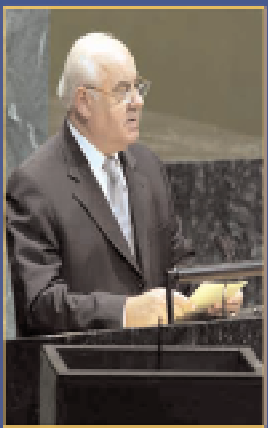
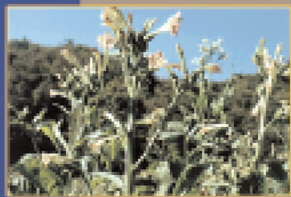
THE BUSINESS GATEWAY

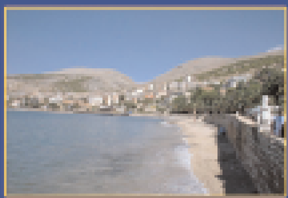
Albania 2006

ASCAME

Mediterranean Economic and Business Guide







THE MEDITERRANEAN ECONOMIC AND BUSINESS GUIDE

is the first of its kind, gathering comprehensive information on economic and trade, business environment, capabilities and opportunities, potential partnerships, etc. within the unique and vast Mediterranean area.

G.E.O.C.

THE OFFICIAL PUBLICATION OF THE ASSOCIATION OF THE MEDITERRANEAN CHAMBERS OF COMMERCE AND INDUSTRY AND THE ALBANIAN CHAMBERS OF COMMERCE AND INDUSTRY

ASCAME : The Business gateway to Albania

Setting Up a Business

Foreigners, either juridical or physical persons, enjoy the right of exercising different economic activities in the Republic of Albania and to invest their capital in different sectors of the Albanian economy. They are allowed to participate in economic activity and carry out investments in Albania, generally enjoying no less favourable conditions than those given to Albanian nationals, with the exception of limitations on the rights of land ownership.

The basic and most important law concerning foreign investment is the November 2, 1994 law, called "On Foreign Investments." This law provides a number of basic guarantees and protections for foreign investors.

It provides that all foreigners, either physical or legal persons, who intend to invest in Albania are not required to obtain permission or authorization, and they shall not be expropriated or nationalized or subject to any other equivalent measure. The foreign investor enjoys the right to transfer all funds in currency and in kind related to his investment out of the Republic of Albania. The investor enjoys legal protection of his rights related to an investment made in Albania.

Special protection is guaranteed to foreign investments in Albania and to foreign investors from the states with which the Republic of Albania has signed agreements concerning avoidance of double taxation and mutual guarantee of investments.

The legal basis of any Albanian company is established by the 19 November 1992 law entitled, "On Commercial Companies". This law defines the forms of the organization of commercial companies in the Republic of Albania.

It clearly defines the rights and duties of the partners in various types of companies, the main terms including statutes and contracts of the companies, limitations as well as the rights in solving disagreements. It defines the rules, regulations and deadlines for the registration of existing companies and those to be founded in the future. This law is the basis for the registration and operation of joint-stock companies (corporations).

According to this law, there are four forms of companies: partnerships, limited partnerships, limited liability companies and joint stock companies. Generally, a company is created when at least two persons agree to create it. However, according to the Albanian law, companies can exist also as a one-person company or sole proprietorship.

Tax Incentives

In 2005, the Albanian parliament approved a law halving taxes for small businesses, an important element of the new government's planned tax reforms. The cabinet had approved the draft law, enabling Mr Berisha to say that his government had kept its promise to halve small business taxes within two weeks of taking office.

The new law affects two taxes. One is the flat fee paid by small businesses when they re-register each year, which varies depending on a firm's activity and location (small firms in larger cities

pay more than those in less developed areas). Proceeds from this tax go to local governments in Albania.
The other is the three per cent tax on turnover paid by all businesses with an annual turnover of at least Lk8m (USD78,500), proceeds from which go to the central government budget. The new law halves the flat fee and reduces the turnover tax from three to 1.5 per cent .

The government said that lowering taxes on small businesses will expand the tax base by encouraging the creation of new businesses and providing a greater incentive for existing companies to comply.

Business Environment

On September 8, 2000 Albania has been officially proclaimed a member of the World Trade Organisation. The accession of Albania to the WTO presupposes the conformity of its laws with the WTO requirements. Albania has a liberalized regime on trade in services concerning market access by domestic and foreign companies as well as equal treatment of foreign companies, individuals or services compared with domestic ones.

The degree of trade liberalization constitutes another important element for Foreign Direct Investments (FDI) attractiveness. Under the auspices of Stability Pact, Albania has created a regional network and has now completed the bilateral Free Trade Agreements (FTA).

In 2000 the volume of Foreign Direct Investments (FDI) in Albania was estimated to USD 143 million, which is three times more than in 1999. In 2001 the level of FDI was estimated at around USD 207 million. According to the official data, the cumulative foreign direct investment during the period 1992-2001 accounted for approximately USD 802 million or approximately 18.8 per cent of the GDP.

Important privatization programs undertaken during the year 2001 enabled this indicator to be at the highest level. Main foreign investors in Albania are Al Kharafi Group (Sheraton Tirana, Chateau Linza, Mak), Rogner Company (Hotel Rogner Europa Park), Vodafone Company, AMC Company, Darfo Albania, Seament Albania, and American Bank of Albania.

Tax Incentives

Limited changes to VAT and excise legislation came into force in January 2005. A system of integral declaration for declaring personal incomes (replacing a withholding tax system) was introduced. The simplified profit tax rate was reduced from four to three per cent (of the turnover) and the profit tax rate has been reduced from 25 per cent to 23 per cent for 2005.

The procedure of annual registration of small business taxpayers has been removed and the procedures for reimbursement of the taxes have been improved. The appeal procedures for all types of taxes have been unified. In addition, the Ministry of Finance presented to the government in September 2005 legal amendments on the reduction of small business taxes, which are expected to be discussed in detail by the new government. A decision on a 50 per cent cut in small business and local taxes is expected to enter into force before the end of 2005.

Intellectual Property

With regard to copyright and related rights, Albania is a party to the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Art Works, the Rome Convention for the Protection of Performers, and the Producers of Phonograms and Broadcasting Organizations. Furthermore, Albania has ratified the two 1996 Treaties of the World Intellectual Property Organisation (WIPO): the WIPO Copyright Treaty and the WIPO Performances and Phonograms treaty.

The Albanian Patents and Trademark Office provide grant and protection for patents for inventions and utility models, industrial designs, trademarks and service marks, geographical indications, and topographies of integrated circuits. Enforcement of these IPRs is generally left to the owner.

In terms of Industrial Property, the Law on Industrial Property of April 1994 and the Law on Protection of Topographies of Integrated Circuits of May 1999 form partly the legal basis for IPR.

With regard to copyright and related rights, the Law on Copyright and Related Rights was adopted in April 2005, providing mechanisms for protecting intellectual property rights. The law entrusts the Copyrights Office with the responsibility for its implementation.

Two copyright collecting societies are licensed by the Ministry of Culture. The “Forum for the Protection of the Authors of Audio Visual Works” was created in April 2004 and is composed of 85 members including public and private television operators. This forum also cooperates with the National Council of Radio and Television, which monitors the national and local television channels. The second, named “Albautour” is intended to protect the rights of musical authors.

Investment Projects

The Vlore Energy Park is the largest and most complex economic development project for Albania. The Park will involve about 6,000 construction workers and about 8,000 employees of Albanian and foreign business located in the Park. Situated adjacent to the municipality of Vlore and the Port, the Park will create many small and medium businesses to serve Park employees and their families.

The first phase is underway. The Council of Minister’s decree established the Park boundaries and assigned responsibility for Park development to the Minister of Industry and Energy. The USD120 million thermal energy plant construction tender will be released soon and the AMBO pipeline financing is almost completed. The TDA financed Port of Vlore development planning will soon begin.

Bodies Dedicated To Support Business Implementation and Investment Attraction

The Albanian Foreign Investment Promotion Agency (ANIH) was established by the Albanian Government under the April 4, 2002 law, called " About the establishment of the Foreign Investment Promotion Agency". Its Supervisory Board was created on October 2002. The head of the Board is the Minister of Economy. The executive director of ANIH was selected in December 2002, and the staff of ANIH was completed in April 2002, when the agency became fully operational.

This Agency was created by the Albania Government to promote and increase foreign direct investment in Albania and create a more favourable business environment in general and in particular that of investment. ANIH is an important agency to achieve Albanian Government objectives of economic and social development.

During the first year of its activity ANIH has created a wide network of relationships and contacts with different national and international organizations and institutions, such as public institutions, national and international business organizations, regional foreign investment promotion agencies, Albanian and foreign embassies, financial institutions, and fairs organization institutions.

