

THE RELATIONSHIPS BETWEEN ALBANIA AND EUROPEAN UNION

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Abstract

Albania's European integration represents a main national priority. As such, it requires that relations with the European Union be raised at the level of partnership. Our foreign policy toward the relationship with the EU and the Member States will aim at ensuring the necessary political and economic support that accelerates the transformation reforms and brings us even closer to the Community's standards. The partnership with the EU and the Member States will be further improved also due to the boost in our programming and implementing capacities. The Government of Albania estimates that the interests of the compatriots living in the neighbouring countries are not different from the European interests of our citizens. On this basis, we shall encourage any initiatives in the countries where they live that regard the integrating processes as inseparable from the need of strengthening democratic standards and institutions according to the Euro-Atlantic model. We assess that the national interests of Albanians anywhere they live, jointly with their legitimate representatives, converge in the acceleration of standard reforms of development and European integration.

Keywords: Recommendation, Initiatives, Political Criteria, Economic Criteria, Regional Approach, Framework.

1. CHAPTER 1

Milestones in the relations between Albania and EU

In 1991 we have the establishment of the diplomatic relations between Albania and EU. On 11 May 1992 there was signed an agreement called "Trade and Co-operation Agreement" between the EU and Albania, including the common declaration on the political dialogue which entered into force on 1 December 1992. The Trade and Cooperation Agreement, allowed Albania to benefit from PHARE program funds. This constitutes an important step towards restructuring EU assistance to Albania in a number of areas that corresponded to the reforms in which the country was involved. This agreement constitutes one of the most important contractual documents that Albania has signed in the past decade, which finally linked our country to the EU. In the framework of this program, in 1992-2000 period, a considerable assistance by approximately € 700.000.000 has been delivered to Albanian. In 1996 we had a Regional Approach of Albania with EU. Also in this period, Albania is included in the General System of Preferences, which represented a general regime of trade preferences that EU offered to a large number of countries with which it had contractual relations. Albania was close to signing a new contractual agreement with the EU in 1996, which would paved the way for a classic association agreement. However, the contested parliamentary elections of May 1996, followed by the deep financial and social crisis at the beginning of 1997 after the fall of pyramid schemes, resulted in the failure of every initiative to this end. Political developments of this period in different regional countries, the dissolution of former Yugoslavia, the establishment of a number of new states, whose parameters were different from those of Central European countries, urged the European Union to adapt the called "Regional Approach" policy for Balkans countries¹. The General Affairs Council at this time determined a number of political and economic conditions that Balkans countries should fulfill to develop and strengthen their EU relations. These criteria were linked to the respect of democratic

services, human rights and liberties, the construction, respect and strengthening the rule of law, protection of minorities, development of market economy, and regional cooperation². The EU Council of Ministers establishes political and economic conditionality for the development of bilateral relations. After the parliamentary elections of May 1996, Albania was facing the gravest financial and social crisis, which was flowed by the fall of the pyramidal schemes. The Council of the Common Issues, at that time, has appointed economic and political conditions for the candidates countries of the Balkans, such as:

- 1). respect of democratic principles,
- 2). fundamental human rights and freedoms,
- 3). establishment and enforcement of rule of law.

1.1 Section i the framework: the stabilisation and association process

In 1997 the EU General Affairs Council Endorsement of regional approach by the General Affairs Council which lay down the EU political and economic conditions for the further development of bilateral relations³.

In May 1999 EU approved a new initiative for 5 countries of the South-Eastern Europe: Albania, Macedonia, Croatia, Bosnia-Herzegovina and FRY, the so-called the Stabilization and Association Process. This process aims at establishing closer relations between the EU and the aforementioned countries through the Stabilization and Association Agreements. The SAP is a framework in which various instruments - an assistance programme (CARDS), technical advice, trade preferences, co-operation in fields such as justice and home affairs, and political dialogue - help the countries to undergo a political and economic transition which prepares them for a new form of contractual relationship (Stabilisation and Association Agreements, SAAs) i.e. progress towards closer association with the EU. The SAAs focus on respect for

¹ Hoffman, J. (2005), Albanian Journal of Politics: The role of the European union in the democratization process, pg. 56.

