TRANSITION ANALYSIS AND THE ECONOMIC DEVELOPMENT OF ALBANIA DURING THE POST TRANSITION PERIOD

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Abstract
After more than twenty years of transition filled with promises, mistakes, failures, and dilemmas concerning the economic challenges lying ahead, Albania has made remarkable economic progress. Based on the level of debates held between economists either in Albania or abroad, and based on what different policy makers believe, we came to the conclusion that there is still a lot of economic challenges like: inadequate reforms and various obstacles that hinder the country’s transition from communism to a developing country worthy of being a member of the EU.
In this article, we will talk about the economic transition in Albania by re-evaluating the models of economic development and economic thought of development in order to find a connection between theory and practice. We will also try to evaluate the model of economic development applied in Albania, taking into consideration the different problems, what went wrong, and what needs to be done in order to have a sustainable economic development, and to deal with the economic-financial crisis which has affected our country.
The final goal of this article is the contextualization of economic reflection and the analysis of economic models. This takes into consideration the main factors of the economic development of a country and its development, bearing in mind the economic situation we live in.

Keywords: Economic development, Transition Economy, problems of economic development, Albania.

The transition from communism to a market economy represents one of the most important economic experiments of all time.

Joseph Eugene Stiglitz
1. REFORMS OF ECONOMIC DEVELOPMENT AND MACROECONOMIC RESTRUCTURING.

Following the first monetary reform which aimed at controlling inflation, the second important reform was the privatization and the creation of a free market. However, according to Sachs (1990b), the liberalization of the market would deal with the instances of licensing and social costs, whereas Blanchard et al. (1991) added that the privatization of state-run enterprises was crucial to the communist countries so as to enable the development of their countries. The aim of the first reforms was stabilization and economic liberalization through restrictive monetary policies. This was achieved by liberalizing prices and at the same time, by opening the economy to the international markets. However, achieving all of this in a short period of time and without creating a class of private investors was impossible. To make this possible, the World Bank specialists, taking in consideration the fact that financial capitals would come from abroad via the privatizations carried out by foreign investors, which moreover were not simple and did not give the expected results, suggested the application of the Harrods- Domar model of economic development. According to Angjeli (2007), this happened due to lack of reliable investors and because most of the time, the privatization auctions were understood to be incorrect.

Also the opening of the Albanian economy to international exchanges brought a dramatic re-dimensioning of production activities. However, this happened also due to the fact that Albanian products were not competitive in the international markets. Furthermore, the privatization process was unable to absorb the necessary capitals to restructure the economy, whereas in the agricultural sector, the 7501 reform which transformed the then state-run cooperatives into small-scale activities on the one hand enabled the village households to engage in subsistence farming. Thus, this brought about the transformation on production by eliminating the production of cotton and tobacco once and for all. Also during privatization, the irrigation canals were destroyed and the redistribution of farming land in small-scale household plots created an obstacle to the investments in technology. This makes it impossible for the agricultural products to reach the international markets for a long time. Even in today Albania, the rural areas especially is characterized with difficult socio-economical conditions.

The projects which first started under the Stability Pact and the various treaties made till now, gave reason to hope for better results. Nevertheless, in achieving such thing according to Botta and Capriati (2003), we should pay a lot of attention to the surrounding environment and in this way, increasing the value of the place we live in. We have to capitalize on

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the socio-cultural resources that we possess and not to think only about the country’s accession to the EU.

Also, we must reflect on the economy by analyzing its sectors, so as to find the policies that will foster economic growth by supporting local enterprises, which translates into higher income for the population (Kuznets, 1963). In this context, it is important to consider development from the local viewpoint, so as not only to expand the internal market, but also to enable our enterprises and companies to seek other markets in the Balkans. This is done at the time the Albanian government itself is interested in creating a common market with the countries of the Balkans. Nourse stated that in order to have a balanced economic development, investments are needed. However, such investments according to him are dependent on market parameters, which in turn depends on the productivity which comes as a result of the amount of the capital used in the production process. Furthermore, the use of the capital by each entrepreneur according to Nourse is dependent on the market dimensions (Nourse, 1953). In this way, the economy is caught in a vicious circle which can be broken if investments are made in a big number of productive sectors which brings about an increase in the market parameters. Thus, we can say that our country needs to focus and specialize in some sectors, and expand the market in order to have a sound development.