ANIH's mission is to generate foreign direct investment. This occurs by identifying, contacting and convincing investors, as well as building the image of Albania through publications that describe it as a country with considerable potentials and resources attractive to foreign investors, and assisting current investors by offering highly qualitative services.

ANIH's vision is that Albania is a country of great potentials and offers a secure shelter to business interests.

ANIH's Services
ANIH has a department called "Investor's servicing". During the first year of its activity, ANIH contacted and assisted at least 60 potential and existing investors. The services offered by the Agency are free of charge and can be classified in three categories.

The first one regroups services before the investment decision, such as undertaking direct studies on the sector or the field of concern, providing information about the possible Albanian partners to the foreign investors interested in joint ventures and information on the business environment in general and on legislative context and fiscal incentives in particular. But ANIH can also prepare the site by visiting the country for the potentials interested investors, and providing meetings with them.

The second type of services provided by ANIH regroups services during the investment. In this case, ANIH staff became an intermediary part either between investors and public administration, accelerating different procedures, or between foreign investors and domestic investors to make possible joint-ventures.

Services after the investment are also offered by the Agency, which builds direct contacts with the existing investors, in order to know the actual problems they face during their activities. The

Agency also provides information (questionnaires, opinions, etc.), which enlarges and improves the Agency's data base.

ANIH fulfils its bridge-like function linking the private to the public sector by transmitting all the problems faced by the foreign investors to the Executive Board.

At least 20 (33 per cent of the total) foreign firms actually operating in Albania were assisted by ANIH.

Transport Sector

A number of important transport projects are due to go ahead in the near future. These include roads, railroads and pipelines. The increased capacity will be a boost for the Albanian economy in general.

Road Transport

There are about 18,000 km of roads in Albania of which 7,450 km are considered as main roads. These roads are maintained by the state. With the dramatic increase of road vehicles and the increased importance of Albania as a transit route, the Government has given priority to the main east-west and north-south routes, which are being upgraded within an EU-sponsored program in cooperation with other international donors.

Additionally, the Stability Pact for South-eastern Europe is giving priority to road rehabilitation under the “Quick Start” and Near-Term Program. Total funding from the various donors under the Stability Pact for transport development amounted to USD 204 million for twelve projects, which include roads and the development of the Durres Port. The Government has given priority to the main National Roads Corridor, North-south and East-west (which is part of Europe’s Corridor 98). The Durres-Kukes-Morine highway is also under consideration.

This road is a priority commitment of the Government that aims through this infrastructure to create better possibilities for the integration of the national market, for the strengthening of the cooperation relations with the neighbour countries and of course with other Albanian and non-Albanian factors in a Balkans market that is being integrated, in order to grow the flow of the exchange of goods, and of people, the transit and the transactions that accompany them.

Railway Transport

Albania has a railway network of 447 km. The Government is giving priority to the reconstruction and modernization of the main north-south and east-west routes. Italy is contributing to the modernization of the Tirana-Durres route. A US firm is currently negotiating a rail link between Tirana, Durres and Mother Tereza International Airport (estimated cost at USD 80 million).

Other projects include the renovation of the Durres Pogradec line with a new extension to the FYR Macedonian border (estimated cost of euro 200 million). Additionally, the Greece has been considering financing a railway line from Pogradec to the port of Thessalonica, which would provide an important outlet for central Albania’s mines. In January 2000 the Japanese government donated USD 1.9 million towards Albanian railway rehabilitation efforts.

Ports

There are five ports in Albania that are open to the international traffic. They are: Durres, Vlora, Saranda, Shengji and Himara. The most important ports are Durres, which has ferry facilities, and Vlora, a naval and ferry port. Durres Port handles 65 per cent of imports and exports. It is the main gateway for Corridor 8. The Government recently approved a master plan for the development of this port; a key project in the framework of the Stability Pact under the Near-Term program.

Financing is being provided by the World Bank, the EU Phare Program and the European Investment Bank. The aim is to improve the efficiency and capacity of the port. Under this project, the Durres Port Authority has been established as a joint stock company and has started operating under a Supervisory Board. A Durres Industrial Park is being promoted by the EBRD, which is planned to be built just outside Durres. A project financed by the European Investment Bank of USD 17 million for infrastructure rehabilitation of the port is almost completed.

The second port is Vlora, a strategic point for the future development of maritime industry in Albania. About euro 16 million has been invested in the development of Vlora Port already. The Government has also invested some of its funds to rehabilitate the ports of Saranda and Shengjini.

