economic growth can be stimulated in three ways: ... “Primarily through loans and credits from abroad; secondly through exports of raw materials and some finished product; thirdly through economic restructuring, diversification of products and the massive adoption of new technologies ... ”(A. Civici, 2009).

If economic growth would rely only on foreign investments or loans, it would be highly dependent on developments in international financial markets and getting credit in foreign currency would increase the cost of debt in case of depreciation of the domestic currency. So, the economic growth would not be real. Even the second way which bases the economic
growth on the exports of raw materials is not considered a sustainable path, due to the low value they have in export and large price changes in international markets. Meanwhile, the third way is considered more appropriate to bring a long-term economic growth and this is showed by the positive examples in many countries.

How will it be achieved to create the new model of development and growth?

1. The increase in a higher level of the productivity in the economy that will make the Albanian economy more competitive in the domestic market and exports. There should not be aimed simply and only the economic growth but also the development, increase of the incomes. This requires a qualitative change in the assessment of economic growth factors. So, not an economic growth based on low value of the workforce but in ever-increasing productivity of the economy. Promoting human capacity through education, training and retraining to recognize and apply modern technology. Knowledge economy, knowledge of new technologies of management, production and service, increased access to information to know as soon as possible the scientific updates, will increase the level of productivity in the economy and will produce sustainable economic growth.

2. The backbone of this new model should be the private business, its restructuration and modernization. Although there have been taken policies aiming at improving the business climate in Albania, still the local business is generally considered with low quality, fragile to changes and often amateur. According to the “Global Competitiveness Index 2012” being published by the World Economic Forum in the “Business Innovation and sophistication” which has to do with the fact that the economies compete through innovative and unique products using sophisticated production processes and innovation, Albania is ranked 102 out of 133 countries to consider. While the other indicator “expenses for the search and development by businesses” are in place 126/133. To achieve a sustainable economic growth, it is needed to be improved the quality of the business environment by reducing administrative
barriers, giving incentives to those sectors that increase competitiveness by increasing the country's economic opening.

3. Defining those sectors that will be considered priority or strategic that will lead the Albanian economy in the coming years. Who will play this role? Energy, industry, tourism, services, agriculture and agro-industry? The definition of priority sectors also requires a broad political consensus and attracting a qualified scientific opinion respected by political parties. To make the right choices in this regard it should be noted that these sectors represent a competitive advantage in local markets, especially foreign.

4. As factors affecting sustainable economic growth of a country, besides productivity and technological improvements, are having more and more emphasis on good governance of the country, the quality of public institutions, law enforcement, etc. The final solution of the problem of ownership, the fight against corruption at every level of governance, compliance and enforcement of the law by all, reducing informality, etc. are important prerequisites that allow a functioning market economy and bring about a sustained economic growth.

5. To soften the high trade deficit, our natural resources should be included in a full cycle with extraction-processing and exporting increasing their value and export revenues. This will require investments in new technologies and the direction of FDI towards those sectors which capital will modernize our economy and make it more competitive.

6. For the economy to be developed, it requires sophisticated financial markets to make the capital valuable for investment in the private sector as a loan from a safe banking sector, well-adjusted security exchanges, investing capital and other financial products. To fulfill these functions, the banking sector must be reliable and transparent; the financial markets need adequate provisions for the protection of investors and other economic actors in general. The development and modernization of the financial sector, financial intermediaries, credit and its cost, the capital market and its functioning are prerequisites that support the modernization of the Albanian economy. Also the structure of our economy will be
improved positively by increasing the share of services and reducing the size of the rural sector.

To realize all this it is needed to develop a national strategy, to achieve a national consensus on the strategy, the participation of all talented Albanian and foreign experts and maximum transparency to implement the recommendations. To face the challenges of the future, the implementation of a new economic model for our country is becoming a necessity.

Conclusions

The economic growth in Albania during all the years after 1990 has been largely based on consumer expansion enabled by capital flows due to the privatization processes, credit growth and private transfers in the form of remittances. The economic development is guided more by the accumulation of physical and financial capital than the human one. Therefore gradual economic growth rates have been dropping. This phenomenon was noted more during the crisis involving the euro zone and other countries of the EU. It seems that Albania has managed the financial crisis beginning from the fact that it is an underdeveloped economy and with high informality, avoiding problems with international financial markets. But the impact of the crisis on the low rates of economic growth, seeks to take measures to substantially amend the previous model of growth and to replace it with a new model that will ensure a more effective utilization of natural resources of the country and creating a more educated and qualified workforce. Only in this way, there can be ensured a long-term economic growth.

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