On the other hand, the expansion of the market opens the door to competition in many sectors where Albanian companies are active sometimes. Hence, this might make it difficult for them to cope with the pressures of the market. In order to do this, the decision-making actors should come up with strategies and take into consideration the role that the non-material factors and the relational resources play in economic development. The latter ones often exist, but they are hidden and for this reason, they are either unused or badly used. If they are absent, they can be formed through public policies and state incentives (Marini, 2000). Consequently, we should not forget Hirschman’s lecture which tells us that economic development consists of the efficient use of the hidden or badly used resources, and in the planning of strategies which are able to cause disequilibria and bring about evolitional processes (Hirschman, 1967). According to Hirschman (1967), more and more companies seek to increase their profits. Therefore, this causes a geographical concentration of the investments in the areas where there are more productive factors, which in turn brings about new investments and creates a connection between the investments in the preceding period with the succeeding one. In addition, our country needs a re-organisation of the current economic structure by considering new sectors like the food sector, without neglecting other sectors like agriculture of which Albania has established some kind of traditions.
Considering the study of Hirschman, we should improve our agricultural performance and specialize in the transformation of food products so as to develop the food industry. However, according to central bank of Albania, we have a trading deficit reaching 680 million dollars.

1.2 THE SECTIONAL EVOLUTION OF ECONOMY

Like any other post-communist country after the liberalization of the '90s, the economic structure of Albania has been transformed. The transition process brought about the restructuring of the economy where the industrial sector, as can be seen in the chart below, went from 58.4% in 1990, 7.2% in 2000, and 9.7% in 2010. The heavy and textile industry experienced the biggest loss. However, both of these sectors "suffered" a lot after 1990 as a result of the old technology, the decrease in the internal demand for these products, and a mass destruction and stealing that the production lines sustained while waiting to be privatized.

Table 1.3. The contribution of economic sectors to the real GDP growth

![Graph showing contribution of economic sectors to real GDP growth]

Source: Word development Indicator, 2013

According to INSTAT's data, the sector that experienced the biggest development is the textile sector, which in 2000 had a growth of 22%. According to Manzocchi et al. (2006), this phenomenon is typical of countries in transition. In fact, Albania after 1998, directed its exports towards sector with high-intensity work-force like the clothing industry. Furthermore, Albanian companies receive orders from countries like Italy, Greece, and recently Spain. This was to carry out the cutting and sewing process, taking advantage of the comparative advantage of the very low cost of work-force. The textile sector or the clothing industry according to the latest report published by Albanian Centre for Competitiveness and International Trade (ACIT) constitutes up to 35% of Albanian export.46

46See, Albanian Trade Report, 2012. www.acit.al; secondly, the latest report from ACIT. In 2012, the Albanian exports was about $ 2 billion (see p.15) and the industry of fason was $700 million (see p.28)
According to an article published by Monitor\textsuperscript{47} in 2009, there were about 110,000 people employed in the clothing industry. However, the agriculture sector is the least developed of the Albanian economy even though it was the first sector which showed signs of positive growth after the liberalization. According to Kota (2009), the agricultural sector remains the sector with the lowest productivity. About 50\% of the work-force is employed by this sector, even though we should be careful when using INSTAT data concerning this fact. As Kota (2009) highlights, the data regarding the employment are not reliable because INSTAT considers all the people who own more than 1000 m\textsuperscript{2} of land as employed. Although the different Albanian governments claim that the agricultural sector is a strategic sector of the economic development in the future, it is one of the most backward sectors. In addition, the trade deficit in this sector according to some studies reaches a ratio of 1:8.

Albania has a clear comparative advantage in this sector as it features a low labour cost, good climate conditions, and favourable geographical conditions.

This sector can be a sector with great growth potential as confirmed by Singer when he criticized the theories of balanced development of Rosenstein - Rodan and of Nurske. He stated that investments are made only in the industrial sector of the economy, but consequently, the agrarian sector receives few investments. When there is an increase in revenues of developing countries such as Albania, there is a natural increase in the demand for food products. For this reason in addition to the reforms in legislation which enable the creation of co-operatives, there is also a need for important investments so as to increase productivity (Singer, 1958).

