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COMMISSION STAFF WORKING DOCUMENT

**ALBANIA 2008 PROGRESS REPORT**

*accompanying the*

**COMMUNICATION FROM THE COMMISSION  
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Enlargement Strategy and Main Challenges 2008-2009**

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# **COMMISSION STAFF WORKING DOCUMENT**

## **ALBANIA 2008 Progress Report**

### **1. INTRODUCTION**

#### **1.1. Preface**

Since March 2002, the Commission has reported regularly to the Council and Parliament on the progress made by the countries of the Western Balkans region. This progress report largely follows the same structure as in the previous years. The report:

- briefly describes the relations between Albania and the Union;
- analyses the situation in Albania in terms of the political criteria for membership;
- analyses the situation in Albania on the basis of the economic criteria for membership;
- reviews Albania's capacity to implement European standards, that is, to gradually approximate its legislation and policies to the *acquis*, in line with the Stabilisation and Association Agreement and the European Partnership priorities.

The period covered by this report is 1 October 2007 to early October 2008. Progress is measured on the basis of decisions taken, legislation adopted and the measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of Albania, the Member States, European Parliament reports<sup>1</sup> and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Albania in its separate communication on enlargement<sup>2</sup>, based on the technical analysis contained in this report.

#### **1.2. Context**

Albania is a potential candidate for EU membership.

The Stabilisation and Association Agreement (SAA) between Albania and the EU was signed in June 2006. An Interim Agreement has been in force since December 2006.

#### **1.3. Relations between the EU and Albania**

Albania is participating in the **Stabilisation and Association Process (SAP)**.

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<sup>1</sup> The rapporteur for Albania is Mr Libor Rouček.

<sup>2</sup> Enlargement Strategy and Main Challenges 2008-2009.

Albania signed a Stabilisation and Association Agreement (SAA) with the EU in June 2006. The SAA provides a framework of mutual commitments on a wide range of political, trade and economic issues. Trade-related parts of the SAA are being implemented under an Interim Agreement while ratification of the SAA is being completed. The Interim Agreement entered into force in December 2006. Cooperation provisions of the 1992 Trade, Commercial and Economic Cooperation Agreement (TCECA) will remain in force until the SAA is ratified. Albania also benefits from the EU's autonomous trade measures.

The EU provides guidance to the Albanian authorities on reform priorities through the **European Partnership**. Progress on these reform priorities is encouraged and monitored by political and economic dialogue with Albania. This dialogue is conducted via Ministerial Troika, joint committee and consultative task force (CTF) meetings at ministerial level and working party meetings at deputy minister level.

A Ministerial Troika meeting with Albania in March 2008 focused on key political priorities, including regional issues. The annual joint committee met in December 2007 to oversee the proper functioning of the Interim Agreement and the TCECA. Two CTF and six working party meetings took place between October 2007 and October 2008. CTF meetings focused on political accession criteria and rule of law issues. Each CTF meeting resulted in jointly agreed recommendations for action by the Albanian authorities. Working party meetings focused on economic, internal market and sectoral issues and reported to the joint committee.

In July 2008, Albania signed an agreement to contribute 62 soldiers to the military operations of the European Union mission in Chad and in Central Africa (EUFOR).

Following the entry into force of the EC/Albania **agreement on visa facilitation** in January 2008, the first meeting of the joint committee was held in April 2008. The visa facilitation agreement simplifies procedures for issuing visas to certain categories of citizens of Albania, including students, scholars, businesspeople, journalists and tourists. Under the terms of this agreement, citizens of Albania either pay a reduced visa fee or receive a visa free of charge. Implementation of the readmission agreement that entered into force in 2006 is proceeding smoothly. This agreement sets out clear obligations and procedures for the authorities of both Albania and EU Member States on when and how to take back people who are illegally residing on their territories.

Since 2007, pre-accession **financial assistance** to Albania is provided under the Instrument for Pre-Accession Assistance (IPA). The EC allocated a total of € 70.7 million in 2008. The Multi-Annual Indicative Planning Document (MIPD) for 2008 -2010 for Albania under IPA was adopted in September 2008 . Main focus areas continue to be justice and home affairs, administrative capacity-building, economic and social development and democratic stabilisation. Ongoing CARDS and IPA assistance is implemented by the EC Delegation in Tirana. The management of aid on a decentralised basis is a medium-term objective for Albania. The IPA Framework Agreement was signed on 18 October 2007. The Financing Agreement for the National Programme for 2007 under the Transition Assistance and Institution Building Component was signed on 22 January 2008 and the implementation of the programme has started. The Financing Agreements for the cross-border cooperation programmes were signed in April 2008.

As regards support for **civil society**, € 4 million has been earmarked for projects to enhance the role of civil society and the media in the European integration process over the period

2008-2010. Albania received support from EU member states through the EU Monitoring and Information Centre for Civil Protection (MIC) to help deal with the immediate aftermath of the Gerdec explosion in March 2008.

As regards **Community programmes**, Albania is participating in the 7<sup>th</sup> Research Framework programme for which a memorandum of understanding was signed in December 2007. The country is also participating in the Entrepreneurship and Innovation Framework Programme, following the signature of the memorandum of understanding in June 2008.

## **2. POLITICAL CRITERIA**

This section examines progress made by Albania towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States, and respect for international obligations.

### **2.1. Democracy and the rule of law**

#### *Constitution*

In April 2008, parliament adopted a package of constitutional amendments based on consensus between the two largest parties, relating to the electoral system, election of the President and the mandate of the Prosecutor General.

As part of the constitutional amendments, the Albanian electoral system changed from a mixed to a regional proportional system (140 proportional representation seats filled from party lists in regions corresponding to existing administrative boundaries). Smaller parties, including those representing national minorities, contested this change, claiming that it would effectively bar them from parliament. They also argued that changes to the method for electing the President and to the mandate of the Prosecutor general, had not been sufficiently discussed.

#### *Parliament*

Parliament has further consolidated its role as a focus for political debate. A considerable number of laws have been passed to approximate the Albanian legislation to the EU *acquis*.

Political forces have started to cooperate on major issues. This consensus between the ruling majority and the largest opposition party has resulted in progress in judicial and electoral reforms. However, more remains to be done to enhance the constructive dialogue between political parties and with stakeholders on implementation of reforms, which are key European Partnership priorities.

In July 2008, parliament established an *ad-hoc* committee to draft the Electoral Code. Completion of the electoral reform will require timely adoption of an all-inclusive and transparent Electoral Code to allow free and fair general elections in 2009, a key European Partnership priority.

The parliamentary committee on European integration contributed to improving awareness about the EU integration process. However, no progress has been made on enhancing the role

of parliament in monitoring implementation of SAA obligations. The low level of expertise available to parliament had an adverse effect on the quality of EU-related legislation.

Relations between parliament and the President became difficult at times. Parliament rejected the presidential appointments of judges to the High Court in June and eventually approved a second set of nominees in July. This process raised concerns about the independence of State institutions from the executive.

Preparations for the electronic civil registry and address system were completed in September 2008 to provide the basis for ID cards, voters' lists, and biometric passports. Civil registry offices have started issuing printed certificates. A sound civil registry and address system is the cornerstone of reliable voters' lists and of reliable documents. Sufficient human and financial resources must still be allocated to ensure coordination and sustainability of this key European Partnership priority. Preparations for voters' lists ahead of the elections must be handled with transparency and efficiency.

Overall, a more constructive dialogue between the major political parties has allowed for progress in addressing key European Partnership priorities. Amendments to the Electoral Code remain to be adopted well ahead of the next parliamentary elections.

#### *Government*

The Ministry of European Integration (MoEI) enhanced its role of coordinating European integration. However, the role of the MoEI as the central coordinator of the EU integration process needs further consolidation. Not all draft legislation is systematically checked for alignment with the SAA and the *acquis*. Moreover, the functions of the European integration units across the 13 line ministries have not been standardised, and several of the units remain understaffed. Specialised training programmes for public administration on EU-related issues are needed. The inter-ministerial committee on European integration chaired by the Prime Minister met only twice.

The staffing situation at the MoEI has improved. The total number of staff increased from 67 to 77 in 2008. Senior positions have been filled and additional staff have been recruited.

In March 2008, guidelines for inter-institutional coordination on European integration were adopted by the government. In June, the MoEI prepared gap assessment reports on approximation to the *acquis* in key sectors. These are used to update the National Plan for the Implementation of the SAA. Efforts have been stepped up to improve coordination with the Department of Strategy and Donor Coordination (DSDC), which is responsible for all external assistance.

The National Strategy for Development and Integration (NSDI) was adopted in March 2008 after limited consultations with civil society. It foresees 36 sectoral strategies, of which 17 have been adopted so far. The sectoral strategies are an important part of the government's Integrated Planning System (IPS) to match government policies with the budget process under the Medium Term Budget Programme. However, cost estimates and performance indicators for each of the sectoral strategies under the NSDI remain insufficient and uneven.

The government adopted its first regional development strategy in November 2007 as part of its longer-term decentralisation reform. During 2008, the MoEI strengthened coordination on regional development with several line ministries, with a view to eventual preparations for Structural Funds.

With regard to policy formulation, coordination with civil society remains weak. The inter-ministerial consultation arrangements on draft laws work poorly in practice. The existing requirements for public consultation on EU-related policy work, under the government rules of procedure, are not fully applied. The weaknesses in implementation of legislation and in enforcement of judicial decisions need to be addressed. The current arrangements for co-ordinating European affairs, particularly within the MoEI, need to be reinforced.

Overall, Albania has continued to make some progress in strengthening its government structures with a view to addressing its SAA commitments, a key European Partnership priority. However, further strengthening of capacity, coordination, and strategic planning for EU integration remains necessary.

#### *Public administration*

In December 2007, the government adopted amendments to the Law on evaluation of the performance of civil servants. In January 2008, a new reward system for civil servants entered into force. However, turnover of staff due to political pressures has continued. The Civil Service Law regulating public administration is in place, but it is not applied systematically.

The Department of Public Administration (DoPA) is currently drafting a strategy on public administration reform including sectoral training plans and covering local government bodies. However, the role of the DoPA in ensuring implementation of the Civil Service Law and the capacity of the Training Institute of Public Administration (TIPA) remain weak. The capacity of the Department of Public Administration to steer the civil service towards an independent, merit-based and professional body needs further strengthening.

The absence of sound accountability mechanisms in public administration increases the opportunities for bypassing established procedures. Appointments have continued along political party lines in contravention of the Civil Service Law. The authority of the DoPA requires strengthening in order to implement the official recruitment, job classification and promotion criteria consistently. Full enforcement of the Civil Service Law and adoption of the Strategy for public administration reform will be key to progress in this regard.

Public sector salaries were increased in July 2008. The government continues to encourage Albanian graduates of foreign universities to join the civil service. The training plan for civil servants has been revised to reflect real needs better. However, frequent replacements of civil servants are undermining the independence of the civil service and increase the opportunities for bribery of public officials.

Overall, the public administration is continuing to stabilise, but the lack of transparency and accountability in appointments is endangering its independence. What is now needed is to further strengthen public sector governance by enhancing the impartiality of public administration, a key European Partnership priority. Further progress is needed to establish an independent, merit-based, professional civil service.

#### *Judicial system*

Judicial procedures have remained slow and lack transparency.

In March 2008, a cross-party National Pact on Justice was endorsed by the main political parties. However, a clear reform strategy and vision for the judiciary, going beyond adoption of individual pieces of legislation, is still missing. What is needed now is to adopt a

comprehensive strategy on judicial reform, to complete the legal framework and to provide sufficient human and financial resources for implementation.

Some progress can be reported with the adoption, in February 2008, of the Law on the organisation of the judiciary which sets salary scales and merit-based criteria for judicial appointments. The recruitment of judges is restricted to graduates of the magistrates' school. However, the law fails to clarify the separate competences of the inspectorates of the Ministry of Justice and of the High Council of Justice. This raises serious concerns about the independence of the judiciary.

A law has been prepared on privatisation of the bailiff system for the enforcement of civil court rulings. However, enforcement of judgments by bailiffs remains slow.

A computerised civil case management system is now installed in all courts and has been expanded to cover criminal cases. The system registers cases electronically and assigns them to judges randomly. However, further training on its use is needed. The court system continues to be problematic, with procedures remaining slow and non-transparent.

