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Alketa Vangjeli

The Impact of the Global Economic Crisis on Albanian Foreign Trade

Abstract

The global economy is in the midst of a deep downturn, affecting the real and financial sectors, both in advanced, emerging and developing countries. All major advanced economies are in recession, while activity in emerging and developing economies is slowing abruptly.

The fact that the Albania`s economy and financial system still are not completely integrated with the rest of the global economy has provided some buffer from the global financial credit crisis. But, the recent trends of exports and imports show that the crisis has arrived in Albania.

This paper analyses the impact of the global financial crisis on Albanian economy, in particular on foreign trade. It provides an overview of thepossible impact of the crisis on the short-term macroeconomic outlook. The Albania`s economy will mainly be affected by the global economic downturn through a decline in export demand, investment, remittances, and less availability of credit. Export demand might in particular hurt the re-exporting industry in shoes and clothing but other sectors will also be affected.

Against this background, the paper provides policy recommendations on how best to address the impact of the crisis on Albania`s economy, particularly on foreign trade. As a solution we need to develop e more competitive export sector. On the other hand, this is the best time for local investors and entrepreneurs to exploit opportunities to expand our export sector.

Keywords: *global economic crisis, foreign trade, re-exporting industry.*

The impact of the global economic crisis on Albania`s foreign trade

The global financial crisis has spread rapidly since the fall of 2008, leading to a global downturn of uncertain severity and duration. The impact of financial sector turmoil on real activity has become increasingly evident, affecting all major advanced economies, emerging markets and developing countries.

The transition and developing countries are exposed to the current global downturn more than in previous episodes, as they are more integrated than before with the world economy through trade, foreign direct investments (FDI) and remittances.

A crisis touching to start mainly the American economy, now undoubtedly results in a global crisis risking even the countries in Balkan region. Moreover, the Balkan economies are not immune to the deteriorating conditions in neighbor hooding countries. Spill-over effects cannot be excluded, e.g. for export markets, cross border trade relations, foreign direct investment and financial sector intermediation. The chain aspects of the global crises are gradually filtering through different sectors of economic activity and segments of society.

When the crisis hit in September 2008, the governments of the Western Balkan region argued that they were immune to the crisis. These economies experienced strong economic growth in 2007, but this has slowed in 2008 and now the region is increasingly feeling the effects of the global economic crisis. It significantly is affecting these countries through

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reduced demand for their exports and the fall of financial sources. As small open economies the western Balkan countries are uncomfortably exposed to the world crisis and particularly to EU as their trade with the EU member states comprises their largest trade volume. The economic indicators show that the economies are in some degree of trouble, at the moment with falling of industrial output, foreign investment and remittances and unemployment rising, while aid flows are under threat. A sharp slowdown in FDI is expected in developing and transition countries. Prospects for higher aid to offset these effects are particularly uncertain, given budgetary pressures faced by many donor countries.

Also Albania, as a western Balkan country, is feeling the first signs of the global crisis. Although the Albania`s economy seems to be better positioned against such global pressures and the government continues to predict that our economy would show growth and small contraction in 2009, the decline in export growth rate, in remittances and FDI show that the crisis has arrived in Albania.

This paper offers an assessment framework on the global crisis as well as some policy alternatives. The following section discusses the outlook for global economic growth and trade related developments. The third section discusses the channels through and the ways in which the crisis will affect the Albania`s economy. The final section proposes policy alternatives to manage the negative effects of the crisis and to turn it into an opportunity.

The global economic crisis and international trade

Current Global Crisis started as a 'financial crisis' but now a 'Global Economic Crisis'. Through financial and trade channels this is being transmitted globally with: reversal of private capital flows; dry-up of finance; banking sector problems; asset price declines; commodity price declines and slowdown of trade and growth.

So, the world trade volumes may fall for the first time since the 1982 recession. The consequent downturn in developing countries exports will be the most widespread shock generated by the crisis and private capital flows to developing countries are likely to fall significantly in 2009.