Another important sector of the Albanian economy during the transition period has been the construction industry. This has seen an increase bigger than that of the services industry in the second part of the 90's. According to INSTAT, this sector had an increase of 45\% in 2000. In 2005, this sector constituted 3\% of GDP; whereas in 2000, it reached 14.5\% of GDP featuring an increase of 65\% only in the last decade (actually this sector is experiencing great difficulties; hence in the small town of Saranda alone, there are more than 5000 unsold apartments. However, according to non-official data, this sector has suffered a decrease of 20\% only in the last two years). During the abovementioned period, this sector experienced a considerable growth due to the increase in demands for multi-purpose facilities. This growth also happened due to the boom in urban constructions and internal migration from rural to urban areas. The remittances (because the countries where the emigrants work are in a crisis) have decreased in the

- Albanian Economic Magazine  \url{http://www.monitor.al/presioni-fiskal-4327/}

\textsuperscript{47} Albanian Economic Magazine  \url{http://www.monitor.al/presioni-fiskal-4327/}
last years. This has resulted in an increase in poverty according to World Bank, and in a considerable decrease in the sales of apartments. The mining sector was considered the main currency source in our country before the 90’s. Hence, it experienced a long period of “free fall” until 1998, but slowly recovered by experiencing a growth of 147% in 2007 and 31% in 2008. The electricity sector has also suffered a considerable decrease. This sector is experiencing great difficulties even though the Berisha government has granted about 160 concessions for the construction of new hydroelectric power plants. However, only a small number of them are currently under construction.

In general, the recession of the 90's and the long transition have transformed the structure of the Albanian economy which by now is plagued by a big decrease in the industrial sector. Nevertheless, the tertiary sector which is being transformed into one of the primary sectors of the economy, shows great potential for growth.

The agricultural sector also has good chances for growth. This sector together with the electricity sector was considered as the most important sectors for the economic development of Albania in the future. As we have already mentioned, the Berisha government has granted a big number of concessions in this sector. Despite our reservation regarding the granting of these concessions, the electricity sector can be a potential dynamic sector for the economic development in the future. However, it cannot resolve the unemployment problem which according to the data provided by INSTAT stands at 14.5%. Only 23,000 people were employed in this sector in 2012 according to INSTAT. Therefore, if employment figures doubles, it can have a positive effect on unemployment, but cannot solve it.

2. ECONOMIC DEVELOPMENT AND THE CHALLENGES OF THE FUTURE

When the Berisha government came to power after the election of 2005, it actively sought and carried out a swift polarization of the economy gearing it towards those sectors which reflected comparative advantages like, abundance of raw material, perfect geographical position (having a coast on the Ionian and Adriatic seas), and highly competitive salaries. At the same time, it undertook a lot of reforms with the most special one being the flat tax at 10% in 2008. It created a credit register which enables banks to gather information and consult each other’s information about their clients’ financial records. Furthermore, it passed new laws regarding the opening of businesses within a day and the protection of investments. According to “Doing Business, 2010” report carried out by World Bank and International

Finance Corporation (IFC). Albania has moved from the 135th place to 86th place\textsuperscript{49}. Currently, Albania is in the 85th place leaving behind Serbia, Republic of Kosovo, and Bosnia Herzegovina\textsuperscript{50}. Consequently, the progress and the undertaken reforms in 2007-2010 improved the GDP indicators which show a clear correlation with FDI during this period, as seen in the tables below.

2. THE EFFECTS OF THE GLOBAL ECONOMIC-FINANCIAL CRISIS IN ALBANIA

Recently, the global economic crisis is present in Albania also. The rate of economic growth is decreasing in the last years in Albania as well. According to ex-prime minister Berisha, the key to the Albania’s economic success was the flat tax which is directly linked with a great inflow and outflow of FDI in Albania. Therefore, this somehow makes sense because as we mentioned earlier, there is a positive correlation between the growth of GDP and FDI. Furthermore, from the table below, we understand that the flat tax is not in operation only in Albania, but in all the countries of the Balkans.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|c|}
\hline
Balkan States & Capital gains tax & Branch tax & Dividend & Interest & Royalties & Branch remittance tax \\
\hline
Albania & 10\% & 10\% & 10\% & 10\% & 10\% & 10\% \\
\hline
Croatia & 20\% & 20\% & 12\% & 15/20\% & 15/20\% & 0\% \\
\hline
Macedonia & 10\% & 10\% & 10\% & 10\% & 10\% & 0\% \\
\hline
Montenegro & 9\% & 9\% & 9\% & 9\% & 9\% & 0\% \\
\hline
Serbia & 10\% & 10\% & 20\% & 10\% & 20\% & 0\% \\
\hline
Kosovo & 10\% & 10\% & 0\% & 10\% & 10\% & 10\% \\
\hline
Bosnia Herzegovina & 10\% & 10\% & 5\% & 10\% & 10\% & 10\% \\
\hline
\end{tabular}
\caption{State tax rates}
\end{table}