The serious crimes court building in Tirana is nearing completion. Courts lack adequate space for archives and equipment for court transcripts, which remain mostly handwritten. Due to overcrowding, many courts cannot allow public access to hearings. This hinders the transparency and efficiency of the courts. The State budget allocated to the judiciary remains insufficient for the normal operation of most courts. Overall, judicial infrastructure requires considerable strengthening.

The magistrates' school remains an important institution for training judges and prosecutors, including on SAA-related issues. Adequate support for the school from the State budget is needed to ensure sustainability. More continuous specialised training for judges is needed.

Constitutional court rulings have been issued on the role of parliamentary investigative commissions, including the case of the dismissal of the former General Prosecutor Sollaku, on the role of the executive in relation to independent State bodies and on standards for issuing government decrees.

The High Council of Justice (HCJ) has undertaken a number of initiatives, including public hearings on new court chairpersons. There has been some limited improvement in the internal functioning of the HCJ. The new system for the professional evaluation of judges by the HCJ is proceeding slowly. The situation of the judges affected by the abolition of eight small district courts in September 2007 remains unsettled.

In April 2008, a cooperation agreement was signed between the Prosecutor General and the State police, including measures to improve timely completion of investigations. However, the investigative capacity of the prosecution service remains weak. (*see also Justice, freedom and security section*) The lack of consultation over the initial drafting of the Prosecutor General Law, which remains to be adopted, raised concerns about the independence of the general prosecutor's office from the executive. On several occasions, the government attempted to interfere with ongoing investigations, in breach of the constitutional principle of accountability to law. Overall, the independence, transparency and efficiency of the judiciary remain key European Partnership priorities to be addressed.

Some progress can be reported on witness protection. The 2007 Law on State police upgraded the witness protection unit into a directorate. At present there are 60 persons in the witness

protection programme. The 2008 budget allocated to the programme marks an increase. However, further amendments to the Law on witness protection have not yet been adopted. The lack of reliable witness protection continues to be problematic.

No developments can be reported on establishing a strategy and a national coordination body dealing with blood-feuds. Albania still lacks reliable data on the number of families affected by this phenomenon.

Overall, there has been limited progress in judicial reform, mainly on the legal framework. However, the justice system continues to function poorly due to shortcomings in independence, accountability and transparency.

#### *Anti-corruption policy*

Further efforts have been undertaken in the fight against corruption. Perception of corruption has improved; nonetheless corruption remains a particularly serious problem in Albania.

In April 2008, the Law on Commercial enterprises was aligned with the Council of Europe Civil Law Convention on corruption. Albania had ratified the Council of Europe Civil Law and Criminal Law conventions on corruption in 2000 and 2001 respectively. Alignment of the national legislation is ongoing. The additional protocol to the Council of Europe Criminal Law Convention on corruption was ratified in 2005.

The 2007-2013 National Strategy for Development and Integration (NSDI) contains anti-corruption elements but lacks a strategic framework for implementation with objectives and funding that can be monitored. A cross-cutting anti-corruption strategy for 2007-2013, with an action plan, was adopted in October 2008. However, implementation needs to start and monitoring mechanisms remain to be assessed. Much work is still needed on changing behaviour and procedures in the public administration.

In December 2007, the Council of Europe Group of States against Corruption (GRECO) adopted its report on Albania. Eleven of GRECO's thirteen recommendations have been adopted, including the criminalisation and seizure of assets stemming from corruption. Recommendations regarding the rules on financing of political parties have yet to be addressed.

The Law on conflict of interest was adopted in 2007. The High Inspectorate for Declaration and Auditing of Assets (HIDAA) is an independent body which collects revenue declarations from public officials. In its 2007 annual report to parliament, the HIDAA identified 110 cases of conflicts of interest. However, Albania lacks strong and independent supervisory or auditing authorities. The HIDAA plays only a limited role in this regard.

The scope of the immunity from criminal investigation and prosecution of a number of State officials and members of parliament and the procedures established to lift their immunity still need to be addressed. The Law on financing of political parties remains to be adopted. Judicial accountability and transparency in funding of political parties remain to be improved.

Efforts have been made to reduce opportunities for corruption in areas such as tax administration, business services, property restitution and public procurement, by introducing electronic systems.. Since December 2007, electronic procedures have been introduced for taxation, public procurement, licensing and business registration. However, the results and impact of these procedures remain to be assessed.

The institutional set-up and inter-agency coordination in the fight against corruption remain weak. A Department of Internal Administrative Control and Anti-Corruption within the Council of Ministers reports directly to the Prime Minister. However, there is no effective institutional framework to coordinate, monitor, and implement anti-corruption policies across public administration.

Other law enforcement and judicial entities have significant powers for the prevention and repression of corruption, but their activities remain largely uncoordinated. The investigative capacity of the law enforcement bodies in corruption cases remains very limited. (*See also Justice, Freedom and Security, section on money laundering*)

The government has had some success in the fight against petty corruption and bribery. A number of low to middle-level officials were dismissed for bribery. In addition, the Office of internal control (OIC) in the Interior Ministry, the unit investigating corruption by police officers, has taken disciplinary measures against 100 policemen on bribery charges. The government has stepped up its efforts to prosecute some corruption cases. In 2007, 224 officials were identified as involved in corruption and conflict of interest, 53 of them were arrested and prosecuted. Regarding high level corruption, one former deputy minister has served a one-year jail sentence. However, a more systematic approach is needed to tackle corruption overall, particularly widespread bribery in the judiciary, police, health and customs sectors.

The explosion of an ammunition depot at Gerdec in March 2008 is currently under investigation for alleged lack of enforcement of health and safety regulations. Limited progress can be reported in the management and disposal of small arms and light weapons and of explosives and remnants of war, which remain a serious problem in Albania. Other allegations concerning the accident relate to arms smuggling and corruption. The then Minister of Defence was dismissed and his immunity lifted. To ensure credibility on the fight against corruption, the allegations around this case need to be tackled with resolve as part of the ongoing investigation.

Overall, Albania has continued to address corruption, a key European Partnership priority. However, the declared commitment of the authorities to fight corruption needs to be backed up by rigorous implementation, as corruption remains widespread.

## **2.2. Human rights and the protection of minorities**

### *Observance of international human rights law*

As regards **ratification of human rights instruments**, in December 2007 Albania ratified the Optional Protocols to the UN Convention on the sale of children, child prostitution and child pornography, and on children in armed conflicts. The European Charter for Regional and Minority Languages has yet to be ratified.

The **European Court of Human Rights (ECtHR)** delivered five judgments finding that Albania had violated the European Convention on Human Rights (ECHR) and related protocols. Measures have yet to be taken to enforce these judgments. A total of 79 new applications to the ECtHR were made during the reporting period. The total number of pending cases before the Court regarding Albania is 146.

Albania has an extensive legal framework on **promotion and enforcement of human rights** and the government's record is marked by the political will to guarantee human rights to all its

citizens. The strong role played by the Human Rights Ombudsman has contributed to reducing human rights violations. Nevertheless, effective implementation of legislation continues to raise concern in key areas, such as prevention of torture and trafficking.

### *Civil and political rights*

With regard to **prevention of torture and ill-treatment and the fight against impunity**, there have been reports of use of excessive force and ill-treatment by police officers, most of them during pre-trial detention. However, some efforts have been made by law enforcement agencies to prosecute and indict cases of ill-treatment, torture and arbitrary behaviour. The General Prosecutor brought charges against four former senior officials of the State Intelligence Service. Criminal charges have been brought and disciplinary measures taken against police officers for abuse of office. In compliance with the amendments made to the Criminal Code on torture, the People's Advocate launched in March 2008 a national campaign on torture prevention, in cooperation with the Centre for Rehabilitation of Torture Victims .

Overall, further steps have been taken to prevent torture and ill-treatment of detainees, but considerably better enforcement of human rights rules and proper prosecution of abusers are still required.

As regards **access to justice**, Albanian legislation provides for free legal aid for first and second instance courts, but the system does not work effectively, particularly for minorities, such as the Roma.

With regard to the **prison system**, overcrowding of prisons and pre-trial detention centres continued in 2008. There were 4,932 detainees at the beginning of May 2008, almost 1,500 above capacity. Construction of two new prisons (Fushë-Kruja and Korça) and of the Vlora pre-trial detention centre is complete. A new detention centre for juveniles in Kavaja and a new pre-trial detention centre together with a psychiatric facility in Durrës are under construction. These new establishments, designed in accordance with European standards, should help reduce the overcrowding.

However, general prison conditions remain below standards. Due to lack of space, prisoners were reportedly being held in large groups in small cells or returned to police stations. Prisoners with mental illnesses were being kept in cells with other prisoners or minors in cells with adults. Progress on developing rehabilitation schemes, such as education, work and social programmes for detainees, has been limited. An effective monitoring and inspection system for prisons is still missing.

Several prisons have been refurbished to improve living conditions. Planning of six new detention-centres has started, in line with the 2004 Master Plan for the Pre-Trial Detention System. However, the government still needs to develop a long-term investment strategy and to allocate corresponding State funds.

In April 2008, amendments to the Law on the rights and treatment of prisoners entered into force, including during pre-trial detention. Amendments to expand and facilitate application of alternative sentences have been drafted, but are progressing slowly.

Overall, further progress has been made in improving the prison and pre-trial detention system, but overcrowding continues and detention standards remain very poor.

**Freedom of expression**, including in the media, are guaranteed by the Albanian constitution. However, the intermingling of business, political and media interests continues to affect the development of independent media.

A new broadcasting law is under preparation. It will have a major impact on the media landscape in Albania. Implementation of the EU/Council of Europe joint action plan on the reform of media legislation is key in this respect. Preparation of the strategy for the transition to digital broadcasting is advancing. In April 2008, the Regulation on the licensing of digital broadcasting was adopted. (*See also Information Society and media section.*)

Selective pressure was put on opposition-oriented media, including accusations of alleged funding from organised crime groups. The lack of transparency about ownership and funding leaves the media open to accusations of criminal influence. The National Council on Radio and Television (NCRT) continued to face accusations of political bias in favour of media linked to the government. There is no effective legislation to ensure transparency of media ownership and funding.

Adoption of the laws to amend both the Criminal and Civil Codes by decriminalising libel and defamation is still pending. The NCRT monitoring capacity is restricted to news bulletins and advertisements. The technical capacity of the NCRT for wider monitoring needs reinforcing.

Some progress can be reported on adoption of key bylaws on media policy. The NCRT and parliament have jointly prepared the action plan on media reform and drafted the strategy on digitalisation.

Regarding the printed media, few newspapers reach a significant readership, due mainly to a malfunctioning distribution system and poor infrastructure.

Overall, Albania has continued to make progress on freedom of expression, a key European Partnership priority. It now needs to improve implementation of the existing legislation and to advance on key issues regarding decriminalisation of defamation, adoption of legislation on access to public information and transparency of media ownership.

No restrictions on **freedom of assembly and association** are to be reported.

The legal framework for **civil society organisations** remains open and non-restrictive. Civil society organisations are actively monitoring respect of human rights and fulfilment of Albania's obligations under the SAA. However, civic engagement remains low. Albania has only a limited number of influential NGOs and policy institutes. Funding of civil society depends largely on foreign donor financing. Coordination mechanisms to enhance civil society participation in policy making remain weak.

Civil society should increase its capacity for advocacy and public relations, networking, and development of partnerships with the government and the private sector. Financial and management capacity have to be strengthened, aiming at future sustainability of the sector.

As regards **freedom of religion**, the inter-faith climate continues to be positive and mutually tolerant. However, the full restitution of property and other belongings to religious communities remains an issue to be addressed as part of the overall property restitution efforts.

## *Economic and social rights*

The People's Advocate (human rights ombudsman) continued to play an active role in monitoring and protecting human rights. In 2007, the institution received 4,233 complaints from citizens and reviewed 2,567 of them. Most of the complaints were appeals against decisions by the Ministry of Economy, Trade and Energy, the Immovable Property Registry Offices, the Ministry of Interior, the Ministry of Defence, the Ministry of Justice and the courts.

With regard to **women's rights**, some progress can be reported. The Law on gender equality was adopted in July 2008. The national strategy on gender equality and eradication of domestic violence, together with a three-year action plan, were adopted in December 2007 including provisions on vulnerable women such as trafficking victims. According to police sources trafficking decreased sharply in 2007, although NGOs claim that many cases went unreported. Several trafficking networks were dismantled. In May 2008 the Domestic Violence Law was amended. A new unit on domestic violence was established within the Ministry of Labour. The responsible authorities organised, with assistance by UN agencies, capacity building activities for social and health workers, police and local authorities.

However, the strategy on the prevention of domestic violence has not been enforced due to lack of implementation mechanisms. The proportion of women having suffered from domestic violence is significant and increasing. Witness protection remains weak with the result that victims of trafficking are reluctant to report their traffickers to the police. Political representation and the employment rate among women remain low. Albania is advancing moderately on mainstreaming gender in employment and other policies. What is needed now is to allocate sufficient human and financial resources to ensure full implementation of the existing legislation.

Overall, there has been some further progress on strengthening women's rights. However, Albania continues to be a source and transit country for the trafficking of women, often minors, for sexual exploitation. Trafficking of women and domestic violence remain issues of serious concern.

With regard to **children's rights**, some progress can be reported with the entry into force of the Optional Protocol to the Convention on the Rights of the Child in March 2008. Parliament adopted amendments to the Criminal Code in April 2008 regarding the exploitation of children, which is now recognised as a criminal offence.

The streamlining of the birth registration procedures has somewhat improved school attendance, access to health and other social services for Roma children. Despite the implementation of the second chance project, school enrolment of Roma children remains low. Procedures such as requiring vaccination certificates often lead as to *de facto* exclusion from school.

Regarding juvenile justice, community service sentences started in late 2007 at the Tirana Court. Up to April 2008, 38% of all sentences imposed community service. In March 2008, special sections for minors were established in six district courts. Amendments to the Penal Code have been drafted, including introduction of a probation system. However, in cases involving minors, judges do not sufficiently apply alternatives such as probation. Probation and parole are available as alternatives to detention, but there are no qualified social workers or probation officers to supervise them.

Children's rights to education have improved. The net primary school enrolment rate for 2008 is 92%. However, in the areas populated by Roma communities, access can go down to 13%. Progress has been made in the area of protection of children at risk. The strategy on foster care was approved in 2008 as part of the new sectoral strategy for social protection. A bilateral agreement on protection and assistance to child victims of trafficking was signed between Albania and Greece in 2007.

Child labour remains widespread. The number of children working in the formal sector is increasing (737,000 in 2007 compared with 533,000 in 2006). Most of these children are girls primarily employed in the fish processing, footwear and clothing industries.

Overall, further progress has been made on children's rights but more is needed on ensuring appropriate resources for implementation and on child labour issues.

With regard to **socially vulnerable and/or persons with disabilities**, 103,000 families benefit from social assistance at present. In January 2008, the government adopted the Social Protection and Social Inclusion Strategy for 2008-2013. This includes new economic assistance schemes for poor families and social services for children, minorities, the disabled, the elderly and victims of trafficking.

Implementation of the National Strategy for persons with disabilities has been slow and the procedural framework has not yet been completed. The Ministry of Labour has drafted standards for delivery of social services to people with disabilities. (*See also Employment and social policies section*). Albania has not signed the UN Convention on the rights of people with disabilities. In the field of mental health, one community centre has been reconstructed and two new centres opened. However, implementation of the Regulation on mental health approved in 2007 has been slow. There is still no law on free legal assistance for people with disabilities. Access to employment remains a major problem for people with disabilities.

Overall, there has been further progress regarding socially vulnerable people, but measures to support them remain limited and better coordination of government agencies could improve the results.

As regards **labour and trade-union rights**, the absence of a revised labour law is hampering the transformation of the National Labour Council into a National Social and Economic Council. It also delays the revision of the Law denying the right to strike to some State employees, which is not in line with the European Social Charter. The National Strategy for Development and Integration 2007-2013 (NSDI) foresees the strengthening of social dialogue. However, the position of both trade unions and employers' organisations continue to be very weak and the social dialogue remains at an early stage.

As regards **anti-discrimination policies**, there has been little progress on establishing a proper legal definition of discrimination or specific anti-discrimination legislation. Appropriate institutional support for victims of all violence needs to be ensured. There is continuing serious hostility in public and the media towards the lesbian, gay, bisexual and transgender (LGBT) community. The government has taken no action to combat discrimination on the grounds of sexual orientation and gender identity. Arbitrary arrests and mistreatment of LGBT persons persist. This has already led to the emigration of leading activists. What is needed now, in addition to increasing legislative efforts, is to develop an action programme to counter discrimination, including on grounds of sexual orientation and gender identity.

With regard to **property rights**, the main issues remain first registration of real estate, property restitution, compensation and legalisation of informal constructions. The Immovable Property Registration Office (IPRO) has continued first registration in different parts of the country. Several decisions by the European Court of Human Rights found violations in the form of improper proceedings and lack of enforcement in the context of restitution and compensation procedures. Unresolved property issues have undermined efforts to develop a functional land market and kept foreign investment below potential. A clear strategy and action plan to solve the numerous problems in the property sector are needed. Legal amendments are necessary along with closer cooperation between the relevant agencies and ministries.

The Property Registration and Compensation Agency (PRCA) has started to register restitution and compensation claims in an electronic database. So far, the PRCA has completed the property valuation mapping for six regions. Valuation mapping, however, does not yet include industrial and tourist zones for lack of data. A complete valuation map covering every regions would facilitate assessment of property restitution and compensation issues.

Cash compensation totalling €4 million had been paid, by the end of 2007, to some of the former owners. However, an inventory of land earmarked for compensation is still not available. In 2008, 100,000 illegally built or informal constructions have been regularised, mainly around major urban centres.

Overall, there has been progress on consolidating property rights, a key European Partnership priority. What is needed now is to step up the pace of restitution and compensation. Preparations in this field are advancing moderately. Uncertainties about property rights persist.

#### *Minority rights, cultural rights and protection of minorities*

With regard to **cultural rights**, the constitution provides for protection of the civil, economic, social and political rights of minority groups and the law forbids discriminatory treatment. Persons belonging to minorities have the right to be taught in their mother tongue. There are three recognised national minorities (Greek, *Macedonian* and Serbian-Montenegrin) and two ethno-linguistic minorities (Aromanian and Roma) in Albania. The Egyptian community is seeking the status of an ethno-cultural minority. The government has made efforts to include it in various activities for minorities and socially vulnerable groups. Development of minority policies requires up-to-date statistics on all minorities. Albania has no accurate data on minorities.

Albania is continuing to make efforts to fulfil its commitments under the Council of Europe Framework Convention for the Protection of National Minorities particularly regarding use of minority language and education. However, more efforts are needed on defusing recent intra-ethnic tensions in areas with a heavy concentration of minorities. Albania has not signed the European Charter for Regional and Minority Languages, due to budgetary constraints.

Schools specifically for members of the Greek and *Macedonian* minorities have a significantly higher teacher-pupil ratio than the national average. The pupil/teacher ratio is approximately 6.9/1 for the Greek minority and 12.6/1 for the *Macedonian* minority compared with the national ratio of 18/1. However, in some areas with a high concentration of minorities, public schools that provide ethnic minorities with minority education are not

sufficient. Three privately run Albanian-Greek schools have been established in Tirana, Korça and Himara. The Civil Service Law allows participation by minorities in public administration, the armed forces and the police. However, minority representation remains limited.

Overall, there has been further progress on cultural rights but further improvements are needed, particularly regarding collection of sound data on all minorities, a key European Partnership priority.

Albania joined the Decade of **Roma** Inclusion 2005-2015 in April 2008. A corresponding Action Plan is under preparation. In December 2007, the first Progress Report on implementation of the National Strategy for the integration of Roma was issued, showing insufficient human and financial resources for proper implementation. The unit in charge of monitoring implementation of the Roma Strategy within the Ministry of Labour and Social Affairs (MLSA) has been up-graded to a technical secretariat. This will improve its capacity to monitor and coordinate measures with other institutions. One of the staff is a member of the Roma community. However, with only two people, the Secretariat is understaffed to perform its tasks. Efforts must be stepped up to coordinate the Roma Decade Action Plan with other existing strategies and provide sufficient human and financial resources to implement it.

The level of school enrolment amongst Roma children remains low, despite efforts by the government to facilitate registration and implementation of the second chance project. More needs to be done to tackle specific gender issues in the Roma community and to prepare more Roma to qualify as teachers. Registration of Roma with the authorities remains a problem.

Roma continue to face very difficult living conditions and discrimination, with poor access to education, social protection, healthcare, housing and employment.

Overall, there has been some limited progress in terms of measures taken by the government to improve the situation of the Roma, which remains a serious concern. What is needed now is to ensure that appropriate human and financial resources are allocated to implement these measures effectively.

### **2.3. Regional issues and international obligations**

As regards the **International Criminal Court** (ICC), Albania still maintains a June 2003 bilateral immunity agreement with the United States, granting exemptions from ICC jurisdiction. This does not comply with the EU Common Position on the integrity of the Rome Statute nor with related EU guiding principles on bilateral immunity agreements. Albania needs to align with the EU position.

Albania is still being monitored by the Parliamentary Assembly of the **Council of Europe**, to verify fulfilment of obligations and commitments relating to its membership of the Council of Europe.

**Regional cooperation** and good neighbourly relations form an essential part of the process of moving towards the European Union.

Albania has continued to participate in a number of regional political and economic fora and initiatives, including in a transition from the Stability Pact to a more regionally owned framework with the South East European Cooperation Process (SEECP) and the Regional Cooperation Council (RCC).

Albania has been satisfactorily implementing the Central European Free Trade Agreement (CEFTA) and is progressing on the first transitional phase of the European Common Aviation Area (ECAA) agreement. Albania is party to the Energy Community Treaty and is making headway towards meeting its obligations under the Treaty.

Albania became a full member of the Barcelona process in November 2007 and participated in the launch of the Barcelona Process: Union for the Mediterranean in July 2008.

Albania's **bilateral relations with other enlargement countries and neighbouring Member States** have remained intensive, with frequent bilateral contacts and visits.

Relations with *the former Yugoslav Republic of Macedonia* have remained good with reciprocal high-level visits and the conclusion of agreements on a visa free regime, local border traffic and cooperation in border control.

Relations with *Montenegro* have developed further. Work started on construction of the joint border crossing point at Muriqan/Sokobine. Relations with *Bosnia and Herzegovina* have intensified. The country has decided to open an embassy in Tirana. Albania continues to have good relations with Croatia. Relations have remained stable with *Serbia*. Relations with *Turkey* have remained good. The Free Trade Agreement with Turkey has entered into force.

Albania has continued to maintain a constructive position regarding *Kosovo*<sup>3</sup>. Albania welcomed the decision on the establishment of the EU mission in Kosovo. Albania has recognised Kosovo's declaration of independence and established diplomatic relations.

*Italy* remains Albania's main political and economic partner and its largest EU trade partner, followed by *Greece*, which is also considered an important strategic partner. A bilateral agreement with Italy in line with the European Convention for judicial assistance in criminal cases has been signed.

Albania has received an invitation to join the North Atlantic Treaty Organisation (NATO), and the Protocol of Accession to the Washington Treaty has been signed.

Overall, Albania has continued to foster positive relations with its regional partners, both multilaterally and bilaterally. Albania's continued constructive stance on the Kosovo issue and on maintaining good neighbourly relations with other enlargement countries has contributed to regional stability.

### 3. ECONOMIC CRITERIA

In examining the economic developments in Albania, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

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<sup>3</sup>

under UNSCR 1244/1999

### **3.1. The existence of a functioning market economy**

#### *Economic policy essentials*

The government submitted the Economic and Fiscal Programme for 2007–2010 in December 2007, setting out a coherent framework for the government's economic policies. The policies continued to support the establishment of a functioning market economy, but suffered in some cases from the lack of detailed action plans. The economic strategies were broadly consistent with the current International Monetary Fund three-year 2006–2009 PRGF/EFF<sup>4</sup> programme in the country. In 2008, the government supplemented the longer-term strategy framework, adopting the National Strategy for Development and Integration (NSDI) for 2007–2013, prepared in consultation with domestic and international stakeholders. In line with the Integrated Planning System (IPS) the government also adopted the Fiscal and Macroeconomic Framework 2009–2011 and the Medium-Term Budget Programme 2008–2010. Overall, political consensus on the fundamentals of market-oriented economic policies was strengthened, but planning at too general a level sometimes presented a risk for the implementation of economic reforms.

#### *Macroeconomic stability*

The economy experienced strong growth despite a severe drought in the summer of 2007 and continuous electricity shortages. Extensive investments and high consumption led to a 6% growth in real terms in 2007 – the highest since 2002. Economic activity was fuelled by a robust, though slowing credit growth and continuing large-scale remittances inflows (12% of GDP). Unreliable electricity supply continued to pose a heightened risk to sustainable economic growth. The average per capita income in 2007 was around 22% of the EU27 average<sup>5</sup>, up from 21% in 2006. Overall, economic growth remained strong and speeded up, while the general income level remained low.