The estimate for economic growth in 2008 has been revised several times and different international institutions give different figures. According to the IMF (IMF, January 2009), growth estimate for the world output in 2008 is at about 3.2 percent compared to 5.2 percent in 2007. In general the first half of 2008 registered a continuing growth, particularly for oil exporting countries which benefited from record high commodity prices. The second half was characterized by a faltering growth and then a severe downturn that started in the United States and other developed countries to spread out later at developing countries. The crisis intensified dramatically following the collapse of the Wall Street investment Bank Lehman Brothers in September 2008. Turmoil in the financial sector and acute credit shortage spread inescapably to the real sector and many countries. Global GDP is estimated to have fallen by 5 percent in the fourth quarter (annualized). In advanced economies the drop was 7 percent, in the United States and the Euro area around 6 percent; in Japan 13 percent (IMF, March 2009). The industrial

Table 1.1: World growth rates (annual percentage change)

	2004	**2005**	**2006**	**2007**	**2008***	**2009****
World output	**5.3**	**4.4**	**5.0**	**5.2**	**3.2**	**-1.3**
Advanced Economies	**3.2**	**2.5**	**3.0**	**2.7**	**0.9**	**-3.8**
United States	3.9	3.1	2.9	2.0	1.1	-2.8
Euro Area	2.1	1.5	2.8	2.6	0.9	-4.2
Emerging markets and developing economies	**7.7**	**7.0**	**7.7**	**8.3**	**6.1**	**1.6**
Central and Eastern Europe	6.5	5.6	6.3	5.4	2.9	-3.7
Commonwealth of Independent States	8.4	6.6	7.7	8.6	5.5	-5.1
Developing Asia	**8.8**	**9.0**	**9.6**	**10.6**	**7.7**	**4.8**
China	10.1	10.4	11.1	13.0	9.0	6.5
Middle East	5.5	5.4	5.6	6.4	5.9	2.5
**Estimate;* **Projections						

Source: World Economic Outlook Update, IMF January 28, 2009; and World Economic Outlook: Crisis and Recovery, April 2009.

production declined by 20 percent in the fourth quarter of 2008; high income and developing countries suffered a contraction of 23 and 15 percent, respectively (World Bank, March 2009).

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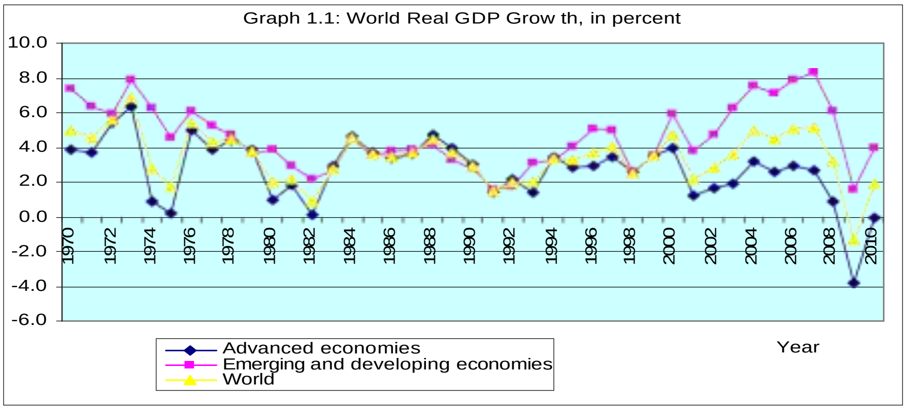

Source: World economic Outlook: Crisis and Recovery, April 2009

As reported in table 1.1 and graph 1.1, growth in 2008 for advanced economies is estimated 0.9 percent, from 2.7 percent in 2007. Emerging and developing countries, according to the same table, grew by 6.1 percent (2.2 percentage points down the 2007), and central and eastern Europe by 2.9 percent (2.5 percentage points down the 2007). The highest growth among the major economies was registered in China, 9.0 percent.

According to the WTO (WTO, March 2009), world economic growth, measured by gross domestic product (GDP), slowed abruptly in 2008. The falling asset prices and increased economic uncertainty brought about a weaker demand in developed economies which pulled the world output growth down to 1.7 percent, being the slowest since 2001 and well below the 10 year average rate of 2.9 percent.

The slowdown of economic growth always means a slowdown in new job openings. The crisis brings a psychological impact, a rising unemployment and poverty, uncertainty for the future, a fall in consumption; the economy goes into a downward spiral where governmental intervention becomes a necessity.

Predictions for the year 2009 are becoming more and more pessimistic based on developments in the first months of the year and confirm that global economy has already entered a recession; the debate among economists has now shifted to how deep and how long it will be.