Source: World tax, 2013

According to Meksi (2013), the Albanian government after the global crisis of 2007 began to stimulate the economy through public investments utilizing the public debt. In fact, as can be seen at the end-of-semester report published by the Ministry of Finance, public debt has increased with $435 million dollar in the first part of 2013 only, reaching a record level of $ 8.7 billion dollar, and 62.5\% of GDP. According to some unofficial sources, the public debt reached the 63\% level in September. In addition, during the first 9 months of the year, it has consumed 90\% of the planned debt for 2013.

\textsuperscript{49} See, \url{http://www.doingbusiness.org/rankings,2010}
\textsuperscript{50} See, \url{http://www.doingbusiness.org/rankings,2013}
\textsuperscript{51} Increased rate on interest and royalties
\textsuperscript{52} Item
Recently, Professor E. Meksi is sounding the alarm regarding public debt arguing that we are borrowing even for out-of-pocket expenses now. Currently, we have an interest rate of 3.75%, and so we have a significant reduction; whereas in 2013, only we had an increase of the cost of debt of 11.4%. Now we are paying about 300 million dollars of debt interests only. The state owes about $400 million dollars. Although this sum is not included as public debt, the experts of IMF requested that it should be included. In 2015, we should also pay back the loan collateral worth 300 million Euros. According to the IFM former director for Albania Gerwin Bell, he stated that we need to take urgent action to prevent the debt, and also to change the nature of the debt from debt used for consumption to debt used for investment, and simultaneously from external debt to internal debt.

Another important problem created as a consequence of the financial economic crisis is the remittances, which is really decreasing lately due to emigrants losing their jobs in the countries they live. In 2002, they constituted 15.3% of the GDP. In 2007, the year the crisis started, they constituted 12.6% of the GDP, and in 2012, they constituted 6.97% of the GDP. As mentioned above, this had negative effects on various sectors of the economy, especially on the construction sector.

Recently, the Albanian emigrants are coming back to Albania. However, this has positive effects on one hand because they have acquired skills, but on the other hand, it increases unemployment.

### 2.1 THE EMPIRICAL VERIFICATION: SIMPLE REGRESSION

**Table 2.2.** Remittances, FDI, GDP, and Public Debt in million Euros

<table>
<thead>
<tr>
<th>Year</th>
<th>Remittances</th>
<th>FDI</th>
<th>GDP</th>
<th>Public Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>570</td>
<td>143</td>
<td>3,933</td>
<td>2,847</td>
</tr>
<tr>
<td>2001</td>
<td>620</td>
<td>208</td>
<td>4,197</td>
<td>2,827</td>
</tr>
<tr>
<td>2002</td>
<td>693</td>
<td>138</td>
<td>4528,807</td>
<td>2,964</td>
</tr>
<tr>
<td>2003</td>
<td>774</td>
<td>170</td>
<td>5435,38</td>
<td>3,299</td>
</tr>
<tr>
<td>2004</td>
<td>774</td>
<td>267</td>
<td>5875,577</td>
<td>3,391</td>
</tr>
<tr>
<td>2005</td>
<td>802</td>
<td>209</td>
<td>6560,362</td>
<td>3,819</td>
</tr>
<tr>
<td>2006</td>
<td>937</td>
<td>250</td>
<td>7166,604</td>
<td>4,062</td>
</tr>
<tr>
<td>2007</td>
<td>951,7</td>
<td>463,7</td>
<td>7829,045</td>
<td>4,579</td>
</tr>
<tr>
<td>2008</td>
<td>833,3</td>
<td>609,8</td>
<td>8870,465</td>
<td>4,893</td>
</tr>
<tr>
<td>2009</td>
<td>781,3</td>
<td>688,7</td>
<td>8691,008</td>
<td>5,172</td>
</tr>
<tr>
<td>2010</td>
<td>689,8</td>
<td>788,5</td>
<td>8871,278</td>
<td>3,371</td>
</tr>
<tr>
<td>2011</td>
<td>665</td>
<td>716,8</td>
<td>9249,537</td>
<td>5,722</td>
</tr>
<tr>
<td>2012</td>
<td>675</td>
<td>727</td>
<td>9684,669</td>
<td>6,053</td>
</tr>
</tbody>
</table>