Airports

Tirana's Mother Tereza International Airport is currently undergoing modernization. Siemens of Germany has completed a project with a cost of USD 26.5 million to rebuild the runway, lights and boundary fence. Plans have been approved for a new passenger and cargo terminal and the Government has recently awarded a concession of a 20 years period to a consortium "Airport Partners", lead by Hochtief of Germany to modernize and operate the Airport with a contract of 83 million Euro. This concession is the first successful total privatization of an airport in the Balkan region.

Lockheed Martin recently concluded an agreement for the modernization and operation of the air traffic control system. During the year 2003 was concluded the first stage of operations with an investment of 3, 3 million USD. During this stage was installed the new automatic Sky Line System. The undertaken measures and the complete modernization of technical and operational infrastructure of national air traffic through a prospected investment of 30 million USD, intend to increase in the future efficiently the operations and overpasses traffic and the guarantee of air insurance. Albania has also received a grant from the UAE Government for the construction of Kukes Airport and its completion is foreseen in the near future.

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Picture of the Albanian Economy

The democratically-elected government that assumed office in April 1992 launched an ambitious economic reform program meant to halt economic deterioration and put the country on the path toward a market economy. The Albanian economy began its expected recovery at the beginning of 1993. Between 1998 and 2002, Albania experienced an average 6.2 per cent annual growth in GNP.

Real GDP growth in 2005 is estimated at six per cent. This has been driven by strong growth in services output, a rebound in the construction sector, a modest acceleration of growth in agriculture, electricity sector reforms and buoyant domestic demand.

Economic forecasts leave that annual real GDP growth at 6 per cent in 2006-07, underpinned by the further rapid expansion of bank credit, strong inflows of remittances from abroad, and continued public investment.

Key elements of the reform strategy included price and exchange system liberalization, fiscal consolidation, monetary restraint, progressive reduction of public finance imbalances, establishment of market economy institutions, privatization of state enterprises, implementation of a social safety net, and a firm income policy.

These were complemented by a comprehensive package of structural reforms, including privatization, enterprise and financial sector reform, and creation of the legal framework for a market economy and private sector activity.

Economic regeneration will be driven on three areas of great potential. The energy is derived mainly from hydroelectric power. The country is rich in natural resources, particularly in oil, gas, coal, cooper, iron and nickel and extremely rich in chrome. Lastly, tourism is expected to bring in half of the country’s income within a few years. Tourism is the single main priority of the Albanian Government, which gives its wholehearted commitment to the sector. The International agencies such as the European Bank for Reconstruction and Development, the International Monetary Fund, the World Bank as well as European Community and many bilateral donors, are helping with reform and development.

Fiscal and monetary disciplines have kept inflation relatively low, averaging roughly 4.2 per cent per year between 2001 and 2003. Albania’s public debt reached 67 per cent of GDP in 2002, and the growing trade deficit was estimated at 22 per cent of GDP in 2002. Economic reform has also been hampered by Albania’s very large informal economy, which the IMF estimates equals 50 per cent of GDP.

For many years Albania has been following a process of great reforms, whose main goal is a profound restructuring of the economy, so that it be attuned to the demands of the market economy and meet the needs of the perspective development of the country in the conditions of the globalization of the economy. The main direction of the reforms has been the fast privatization of the economy, development of free initiative and the private sector.

Agriculture and dwelling homes have been completely privatized. Near completion is also the privatization of the small and medium trade and public service enterprises, those of transport, fishing, etc. Privatization or granting of concessions for the exploitation of big industrial enterprises, telecommunications and banks is still an ongoing process.

For several years, the private sector has yielded the dominant part of the GDP and is playing a priority role in investments. According to estimates, during 1991-2000, USD2.56 billions out of nearly USD4 billions invested in the country, or 64 percent of it, are invested by the private sector (domestic and foreign). About 70 percent of this capital (or USD1.8 billion) has been invested by the local private sector. Presently, there are 1532 Albanian and foreign joint ventures and 890 companies with 100 per cent foreign capital operating in Albania.

Public and private investments at home are concentrated mostly in infrastructure, in the construction of roads, ports, airports, water-supplying facilities, telecommunications, houses and schools, hotels and restaurants (in tourism), in agriculture and for the development of small private enterprises with activity in the spheres of production and services.
Infrastructure, agriculture, homes, the development of private small enterprises and education are also priority directions in the long-term government programs for the development of the country.

Energy and Mining Sectors

Albania has considerable mining and mineral resources, including chrome, copper, nickel and coal, as well as reserves of limestone estimated to reach around 130 million tons.

The EU provided technical assistance for the restructuring of the mining and minerals industry. USAID supports institutional development, utility and regulatory partnerships, policy and legal advisors, skills training, and technical advisors for energy sector development. With USAID assistance, the Albanian electricity utility is preparing for restructuring, unbundling, and possible privatization. Furthermore, the energy sector regulatory agency now monitors electric utility operations and is gradually increasing tariffs to attract sector investments.

Albania diversified its energy sources including oil, gas, coal and other flammable materials, thermo centrals, other natural resources, regenerative energy as well. The hydro sources are very rich and only 30 per cent was explored. The country is introducing energy conservation and alternatives to the existing hydro system.

Albania's most important energy resource is hydroelectricity. The total hydropower potential is about 3.000 MW, with an annual generation potential of ten TWh. Current installed capacity is 1450 MW, and the average annual generation from 1992 to 2001 was 4,344 GWh. Hydropower generation normally provides more than 95 per cent of Albania's total electricity production.

At the moment, the government-owned electric utility is going on through a major restructuring. The utility will remain state-owned and responsible for electricity transmission. The distribution system will be separated into two or three privately owned distribution companies.

The U.S. consulting company Harza recommended that a new thermal energy plant be constructed in Vlora with 325 MW installed capacity. The World Bank, European Investment Bank and the European Bank for Reconstruction and Development are providing 120 million USD in credits for construction of the plant, scheduled to be on-line in 2007.

Other investments in the energy sector include improvements in distribution systems, totalling about 100 million USD. In addition, oil, LPG and solar will become increasingly important as energy resources.

The pipeline and terminal will cost about 1.2 billion USD, of which, 150 million USD are from equity shares of AMBO pipeline by three of the world's largest oil companies and through a line-of credit from Japanese investment bank.

The thermal energy plant and oil pipeline will become important contributors to the proposed Vlora Energy Industrial Park. Crude Oil, electricity and heat generation will attract international and Albanian businesses and investments, such as a regional gas refinery, food processing and other businesses needed to serve the more than 6,000 construction workers and about as many permanent workers.

About 204 million USD in public and private financing is needed to improve the transmission network.

The Albanian Strategy also emphasizes renewable energy and conservation, opening markets for foreign and Albanian partnerships. The energy sector is going through major changes and shifts from government to private ownerships and investments

Energy
Albania benefits from a supply of cheap hydropower energy, with eight major hydro-stations. Hydropower accounts for 95 per cent of all energy generation. Total installed capacity (hydro and thermal) is around 1,656,000 kilowatts, making for around 3.6 billion kilowatt hours per year.

Albania has a wide variety of energy resources ranging from oil and gas, coal and other fuels, to hydropower, natural forest biomass and other renewable energy. The hydro resources are very rich, as only 30 per cent of them are exploited.

A thermo central is foreseen to be built in Vlora with a capacity of 200 Mg. Smaller hydropower electric stations are also foreseen to be built in various districts of Albania. Also is foreseen to be rehabilitated existing big hydropower stations which are the main source of electricity in Albania. With all these measures that are foreseen to be performed, Albania will fulfil its needs up to 2005.

The two biggest companies in Albania in the energy sector are Albania Electroenergetic Corporation (KESH) and the Albanian Petroleum Corporation (APC). Other investments are expected to be done in this sector.

Mining and Oil
Albania is a rich country with mineral ores. The most important are chrome-ore, copper, nickel-iron, marbles, oil and gas.

In the field of chrome-ore the main operator is the well- known Italian company DARFO which extracts up to 220 thousand chrome-ore and produces about 80 thousand ferro-chrome.

The extraction production before the 1990 year was about 800 thousand tones per year. To achieve the same level needs to be invested a lot of money which serves for the replacement of the old technology of the mines. In the copper industry a Turkish Company Ber-Oner, has taken in concession for a 30-year period of time different copper mines. In the oil and gas industry there are different investment companies in the aria of the hydrocarbons: Ina Naftaplin (Croatia), OMV (Austrian company), Occidental Petroleum (U.S.), Coparex (France) and Premier Oil (UK).

Agro-business Sector

Albania enjoys natural factors that support agriculture such as its climate and geography. Primary products include vegetables, livestock forages, corn, fruit, vineyards and olives.

Although the weight of this sector has continued to decrease over the past few years, agriculture remains one of the most important sectors of the economy. This sector has contributed 24 per cent of GDP. In 2003, agricultural production grew by three per cent compared with 2002. The growth and development of the agricultural sector supports the growth of the Albanian economy and the country's economic stability.

Natural resources
Albania' first strength in terms of agriculture is its favourable climate. The favourable climatic conditions give the opportunity of a large diversity of crop cultivation from continental crops to Mediterranean ones.

In the southern part of Albania you can find the favourable agro-ecological conditions for field crop cultivation, such as vegetables, vineyard, citrus and olives trees. In the central part, the fruit production and livestock are major activities. In the northern part, the so-called forestry part, made up of forests and pastures, there are favourable conditions for raising livestock, oleaginous and medicinal crops, and timber production.

The arable land is 560 000 ha, or 24 per cent of the total land.

Agro-processing Sector
Albania has the potential for a competitive agro processing industry.

Bread production is the largest contributor to the food industry. Some 2002 figures put this contribution at 38 per cent, followed by the milling industry with a 15 per cent contribution. Milling enterprises are being consolidated and the horizontal integration phenomenon explains the reduction of the number of enterprises on one hand and the increase of the production and income for this sector on the other.

There are about 370 milk processing enterprises in the country with different processing capacities, comprising 19 per cent of the total number of agro processing enterprises. According to 2002 figures, the milk processing industry was the second largest agricultural sector after bread production. About half of the value of investments in this sector is in technology.

About 56 enterprises operate in the meat processing sector. Investments were mostly in acquiring new technology. Figures for 2002 indicate a production increase of 2.3 times compared to the 1998 figures.

The nineties witnessed the establishment of new fish collecting and trading centres. In total, around 34 were set up. The sector is concentrated near the main ports of Albania. Fish harvesting enterprises are also present. Trading firms collect, process and export mainly fresh fish to European Community countries. Additionally, around 692 ton of canned fish were exported in 2002. Being one of the first countries of Central and East Europe to benefit from the most preferred countries status granted by the European Community, Albania was able to export fish to neighbouring countries such as Greece and Italy.

Production of fruits and vegetables is increasing in Albania. Currently, the Country processes approximately five per cent of its vegetable and fruit produce. A sizeable share of the processed fruits and vegetables market is captured by imports, mainly from Macedonia. Enterprises active in the sector are mostly oriented towards the production of conserved products such as tomato paste (6710 tons), canned vegetables (7715 tons), marmalade (1819 tons), jams and composts (5645 tons).

Albania is also a country rich with olive trees, with approximately 3.8 million roots estimated in 2002. Olive oil produced in Albania is of high quality and has much export potential. A considerable number of olive processing enterprises operate at present in Albania with a daily capacity of about 400 tons. They mainly operate with the classic technology based on pressing processes. 2002 production figures were four times those of 1998.

Albania has both the tradition and the potential for high quality oriental tobacco manufacturing, a variety which is much in demand in export markets. Local tobacco production meets less than ten per cent of the country’s need for this product.

Before the 1990s, Albania processed approximately 40 thousand ton of grapes and produced around 80,000 hl of wine and 30,000 hl of raki (a traditional alcoholic drink). Currently, wine production is about 14,000 hl, unexploited potential. Currently, there are about 28 wine producers.

Banking, Finance and Insurance

The Albanian banking sector overall has performed well in recent years, with relatively high levels of earnings and capitalization.

The current Albanian banking system is growing and intermediation is flourishing. Prudent monetary and fiscal policies have contributed to a stable macroeconomic environment and much of the core financial sector legislative and regulatory framework is in place. In fact, credit growth is bordering on boom conditions.

Accelerating credit growth and prospect for increased competition arising from the recent privatization of the largest bank may put pressure on the banking system, representing 90 per cent of formal financial system assets. To date, the credit expansion has been funded by broader deposit-taking as more remittance income has been intermediated.

The second semester of 2005 was characterized by positive developments in the Albanian banking system, which more concretely and at large were benefited by the bank clients and the economy on the whole.

Crediting continued to extend in various forms to better adapt to the market demands. Credit quality remains good and the current banks' criteria in lending represent a sound basis for maintaining such a quality in the future as well.

The interest rates shifts in the market have been easily absorbed by the general economic environment and the activity of the financial market operators, thus maintaining favourable conditions for the banking system and the financial system on the whole to better assist the economic development in the country;

Albania's banking system has experienced a profitable activity and has been presented well-capitalized. It has continued to extend throughout the country, through the opening of new branches and industries. At the end of December 2005, the number of operating branches of the banking system reached to 131, while the number of operating agencies reached to 117.

At the end of 2005, a new bank with Albanian capital, called Union Bank, was licensed and started operating. As such, the number of banks reached to 17.

Furthermore, the interest of the foreign capital to be invested in the banking system in Albania has increased. The process of change in ownership of former Dardania Bank (currently, Italian Bank of Development) has finalized, and the selling process of the Albanian State shares in the Italian-Albanian Bank has considerably progressed.

At the same time, there have been changes in the banking institutions in order to provide a better structuring of the activity, through the application of changing their way of organization (e.g. the case of Tirana Branch of the First Investment Bank).

Bank of Albania

The Bank of Albania (BoA) is the central bank of the Republic of Albania. The BoA sustains the efforts of public authorities and international financial institutions in the country's financial market development and is determined to play an active role in this process.

The laws "On the Bank of Albania" and "On banks in the Republic of Albania" are implemented through decisions, regulations, orders and directives issued by the Bank. The legal acts are published in the Bank's Official Bulletin. According to the legal framework, their aim is to ensure the banking system stability.

The Supervisory Council, being the highest decision-making and supervising authority of the BoA's policies, management and operations, approves the Bank's laws. Its decisions are based on the Bank's objectives and duties within the powers granted by law. The Supervisory Council approves acts according to the law and statute of the Bank of Albania whenever necessary or adequate in managing the Bank's activity.

Banking supervision under the central bank has been strengthened considerably in recent years. The BoA's conduct of monetary policy has been sound and its liquidity management framework has been shown to function well. The central bank increasingly has the know-how and the tools.

Policy rates influence the dollar and euro interest rate spreads and thus the relative attractiveness of the domestic currency (lek) deposits.

In cooperation with the international financial institutions, domestic authorities and the banking industry, the Bank of Albania is determined to make all the necessary steps in order to enable a quick setting up of the monitoring instrument, the Credit Information Office.

Insurance sector

In 2000, International Finance Corporation (IFC) responded to a request from the Albanian Minister of Finance for support to develop the insurance market as part of the country's program to reform the financial sector.

The Government's Supervisory Authority worked with IFC's expert to create more effective legislation to regulate the insurance industry there, a key step in developing a more vibrant and financially secure insurance system that will enable potential investors to better gauge new opportunities in Albania's financial sector.

Specifically, the technical assistance produced a detailed report explaining how EU directives on insurance should be reconciled with Albanian insurance regulations, an explanation of reporting requirements, and a template for insurance company financial analysis.

Construction and Housing Sectors

The construction sector performed strongly in the first half of 2005, building on the pick-up in activity seen during the fourth quarter of 2004.

The strong growth in the construction sector is consistent with the large year-on-year increase in imports of building materials in the first half of 2005. A record-high of 881 new building permits were issued in the second quarter of 2005, up from 304 in the same period of 2004.

Imports of building materials recorded the fastest growth of any category in the first half of 2006, rising by 29 per cent on the back of continued strong growth in the local construction sector.

In September 2004, the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC), the World Bank's Group private sector arm lent some USD60 million to Fushe Kruja Cement Factory, one of Albania's largest cement manufacturers, in order to help the company increase production and meet growing demand.

The USD30 million loans from each institution will be invested in a new and modern production line with an annual cement capacity of 1.3 million tonnes. The project will help the factory meet world-class environmental and social standards and reduce Albania's reliance on cement imports.

Housing Sector

Since 2001, progress has been made toward meeting excess demand for housing. Large cities in Albania, including Tirana and Durres, benefited from the construction boom. The latest figures show an annual increase of five units per 1,000 inhabitants, an indication of considerable growth.

According to figures published on building permits, housing as a share of all new buildings has increased from 37.6 per cent in 1995 to 60.5 per cent in 2000. During the 1990s, the number of households increased by eight per cent. The average household size was and is rather high relative to other countries in Southeast Europe.

The construction sector grew 9.1 per cent in 2002, and in the first quarter of 2003, the number of completed buildings rose by 81.1 per cent year-on-year, spurred by demand in both residential and non-residential construction. The construction industry consists of an estimated 70 joint ventures and 50 wholly owned foreign companies.

During the first three quarters of 2004 the number of permits issued by municipal governments in Tirana and other large cities was limited while city-centre development plans were being drafted, but these restrictions have since been eased. In line with a well-established pattern, the majority of the permits (63 per cent) issued in the second quarter were for residential buildings, as demand for housing continues to be high.

Tourism Sector

Albania is recognized as a tourism destination on the Mediterranean coast and has a competitive position in the international tourism market. The contribution of its tourism sector is significant, with a 15 per cent of its GDP coming from international tourism revenues.

Albania is a Mediterranean country a rich diversity of landscapes interwoven with one another: mountains, valleys, forests, rivers and lakes. Its landscapes range from typical Mediterranean in the West and South West, to mixed landscapes in the central areas, to steep mountains in the inner part of country. Its coasts are endowed with beautiful beaches and there are many beautiful inland lakes, natural lagoons, reserves and hunting grounds. There are a lot of national parks or natural reserves protected by the law.

Traditional villages, ancient castles and a beautiful coastline are also a part of Albania's heritage, and the Albanian folk tradition is rich, various and has special artistic values and ideas. This tradition can be divided into the areas of literature, music, choreography and drama. The literary folk tradition is represented by numerous poems, tales, legends, jokes and puzzles.

In Tirana, there are several monuments to visit. The Fortress of Pertrela, located in the south of Tirana, is one of them. Built in the Middle Age, its castle was under the command of Scanderbeg sister, Mamica Kastrioti. The Fortress of Bashtova is also a tourist attraction. Built in the 14th century, the Fortress is located in the small town of Rrogozhina, north of the river Shkumbin. The Mosque of Ethem Bey is situated in in central Tirana, on Scanderbeg square. It was constructed in 1789 and, together with the 35-meter high Clock Tower (1830) it makes an important historic part of Tirana.

The Palace of Culture housing the Opera and Ballet Theatre and National Library is next to the main square. In Tirana there are also other important institutions such as the National Historic Museum, Archaeological Museum, The Museum of Natural Sciences, the Museum of Albanian Philately, the National Gallery of Fine Arts, and the Centre of International Culture.

The Adriatic Sea and Dajti mountains are near to the city. It takes less than one hour drive to reach the sea. A Great Park with an artificial lake is also located immediately at the southern part of the city.

Albania is one of the favourite countries for tourists with an interest in outdoor sport activities. They are great opportunities for people who want to climb mountains, hike, trek, river raft, paraglide, mountain bike, scuba dive, or canoe.

Regional and International Relations

European Relations

Albania's long-term vision is to join the European Union. The country's relationship with the EU is currently based on the Stabilization and Accession Process (SAP), which provides a framework and the prospect of future membership to countries in the Balkans.

Albania has benefited from the overall SAP cooperation framework, including preferential trade concessions, financial assistance, and the prospect of a far-reaching contractual relationship with the EU through a Stabilization and Association Agreement (SAA) which would replace the current Trade and Cooperation Agreement, in place since December 1, 1992.

Following the European Commission's November 2005 Enlargement Strategy Paper, which stressed that Albania's reform progress paved the way for the conclusion of the negotiations, the SAA was signed on 12 June 2006 in Luxembourg. The SAA will enter into force following its ratification. In the meantime, an Interim Agreement will allow Albania to benefit from the SAA's trade-related conditions.

In December 2005 the European Council adopted a revised European Partnership for Albania. Albania is expected to respond to the European Partnership by producing a national action plan with a timetable and details of how it intends to address the European Partnership's priorities.

Albania has concluded Free Trade Agreements (FTAs) with Macedonia, Croatia, UNMIK (Kosovo), and Bulgaria. FTAs with Romania, Bosnia, and Moldova are at various stages of approval. The Albanian Government is currently negotiating a FTA with the EU, as part of its Stabilization and Association Agreement negotiations.

Albania re-established diplomatic relations with the Former Republic of Yugoslavia, following the ousting of Slobodan Milosevic in 2000.

Italy, Greece, and Turkey are Albania's largest trade partners.

International relations

Albania is a member of a number of international organizations, including the Organization for Security and Cooperation in Europe (OSCE), the UN, the Stability Pact, the Adriatic Charter, and the WTO.

Albania enjoys friendly and cooperative bilateral relations with the U.S. In 2003, both countries signed and ratified a number of agreements, including a treaty on the Prevention of Proliferation of Weapons of Mass Destruction and the Promotion of Defence and Military Relations, the Adriatic Charter, and an Agreement regarding the non-surrender of persons to the International Criminal Court. The U.S. strongly supports Albania's EU and NATO membership goals.

Working towards NATO membership, the U.S. and Albania signed a Supplementary Agreement to the Partnership for Peace Status of Forces Agreement, an important step in strengthening bilateral cooperation and enhancing security, peace, and stability in the region.