External balances deteriorated, resulting in a current account deficit of 10.6% of GDP in 2007 - up from 6.5%<sup>6</sup> in 2006. The deficit widened, mainly due to an increase in the merchandise trade deficit (26.8% of GDP in 2007), in spite of strong growth in exports. Higher energy imports (30% of the total increase in imports in 2007), resulting from a severe domestic drought, and demand for machinery contributed strongly to the increase in imports. Merchandise exports remained more than 3.5 times lower than imports, despite a strong increase in mineral exports. The trade deficit continued to deepen in the first half of 2008 due to high imports. The surplus in services trade remained limited and surpluses of income flows and other transfers (including remittances) were lower (relative to GDP) than in the previous year. Overall, external imbalances remained high and continued to widen.

Net capital inflows increased, covering the current account deficit in 2007. Net foreign direct investment reached 5.9% of GDP in 2007 (up from 3.5% in 2006), with strong inflows from a large-scale privatisation in the telecommunication sector. Other capital inflows (mainly foreign borrowing by the private sector and non-residents' deposits) rose, reaching 3.2% of

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<sup>4</sup> The Poverty Reduction and Growth Facility (PRGF) and the Extended Fund Facility (EFF)

<sup>5</sup> In purchasing power standards (PPS)

<sup>6</sup> The data for 2006 is updated (compared to the Progress Report 2007) throughout the report according to the recent revision of statistics

GDP in 2007. However, from the fourth quarter of 2007 onwards the current account deficit exceeded net capital inflows, leading to a decrease in reserve assets. The stock of reserve assets stayed at the level of 3.3 months of imports of goods and services at end-June 2008. The external debt to GDP ratio fell to 24.8% at end-2007 (down from 25.1% in 2006), with the public external debt ratio falling to 15.4% of GDP. The financial sector external debt increased strongly (by 50%) due to short-term loans and non-residents' deposits. Corporate sector foreign borrowing remained limited (with stock falling below 5% of GDP). In total, net capital inflows increased, but remained relatively low.

The recent turmoil in the global financial markets increased risks to the Albanian economy. The risks to the financial sector are mitigated by the overall low level of financial intermediation and a limited integration to the international capital markets, while the banking sector is well capitalised and mainly financed by households' deposits. However, the continuous widening of the current account deficit requires increasing capital inflows that might be inhibited by the expected global economic slow-down.

Labour market conditions improved in 2007. The number of registered unemployed decreased, resulting in a drop in the unemployment rate (13.4% in 2007 and 13% in March 2008 - down from 13.9% in 2006). The number of employed persons increased as a result of higher employment in the non-agricultural private sector. In total, the labour force (the sum of employed and unemployed) decreased by around 0.4%, indicating some movement of unemployed persons to inactivity. Wages in the public sector increased by 17.1% on average in 2007, significantly more than in 2006 (7.5%), but did not add significantly to domestic demand pressures on inflation. Overall, the labour market performance slightly improved, but rigidities remained relatively high. However, due to the significant informal economy, labour market data may not correctly reflect the actual dynamics of the labour market.

The central bank continued to implement a policy of implicit inflation targeting and an independent float. The objective of maintaining consumer price inflation at 3% with a fluctuation band of ±1 percentage point was met, with inflation averaging 2.9% in 2007. Potential demand pressures and pressures due to price increases in the global commodities markets were addressed by raising the key monetary policy interest rate. In the second half of 2007, the central bank raised the policy rate three times (cumulatively by 0.75 percentage points to 6.25%). In the first three quarters of 2008, inflation remained within the target range (measured as a 12-month average annual inflation), although in some months it exceeded 4% (year-on-year). The main contributors to annual inflation were food and energy prices, with the increase in food prices accounting for up to two thirds of annual inflation. The impact of domestic demand pressures was limited, despite a strong (though decelerating) credit growth and extensive remittances inflows. The increase in money supply ( $M3^7$ ) remained relatively high (14% year-on-year in July 2008). Exchange rate fluctuations against the euro remained limited, with some temporary small-scale depreciation in March 2008. Overall, monetary policy remained sound, maintaining price stability.

The fiscal stance loosened somewhat in 2007, despite a strengthening of economic growth. Fiscal balances deteriorated, with the general government deficit increasing to 3.5% of GDP in 2007 – up from 3.3% in 2006. Fiscal policy remained expansionary, with the budget plans projecting even higher deficits, mainly due to plans for high public investment. However, strong economic growth made it possible to reduce the public sector indebtedness (as a ratio

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<sup>7</sup>

Monetary aggregate M3 includes currency outside banks, as well as demand and time deposits.

of GDP), despite a delayed fiscal consolidation. The public debt ratio fell to 53% at end-2007 from 56% in 2006, with domestic public debt falling to 37.6% of GDP. The management of public finances improved, especially in 2008, supported by large-scale tax administration measures that also contributed to the extension of the tax base. The introduction of a 10% flat personal income tax was accompanied by an increase in income tax revenues. The management of local government finances remained poor, resulting in low revenue collection and limited spending. Public spending followed the strategic priorities of higher public investments, keeping the increase in current expenditures constrained. Personnel expenditures were maintained at 6% of GDP, and interest expenditures were reduced to 2.6% of GDP in 2007, partly as a result of more efficient debt management. Government investments increased to 5.8% of GDP, but weak implementation kept capital expenditures significantly below projections. Regarding fiscal strategies, the 2008 budget projected a sharp deterioration of fiscal balances with a fiscal deficit of 7.9% of GDP, due to extensive capital expenditures amounting to 9.8% of GDP. A mid-2008 budget revision reduced the deficit projection to 5.2% by increasing revenue projections and cutting public investments. On the revenue side, the reduction of corporate profit tax from 20% to 10% in January 2008 brought about a change in the public revenue structure. Corporate tax revenues decreased, compensated by an increase in excise duties. Overall, the administration of public finances improved, but the fiscal stance loosened owing to ambitious public investment plans.

The macroeconomic policy mix was broadly adequate, with an increased emphasis on structural reforms. Monetary policy remained sound, while fiscal strategies prioritised higher public investments over further fiscal consolidation. Widening fiscal imbalances may lead to instabilities and prevent fiscal policies from playing their role. Vulnerabilities of external balances increased, requiring swift measures to ensure electricity supply, the broadening of the export base and a more attractive investment environment.

#### *Interplay of market forces*

State participation in the economy remained limited, with the private sector accounting for around 80% of GDP. The share of the employed in the private sector increased slightly to 82.1% in 2007 (up from 81.9% in 2006). Public enterprises continued to be mainly in the services and agricultural sectors. The privatisation of large-scale enterprises advanced significantly. The contract to sell an 85% stake in the ARMO oil refinery was approved and the privatisation of 76% of the shares of the distribution arm of the loss-making power corporation (KESH) is in progress. The government also concluded tenders on consultancy for the privatisation of its 12.6% share of the mobile telephone operator AMC, and of a majority of the insurance company INSIG. Privatisation of Albpetrol – the company involved in oil prospecting, research and development, and production – was delayed. Overall, the reduction of state ownership in the economy progressed, while the remaining inefficient large-scale state corporations continued to contribute to market distortions.

#### *Market entry and exit*

The government simplified business registration procedures significantly. The introduction of the National Registration Centre (NRC) reduced the time required to register a business to one day and provided for simultaneous registration for the purposes of tax administration, social and health insurance, and the Labour Inspectorate. Registration fees were reduced to less than one euro. The infrastructure for business registration services was improved by increasing the number of electronic services and registration centres across the country. The improved services framework, together with more rigorous inspections by the authorities, addressed

ways for reducing the widespread informality of business. The simplified procedures allowed for a significant increase in the number of initial registration of businesses. The government also continued with the regulatory reform of licences by simplifying licensing procedures and reducing the number of licences. However, there is still scope for further simplification. Significant problems remained regarding the issuance of construction permits, which showed a sharp 40% drop in 2007. Regarding market exit procedures, the new law on bankruptcy procedures was approved in May; this provided a more efficient framework for business exit, as no bankruptcy proceedings had been concluded in the courts in recent years. Overall, administrative procedures for the establishment of businesses were simplified considerably. However, there remains room for further improvements.

#### *Legal system*

The government took a number of steps to strengthen the judicial system and the fight against corruption. A number of electronic public services (including the electronic public procurement system) were introduced in order to increase transparency. The general judiciary reform continued, with the adoption of a law on the organisation and functioning of the judiciary. Inspections of courts and public agencies were stepped up and legal procedures were initiated against officials responsible for violations. Legal certainty was increased by establishing a legal basis for a new type of administrative courts to rule on commercial cases and disputes between companies and public institutions. Preparations for defining property rights made progress. Offices in several cadastral areas were prepared for the initial registration of land, and preparatory work on the digitisation of maps of the territory was completed. However, further efforts are required to effectively fight against corruption that affects the business climate and has an adverse impact on the quality of public services. Overall, the legal framework for contract enforcement was strengthened, but the judiciary remained weak and uncertainty about real estate property rights persists.

#### *Financial sector development*

Financial intermediation expanded significantly, but its level remained low. Bank lending to the private sector rose to 31.4% of GDP in June 2008 (up from 21.4% at end-2006), while money supply (M3) remained above 70% of GDP. The share of other financial intermediaries remained low; no domestic companies were listed on the Tirana Stock Exchange and no progress was made regarding private pension funds. The adoption of the law on securities in March 2008 provides some basis for the development of the capital market. Insurance companies continued to be the other main intermediaries in the financial sector, with total assets of close to 2% of GDP. The banking sector is wholly owned by the private sector, and foreign capital participation recently increased to almost 99%. Following a merger, the number of banks was reduced to 16. Competition in the banking sector increased, while the concentration of assets declined. Profit rates of banks remained relatively strong (return on assets was 1.3% in June 2008, comparable to that of at end-2006). Banks continued to widen their range of lending products and increased the number of regional offices. Overall, financial intermediation, dominated by the well-functioning banking sector, continued to increase at a rapid pace, while the role of the non-bank financial sector remained limited.

The stability of the financial sector remained satisfactory, supported by a favourable economic environment and strengthened financial supervision. Capital adequacy remained on average far above the minimum requirement (with ratios of 17.3% and 12%, respectively, in June 2008), albeit somewhat lower than at end-2006. The quality of credit remained relatively high and the share of non-performing loans in total loans remained low, although it increased

to close to 4% in March 2008 (up from 3.1% at end-2006). Strong - albeit slowing - credit growth and the fact that a large share of credit is denominated in foreign currencies are factors which demand careful handling of credit risks. The establishment of the credit registry brought additional transparency to the banking system. Overall, the financial system remained sound, addressing the growing risks of a possible deterioration of credit quality.

### **3.2. The capacity to cope with competitive pressure and market forces within the Union**

#### *Existence of a functioning market economy*

Macroeconomic stability was broadly maintained, providing economic agents with a supportive environment for decision-making. The functioning of market mechanisms still remained seriously distorted by unreliable energy supply, weak judiciary, uncertainty about real estate property rights and the inefficiencies still present in the regulatory framework for businesses.

#### *Human and physical capital*

The reforms to improve the quality of labour force continued, with a strong emphasis on vocational training. The government adopted a strategy on employment and vocational training, aimed at bringing unemployment down to the average level of the EU countries by 2013. In parallel, the National Council of Pre-University Education was established, and new guidelines for secondary schools and standards for post-graduate programmes were introduced. In total, public spending on education rose to 3.3% of GDP in 2007 (from 2.9% in 2006). To promote employment, the government introduced a partial compensation of training costs and a temporary compensation of social insurance contributions for companies that hire unemployed job-seekers. Proper assessments of the impact of the measures on the labour market continue to be constrained by limited and partly inconsistent labour market statistics. Overall, opportunities were created for increasing the relatively low quality of human capital, but their effects on the labour market remained unclear.