Source: Bank of Albania, 2013
To verify what we said above, we will start with a simple factorial model where GDP will be used as a dependent variable, whereas public debt will be used as an independent variable. The data will be processed using the Gretel econometric program.

\[ Y = \beta_1 + \beta_2 X_1 \]

where \( Y \) - GDP

\( X_1 \) - public debt

The data is presented in the table 2.1. As professor E. Meksi says, it is normal to assume a positive linear relationship between GDP and public debt. If we see the performance of GDP in the period of 2000-2012, we would notice a normal growth of GDP during that period. From 2007, there is a considerable increase which continues till 2010. Later on, we witness a decrease in the rate of growth. Therefore, we would like to remind here that flat tax was first implemented in 2007 and in 2008. Hence, there was a considerable increase of FDI, although we should be careful when classifying FDI. Also, we can take a case study of ARMO when the public opinion was led to believe that ARMO was bought by a Texas-based company, but in reality, the real buyer was Taci Oil.

2.1.1 THE EVALUATION OF FACTORIAL LINEAR MODEL

The model under discussion is a linear factorial model. Hence, it studies the relationship that exists between the GDP and public debt in Albania. Therefore, it takes the form below:

\[ Y = \beta_0 + \beta_1 X_{1i} + \epsilon_i \]

However, by feeding these data in the programme, we have the results below:

| Model 1: OLS, using observations 2000-2012 (T = 13) |  |
|---|---|---|---|
| **Dependent variable: GDP** | **Coefficient** | **Std. Error** | **t-ratio** | **p-value** |
| Const | -4.57429e+06 | 2.67341e+06 | -1.7110 | 0.11509 |
| Public Debt | 2581.31 | 634.548 | 4.0679 | 0.00186 *** |

**Mean dependent var** 5949301 **S.D. dependent var** 3684039

**Sum squared resid** 6.50e+13 **S.E. of regression** 2431467

**R-squared** 0.600700 **Adjusted R-squared** 0.564000

**F(1, 11)** 16.54818 **P-value(F)** 0.001858

**Log-likelihood** -208.5124 **Akaike criterion** 421.0248

**Schwarz criterion** 422.1547 **Hannan-Quinn** 420.7926

**Rho** -0.118769 **Durbin-Watson** 2.083995

Based on the results, the above equation takes the form:

\[ Y = -4.57429e+06 + 2581.31 X_{1i} \]

In this model, we see an \( R^2 \) that is 0.6 which is not close to 1. However, we can say that there is a correlation between the variables, that is to say what percentage of the GDP is explained by the public debt. This means that the reliability of this model is 60%, and that 40% of the variation in GDP is determined by other factors which are not included in this model.

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Furthermore, we also noticed a very small p-value followed by three stars which shows that there is a maximal correlation between public debt and GDP. Furthermore, we noticed a relatively high standard error. Therefore, for this reason, we should be careful when affirming something strongly. This means we cannot say that something is absolutely true. In order to better evaluate the importance of the parameters of the econometric model, we wrote the hypotheses:

H₀: β₁ = 0 (the coefficient (public debt) not important)
Hₐ: β₁ ≠ 0 (the coefficient is important)

To verify these hypotheses, we use the evaluation through the \( t \) di student criterion with a reliability coefficient \( α = 0.05 \), and with a degree of freedom \( n-2 \). The hypothesis \( H₀ \) will be rejected if \( t_v > t_{kr} \).

\[
t_v = \frac{β₁}{σ(β₁)} = \frac{2581.31}{634.548} = 4.07
\]

\[
t_{kr} = t_{0.05,10} = 2.2281
\]

We see that \( t_v > t_{kr} \), and that \( H₀ \) does not stand. Thus, the coefficient is relatively accurate and important. This shows that the public debt in the specified period has been important to the growth of GDP. However, to see if this model is important or not, we use the Fisher’s exact test coefficient. From the table, we see that \( F \) is 16.94.