Table 1.2: Annual percent change of trade, commodity prices, and consumer prices

	2005	2006	2007	2008 *	2009**
World trade volume (goods and services)	**7.5**	**9.2**	**7.2**	**3.3**	**-11.0**
Imports					
Advanced Economies	6.1	7.4	4.5	0.4	-12.1
Emerging markets and developing economies	12.1	14.9	14.5	10.9	-8.8
Exports					
Advanced Economies	5.8	8.2	5.9	1.8	-13.5
Emerging markets and developing economies	11.1	11.0	9.6	6.0	-6.4
Commodity prices					
*Oil******	41.3	20.5	10.7	36.4	-46.4
Non-fuel (average based on world commodity export weights)	10.3	28.4	14.1	7.5	-27.9
Consumer prices					
Advanced economies	2.3	2.3	2.1	3.4	-0.2
Other emerging market and developing countries[2]	5.2	5.1	6.4	5.7	4.7
*Estimate; **Projections; ***Simple average of prices of U.K. Brent, Dubai, and West Texas intermediate crude oil. The average price of oil in US dollars a barrel was $97.03 in 2008; the assumed prices based on future markets are $50.00 in 2009 and $60.00 in 2010.					

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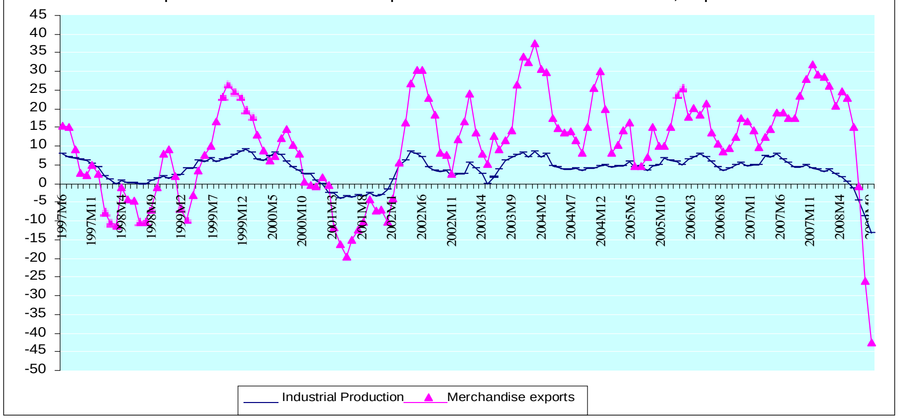
Source: World Economic Outlook Update, IMF –January 2008; World Economic Outlook Update, IMF January 28, 2009; and World Economic Outlook, Crisis and recovery, April 2009.

As shown in table 1.2, the world trade volume increased by 3.3 percent in 2008; the prediction for 2009 is a decrease by 11 percent. According to the WTO, merchandise trade in volume terms (real terms, excluding the price and exchange rates influences) increased only by 2 percent in 2008, down from 6 percent in 2007 (WTO, March 2009).

Trade growth was only slightly higher than the world GDP growth; in previous years the difference is quite larger. In 2009 the drop in merchandise trade is forecasted to be deeper than the GDP contraction, reaching roughly 9 percent in volume (real) terms; the biggest contraction since the Second World War. In general, when output growth is declining, trade growth tends to fall even faster; the same if output growth is increasing. Graph 1.2 demonstrates such a relationship when growth in industrial production and merchandise exports are considered.

Graph 1.2: Growth in industrial production and merchandise trade, in percent



Figures for trade in dollar (nominal) terms were strongly influenced by changes in commodity prices and currency exchange rates in 2008. The appreciation of the US dollar against other currencies, especially against the euro in late 2008, also influenced trade developments estimated in nominal terms. Being expressed in dollars, the growth of trade in euro-zone countries might be understated.

The developing countries' share in the world merchandise trade increased to new records in 2008, reaching for exports 38 percent, and for imports 34 percent. In 2008 Germany retained the position of the world's leading merchandise exporter, surpassing China by about $40 billion.

For the year 2008 as a whole, the commercial services exports grew more slowly than goods exports (by 11 percent, compared with 15 percent for goods). In the fourth quarter of 2008, commercial services fell by about 8 percent, compared with the drop of merchandise exports by 12 percent. The fall-off in international shipping, such as the decline of air cargo traffic by 23 percent in December 2008 compared to a year earlier, is an indicator of the severity of the global downturn in trade.

A number of factors may explain the decline of trade growth in 2008 and expected contraction of the world trade flows in 2009, such as the drop in demand and in GDP, the high scale of globalization of economy and trade, the shortage of trade finance, and the protectionist measures. The fall-off in demand and in GDP, globally widespread, is an important factor which is expected to severely influence trade flows in 2009.

The high scale of globalization of economy and trade which is revealed in the increasing presence of global supply chains in total trade is another factor to be carefully considered while analyzing the trends in trade flows. First of all, a contraction in any link is quickly transmitted in all the chain and, depended from the magnitude of the shock, can be reflected in the overall economic and trade situation. Secondly, in the presence of international supply chains, goods cross many frontiers to become components of the final product, so being counted every time they cross a frontier. This increases gross trade flows in rates higher than production itself. It also explains the higher declining rates of trade compared to production, when the latter is declining. However, income and employment in a country are directly related with the net trade flows – a measure of trade transactions based on value-added at each stage of production process. Thus, it is important to measure trade also based on value added at the stages of production process. It is particularly important for countries like Albania, where inward processing sector counts for almost 60 percent of total exports (ACIT, 2008).

Falling demand and a withdrawal of trade credit are being complemented by protectionist pressures which are still incipient but showing worrisome trends (Gamberoni, E. at al, March 2009). According to the World Bank's monitoring list of trade and trade-related measures, about 78 trade measures (excluding antidumping measures) have been proposed and/or implemented since November 2008. Tariff increases comprise about a third of these measures in general and a half for developing countries. Particularly important are export subsidies which contravene the draft modalities of Doha. For example, EU announced new export subsidies on butter, cheese, and milk powder. Some countries are increasing financial support for exports. Developed countries have relied increasingly on subsidies rather than border barriers while developing countries have deployed all forms of protection.

However, protectionist pressure has been mitigated because of such factors as trade integration, stronger international rules, flexible exchange rates in most countries, etc. Trade integration is related with the intensified economic interdependence of countries through supply chains, imported inputs, and services. Parts and components trade (an indicator of supply chains) has more than doubled as a proportion to total trade compared to 1970, while the openness index (trade volume to GDP) is on average 96 percent compared to 55 percent in 1970. Under such circumstances, not only exporters but also producers for the domestic market are more reliant on imported inputs.

Also, the widespread floating exchange rates around the world may have pre-empted a wave of competitive devaluations as it happened in the 1930s. On the other hand, successive GATT/WTO arrangements have provided much greater legal stability of trading relations. Taking into account the lessons from the experience of the 1930s that raising trade barriers merely compounds recessionary forces and make the contraction a prolonged one, the G-20 leaders signed a pledge in November 15, 2008 in Washington to avoid protectionist measures, including the WTO inconsistent measures to stimulate exports.

The already expanding global financial and economic crisis makes more clear the important role of the WTO, related to the enhancement of the welfare and efficiency gains derived from international trade, through giving a basic contribution 'in making possible the positive relationship between trade and growth; between trade and development; between multilateral trade and regional integration processes; between multilateral trade and a need for an effective governance of the globalization'(Lamy, P. 2009). Also, the current situation makes more important role of European and regional integration of all the Balkan economies.

Impact of crisis on the Albania`s economy

The consolidated macroeconomic equilibrium and a sound framework of the macroeconomic policies have made the Albania`s economy grow at satisfactory rates during the last decade, recording an average GDP growth of 5-6 percent. Nominal income per capita has almost tripled during last eight years and due to low inflation this growth has been directly translated into increased standard of living. Like many other developing countries, our economic growth has been associated with high trade deficit levels, which have been financed from steady capital inflows in the form of remittances or foreign direct investments.

Also, during the year 2008 the economic growth and macroeconomic balances have been, in general, in line with the prediction in the beginning of the year until the fourth quarter when the effects of the crisis emerged mainly through the balance of payments channels (Bank of Albania, March 2009).

As certified by official statistics, economic activity expanded remarkably during the first 9-month period of 2008, being expressed in the increase of business activity by about 17 percent, and also the level of credits, budget revenue, trade volume, etc. Based on quarterly estimates, INSTAT declared an economic growth in real terms for the period October 2007-September 2008 of 9.9 percent. Construction and trade were the most dynamic industries while manufacture, transport and communication increased but slowly. However, the economic activity expansion revealed signs of deceleration in the fourth quarter being estimated by INSTAT at 2.2 percent in real terms, compared to the preceding one; the estimate for all four quarters of 2008 is 8 percent.

Different figures are being offered for GDP growth in 2008, based on different estimates. According to IMF, growth in real terms is at 6 percent, being almost the same with the estimate of the European Bank for Reconstruction and Development (EBRD, 6.1 percent) and the Vienna Institute for International Economic Studies (6.1 percent). Based on the INSTAT published data and the “Macroeconomic and Fiscal Framework 2010-2012” of the Ministry of Finance, the increase of GDP measured in current prices in 2008 is about 11 percent, and in real terms about 7.2 percent[26]. The forecasts for 2009 also differ from one source to another.

[26] According to a recent declaration of the IMF representative office in Albania to the media (April 22, 2009), the estimated growth for 2008 is 6.8 percent.

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The prediction of the Ministry of Finance is 6 percent while the prediction of IMF has been revised several times moving from 6 percent down to 3.7 percent[27] and to a declaration that 'Central and Eastern Europe are among the countries mostly affected' by the contraction of the global economy, and growth performance of Albania 'will mark a sharp slowdown from the rapid expansion witnessed in recent years', although it could be 'still positive' if the required policies are adopted (IMF, April 2009).

The high growth rates in 2008 have been backed up by a macroeconomic stability. Inflation during 2008 was moderate, reaching an end-year level of 2.2 percent and on average 3.4 percent, being within the objective limits of the Bank of Albania. The highest level of inflation, reflecting the pressure from high prices of imported goods and also high domestic demand, was marked in May, 4.6 percent, being the highest during the last five years. Global economic contraction and deceleration of economic growth in the country is expected to stipulate a low inflation rate although negative pressure could come from financial and foreign exchange markets. For the three first months of 2009 inflation rate in the country were 2.1, 1.9 and 1.6 percent, respectively in January, February, and March. Crediting of economy marked an expansion during 2008, reaching a level of 37 percent of GDP, which is 7.3 percentage points higher than in 2007.

Global and internal economic developments and pressures are reflected in the size of macroeconomic imbalances, including internal (fiscal balances, etc) and external ones (trade and current account balances, etc). In 2008, the budget deficit increased to 5.7 percent of GDP and the public debt 55.6 percent of GDP. The current account in 2008 recorded e deficit of 1,291 million euro compared to 831 million euro in 2007. The current account deficit increased to 14.9 percent in 2008 relative to GDP, compared to 10.4 percent in 2007 (Bank of Albania, March 2009).

Table 1.3: Macro-Trade Indicators, in million Lekë unless otherwise indicated

[27] IMF Country Report No 09/73

	2000	2001	2002	2003	2004	2005	2006	2007	2008*
Real GDP growth rate	6.7%	7.9%	4.2%	5.8%	5.7% *	5.7%	5.5%	6.0%	7.2%
Nominal GDP	523, 043	583, 369	622, 711	694, 098	750, 785	814, 797	891, 000	982, 737	1,086, 000
Trade flows**	191, 351	234, 811	254, 689	279, 867	296, 892	326, 023	375, 720	474, 602	551,6 22
Imports	154, 290	191, 053	208, 501	225, 380	234, 770	260, 205	298, 279	377, 447	439,0 83

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Exports	37,061	43,758	46,188	54,487	62,121	65,818	77,441	97,155	112,539
Trade deficit	117,229	147,295	162,313	170,894	172,649	194,387	220,837	280,292	326,544
Exports growth	-2.4%	18.1%	5.6%	18.0%	14.0%	6.0%	17.7%	25.5%	15.8%
Imports growth	-7.1%	23.8%	9.1%	8.1%	4.2%	10.8%	14.6%	26.5%	16.3%

Openness index***	36.6%	40.2%	40.9%	40.3%	39.5%	40.0%	42.2%	48.3%	50.8%
Trade deficit/GDP	22.4%	25.2%	26.0%	24.6%	22.9%	23.8%	24.8%	28.5%	30.1%
Imports/GDP	29.5%	32.7%	33.5%	32.5%	31.3%	31.9%	33.5%	38.4%	40.4%
Exports/GDP	7.0%	7.5%	7.4%	7.9%	8.3%	8.0%	8.7%	9.9%	10.4%
Imp. Coverage (Ex/Imp)	24.0%	22.9%	22.2%	24.2%	26.5%	25.3%	26.0%	25.7%	25.6%

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*Estimate, Ministry of Finance (Macroeconomic and Fiscal Framework 2010-2012, p. 13).
**Only trade in goods; ***measured as a ratio of trade flows to GDP.

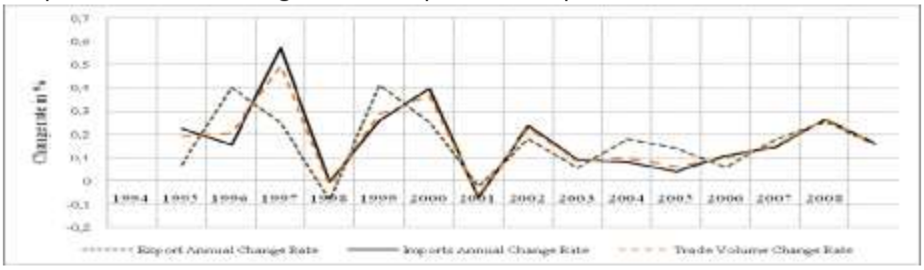
Source: Albanian Ministry of Finance (Macroeconomic and Fiscal Framework 2010-2012), INSTAT, METE, Bank of Albania, IMF, and ACIT's calculations.

The increase of current account deficit is mainly fostered by the increase of trade deficit and decrease of private transfers (remittances). The latter declined by 18.3 percent down to 802.9 million euro in 2008, compared with 982.8 million in 2007. Relative to GDP, the remittances declined from 12 percent in 2007 to 9.2 percent in 2008. Meanwhile, foreign direct investments increased by 31.7 percent to 619.2 million euro from 470.1 million in 2007. Accounting also other financial inflows, foreign reserve assets increased by 192 million euro to 1,695 million euro, sufficient to cover 4.2 month-imports of goods and services (Bank of Albania, March 2009). For 2009 a deterioration of external balances is predicted, because of the expected decline of remittances, exports, foreign direct investments, etc. Such factors and also internal ones are expected to negatively affect the budget deficit and public debt.

Table 1.3 show that export and import growth rates have been increasing during the years 2005 to 2007, but declining in 2008 to 15.8 and 16.3 percent, respectively.

Exports volume has, during the course of 2008, lost their expansive trend (see graph 1.3). Exports were characterized by a strong and steady positive trend from 2002, which as exports were highly concentrated in structure (product and geographic markets) appeared vulnerable. This high concentration around labor intensive, low value added inward processing products and raw materials have transmitted quickly the contracting world demand effect on Albania`s export flows.

Graph 1.3 Annual Change rate in Export and Import Flows 1994-2008



Source: INSTAT, METE and ACIT calculations

European economies recessive situation (Italian and Greek economy mainly) has been another factor that has highly influenced exports deteriorating dynamics observed during the last quarter of 2008 and in continuation in 2009.

Imports flow dynamics have shown some slowdown in comparison to previous years, a slowdown that reflects mainly world prices development and some slight contraction in domestic demand. Inward processing imports and exports during 2008 experienced a slower speed of expansion as compared to previous year trade volume. This slowdown is highly correlated to the slowdown in regional economies of Italy and Greece from which originates the most of the demand on Albania`s exports in inward processing trade.

Metal and products thereof are also an important part of the inward processing exports with a share of 10% over the total exports. Exports of metals and their products declined during 2008 when compared with 2007 by 11% (ACIT, 2009). The declining trend was influenced by price decrease in world market of metal and their products in the last quarter of 2008.

The declining of raw and processed leather imports is another signal for the slowdown of the outward processing industry in the sector of footwear and textiles.

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The openness index has been increasing since the year 2004 to 50.8 percent in 2008 although at a lower rate in 2008 compared to 2007. Trade deficit, in absolute terms but also relative to GDP, have also been increasing since 2005 to reach 30.1 percent of GDP in 2008, compared to 28.5 percent in 2007 and 23.8 percent in 2005.

Import coverage index, measured as a ratio of exports over imports continues to slightly decrease to 25.6 percent in 2008 from 25.7 percent in 2007 and 26 percent in 2006. Having a quite low level during all the period as seen in table 1.3, import coverage index reflects a low level of competitiveness of the country's economy.

Increasing competitiveness remains one of the main challenges for the Albania`s economy. The ongoing and expected impacts of global economic contraction increase the demand for effective policies in promoting competitiveness.

All these developments have encouraged a public debate on appropriate measures to cope with them and have highlighted the need for coordination of efforts of all economic stakeholders at home. Governments and International institutions have concluded that they need to use various harmonized instruments of fiscal and monetary politics to reduce the crisis size and endurance. In the G20 and IMF declaration are given some recipes but it's emphasized that every country has its own specifics to craft intervening packets and economic rebuilding strategies.

In their core these strategies and politics aim to increase demand in the economy; consumption stimulation and investing in the economy reduces the fall of production, unemployment growth, and eases social challenges.

Monetary politics especially in the country where the interests of money cost have been lowered in their minimal levels like Albania seems to have limited the ability to influence. The aim here is a bigger impact of fiscal policies. Past experience suggests that fiscal policy is particularly effective in shortening the duration of recessions caused by financial crises. The debate continues with its pro and con arguments to give more priority to tax breaks or to increase expenditures, always in the function of increasing demand.

Conclusions and recommendations

Predictions for the year 2009 are becoming more and more pessimistic based on developments in the first months of the year and confirm that global economy has already entered a recession. The drop in merchandise trade is forecasted to be deeper than the GDP contraction; the biggest contraction since the Second World War. In general, when output growth is declining, trade growth tends to fall even faster; the same if output growth is increasing.

The drop in demand and in GDP, the high scale of globalization of economy and trade, the shortage of trade finance, and the protectionist measures are the factors that may explain the decline of trade growth in 2008 and expected contraction of the world trade flows in 2009. However, protectionist pressure has been mitigated because of such factors as trade integration, stronger international rules, flexible exchange rates in most countries, etc.

As small open economies the Western Balkan countries are uncomfortably exposed to the world crisis and particularly to EU as their trade with the EU member states comprises their largest trade volume. It significantly is affecting these countries through reduced demand for their exports and the fall of financial sources.

Also Albania, as a western Balkan country, is feeling the first signs of the global crisis: the decline in export growth rate, remittances and FDI. Global and internal economic developments and pressures are reflected in the size of macroeconomic imbalances, including internal (fiscal balances, etc) and external ones (trade and current account balances, etc). For 2009 a deterioration of external balances is predicted, because of the expected decline of remittances, exports, foreign direct investments, etc. Such factors and also internal ones are expected to negatively affect the budget deficit and public debt.

High concentration around labor intensive, low value added inward processing products and raw materials have transmitted quickly the contracting world demand effect on Albania`s export flows. The low level of import coverage index reflects a low level of competitiveness of the country’s economy. The ongoing and expected impacts of global economic contraction increase the demand for effective policies in promoting competitiveness.

The current challenges and threats require that public authorities and the private sector address them effectively and take additional preventive measures. Given the risks of reduction in export-oriented production due to weakening global demand and problems with payments under export transactions, the government should work to stimulate domestic demand for the group of export goods and, thus, enhance the role of domestic production.

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In times of financial crisis, the government's strategy is to encourage investments into the real sector of the economy. In view of the extent of the downturn and the limits on monetary policy's effectiveness, fiscal policy must play a crucial part in providing short-term support to our economy. A moderate tax level may be a better long term strategy. A considerable decrease of simple taxes because of the crisis may create difficulties in the future.

The increase in public investments as an anti-crisis policy shouldn't be aimed only at big public works, but it's recommended for public works with a direct effect in easing and stimulating business, or investments that in the short term aspect they aim to reduce the rise of unemployment and poverty.

In the short term point of view the business need help packets from government to encourage investments and employment, while in the mid and long term point of view the focus should be good governance - an indicator that today is carefully scrutinised and emphasised as a very important factor.

In crisis times governments are pushed to look at all the income sources but especially the structure and the spending costs. While the spending as a whole in times of crisis is recommended to increase, non productive spending or policies should be reduced, even by allocating these funds in a more productive manner.

The partnership between the public and private sector should be an economic policy that should be widened and with an increasing productivity.

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