Physical capital accumulation continued at a rate comparable to 2006, although slower than in earlier years. The ratio of total investments to GDP was 29.2% in 2007. Public investments focused on the energy sector and on road construction. Net foreign direct investment (FDI) inflows increased significantly (to 5.9% of GDP in 2007), mainly owing to strong inflows from large-scale privatisation in the telecommunication sector. FDI inflows were also significant in the financial sector. The total stock of FDI remained relatively low, reaching 19.1% of GDP in 2007. Infrastructure remained poor despite significant investment in the road network. Preparations for reconstruction of railways and ports progressed. The hydro-power based electricity sector continues to lack the capacity to meet domestic demand. The number of concession agreements for building small-scale hydro-power plants has increased and the construction of a thermal power plant has begun. However, these measures will provide only a partial solution to the electricity shortages. Overall, capital accumulation continued, but capital stock remained limited.

#### *Sector and enterprise structure*

Enterprise restructuring continued in the remaining sectors under state ownership, largely as part of the preparations for privatisation. In the oil production sector, the restructuring of the ARMO oil refinery and the oil producer Albpetrol made progress and an investment plan for the oil refinery was submitted to the government as an obligatory document for the tender

procedures. In the electricity sector, preparations for the restructuring and privatisation of the loss-making power corporation (KESH) made progress. However, electricity tariffs remained below cost-recovery levels, thus contributing to financial losses. Electricity supply remained unreliable. Overall, restructuring of enterprises progressed, but major additional changes are needed in order to increase the competitiveness of the current or former large-scale state monopolies.

The sectoral structure of the economy remained broadly unchanged, with the largest production being in the services sector. The mining sector contributed significantly to the increase in total production and exports, although its share of total production stayed relatively low. The agricultural sector remained the biggest employer, with 58% of total employed, but contributing only 20.7% of the GDP (*for details see statistical annex*). The informal sector remains large. Overall, the economy broadly maintained its structure, with considerable scope for further expansion of the services and industrial sectors, at the expense of inefficient agriculture.

#### *State influence on competitiveness*

The government kept the transfer of subsidies from the central budget at a relatively low level (0.4% of GDP in 2007). Electricity tariffs, set by a regulatory State authority, remained below cost-recovery levels, creating indirect subsidies to consumers. The recent sharp increase in global fuel prices triggered an exemption from the excise duty on fuels for producers in the agricultural and industrial sectors, as well as for certain energy producers. Overall, distortions of competition arising from state interventions were kept within bounds, while the energy sector issues remained unsolved.

#### *Economic integration with the EU*

The openness of the economy increased considerably, with total foreign trade in goods and services reaching 81% of GDP in 2007 (compared to 72% in 2006). Trade increased mainly due to an increase in imports, while competitiveness in exports remained weak (with exports of goods accounting for 10% and exports of services for 18% of GDP in 2007). The EU continued to be the main trading partner, while the share of the trade in goods with the EU declined slightly to 64% (down from 69%). The decline was partly the result of increased trade with CEFTA<sup>8</sup> countries, but mainly due to a strong increase in exports of mining products to Asia. The country's weak competitiveness in trade with the EU continues to be reflected in a very high concentration of export partners (more than two thirds of total exports of goods are destined for one country, namely Italy). Imports (also in terms of trading partners) continued to show a considerably more mixed picture, with two main trade partners accounting for less than 50% of total imports. Overall, the EU continued to be the main partner in international economic relations, while overall international integration remained limited.

## **4. EUROPEAN STANDARDS**

This section examines Albania's capacity gradually to approximate its legislation and policies to the *acquis* related to the internal market, sectoral policies and justice, freedom and security, in line with the Stabilisation and Association Agreement and the European Partnership

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<sup>8</sup> CEFTA or Central European Free trade Agreement

priorities. It also analyses Albania's administrative capacity. In each sector, the Commission's assessment covers progress achieved during the reporting period and summarises the country's overall level of preparations.

## 4.1. Internal market

### 4.1.1. Free movement of goods

Good progress has been made on **standardisation**. By the end of September 2008, Albania had adopted 14,424 European standards (ENs), or 84.3% of all the ENs adopted by the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC). This exceeds the target of 80% that had been set for 2008. The Directorate-General for Standardisation (DGS) has used numerous promotional tools to raise the private sector's awareness of the benefits of standardisation. This has led to increased use of standards (117% more standards were sold during 2007 than in 2006 and the sales of standards continued to grow in the first half of 2008). DGS has continued to participate in the activities of CEN and CENELEC as an affiliate member.

The new Law on standardisation was adopted in February 2008 and the relevant implementing legislation has been drafted. This includes the establishment of a supervisory board made up of representatives of all stakeholder groups which will monitor DGS activities. In accordance with the new law, DGS will be the enquiry point for the agreement on technical barriers to trade under the World Trade Organisation (TBT/WTO). Preparations in the field of standardisation are on track.

Limited progress can be reported on **conformity assessment**. The number of accredited conformity assessment bodies increased slightly.

Further progress can be reported on **accreditation**. A new Law on accreditation was approved in November 2007 and implementing legislation is being drafted. The national strategy on accreditation, which is part of the newly adopted mid-term strategy on quality infrastructure development, has been approved. The quality management system of the Directorate for Accreditation (DA) has been updated to bring it into line with EN ISO/IEC 17011. Two technical committees were established to develop accreditation schemes in new areas. The Advisory Board for Accreditation is now in operation. The DA has 14 staff and is a member of the International Accreditation Forum (IAF) and an associate member of International Laboratory Accreditation Cooperation (ILAC). It continues to participate in European Cooperation for Accreditation (EA) activities. The DA has signed memoranda of understanding with all the accreditation bodies of neighbouring countries and with some Albanian institutions and associations and continues to promote accreditation. Preparations in this area are advancing.

Good progress can be reported in the field of **metrology**. The Directorate for Metrological Supervision and the four regional centres of the Directorate-General for Metrology (DGM) are now in operation. Further training was provided to DGM staff. The quality management system in accordance with EN ISO/IEC 17025 is already being implemented in DGM. Applications for accreditation of two laboratories were submitted to the DA in December 2007. Some of DGM's seven laboratories took part in laboratory inter-comparisons and proficiency testing at bilateral and regional levels. The national medium-term strategy on the development of the metrology system was adopted in December 2007.

A new Law on metrology transposing provisions of the old approach directives was adopted in February 2008. It sets up a decentralised metrology system and deregulates some metrological activities, such as calibration and verification of measuring instruments in use. The government approved a regulation concerning national measurement standards. Regulations on relations between DGM and other designated laboratories and on supervision have also been drafted. To facilitate involvement of the private sector, DGM has identified the requirements for legal persons performing particular legal metrology tasks. It has also signed a mutual recognition arrangement with the International Committee for Weights and Measures (CIPM MRA).

Progress has been made on **market surveillance** and consumer protection. The new strategy on consumer protection and market surveillance for 2007-2013 was approved in November 2007. It is based on three sectoral strategies, one on consumer protection and market surveillance for industrial products, one on food products and the other on pharmaceutical products. The respective implementing institutions are the Ministry of Economy, Trade and Energy (METE), the Ministry of Agriculture, Food and Consumer Protection (MAFCP) and the Ministry of Health (MoH).

The capacity of the Market Surveillance Directorate (MSD) in the METE is being strengthened with three more staff and appropriate training on horizontal legislation. Actual market surveillance is carried out by the Central Technical Inspectorate (CTI), which is an independent Directorate-General of the METE. The MSD, the CTI and the customs authorities have provided information to consumers on dangerous products (e.g. toys and electrical equipment) and have taken measures to withdraw such products from the market.

Albania has made some progress in approximating its horizontal legislation and its product-specific technical regulations to the *acquis*. Legislation has been amended to transpose the directives on toys, simple pressure vessels, pressure equipment, low-voltage equipment and electromagnetic compatibility. However, in the case of the old approach directives, the only progress which can be reported is in the field of metrology.

A Law on **consumer protection** which broadly takes into account the relevant EU standards was adopted. The new law provides the legal basis for settlement of disputes, with a Consumer Protection Commission and a Consumer Protection Council as the decision-making and consultative bodies respectively. However, these bodies have not yet been established. (*See the paragraph on market surveillance above for further details.*)

Overall, preparations in this area are on track. However, most of the sectoral *acquis* has yet to be transposed and implemented. Horizontal administrative infrastructure exists, but the capacity of the various authorities and institutions will have to be improved, as it is still insufficient to ensure proper enforcement.

#### *4.1.2. Movement of persons, services and right of establishment*

There has been some progress on **movement of persons**. The Law on foreigners was adopted in July. Its compatibility with the relevant EU standards has yet to be established. No developments can be reported on recognition of professional qualifications or on coordination of social security.

There has been some progress on the **right of establishment**. The national registration centre for businesses has made registration simpler. Registration fees have been reduced and licensing simplified. (*See Section 4.2.1 for further details.*) However, uncertainties about

property rights are still discouraging establishment. Preparations in this field are advancing moderately.

There has been progress in the area of **company law**. A new Company Law was approved in April 2008. Implementing legislation has been drafted, laying down models for the four different types of commercial companies (general partnerships, limited partnerships, limited liability companies and joint-stock companies). However, the new Company Law falls short of addressing the issues of cross-border mergers and takeover bids. Preparations in this area are advancing.

No progress can be reported on **auditing**. The issue of statutory audits of annual accounts has not yet been addressed and an independent public oversight system still needs to be established.

Some progress can be reported in the case of accounting. Translation of the international accounting standards (IAS) was completed, and they entered into force in January 2008. Companies with annual revenue of over €10 million over the last two years and with 100 or more employees need to apply IAS. The National Accounting Council is responsible for supervising and monitoring implementation of the accounting standards. Further efforts are needed to build a credible and properly functioning financial reporting framework, especially for small and medium-sized enterprises. Enforcement of financial reporting needs to be tightened up.

There has been little progress as regards **freedom to provide services**. No clear distinction has yet been made between providing services on a temporary basis and providing them via a permanent establishment. The government issued decisions on licensing and assets. As regards postal services, a draft text establishes weight limits in the reserved area and tariffs for the universal service provider, and the government plans to liberalise Albania's postal market by 2009. The regulatory authority for postal services was established following the adoption of the Law on electronic communications in May 2008. However, separation of regulatory functions from policy-making has not yet been achieved.

Some progress can be reported concerning financial services. The Bank of Albania has adopted several of the implementing regulations provided for by the Law on banks of June 2007. Regulations were adopted on risk management for the activities of branches of foreign banks and on the internal audit system in banks and branches of foreign banks. Foreign banks operating under an Albanian licence can now offer services through branches whilst enjoying the same rights and treatment as Albanian banks. Further efforts are needed to approximate the banking legislation to the *acquis*, particularly to the Capital Requirements Directive.

The Supervision Department of the Bank of Albania was reinforced by adding staff and providing training on the Basel II principles, credit risk, market risk, risk management, operational risk and crisis management. However, further administrative capacity would be necessary in order to take into account developments in the banking sector. A credit registry was brought into operation, thus strengthening supervision and improving risk management for banks. Cooperation between supervisors of domestic and foreign competent authorities needs to be strengthened.

No substantial progress can be reported in the insurance field. The insurance market continues to be dominated by obligatory insurance schemes, which account for two thirds of all non-life insurance. The recent entry of three foreign insurance companies has not resulted in any

diversification of the Albanian market. Motor third-party liability (MTPL) has not yet been liberalised and the mandatory green card tariffs are still set by the Ministry of Finance. The Ministry also sets minimum and maximum tariffs for MTPL. This limits competition.

New legislation on securities has entered into force, aiming to approximate Albania's legislation to a number of directives, such as the Markets in Financial Instruments Directive and those on prospectuses, transparency, insider dealing and credit institutions. Three more decrees were approved relating to insurance brokerage, reserve funds and insurance damage assessors.

The Financial Surveillance Authority (FSA) launched a computerised system for MTPL - known as the national data centre – as provided for under the Fourth and Fifth Motor Insurance Directives. The system aims to make it easier to track down uninsured vehicles. The FSA organised seminars and training sessions on insurance and pension fund issues. However, further measures are needed to strengthen its capacity to cope with the growth in the market and to secure the authority's independence. The FSA employs 45 staff, although its approved organisation chart has provision for 58. At present, 90% of the FSA's overall budget is financed from its own resources; the remaining 10% comes from the State budget.

#### *4.1.3. Free movement of capital*

No progress can be reported on free movement of capital. The legislative framework on foreign exchange is being revised, but the process has not yet been completed. Significant restrictions still remain to the full liberalisation of capital movements required under the SAA.

There was some progress in the field of **payment systems**. The Bank of Albania launched an electronic data transmission project to accelerate primary market auctions of government securities. The number and value of transactions and of payments processed by the Albanian inter-bank payment system and the Albanian electronic clearing house has increased. The number of credit and debit cards in use has also increased and the network of terminals using them has been expanded. However, Albania continues to be a predominantly cash-based economy. The degree of financial intermediation continues to be relatively low.

Preparations in the field of free movement of capital and payment systems remain at an early stage.

#### *4.1.4. Customs and taxation*

There has been some progress in the area of **customs**. Albania took measures to ensure timely implementation of the tariff reductions provided for in the Interim Agreement. The upward trend in revenue collection has continued, despite a reduction of the average level of customs tariffs. Collection of customs duties during the period from October 2007 to May 2008 exceeded the projected amount by 6%.

Computerisation of customs houses has been completed and all customs declarations are processed using the ASYCUDA++ computerised system. Migration to the ASYCUDA Word system is in progress. However, efforts are required to define an IT strategy in the long term.

Use of computerised risk analysis modules has been extended, but the physical inspection rate (20-25%) is still high by European standards. Risk assessment and controls need to be revised and strengthened, including for assessing the declared transaction value. Albania has implemented the TIR convention and procedures. Steps have been taken towards establishing

Albania's first free zone in the port of Durrës. 38 customs warehouses were authorised in 2008.

The Combined Nomenclature 2008 for the classification of goods in trade with the EU was adopted. The concept of binding origin information was introduced in May 2008. New provisions were also introduced on the role of customs in protecting intellectual property rights providing for approximation to European standards. Control of dual-use goods has been implemented in the risk management system. However, no progress can be reported on effective control of intellectual property rights by customs authorities.

Further progress is needed on approximation to EU practices, in particular on simplified procedures, rules of origin, valuation methods (greater use of transaction value) and transit (ATA Convention). A study of the economic impact of the ATA carnet procedure was performed. An agreement needs to be signed between the customs DG and a guarantor national association. The compliance with the Interim Agreement of Albania's tax regime for imported cars needs to be determined.

As regards administrative and operational capacity, legislation was approved in July 2008 increasing the staff of the customs administration by 27 posts. The procedure to establish a qualified pool of trainers has started and training activities were organised on customs and tariff issues, free trade agreements and TIR procedures. However, a training strategy has not yet been established. A new performance indicators system has been defined to facilitate career development. However, the system only allows individual assessments. Customs officials still do not have civil servant status.

As regards infrastructure development, work has started on a project to improve the infrastructure of most first, second and third category border crossing points (BCP). A joint border crossing point with Montenegro is being established and procedures have been launched for construction of 10 other smaller BCPs. The infrastructure of Tirana customs house is being improved.

Overall, preparations in the field of customs are advancing, but further efforts are needed on legislative alignment and implementation.

There has been progress in the field of **taxation**. A Law on procedures for the tax administration was approved with the aim of reducing the informal economy and improving the business environment. The provision requiring payment of the full tax assessed plus a 15% fine before lodging a court appeal against decisions of the tax administration was abolished. The taxation system is becoming simpler, as approximately 95% of taxpayers are subject to the 10% flat tax on income. The tax reforms have shown a positive path towards increased tax collection, particularly as regards income tax and corporate tax revenue. Albania has started an assessment of the compliance of its tax legislation with the Code of Conduct on business taxation.

Computerisation of tax offices is progressing and 90% of all taxpayers are now registered in the integrated tax system. E-tax procedures are being implemented and are already being used by taxpayers to file their returns and pay their taxes. The Directorate for Registration and Taxpayer Services came into operation to provide assistance on tax matters. A manual for the Internal Audit Directorate in the tax administration has been drafted and training on tax control and audit issues was provided to staff of the tax administration. Disciplinary measures have been taken against staff failing to perform as required by their duties.

However, the overall tax collection rates remain low, especially from local governments. There is a need to increase the capacity of local government tax offices, especially in the framework of fiscal decentralisation. A comprehensive tax collection and control strategy has not yet been developed and the informal economy is still high. Consultation with the business community needs to be enhanced to dispel insecurity about the legislative environment and facilitate implementation of tax reforms. The conformity of some changes to the VAT rates for imported printed materials with Albania's obligations under the Interim Agreement needs to be assessed. Compliance with European standards needs to be established in the case of amendments to the excise legislation concerning the definition of small wine producers and certain cases of reimbursements of excise on fuel.

Overall, preparations in the field of taxation are advancing moderately. Efforts are needed to approximate Albanian legislation to the *acquis*, ensure its compliance with the Interim Agreement and reinforce the administrative capacity to curb the informal economy and reduce tax evasion.

#### *4.1.5. Competition*

Progress continued in the anti-trust field. The Albanian Competition Authority (ACA) recruited additional staff and filled all its 35 posts. ACA staff participated in training seminars in Albania and abroad. The code of ethics of the Competition Authority was approved and parliament approved the authority's structure and organisation chart in May 2008.

The ACA contributed to the promotion of a competition culture by organising workshops, producing competition policy documents and signing memoranda of understanding with various regulatory authorities. These included the Bank of Albania, the Ministry of Economy, Trade and Energy, the Regulatory Entity of Telecommunications, the Association for the Protection of Consumers, the Directorate-General of Customs and the Agency for Public Procurement. Competition culture in Albania is slowly evolving. Businesses have started to submit complaints about anti-competitive practices. This points to growing public awareness of the benefits of competition enforcement.

The ACA imposed fines of 2% of total turnover on two mobile telephony companies for abuse of their dominant position on the market. A court decision has not yet been taken on the appeals filed by the two companies. The ACA also decided to impose fines on bread producers and cement-makers for violation of competition rules. The ACA issued recommendations on the telecommunications market. It continued its investigation into the insurance market, concluded a sectoral investigation on the energy market and started analysing the banking sector. It also assessed several merger notifications. The Law on competition is to a large extent in line with the *acquis*. However, further efforts are needed on adopting implementing legislation in the field of competition.

There has been progress in the area of **State aid**. The legal and institutional framework has been strengthened by the approval of implementing rules on horizontal aid and of guidelines on aid in the form of compensation for public services. The staff of the State Aid Department (SAD) continued to receive training, including on aid in the utilities sector. The SAD provided advice on several legislative drafts and continued to raise awareness among State aid providers. A report on the inventory of existing aid schemes was approved in January 2008, and the annual report on State aid for 2007 was approved in July 2008. The State Aid Commission took eight decisions on cases notified by aid providers. Albania has started preparations for implementing the State aid provisions in the iron and steel protocol to the

Interim Agreement. However, no decision on granting State aid to the iron and steel sector has yet been taken. Further efforts are needed as regards implementation.

Overall, preparations in the area of competition are well on track.

#### *4.1.6. Public procurement*

There has been limited progress in the area of **public procurement**. The legislative framework of the public procurement system has not changed substantially. The Public Procurement Law was amended twice. The first amendment partially revised provisions on use of negotiated procedures in cases of extreme urgency. The second concerns purchases of electricity. It exempts domestically produced energy from the law and introduces new provisions allowing use of negotiated procedures without prior publication of a contract notice. It also allows use of framework agreements for purchasing electricity. This amendment is not fully in line with the relevant provisions of the EC procurement directives.

The capacity of the Public Procurement Agency (PPA) was strengthened by recruiting 10 additional staff. The PPA continued to organise training seminars on public procurement. However, contracting authorities still require more in-depth practical training to strengthen their operational capacity and professionalism. The role of the PPA as the central coordinating and advisory authority for legal and procedural reforms needs further strengthening to ensure consistent development in all areas of public procurement. Legislative activities in certain areas of public procurement are still split between various stakeholders.

The Public Procurement Advocate was established as an independent institution reporting to parliament. However, it has no particular executive powers and its functions duplicate the monitoring tasks of the PPA. The institutional framework for remedies is not in line with the *acquis*. Decisions on appeals are taken by the same unit of the PPA that is responsible for interpreting the law and giving advice to contracting authorities. Current procedures for handling complaints still do not meet recognised international standards.

Albania introduced electronic procurement at the end of 2007. It is now used by all ministries and also by the Power Corporation and the Directorate-General for Roads. However, its application is hampered by technical problems and the insufficient IT capacity of many contracting authorities.

Overall, preparations in the area of public procurement are advancing. However, there is no coherent, comprehensive strategy for further development of the procurement system in either the medium or long term. Further approximation is required in all areas of public procurement, particularly for concessions and utilities.

#### *4.1.7. Intellectual property law*

There has been limited progress on intellectual property rights. The Albanian Copyright Office (ACO) signed memoranda of understanding with the Competition Authority, the National Council of Radio and Television, the National Cinematography Centre and the tax and customs administrations, with the aim of fighting piracy and enforcing the copyright law. Joint inspections were carried out with the tax administration in several cities, and administrative fines were imposed for infringements of copyright. However, the number of cases of violation of copyright law brought to court is low. Amendments to the provisions implementing the Customs Code relating to intellectual property rights and brand controls were adopted in order to allow products to be classified as “fake”, “pirated” or “liable to

infringe the rights of patent or certificate owners". The draft national strategy on culture partially addresses issues regarding protection of copyright. However, a national strategy on intellectual property rights has not yet been prepared.

Several public information campaigns on intellectual property rights were organised and ACO staff received specific training on copyright and law enforcement issues. However, the capacity of the ACO needs to be strengthened by further training and additional human resources. Currently, a single copyright inspector is supposed to cover the entire country. There are plans for regional copyright offices, but these have not yet been established.

There has been some progress as regards **industrial property rights**. A new Law on industrial property rights was adopted in July 2008. Its implementing legislation is still being drafted. A Board of Appeal was established in the Directorate for Patents and Trademarks (DPT) and the Directorate completed the reorganisation of its computer system. The DPT organised training seminars and activities to promote the values of industrial property rights, and the European Patent Office (EPO) provided assistance to both the DPT and ACO. A bulletin of industrial property rights containing records of registrations and changes of intellectual property rights titles is published and an on-line version is available on the DPT website. The Administrative Council of the EPO approved Albania's request for accession to the European Patent Convention. Preparations for its ratification are underway.

The capacity of both the ACO and the DPT require further strengthening. Piracy and counterfeiting remain widespread. Enforcement is hampered by insufficient inspection capacity and the low level of fines under the current legislation, plus the lack of appropriate awareness, experience and qualifications in this field on the part of the courts. The number of infringement cases regarding intellectual property rights that are brought to court is still too low. Further efforts are needed to improve inter-institutional cooperation and the ability of customs authorities to detect counterfeit products. The general level of awareness on intellectual property rights and their benefits is still low.

Overall, preparations in the areas of intellectual and industrial property rights are not very advanced.

#### *4.1.8. Employment and social policies*

There has been some progress in the area of **employment policy**. The Employment and Vocational Training Strategy for 2008-2013 was adopted. Its main objective is to reduce the level of unemployment to a level comparable to that in EU countries by 2013. New employment promotion programmes have been adopted, providing subsidies to employers for training and/or hiring jobless persons. One of the programmes specifically targets jobless women. Measures to promote employment of young graduates have been stepped up. However, monitoring and assessment of the impact of such programmes are still lacking.

Minimum wages and pensions continued to increase and legislation increasing the base level of unemployment benefit was approved. A computer-based information system is being developed in the head office of the national employment service and in two regional offices. Databases on vacancies, jobseekers and training activities have been established. However, the system is not yet extended to all offices. In general, the link between the vocational training offered and labour market demand is not sufficient, and the capacity of the labour offices to carry out labour market surveys is not strong enough. Also the capacity of regional labour offices remains limited.

In the field of **social policies**, preparations for amendment of the *labour law* are underway.

Regarding *health and safety at work*, some progress has been made in the legislative area. In March 2008 the Council of Ministers adopted a decision on the determination of dangerous substances. A working group has been set up to draft the national strategy for health and safety at work. The staff of the State Labour Inspectorate was increased from 130 to 167 and 12 regional directorates have now been established, although they lack adequate physical resources. The Directorate for Health and Safety at Work was reorganised and strengthened, but it does not have adequate capacity to assess rights at work and its technical resources are poor. The Gerdec incident in March 2008 illustrates Albania's shortcomings on occupational health and safety at work and the need for enhanced cooperation between the labour inspectorate and the tax administration.