So:

H₀: β₁ = 0 (the model is not globally important)
Hₐ: β₁ ≠ 0 (the model is important)

\[
F_{kr} = F_{(k-1/n-k,)} = F_{1,11,0.05} = 4.84 \text{ pr } F_v > F_{kr} \text{ Ho does not stand. This means that the model is statistically important.}
\]

**2.1.2 THE MULTIFACTORIAL MODEL**

In the multivariable model, GDP’s variable besides from the public debt, will be seen as dependent also on other variable like IHD, Remittances, and again public debt. Also, the data of the model belong to the same time period. However, we would like to emphasize that the three explanatory variables are included in the model regardless of their degree of importance. The equation in this case will be:

\[
Y_i = β_0 + β_1X_{1i} + β_2X_{2i} + β_3X_{3i} + ε
\]

From the data above, the programme provides the following data:
Model 2: OLS, using observations 2000-2012 (T = 13)
Dependent variable: GDP

<table>
<thead>
<tr>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-ratio</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Const</td>
<td>-3(\times)78325e+06</td>
<td>-2.3820</td>
<td>0.04109 **</td>
</tr>
<tr>
<td>Public Debt</td>
<td>725.762</td>
<td>798.262</td>
<td>0.9092</td>
</tr>
<tr>
<td>FDI</td>
<td>9045.39</td>
<td>3350.04</td>
<td>2.7001</td>
</tr>
<tr>
<td>Remittances</td>
<td>10994.2</td>
<td>5036.82</td>
<td>2.1828</td>
</tr>
</tbody>
</table>

Mean dependent var 5949301  S.D. dependent var 3684039
Sum squared resid 3.14e+13 S.E. of regression 1868837
R-squared 0.807001 Adjusted R-squared 0.742668
F(3, 9) 12.54411 P-value(F) 0.001447
Log-likelihood -203.7867 Akaile criterion 415.5735
Schwarz criterion 417.8333 Hannan-Quinn 415.1090
Rho -0.412367 Durbin-Watson 2.807420

\[ Yi = -9.01184e^{+06} + 725.762 + X_{1i} + 9045.39X_{2i} + 10994.2X_{3i} + \varepsilon \]

Where:
- \( X_{1i} \)..... Public Debt
- \( X_{2i} \)..... FDI
- \( X_{3i} \)..... Remittances

In this model, we noticed a significant improvement of R² which moved from 0.6 to 0.8. On one hand, we noticed a significant improvement of the model compared with the first instance, while on the other hand, we see that p-value has relatively increased in value and at the same time, the stars which follow are two per FDI and one for remittances. Whereas for the public debt, the p-value has a value below zero, but does not have any stars. This signifies that the first two variables have a relatively high positive impact where FDI stands out, while the impact of public debt on the model with many variables has decreased. Thus, the p-value remains low and the public debt coefficient remains positive.

To estimate the regression coefficients, we evaluated the relationship between their sizes to the respective standard errors for each. Hence, this would enable us to see how big the error coefficient is for each. We compared the value found with the respective critical value with \( \alpha = 0.05 \) and with a degree of freedom \( n-k=10 \). Thus, the value according to the \( t \) distribution is 1.812. We wrote the hypotheses: \( H_0 = \beta_1 = \beta_2 = \beta_3 = 0 \) (the coefficient is not important)
\( H_a = \beta_i \neq 0 \) (the coefficient is important)

By using the same method as shown above, we noticed that the three variables were important. We can conclude by taking into consideration Fisher’s exact test, that even the model in question is as important as the first. To be 100% sure of what we have said above, it is necessary to see the presence of the multi-co linearity in this model, that is to say, the strong relation between the independent variables of the model. For this reason,
other tests were performed, beginning with the Klein’s test to see if the model suffers from the multi-co linearity. Later on, the Spearman’s coefficient should be used to see whether or not this model features heteroskedasticity.

CONCLUSION

We conclude that the reforms undertaken before the onset of the crisis have had their effects by increasing the inflow and outflow of FDI. Thus, despite the fact that we did not talk about it in this article, we can say that the implementation of flat tax in addition to the positive effects that we mention above, reduced informality as well.

Public debt has positively affected the increase in GDP, but as Bell stated, the course of the debt should be changed from debt going for expenses to debt going for investments to stimulate the economy and to pay off its own cost.

Also the Harrods-Domar development model applied in Albania was a model that functioned for short economic cycles and for rich countries, but not for poor countries which need a balanced economic development. Actually, as Hirschman stated, development is totally an institutional issue, so we need a change in development strategies and right orientation of the exports, and a reorganization of the current economic structure focusing on new sectors such as the food or the agricultural sector.

Another problem in Albania today besides the public debt is that of remittances, which have affected the economy positively and have led to the reduction in poverty. Consequently, the remittances are decreasing year by year and because of this, we have to think of how to come up with a substitute for them.

References: