



REPUBLIC OF ALBANIA

MINISTRY OF FINANCE

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Supplement to the National Strategy For Socio-Economic Development (GPRS)

The Albanian Government considers economic growth as the main instrument for the improvement of the living conditions and the reduction of poverty. The results, which have so far been achieved with the consistent implementation of economic reforms, create the condition to aim at an all-embracing, balanced, and stable growth strategy based on the mobilization of all production resources, particularly human resources in both the urban and rural areas.

The Albanian Government, regarding the GPRS a very important document and a significant step toward the design of country policies actively involving civil society, reconfirms the original document’s objectives and priorities as a guideline for the upcoming three-year period.

The revision of the 2002 budget was necessitated by (i) delays in the privatization of Altelecom caused by the weak international telecommunications market and the subsequent lack of interest from the foreign investors, and (ii) the urgently needed budgetary support for additional energy imports. Nevertheless, the revision of the 2002 budget re-orientes expenditures in accordance with priority expenditures as defined in the GPRS, thereby indicating that this revision will not impede the achievement of GPRS objectives.

Changes in the Macroeconomic Framework

As summarized in Table 1 of the Government’s Memorandum of Economic and Financial Policies, the objective laid down in GPRS is to permit an annual economic growth rate of 7 percent during 2003-04 by (i) retaining verified growth rates in the main sectors of the economy, such as agriculture, construction, services, and public services; (ii) protecting the political and institutional stability as an important factor for maintaining high rates in economic growth; (iii) continuing and deepening policies aimed at ensuring macroeconomic stability; and (iv) reducing the expectations for possible economic shocks.

Whereas the economic growth rate for 2001, with 6.5 percent only slightly less than the original GPRS target, was caused by the weak growth rate in the agricultural sector and the effects of the energy crisis, the growth projections for 2002 have been reduced to 6 percent. The GPRS specifies that the objective of the monetary policy of the

Bank of Albania will continue to be the maintenance of price stability during the next three years, with the aim of keeping the inflation at low positive levels ranging from 2 to 4 percent, under the conditions of a flexible exchange rate regime.

However, as a result of the energy crisis and the reduced domestic supply of agricultural produce, inflation increased to about 7 percent in the first quarter of 2002. The current account deficit in 2001 was 6.25 percent of GDP, which is lower than the 7.4 percent figure envisioned in the GPRS. This deficit is also lower than in the previous year. During 2001, the trade deficit, as share of GDP, has increased more than envisioned in the GPRS, namely, to 25 percent of GDP instead of the GPRS target of 23 percent of GDP. This happened as the result of the large increase in the private remittances, especially in the last quarter of 2002 (with most of the emigrants living in the euro zone), and the increased revenues from the tourism sector.

While the GPRS had forecast a reduction of the overall deficit, excluding grants, to 9.4 percent of GDP for the year 2001, the deficit could actually be reduced to 8.5 percent of GDP, as a result of reduced expenditures.

Budget Revision

The revision of the 2002 deficit forecasts that the overall deficit, excluding grants, should be 8 percent of GDP, of which 3 percent will be domestically financed. This revision takes into account the very low level of revenues from the privatization, which are expected to represent 0.2 percent of GDP, compared to the planned figure of 1.7 percent of GDP. Nevertheless, the 2002-04 revised budget will orientate expenditures in line with GPRS priorities, including those to address the energy supply crisis and to increase the quality of spending allocated for the reduction of poverty. The expenditures for health and education will increase in real terms by, respectively, 30 and 20 percent (from 2.8 percent of GDP and 3.2 percent of GDP, and from 3.5 percent of GDP to 3.7 percent of GDP respectively). In order to address the poverty reduction issue more effectively, we will focus the expenditures on the sector of education and health in the rural areas by increasing the quality of the elementary education and the health service. The latter will consist of the construction and rehabilitation of the health centers and the outpatient clinics and the dissemination of the centers counseling young mothers.

The quality and the motivation of teachers and doctors will be raised by reducing the wage differences with the private sector, increasing the wage differences within the education and health sectors, and organizing specific training courses for the teachers. The planned increase in wages by 12 percent beginning on 1 July for the health and education sectors will also include the judiciary.

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