*Social dialogue* is still at a developing stage, and the position of trade unions and employers' organisations alike remains weak. (*See also political section – human rights and the protection of minorities.*)

The *social protection and social inclusion* strategy for 2008-2013 was adopted. It aims at reforming the economic assistance scheme for poor families and cash payments for groups in need, setting up community social services, protecting children and ensuring social inclusion of minorities, the disabled and the elderly. The 2008 budget provides for 1.3% of the GDP to support the poor and vulnerable. Improvements in the method of determination of the number of poor families have already resulted in an increase in the economic assistance provided. The strategy also provides for decentralisation of services to local government. 43 community-based services and 29 residential services for the disabled and elderly came into operation during 2007. The Inspectorate of Social Services has been set up to supervise, at central and local levels, the implementation of standards applicable to social care services. However, analyses of poverty and social exclusion are not sufficiently developed, including enhanced poverty monitoring. (*See also political criteria - economic and social rights.*)

Efforts have been made to improve the financial sustainability of the social insurance scheme. Procedures for pensions and social insurance have been improved. Work has started on a centralised digital social security archive which will allow electronic registration of individual accounts and contributors and payment of benefits.

Overall, preparations in the areas of employment and social policies are advancing moderately. (*See also human rights and the protection of minorities section on social inclusion, anti-discrimination and equal opportunities.*)

There has been some progress in the area of **public health policy**. The national strategy for development and integration includes a number of public health-related activities. Albania has approximated some of its legislative framework to the EU standards by approving legislation on blood transfusions. A training plan for school teachers has been prepared and structures have been established for tobacco control. However, implementation of the new legislation on blood transfusions is still outstanding and the implementation of the Law on health protection against tobacco products is generally poor. The Law on health care has not yet been adopted. Overall, administrative capacity in the field of public health remains weak and inequalities persist in rural areas. Preparations in this area are not very advanced. (*See also political section on mental health.*)

#### *4.1.9. Education and research*

Some progress can be reported in the area of **education**. The education budget for 2008 was increased by 12% in comparison with the previous year. According to the plans, this trend will continue over the period 2009-2011. Salaries for pre-university teachers were raised and further increases of teachers' salaries are planned in the years ahead.

The National Council of Pre-University Education was set up, including independent experts and representatives from the national and local administrations. It aims at providing advice on national programmes and strategies, curriculum reform, budgets and evaluation standards. Implementation of the scheme on final and entry exams for universities ("State matura") is continuing and participation by disabled students in the scheme is being facilitated. A new digital central system for university admissions has been established and career counselling for higher education applicants has been introduced. Programmes to develop teachers' professional qualifications have continued. Legislation to liberalise the textbook market has been approved. A scheme for subsidising purchases of textbooks was introduced for students from vulnerable groups and families receiving social assistance.

Work on development of the Albanian qualifications framework has continued. Parliament approved an extension of the duration of compulsory education from eight to nine years. A master plan has been prepared for implementation of an e-school programme to enhance use of information technologies in schools. The government is taking measures to increase enrolment in secondary education. Efforts are also being made to make vocational education and training (VET) more attractive and to involve potential employers in the preparation of programmes. An excellence fund provided funding for 25 students in 2007.

However, enrolment in secondary education in rural areas is still lagging behind. Continued efforts are required on vocational training. Poor VET infrastructure is hampering development of this sector. Efforts are needed to consolidate and expand the network of vocational education centres and to foster closer links between education and the labour market.

The National Tempus Office (NTO) has improved its monitoring capacity and its cooperation with the Ministry of Education and Science. However, further efforts by the NTO are required to increase participation in the programme by improving the quality of the projects submitted by Albanian universities. Preparations in the field of education are advancing moderately.

There has been some progress in the area of **research**. Since January 2008, Albania participates in the Seventh EC Framework Programme on research and technological development (FP7) as an associated country and has taken measures to increase its participation in FP7. However, successful participation by Albania in FP7 will imply enhancing both administrative capacity and national research capacity, including investment in research infrastructure and incentives to attract students to science. Efforts are also required to increase cooperation with other international partners.

A mid-term budgetary plan for scientific research for the period 2009-2011 has been approved, marking an annual increase of 35% in the national budget for research. The budget for research and development doubled in 2008. However, its share of the total budget (0.16%) is still very low.

Albania has started to redesign its research policy. Improvement of the links between research institutes and universities is being addressed. The Fundex and Brain Gain programmes were launched with the aim of encouraging young Albanian researchers working abroad to return.

Establishment of a centre for promotion and implementation of international and national research cooperation programmes is being considered. Albania's national Euraxess mobility portal and network need to be integrated with the European Euraxess service.

Overall, preparations in the area of research are advancing moderately.

#### *4.1.10. WTO issues*

Albania is continuing to implement its relevant WTO obligations. The Directorate for Trade Policy in the Ministry of Economy, Trade and Energy acts as the secretariat for WTO issues via its section on WTO relations and economic cooperation. Albania is working on identification of training needs to enhance its trade policy-making capacity. The WTO concluded successfully the assessment of the EC-Albania Interim Agreement. Albania participated actively in this process.

### **4.2. Sectoral Policies**

#### *4.2.1. Industry and SMEs*

There has been progress in the field of industry and SMEs. As from June 2008, Albania is taking part in the entrepreneurship and innovation pillar of the Competitiveness and Innovation Programme. Progress has been made in implementing the European Charter for Small Enterprises. The National Registration Centre for Business (NRC) can register a new business in a single day. The number of steps required for registering a business has been reduced and registration costs are now approximately 1 Euro. The NRC increased its staff and has 19 operational windows in different municipalities. There are plans to open 12 additional windows and to enhance co-operation between the NRC and the chambers of commerce and industry. However, further efforts are required to strengthen the capacity in the NRC branches of the municipalities.

Licensing procedures are being reviewed and simplified. Licensing requirements have been reduced. 64 of the 151 licences identified in 18 sectors of the economy were removed and another 21 licences were changed into self-declaration. Work is in progress to identify other licences that could be removed. However, licensing and post-registration processes require further simplification and the removal of licences needs to be accompanied by a strengthening of the supervision capacities of public agencies in order to guarantee the standards that safeguard consumer rights.

An online commercial register was established, the law on e-signature was approved and a start was made on implementing e-procurement. The fiscal burden on enterprises was reduced in January 2008 by the lowering of the profit tax from 20% to 10%. Businesses can file their tax returns and social contributions declarations electronically in 12 cities including Tirana. Electronic payment of taxes is also possible through certain banks. A new law on companies was adopted in April 2008 following the approval of the new SME strategy in 2007. The Bankruptcy law was adopted, providing a more efficient framework for market exit. The Law on Chambers of Commerce and Industry was amended to remove the mandatory requirement for companies to register with the Chamber. The Business Advisory Council has been active in representing business interests. However, participation by business and corporate associations in legislative processes could be enhanced.

The government approved the establishment of six industrial parks. In addition, the competitiveness fund and the export credit guarantee fund are being implemented. The law on

leasing has been amended. In June 2008 the government approved the regulatory framework for the implementation of a € 30 million credit facility agreed between Albania and Italy. Its Project Management Office has been established. However, further efforts are required in order to improve the competitiveness of the SME sector.

Overall, Albania has taken steps to significantly improve the business environment. The regulatory framework is now more conducive to operating a business. However, further efforts are needed on contract enforcement and property rights, as well as on the effectiveness and transparency of conflict resolution mechanisms. Preparations in the field of industry and SME are advancing.

#### *4.2.2. Agriculture and fisheries*

Some progress has been made in the area of **agriculture and rural development**. The Law on Agriculture and Rural Development was adopted, thereby providing the legal basis for agricultural and rural development policy. The government approved the Agriculture and Food Sector Strategy and the cross-cutting Rural Development Strategy for the period 2007-2013. A new law on food was approved which provides support for geographical indications and for origin labelling of products. However, this law has yet to be implemented. Direct support to farmers continued and was further extended with the aim of encouraging the production and consolidation of commercial farms. It is directed at new plantations of fruit trees, olive trees and vineyards, livestock farms, greenhouse production, and drop irrigation. The budget for 2008 is about € 7 million.

The extension services were reinforced. The Agricultural Information Centres received equipment and increased their publication activities and media presence. Cooperation with the Agricultural Technology Transfer Centres has resulted in 25 on-farm research projects involving a large number of farms, and in a wide range of training activities. Organic farming was an important part of the extension programmes.

In the field of rural development, the managing authority responsible for programming rural development support measures and for leading the monitoring and reporting process was established. A study on the setting up and functioning of the payment agency provided for in the Law on agriculture and rural development was completed. The Agency is due to be operational in 2009.

However, structural weaknesses such as land fragmentation, poor marketing systems and the low level of technical education of farm operators still affect the competitiveness of the sector and its capacity for meeting the demand for food products. Agricultural output continued to grow at a slower rate than the economy as a whole, and the trade deficit in agricultural and processed agricultural products continued to increase. Albania is not self-sufficient, even in traditional products such as milk and dairy products, vegetables and meat.

There has been limited progress in the area of **food safety, veterinary and phytosanitary policy**. The new law on food adopted in January 2008 establishes the general principles for food and feed hygiene. The adoption of its implementing legislation has started. The government approved a number of regulations on the control of animal diseases; however, these are not in full compliance with EU legislation. The State budget supported prophylactic measures against brucellosis, tuberculosis, anthrax, and classical swine fever. The government has taken measures to promote registration of small ruminants. Funds have been allocated for the registration of all bovines by the end of 2008. However, implementation of registration

has been delayed and only 40-45% of this target had been reached by the end of September 2008.

No progress can be reported as regards the upgrading of agri-food establishments.

The system of controls of live bivalve molluscs still cannot be considered to be equivalent to the Community system. Specific guarantees concerning histamine are still requested for each consignment of fish and fishery products intended for the EU market. Albania is developing its own capacity for histamine testing. However, further progress in upgrading and accreditation of laboratories is still necessary.

There has been limited progress in the phytosanitary sector. Amendments have been adopted to the Law on the Plant Protection Service and to the regulations on the registration and placing on the market of plant protection products. The capacity of Border Inspection Posts in the veterinary and phytosanitary sectors has been strengthened by the drafting of legislation and by the provision of equipment and training.

Overall, there has been some progress in improving the legal framework on agriculture and rural development, food safety, veterinary and phytosanitary policy, but further efforts are still required in order to enhance the capacity of all actors involved. Preparations in these areas are advancing moderately.

There has been some progress in the field of **fisheries** regarding inspection, control and international cooperation. Albania became a member of the International Commission for the Conservation of Atlantic Tuna. Regarding inspection and control, the fines imposed for illegal fisheries increased substantially. However, collection rates are poor but confiscation of equipment and withdrawal of licences are used as deterrents. Law enforcement and implementation require further attention. The directorate of Fisheries Policies in the Ministry of Environment, Forestry and Water Administration does not have inspection vessels. It has to rely on the Border Police, which does not have appropriate training for fisheries inspection. Albania is making progress towards the establishment of an EU-compliant log book and fishing fleet register. However, a landing data system is still at an early preparatory stage. Preparations in the field of fisheries are advancing moderately.

#### *4.2.3. Environment*

Some progress can be reported in the area of **horizontal legislation**. The second part of the National Methodology for Environmental Impact Assessment (EIA) was approved. A sector strategy for the environment was also approved. The National Environmental Law was amended and the government approved a Decision on public involvement in environmental decision making. However, implementation of the EIA legislation needs to be improved. With regard to climate change, some efforts can be noted, in particular concerning the development of the Clean Development Mechanism (CDM). Some activities have been carried out in the field of civil protection.

Limited progress can be reported on **air quality** in urban areas. Additional monitoring equipment was provided and contracts were signed for air quality monitoring. Emissions from the vehicle fleet and from large industries have been slightly reduced. However, there is no clear long-term policy on how to abate the air pollution and reduce emissions from these two sources. Enforcement of existing legislation on vehicle emissions and fuel quality is weak. Albania is only at an early stage in terms of the monitoring of air quality.

There has been little progress in the area of **waste management**. The government adopted some implementing regulations. Apart from the rehabilitation of the Sharra landfill there have been no developments as regards municipal waste management. Uncontrolled dumping and burning of waste still represent environmental and health hazards. Work is in progress on the rehabilitation of toxic hotspots, in particular for the Copper Smelter in Rubik, the Nitrate Fertilizer Plant in Fier, the Chemical Plant in Durres and the Ballshi oil refinery. A project for the identification and assessment of environmental hot spots has started. However, Albania lacks a modern system of waste collection, disposal and recycling, and has not set up a clear strategy for the safe disposal of hazardous waste. Preparations in the field of waste management are not advanced.

