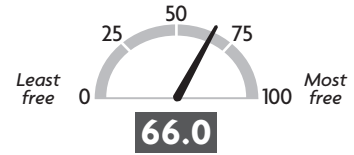


ALBANIA

Economic Freedom Score



World Rank: **53**

Regional Rank: **25**

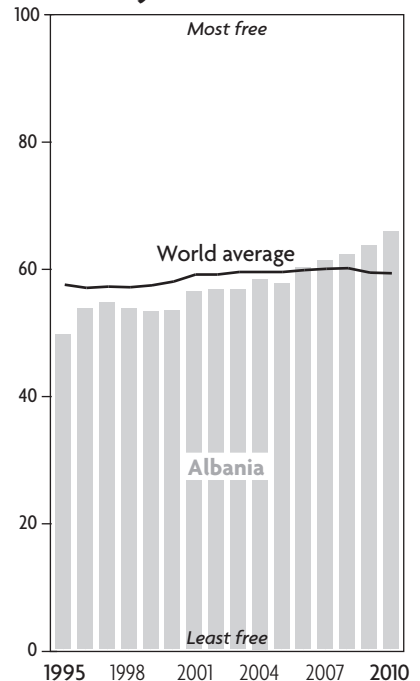
Albania's economic freedom score is 66.0, making its economy the 53rd freest in the 2010 *Index*. Its level of economic freedom increased by 2.3 points during the past year, due primarily to increases in trade freedom, property rights, freedom from corruption, and labor freedom. Albania is ranked 25th freest among the 43 countries in the Europe region, and its overall score is above the world average.

Despite the global economic slowdown, Albania has been able to maintain relatively sound macroeconomic stability. It has acted to enhance its business and investment environment. Albania now has a flat rate of 10 percent for individual and corporate taxes, and structural reforms to foster private-sector growth have led to increased production and consumption, as well as a substantially reduced poverty rate.

Albania's economic freedom is comparable to that of other developing Balkan states like Croatia and Macedonia. Fiscal freedom, investment freedom, and financial freedom rate significantly higher than typical levels. However, Albania's overall score is reduced by weak property rights and pervasive corruption. Money laundering remains a significant problem in the cash-based economy. The low property rights score is largely a result of political interference in the judiciary.

BACKGROUND: Albania is one of Europe's poorest countries despite some economic and political reform since 1992, when nearly 50 years of Communist rule ended. The government has been pursuing greater integration into the Euro-Atlantic community for several years. In June 2006, Albania signed a Stabilization and Association Agreement with the European Union as the first step toward EU membership, as well as a free trade agreement giving Albanians duty-free access to key EU markets and opening the country to imports. In April 2009, it also achieved full membership in NATO. Albania's transportation and energy infrastructure are poor by European standards, and its agricultural sector remains the largest source of employment.

Country's Score Over Time



Quick Facts

Population: 3.1 million

GDP (PPP): \$24.3 billion
 6.0% growth in 2008
 6.1% 5-year compound annual growth
 \$7,715 per capita

Unemployment: 12.5% (2007)

Inflation (CPI): 3.4%

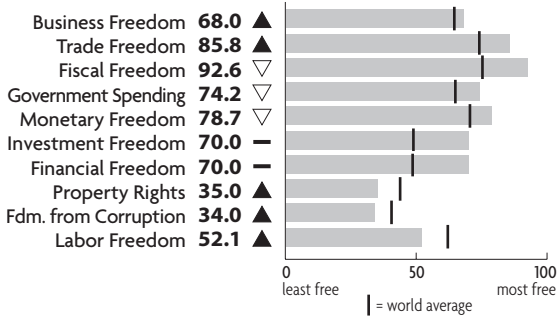
FDI Inflow: \$656.0 million

2008 data unless otherwise noted
 Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

ALBANIA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 68

Despite some improvement, Albania's business freedom remains constrained by a burdensome regulatory environment. Starting a business takes five days, compared to the world average of 35. Obtaining a business license requires 24 procedures, compared to the world average of 18, and almost 100 more days than the world average of 218.

TRADE FREEDOM — 85.8

Albania's weighted average tariff rate in 2008 was 2.1 percent. Import taxes may be based on a government-determined fair market price, regardless of the actual price paid. Weak enforcement of intellectual property rights, inadequate trade capacity, and administrative bureaucracy delay trade and increase costs. Ten points were deducted from Albania's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 92.6

Albania's tax rates are low. Personal income and corporate tax rates are a flat 10 percent. Other taxes include a value-added tax (VAT), a property tax, and an excise tax. In the most recent year, overall tax revenue as a percentage of GDP was 23.3 percent.

GOVERNMENT SPENDING — 74.2

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 29.3 percent of GDP. Privatization in the strategic sectors of energy and insurance has been completed, but planned divestment of water utilities and telecommunications has stalled. Although the fiscal deficit has been under control, public debt has increased and amounts to around 56 percent of GDP.

MONETARY FREEDOM — 78.7

Inflation has been relatively low, averaging 3.2 percent between 2006 and 2008. Regulatory agencies continue to oversee prices, and the government raised pensions and public-sector wages in May 2009 against the advice of the IMF. Ten points were deducted from Albania's monetary freedom score to account for wage and price interventions.

INVESTMENT FREEDOM — 70

Foreign and domestic firms are treated equally under the law, and nearly all sectors are open to foreign investment. Foreigners may not purchase agricultural land but may rent it for up to 99 years. They also may purchase commercial property if the proposed investment is worth three times the price of the land. There are no restrictions on foreign ownership of other property. Foreigners may own 100 percent of Albanian companies, and monetary expatriation is legal. Residents and non-residents may hold foreign exchange accounts. The state can expropriate an investment or asset for the purpose of public interest, but there are legal provisions for compensation. Inadequate infrastructure, lack of reliable power, weak rule of law, poorly defined property rights, inefficient bureaucracy, and corruption discourage foreign investment.

FINANCIAL FREEDOM — 70

Albania's financial sector has grown rapidly, and credit is generally allocated on market terms. Banking is increasingly dominated by foreign banks, which account for about 90 percent of total assets. This has led to more competition and better availability of services. Supervisory regulations have been strengthened to preserve financial stability. In response to the global financial crisis, the Bank of Albania has acted to increase liquidity and maintain public confidence. With little or no direct exposure to recently troubled international financial assets, Albania's banking system has been able to withstand the global financial shock with little disruption.

PROPERTY RIGHTS — 35

Albania's constitution provides for an independent judiciary, but political pressure, intimidation, widespread corruption, limited resources, and organized crime are obstacles to the effective administration of justice. Overall protection of intellectual property rights is weak, although there has been some progress with respect to industrial property and trademarks. Property registration has improved, but the security of land rights remains a problem in coastal areas where there is potential for tourism development.

FREEDOM FROM CORRUPTION — 34

Corruption is perceived as widespread. Albania ranks 85th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, a significant improvement over 2007, due to the work of the Government Corruption and Organized Crime Task Force and reforms in tax administration, procurement, and business registration. Albania is a major transit country for human trafficking and illegal arms and narcotics.

LABOR FREEDOM — 52.1

Rigid employment regulations hinder productivity growth. The non-salary cost of employing a worker is high, and dismissing a redundant employee is relatively costly. The high cost of laying off workers is a disincentive for companies that would otherwise increase employment.