² Journal. (2003), Central and South-Eastern Europe 2004, pg. 674, Kuko, V, Stabilisation and Association process in Albania and the Institutional Framework, pg. 1.

³ Elsie, R. (2010), Historical Dictionary of Albania, pg. 130., Sajdik, M& , Schwarzing, M. (2008), European Union Enlargement: pg. 323.

democratic principles and strengthening links of the countries of the region with the EC single market. They foresee the establishment of a free trade area with the EC and set out rights and obligations in areas such as competition and state aid rules, intellectual property and establishment, which will allow the economies of the region to begin to integrate with that of the EU. In May 2000, Albanian products are introduced duty-free in the EU market. European Commission presents CARDS Programme for South-East European countries for 2000-2006. Referring to the documents for Albania (Strategic Document 2002-2006, Multi-annual Indicative Programme 2002-2004, and the Annual Programmes) which ensure the strategic framework of CARDS Programme for Albania and according to which the EU assistance is offered for this period, the areas of intervention in Albania during 2001-2004 have been identified. Allocation for Albania during 2001-2004 amounts to EUR 187.4 million in some main area⁴.

In June 2000 Feira European Council states that all the SAP countries are "potential candidates" for EU membership⁵. In November 2000 it was the Zagreb Summit where European Commission prepared a report on the study of feasibility on the opening of negotiations with Albania for concluding a Stabilization and Association Agreement, reaching the conclusion that Albania had not met the conditions for such an agreement. During the Zagreb meeting the EU decided to intensify the cooperation with Albania through the High Level Working Group Albania-EU. The aim was to evaluate the capacities of Albania to undertake responsibilities for an SAA. The High Level Working Group Albania-EU has organised 3 meetings in Tirana, and at the end the European Commission prepared an evaluation report, where concrete recommendations were made. The Commission concludes that it is now appropriate to proceed with an Stabilization and Association Agreement (SAA) with Albania. In June 2001 the Göteborg European Council invites the Commission to present draft negotiating directives for the negotiation of a SAA. The EU Council of Ministers endorsed the report of the Commission and requested that it submitted a draft mandate to open negotiations with Albania prior to the end of 2001. In December 2001 in accordance with the request of the Council the European

Commission submitted to the Council the draft mandate of negotiating a Stabilization and Association Agreement with Albania. Additionally, the establishment of the EU Albania Joint Consultative Task Force was decided in this meeting. The draft mandate of the negotiations prepared and submitted by the European Commission was discussed at a technical level by EU member states during January – July 2002. The EU General Affairs Council in its meeting on October 21, 2002, determined the opening of the negotiations with Albania. Negotiating Directives for the negotiation of a SAA with Albania were adopted on 21 October 2002.

On 31 January 2003, President Prodi officially launches the negotiations for a SAA between the EU and Albania. To become a member of the Agreement, Albania had to fulfil the criteria both economic and political, established from the European Council of Copenhagen (June, 1993). The overall objective of the assistance was to support the participation of Albania in the Stabilization and Association Process (SAP)⁶.

On February 2003 there was the first round negotiations for the Stabilisation and Association Agreement and some months later on 21 June 2003 the Thessaloniki Summit, so-called Zagreb II which confirms the regional countries adherence perspective to EU and paves the way to benefit from the instruments used by member countries. In December 2003 we had the initialization of Albania/EU Readmission Agreement and in May 2004 the European Council launches the TAIEX Programme for legislation harmonisation by countries involved in Stabilisation and Association Project. In December 2005 the European Council adopts the decision on the principles of a Revised Partnership for Albania and on 14 April 2005 Albania/EU Readmission Agreement was signed in Luxembourg. In February 2006 the Stabilisation and Association Agreement was initialised in Tirana and on 12 June 2006 in Luxembourg the General Affairs and Foreign Relations Council signed the SAA and the Interim Agreement on Trade and Trade-related Matters. In June 2006 was approved the National Plan for the Implementation of the SAA. On 17 July 2006 the Council adopted a regulation laying down a new Instrument of Pre-Accession Instrument (IPA). This only financial instrument simplifies and projects EU foreign assistance during the pre-accession period. IPA substitutes existing instruments (PHARE, ISPA, SAPARD, CARDS) as from 1 January 2007. On 27 of July 2006 Albania's Assembly ratified the Interim Agreement between the Republic of Albania and the European Communities on trade and trade-related matters, and the

⁴ 1.) Justice and Home Affairs – including aspects of strengthening the legal system, order, improving integrated border management, the fight against organised crime, trafficking and corruption; 2. Administrative capacity building – including the improvement in general of the implementing capacity and sustainability of the public administration, focusing in those directions which accelerate the Stabilisation and Association Process; 3. Economic and social development – including aspects of trade promotion, education and local infrastructure; 4. Environment and natural resources – includes support in institutional building for the implementation of environment protection programmes, and special attention is paid to improving environment indicators as regards regional and urban planning 5. Democratic stability – includes support and strengthening of the civil society in Albania. The overall amount which has been spent by the European Union till the starting process with the SAP was about 6.8 billion euros by the end of the 2005. ⁵ Tatham, Allan F. (2009) Enlargement of the European Union, pg. 167., Bitzenis, A. (2009), The Balkans: Foreign Direct Investment and Eu Accession, pg. 127.

⁶ 1). To bring Albania closer to EU standards and principles, and to prepare the country for gradual integration into EU structures in the framework of the Stabilisation and Association Process 2). To help the Albanian authorities in consolidating democracy and implementing the rule of law 3). To assist the government of Albania in its efforts to achieve a comprehensive administrative and institutional reform 4). To facilitate the process of economic and social transformation towards an efficient market economy. The EU offered a financial support through the CARDS programme, which substituted the PHARE and OBNOVA programmes, with the Regulation no. 2666/2000 of 5 December 2000 of the Council. During 2001-2004, the assistance of EU for Albania, within the framework of CARDS programme is approx. €. 180.000.000.

Stabilisation and Association Agreement between the Republic of Albania on one part and the European Communities and its member states on the other. On 6 September 2006 European Parliament votes for the resolution on SAA ratification which opens the green light to the ratification of SAA by 25 EU member states. On 1 December 2006 the Interim Agreement on Trade and Trade-related Matters between the Republic of Albania and the European Communities enters into force and on 5 September 2007 was approved with DCM No 577 the National Plan for the Implementation of the Stabilisation and Association Agreement (NPISAA) 2007-2012.

On 11 July 2008 was ratified by 25 member states the Stabilisation and Association Agreement between the Republic of Albania on one part and the European Communities and its Member States on the other⁷. On 1 April 2009 enters into force the Stabilisation and Association Agreement and at the same month we had the submission of the application for EU membership (28/04/2009). On 12 November 2009 the European Parliament approves the report of the Euro-parliamentarian Tanja Fajon related to visa liberalization for Western Balkan countries and on 16 November 2009 the EU Foreign Ministers approve Albania's application for EU membership. On 16 December 2009 EC Questionnaire arrives in Tirana where on 12 March 2010 it was held the first meeting of the Stabilisation and Association Committee, headed by the Minister of Integration, Mrs. Majlinda Bregu. On 14 April 2010 Albanian PM, Mr. Sali Berisha, in Brussels handing over the replies to the EC Questionnaire and after on 6 May 2010 the European Commission notified the Albanian government that fact-finding missions will be conducted in Albania in the framework of Avis for candidate status. On 11 May 2010 EU-Albania Stabilisation and Association Council met in Brussels. At this meeting the European Commission handed over to the Albanian government the additional questions of the Questionnaire and at the same month (27/05/2010) the European Commission proposed visa-free travel for Albanian citizens with biometric passports, within Autumn 2010. On 10 June 2010 the Albanian Government handed over the replies to the additional questions of the EC Questionnaire and some days later on 23/06/2010 the European Parliament's Foreign Affairs Committee approves resolution on visa-free travel for Albanian citizens and on 8 November 2010 the EU Justice and Home Affairs Council decided to grant visa free travel regime to Albania. After that we had the adoption of the Commission Opinion on Albania's application for membership to the European Union. On 15 December 2010 we had the entry into force

of the visa liberalisation for Albanian citizens travelling to the Schengen area⁸.

On 10 June 2011 Albania adopted the Action Plan addressing the 12 key priorities of the Commission Opinion on Albania's application for membership to the European Union. In December 2011 Albania started work for the revision of the Action Plan addressing the 12 key priorities of the EC for Albania⁹.

1.2 Section ii action plan addressing the 12 recommendations of the ec opinion for Albania

The Albanian government designed an Action Plan to address the 12 key priorities indicated in the EC Opinion on Albania's application for membership to the European Union. The Action Plan was the product of a process initiated in 2011, in consultation with the parliamentary opposition and civil society, and in full transparency to ensure that broad public interests are duly represented. It was finalised in June 2011, and most of the planned activities are either completed or underway. Pending remain the activities requiring opposition's cooperation. In the light of the EC 2011 analytical report recommendations, consultations with the EC and recent political developments, the Albanian government and specifically the Ministry for European Integration are committed to revise the Action Plan in cooperation with the Assembly. The end of the opposition boycott opened the green light to addressing the 12 key priorities of the EC Opinion and allowed for Albania's further advancement in its EU integration path. By cross-party consensus, the Assembly adopted the decision to establish a parliamentary committee on electoral reform and a parliamentary working group to amend the Rules of Procedure, as well as a calendar for the review and adoption of laws requiring reinforced 3/5 majority. On 12 December 2011, the parliamentary Committee on European Integration called a meeting with the participation of the Albanian Integration Minister and the EU Delegation in Tirana. The Minister presented two options for the revision of the Action Plan and invited the Committee to choose the option it deemed most suitable. It was decided that the Integration Committee would monitor and provide input for the revision of priorities 1-5, and ministries would revise priorities 6-12. On 14 2011 December, MEI sent the Committee the revision scheme and the calendar of activities to be implemented. In line with the calendar, the working groups tasked with the revision of the Action Plan held their first coordination meeting on 23 December 2011. All line ministries drafted the revised Action Plan for priorities 6-12; working groups established for each priority included civil society representatives. MEI organised a broad consultative meeting with the working groups and civil society on 27 January 2012 to make sure that the process

⁷ Latvia (26 October 2006), Slovenia (12 February 2007), Slovakia (15 February 2007), Poland (15 March 2007), Sweden (21 March 2007), Hungary (23 April 2007), Spain (12 May 2007), Lithuania (17 May 2007), Ireland (31 May 2007) Luxembourg (4 July 2007), Great Britain (16 October 2007), Italy (16 October 2007), Estonia (18 October 2007), Netherlands (26 November 2007), Finland (29 November 2007), Malta (21 April 2008), Denmark (24 April 2008), Czech Republic (6 May 2008), Austria (21 May 2008), Cyprus (31 May 2008), Belgium (25 June 2008), Portugal (11 July 2008).

⁸ Löberbauer, H. (2006), The regional, structural and cohesion policy of the European Union: CARDS in Albania, pg. 2. Richard C. Frucht, (2004), Eastern Europe: An Introduction to the People, Lands, and Culture, pg. 726.

⁹ Balaj, B. & Bugajski, J. (2010), Western Balkans Policy Review 2010, pg. 49. Inotai, A. (2007), The European Union and Southeastern Europe: troubled waters ahead , pg. 341.

is as comprehensive as possible. Participants in this meeting included 30 representatives from the civil society organizations, representatives of the Ombudsman and representatives of the EU Delegation to Tirana. After the meeting, most of the comments and suggestions were reflected in the final draft of the Action Plan. On 31 January 2012, the final draft was sent to the parliamentary Committee on European Integration for examination. Following the comments and suggestions of the parliamentary Integration Committee and its finalisation by the institutions involved in this process, the revised Action Plan was endorsed by the Inter-ministerial Committee on European Integration in its meeting of 21 March 2012. After an intensive consultation process with all stakeholders the Action Plan addressing the recommendations of the EC Opinion for Albania was adopted by the KNI (Inter Ministerial Committee for European Integration) in its meeting on 21 March 2012. The redrafted Action Plan took into consideration the suggestions and recommendations of the Parliamentary Committee for European Integration, civil society, international organizations and European Commission. Since the approval of this Action Plan almost all measures have been implemented or are on the process of implementation according to the time frame foreseen.

1. 3 section iii. Twelve recommendations for Albania

Recommendation 1: Ensure proper functioning of Parliament on the basis of a constructive and sustained political dialogue among all political parties.

Recommendation 2: Adopt pending laws requiring a reinforced majority in Parliament.

Recommendation 3: Appoint the Ombudsman, and ensure an orderly hearing and voting process in Parliament for constitutional and high court appointments.

Recommendation 4-5- Modify the legislative framework for elections, in line with OSCE-ODIHR recommendations. Ensure elections are conducted in line with European and international standards

Recommendation-Priority 6 - Public Administration Reform. Essential steps need to be undertaken in public administration reform, including changes in civil service law and strengthening the Department of Public Administration, aiming to increase the professionalization and de-politicization of public administration, as well as enhance appointments and promotions based on transparency and merit.

Recommendation 7- Rule of law. Strengthen rule of law through adoption and implementation of a reform strategy for the judiciary, ensuring the independence, efficiency and accountability of judicial institutions.

Recommendation 8- Anti-corruption strategy and action plan. Effectively implement the government's anti-corruption strategy and action plan, remove obstacles to investigations, in particular of judges, ministers and Member of Parliaments; develop a solid track record of proactive investigations, prosecutions and convictions in corruption cases at all levels.

Recommendation 9- Fight against organised crime. To intensify the fight against organized crime based on an assessment of threats and proactive investigations increased cooperation with regional partners and the EU, and coordination of law enforcement agencies. To create a solid track record in this area.

Recommendation 10- Strategy and action plan on property rights. Prepare, adopt and implement a national strategy and action plan on property rights following broad stakeholder consultation and taking ECtHR case law into account. This should cover restitution, compensation and legalisation processes.

Recommendation 11- Reinforce the Protection of Human rights. Take concrete steps to reinforce the protection of human rights, notably for women, children and Roma, and to effectively implement anti-discrimination policies.

Recommendation 12- Improve the treatment of detainees

CHAPTER 2

Integration priorities of albania (criteria)

2. 1 section i. Political criteria

2.1.1. Democracy and the rule of law

The Albanian Government is committed to a truly deepening reform of the public administration, treatment and assessment of individuals based on merit, the commitment of its officials, the establishment of an effective and efficient institutional network, and a sustainable administration committed to the implementation of the law, which offers best possible services to the citizens, with civil servants who are recruited and assessed by merit and commitment to the completion of individuals duties. The final objective of the Albanian Government will be the establishment of an efficient public administration, which is capable of successfully completing and carrying out in full the commitments and obligations deriving from the Stabilization and Association Agreement¹⁰.

2.1.2. Decentralization reform

In compliance with the European Charter of Local and Regional Autonomy, the Albanian Government will implement the reform of the decentralisation of executive power in an expedited and sustainable manner, as it believes that decentralisation improves governing qualities, both with regard to efficiency and strengthening of responsibility, increase of transparency and a rise in the involvement of citizens and various social groups in governance. The Albanian Government will rely completely on the European strategies and other European documents that help local Democracy and Autonomy, so as to achieve concrete results in important components of the rule of law and democracy, such as local institutions and local government, and decentralisation as a process that aims at mobilising everyone's contribution at a central and local level for further local autonomy¹¹; for consolidated local

¹⁰ Austrian Commercial Chamber. Website on CARDS under URL, www.at/eu/eic/cards/ <http://www.mie.gov.al/> Ministry of Integration of Albania.

¹¹ Journal. (2003), Central and South-Eastern Europe 2004, pg. 674 Kuko, V, Stabilisation and Association process in Albania and the Institutional

institutions, administrations of municipalities, communes and regions capable of offering citizens and their communities the best possible public services; and more democracy and citizens' participation in local level.

2.1.3. Elections and other parliamentary issues

The Assembly of the Republic of Albania, in compliance with the OSCE/ODIHR and the international standards for the electoral system, as well as in accordance with Article 4 of the SAA preamble, has undertaken the necessary steps aiming at improving the local election situation, meanwhile continuing its work as regards the enhancement of the legislation in force, in order to be prepared for the future parliamentary elections¹².

2.1.4. Civil registry

The modernisation of the Civil Registry in accordance with the Strategic Document approved in this area is considered to be one of the short-term priority objectives of the Albanian Government. The modernisation of the Civil Registry will have a direct impact on the development of free and fair elections (both local and general ones) in full compliance with the European and international standards¹³.

2.1.5. The judicial system

The Albanian Government is fully committed to the extensive and deep implementation of reforms in the judicial system, as suggested and supported by international partners in cooperation with other constitutional institutions involved in the area of reform and performance of the justice system in Albania, and in compliance with the commitments and obligations of the implementation of the Stabilisation and Association Agreement (SAA's Articles 1, 2, 13, 78).

2.1.6. The fight against corruption

Fight against corruption is an absolute priority of the Albanian government. With the establishment of the rule of law as its guiding vision, the government commits itself, and appealing to the commitment of society, with determination, governing sense, commitment, high responsibility in exercising power and transparency, to dismantle the system of corruption and monopolies, strengthen the rule of law by ensuring equality before the law for all.

2.2. Section ii economic criteria

The economy recorded positive developments in 2008. Albania maintained macroeconomic stability and continued with structural reforms aimed at advancing economic

efficiency and further solid development. In general, economic developments were in line with the mid-term budget programming envisaged for economic development. Business stimulation through facilities, fiscal incentives and administrative policies had a positive impact on business performance. Continuous infrastructure upgrading, technology transfer and human capacity development gave an impetus to the overall plan of economic efficiency, which will be progressively transformed into a factor of economic growth. Real economic growth was 7.2 percent in 2008. Both average and annual inflation were the lowest in the region, 3.4 and 2.2 respectively. Unemployment fell to 12.7% and salaries increased significantly in most sectors, including the public one. Current account deficit widened to 14.9% of GDP against 10.5% in 2009. Exports grew by 17% and imports by 15%; trade deficit was 27.5% of GDP compared to 26.5% in 2007 due to the high share of imports. Imports would have been lower if not for considerable import of machinery, equipment and other materials used mainly in public infrastructure investment. Annual decline of remittances by 12% affected current account deficit considerably. However, current account deficit was widely covered by foreign capital inflows resulting in a surplus of balance of payments. Foreign reserve increased by round 192 million EUR and foreign reserve stock is safely sufficient to cover around 4 months of imports. Despite current deficit, general external position looks more positive considering that half of the current deficit is covered from non-debt capital inflows, i.e. from foreign direct investment (FDI). FDI inflows continued to grow considerably through 2009, despite the high increase of 86% in 2007. Net FDI grew by 36% in 2008, because of privatisation inflow and a considerable share from greenfield investment in various sectors¹⁴.

2.2.1. Real sector

Albanian economy recorded a real growth of 7-8 percent in 2008. GDP quarterly [1]growth in 2008 stood at 8%. Growth was supported by a good performance of the extracting and processing industry, a considerable boost of the construction sector driven mainly by large public investments, and positive developments in agriculture and energy in the wake of a difficult year. Also, services such as telecommunications, financial activities and education recorded significant increase in 2008. Aggregate supply showed high investments driven by public investment and

¹⁴ Central government budget was executed generally in line with the plan. Both revenue collection and total expenditure execution were around 2.5% less than the respective projection, resulting in a targeted fiscal deficit of 5.5% of GDP. Revenue was 1% of GDP more than the previous year, or 26.7% of GDP. Tax and customs revenue fell short of the targeted plan by only 2%. Current expenditure was 2.7% less than the projected plan and capital expenditure reached 99.7%, the highest figure in the last decade, or 8.5% of GDP. The deficit of 5.5% of GDP was covered from internal debt by 1.4% of GDP, 0.5% of GDP from privatisation capital and the rest of 3.3% of GDP was financed with external debt. Real economic growth was around 4.8% in 2009, or around 2% less than the 7% potential growth of real economy. To mitigate the negative impact of the crisis, authorities planned and started implementing a series of crisis response measures. Monetary and fiscal policies were planned in full coordination with each-other.

Framework, pg. 1. Bogdani, M. & Loughlin, John, (2007) Albania and the European Union: the tumultuous journey towards. pg. 215.

¹² . A Special Commission for the Electoral Reform is now established and is continuing its work for the enhancement of the legislation in force, taking into consideration the OSCE/ ODIHR recommendations and the international standards for open and fair elections.

¹³ Inotai, A. (2007), The European Union and Southeastern Europe: troubled waters ahead , pg. 341. Tatham, Allan F. (2009) Enlargement of the European Union, pg. 167.

private technological investment made by domestic and foreign investors, a normal consumption rising trend and a high increase of exports of goods versus imports¹⁵.

2.2.2. Inflation

The annual inflation rate was 3.4% in 2008, remaining with the Bank of Albania target range of 3 ± 1 . Inflation pressures emerged in the first month of 2008, just like the previous year. As a result of increased prices of some imported goods, average inflation rate rose to 4% during the first half of 2008. In the second half, decreased prices of raw material in international markets and the positive contribution of domestic aquaculture products alleviated domestic inflation pressure¹⁶.

2.2.3. Exchange rate

Nominal exchange rate reflected a series of developments in 2008. Albanian currency continued to appreciate against main foreign currencies during January-April, with the highest appreciation in April (6.2% in annual average terms). The following two quarters manifested a slowdown of annual increase (1.4% in September) and a depreciation trend in the third quarter (averagely -3.2%). Depreciation of lek against main foreign currencies showed a relative waning of bumper effect played by the exchange rate on imported inflation. In annual terms, the lek depreciated against the US dollar and the Euro by 13.1% and 1.2% respectively in the fourth quarter. Annual average exchange rate in 2008 stood at 83.89 lek vis-à-vis the US dollar and 122.80 lek against the Euro. Interest rates in the inter-banking market showed an upward tendency in the second half of the year and fluctuations particularly in September-November. During this period, the banking system continued to manifest shortages of liquidity. Bank of Albania injected liquidity through operations in the open market through mutual re-purchase agreements of weekly basis.

2.2.4. External sector

The balance of payments was positive during 2008. The total balance of payments showed an increase of foreign currency reserve by 192 million Euro. Current accounts recorded a deficit of 1,319 million Euro compared to 831 million Euro the previous year. Current deficit against the GDP stood at 14.9% in 2008, with a significant increase

compared to 10.5% in 2007. This deficit implies the high deficit in goods (from 2,104 million to 2,432 million Euro). Trade deficit in 2008 was 27.5% of GDP against 26.5% in 2007. Annual exports grew by 17% and reached 918 million Euro, while imports grew by around 15% compared to the previous year. Imports and exports ratio remained unchanged to 27%. Highest trade deficit was recorded in the fourth quarter (741 million Euro) and it was the main factor in the depreciation of lek against the Euro in the first months of 2009.

2.2.5. Fiscal sector

In parallel to structural reforms, a stimulating fiscal policy was pursued during 2008, by reducing tax burden and enhancing public investment. So, profit tax was reduced by 50% and fight against unfair competition/fiscal evasion was intensified. Profit tax reduction was a great impetus for businesses and spared them 18 billion ALL. Public investment showed a strong increase particularly in road infrastructure projects. The boost in public investments was supported by the improved performance of tax collection, mainly due to more concentrated measures against tax evasion and to external borrowing. Internal borrowing as a percentage of GDP maintained the same level of 2007, thus ensuring that public investment increase would not have a negative impact on the crediting of private sector.

2.2.6. Budget revenue in 2008

State budget revenue amounted to 290 billion ALL, or 26.71% of GDP in 2008, against 25.77% in 2007. Compared to 2007, revenue increased by 15.3% and this represents the highest figure in the last decade, or 5.5% more than the average of 2001-2007 period. Tax revenue amounted to 264 billion ALL against the targeted 270,9 billion ALL, resulting in 6,9 billion less or 97.46% of the targeted objective¹⁷.

2.2.7. Customs revenue

VAT collection performance realised the targeted plan by 89.12%, or 10.3 billion ALL against the planned 11.6 billion ALL, with 1.27 billion ALL less. VAT collection accounts for 260 million ALL less than the same period the previous year. Reduction of imports by 17% compared to the same period had a direct impact on VAT revenue, although they fell only by 2.4%; this means that imports structure has improved¹⁸.

¹⁵ However, high exports meant that net exports of goods and services contributed less to economic growth – by 3.5% compared to 5.2% in 2007.

¹⁶ Reduced fluctuation of labour supply and macroeconomic stability helped in the normalisation of inflation within the targeted range. Lowest inflation was 2.2% in the end of 2008. Inflation during the first quarter showed a declining trend in line with inflation developments in international economies. Annual average inflation rate in the first quarter 2009 stood at 1.9%. In the first quarter, the lek depreciated characterised by fluctuations, loosing 5% against the Euro; in March, the lek stabilised. Annual average inflation in 2008 reflected high prices of some basic food products and fuels. In the fourth quarter and particularly in the third quarter, favourable climate conditions boosted domestic demand, thus pressuring some unprocessed seasonal food prices to decline. On the other hand, inflation rate in the second half of the year reflected the global trend of falling consumption prices, particularly of foods and fuels. Low inflation of virtually all categories influenced in the total inflation during the second half of 2008.

¹⁷ Tax revenue in 2008 are 35.9 billion ALL more or 15.7 more than in 2007, despite the significantly reduction of profit tax by 50%. 2008 VAT revenue rose to 107 billion ALL against the targeted 106,9 billion ALL, accounting for 190 million ALL more than the targeted objective. 2008 VAT revenue represent 19.3 billion ALL more or 22% more than in 2007. Revenue increased to 9.8% of GDP against 9% in 2007, 7.9% in 2005 and 7.4% in 2002. 2008 Profit tax revenue amounted to 18.1 billion ALL against 21 billion ALL in 2007, which means 14% less with a taxation base halved. This implied that administrative improvements or better reduction of tax evasion related to profit tax was over 50%. Profit tax reduction encouraged the business significantly.

¹⁸ Customs duties collection accounts for 8% more than the targeted objective, with 991 million ALL against 914 million ALL planned. Reduction of customs tariffs because of contractual obligations account for 435 million ALL less in customs tariffs than the same period in 2008. Excise

Conclusions

Albania has done a lot of efforts to join the "Club" of European Union but this country has to do more work concerning the fulfillment of the Copenhagen Criteria. We hope that Albania will receive from the European Commission the candidate status in October, because this will give a great hope to this country and will show to the Albanians politicians that have to keep doing the same work to implement the directives of the EU Commission. For this small country the integration at the European Union is the top priority of every government, because Albanian people in the majority of them agree that this should be the goal of Albania. They know very well that integration for them means better conditions in their life. The problem in the relationships between Albania-EU are as we have seen in many years the Albanian politicians. During the two decades they haven't done the best things to bring Albania near European family and this has costs for the people leaving within Albania. This year and in the passing years we hope that relations between Albania-EU will be better and this country will join European family as soon as possible.

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