There has been some progress in the field of **water quality**. The number of drinking water monitoring stations has increased substantially and the level of access to water supply systems has improved slightly. However, surface waters are severely affected by urban and industrial pollution. Water supply and sanitation systems remain outdated. There is only one waste water treatment plant in the country, but it is not yet operational. Four others are in the final stages of construction. Pollution of bathing waters remains a serious problem in some places due to direct discharges from sewerage systems or from industry. A National Strategy for Water supply and Sewerage has not yet been approved. Preparations in this field are moderately advanced.

There has been some progress in the area of **nature protection**. The Habitats Directive has been further transposed and a law for implementation of the CITES Convention has been adopted. Protected areas now account for 11.4% of the national territory. However, additional training and adequate resources need to be provided to the staff operating in these areas. Approximation to the Wild Birds and Habitats directives needs to continue. Efforts are still required to meet Albania's commitments on environment under the Energy Community Treaty. Preparations in this field are moderately advanced.

Some progress can be reported on **industrial pollution and risk management**. The law on environmental protection has been amended to ensure transposition of some provisions in these areas.

There are no developments to report on **chemicals** and **genetically modified organisms**.

Legislation has been adopted on evaluation and management of environmental **noise** and on maximum levels of **noise** in certain environments. Preparations in this field are still at an early stage.

Further efforts are required to strengthen the **administrative capacity** of all institutions involved in environmental policy making and enforcement. Inter-institutional cooperation and coordination still needs improving. The National Environmental Strategy has not yet been approved. Further efforts are needed towards ratification and implementation of international conventions.

Overall approximation of legislation to the *acquis* is making slow progress, but implementation and enforcement are still lagging behind. Preparations in the field of the environment are advancing slowly.

#### *4.2.4. Transport policy*

There has been some progress in the area of **trans-European transport networks**. Albania continued to participate actively in the implementation of the Memorandum of Understanding signed in 2004 for the development of the Core Regional Transport Network, and in the South East Europe Transport Observatory (SEETO) by up-dating and implementing the multi-annual plan 2008-2012. Work has continued on corridor VIII projects as well as on the north-south axis roads. The Durres-Kukes-Morine road remains one of Albania's priorities.

The government has set up the Institute of Transport as a service unit to the Ministry of Public Works, Transport and Telecommunications. The Institute will be responsible for maintaining and updating the Albanian National Transport Plan (ANTP) and establishing and maintaining a central Transport Data Base for all modes of transport in Albania. The National Transport Strategy was adopted in August 2008.

There has been some progress as regards **road transport**. The admission to the occupation of road passenger and goods transport operator and the recognition of documents required for the activity was regulated by new legislation. Albania is granting unrestricted access through its territory to Community transit traffic in line with the Interim Agreement. However, further simplification of freight transport traffic by road is still required, for both international and transit traffic.

The reorganisation of the General Roads Directorate (GRD) into an agency contracting out road construction and maintenance to private firms is underway. The Reform Implementation Team was established in May 2008 and the Management Unit was established in July 2008. Work is in progress on the review of necessary legislation, and on the financial and organisational requirements. The GRD has started work on the establishment of the Road Asset Management System and has introduced performance-based maintenance contracts in a number of Regional Roads Directorates. The budget for road signalling was increased. However, sustained efforts are still needed in order to improve the quality of road maintenance. Poor condition of roads, together with defective signalling, illegal constructions along new roads and limited level of education of drivers, continue to pose a serious problem to road safety. Preparations in the field of road transport are advancing slowly.

Progress has been very limited in the **rail transport** sector. In December 2007, Albania signed the "Addendum to the Memorandum of Understanding on the Development of the South East Europe Core Regional Transport Network for a South East European Railway Transport Area", aimed at the gradual market opening of the rail transport market. From January 2008 the reorganization of Albanian railways became effective. The aim of the reorganisation is to separate passenger, freight, infrastructure and services branches into individual business units. However, the business plan for the Albanian railways has not yet been adopted. Preparations in the rail transport sector are lagging behind.

Progress in the area of **maritime transport** has been limited. The parliament adopted legislation on the accession to the International Convention for the control and management of ballast water of vessels. Legislation aimed towards membership to the Paris Memorandum of Understanding on Port State Control was also approved.

The updating of the Master Plan for the Port of Durres was finalised in July. Work has begun on the establishment of a new Maritime Administration. However, substantial efforts are still required in order to improve maritime safety. Albania's very high rate of detention for vessels

that are considered substandard, pursuant to the Paris Memorandum of Understanding, remains critical. The June 2008 black list of the Paris MoU still rates the Albanian flag as very high risk and the performance of the Albanian Register of shipping is assessed as low. Preparations in the field of maritime transport are at a very early stage.

No progress can be reported on **combined transport**.

There has been further progress in the field of **air transport**. The draft new Air Code was completed. Its alignment with the *acquis*, in line with Albania's commitments under the European Common Aviation Agreement (ECAA), has not yet been confirmed. Work is in progress on the implementation of the first transitional phase of the ECAA. However, there have been delays in implementing the corrective action plan approved in August 2007 to address the deficiencies identified within Albania's Civil Aviation Authority (CAA) as regards safety oversight of the country's airlines. Efforts are still required to strengthen the administrative capacity of the CAA, as its new organisational structure has not yet been finalised. Preparations in the field of air transport are advancing moderately.

#### 4.2.5. *Energy*

Some progress has been made as regards **oil stocks**. The government amended the Decision "On the maintenance and managing of the emergency oil stocks". These stocks are now based on 60 days' average consumption instead of on 30 days. However, mechanisms need to be put in place to properly monitor their establishment.

Activities to improve the security of **energy supply** have continued. Construction of the Vlora thermal power plant is in progress. Albania has signed 25 concession agreements for construction of small hydro-power plants, and a further 87 proposals are under evaluation. Preparations are underway for the signature of a concession agreement for the rehabilitation of the thermal power plant in Fier. Work started on the interconnection line Elbasan–Podgorica and on the National Dispatch centre. However, Albania has continued to be unable to ensure security of electricity supply. The country is overly dependent on hydro-electric plants, and its own generation resources are not sufficient to meet domestic demand. Limited interconnection capacity continues to hinder Albania's capacity to import electricity.

There has been some progress in the field of the **internal energy market**. A law on the gas sector was adopted in June 2008. The government approved the electricity market model and the Energy Regulatory Authority (ERE) revised and approved the market rules, in order to ensure the necessary framework for the opening and the functioning of the wholesale and retail market. As from January 2008 all non-domestic consumers became eligible consumers and were granted the right to choose their own suppliers in line with the requirements of the Energy Community Treaty. However, all customers except one have chosen to remain as tariff customers in 2008. A monitoring structure was established within the ERE to allow the implementation of its market monitoring responsibilities. Most licensing and authorisation review procedures are now in place. However, ERE needs to increase its decision making capacities and ensure transparency of the decision making process. The process of restructuring the electricity company KESH continued. The Transmission System Operator is unbundled and has drawn up its financial statements. Legislation establishing the Distribution System Operator as an independent entity was approved and the process for its privatisation is ongoing.

Electricity tariffs were increased by an average of 15 % in March in an effort to bring them closer to cost recovery levels. Technical losses were reduced and bill collection increased. However, further efforts are still necessary in these areas. Large power imports continued to impair the financial situation of KESH. The revised National Energy Strategy has not yet been adopted.

There has been no progress on the implementation of the **energy efficiency** law of 2005. There has been some progress in the hydroelectric sector, but the development and use of other **renewable energy** sources remains at an early stage.

There has been limited progress in the field of **nuclear safety and radiation protection**. The regulatory framework includes the Radiation Protection Commission and the Radiation Protection Office as regulatory and executive bodies respectively. The government approved legislation on the import of radiological instruments and radioactive sources.

However, the independence and capacities of the regulatory bodies require strengthening. Efforts need to continue to ensure compliance with Euratom Treaty requirements and procedures, in particular as regards the environmental monitoring and radiation protection in the context of medical and industrial applications. Albania has not yet signed the Convention on Nuclear Safety and the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management. Proper attention should be given to the prevention of illicit trafficking of nuclear and other radioactive materials.

Overall, preparations are advancing as regards the reform of the internal energy market. However, weaknesses in the electricity sector continue to hinder economic growth and the social development of the country. Efforts need to continue on restructuring the electricity company KESH and stabilising its financial situation, as well as on the security of electricity supply, which are key European partnership priorities.

#### *4.2.6. Information society and media*

There has been some progress in the area of **electronic communications and information technologies**. The new primary legislation on electronic communications, aimed at transposing the 2002/2003 EU regulatory framework, entered into force in June 2008. In December 2007 a regulation on access and interconnection was approved and the incumbent land line operator amended the interconnection agreements with the rural operators. Based on the new primary law, a tariff methodology addressing the tariffs of the three largest operators (fixed and mobile) at both wholesale and retail level was approved in June 2008. It started to be applied on 1 September, leading to overall tariff reductions. A third mobile telephony operator became operational in March 2008 and the telecommunications regulatory entity carried out a public call for expressions of interest for a fourth operator.

However, an electronic communications strategy and related policy documents, and secondary legislation for the implementation of the new law on electronic communications have not yet been adopted. Market liberalisation and competition are still at an early stage. Overall, there is lack of competition safeguards such as tariff rebalancing, good reference interconnection offers, carrier selection and pre-selection, number portability and local loop unbundling. The legislative amendment of 2006 allowing operators to apply for urban and regional licences in addition to the rural and national licences did not have the expected impact in 2007.

There is insufficient administrative capacity in the Ministry of Transport, Public Works and Telecommunications and in the Agency for Electronic and Postal Communications AEPC (the former Telecommunications Regulatory Entity or TRE). The agency needs to develop the necessary expertise for implementing and enforcing the new legislation. Overall, preparations in the area of electronic communications are advancing moderately.

There has been some progress as regards **information society services**. The National Agency on Information Society (NAIS) became operational in September 2007. Its main objective is the co-ordination of all activities in the field of information and communications technology, and currently it has a staff of 20. The law on e-signature was adopted in February 2008. However, the implementing legislation for the law on e-signature, and for data protection, as well as legislation on e-commerce and e-documents, has not yet been finalised. The national strategy for information society is still in preparation and there has been no progress as regards legislation on conditional access. Preparations in the area of information society services are at an early stage.

There has been progress as regards **audiovisual policy**. The strategy for the transition to digital broadcasting is being drafted in cooperation with international bodies and the relevant actors. The National Council of Radio and Television (NCRT) adopted regulations on the licensing of digital broadcasting and on the criteria for granting licences for terrestrial and analogue television broadcasting at national level. The Final Acts of the Regional Radio Communication Conference for the planning of the digital terrestrial broadcasting service in parts of regions 1 and 3 in the frequency bands 174-230MHz and 470-862 MHz (RRC-06) were ratified, as were the Final Acts of the Regional Radio Communication Conference for the revision of the 1961 Stockholm Agreement.

The NCRT enhanced its administrative capacity and increased its staff. It transformed its Complaints Council into an Ethics Council. The Ethics Council has played a positive role in self-regulation, encouraging the drafting of a code of ethics by each radio and TV operator, with the aim of unifying these codes into a single code. However, the NCRT's monitoring capacity is limited by its insufficient technical resources. Overall, preparations in the field of audiovisual policy are advancing, but work on the Action Plan on media reform agreed with the European Commission and the Council of Europe needs to be stepped up. (*See also political section*).

#### 4.2.7. Financial control

There has been modest progress in the area of **Public Internal Financial Control** (PIFC). A new draft Organic Budget Law was adopted by Parliament in June 2008. It introduces framework provisions on PIFC and its components – namely financial management and control (FMC), internal audit and a central harmonisation function. It also includes an undertaking to issue a separate law on FMC and an Inspection Law in the coming period. Hence, the Internal Audit Law adopted in 2007 will need to be amended in order to make it consistent with the overall PIFC legal framework. A Central Harmonisation Unit for FMC was established in July 2008 as a Directorate within the Treasury. Its director and one of its three other staff members have been appointed.

The 2005 PIFC Policy Paper and its Action Plan have not yet been updated. Managerial accountability and subsequent development of Financial Management and Control systems are still at an embryonic stage. Decentralised internal audit units have been established in all ministries and in some government agencies, but they continue to perform mainly inspection

and control tasks and their lines of reporting are not clear. Managers' awareness of PIFC continues to be limited.

As regards **external audit**, the operational independence of the Supreme Audit Institution (SAI) has been enhanced, with the Budget Committee of the Parliament having the sole right to approve its budget. However, the SAI law is still not fully in line with the INTOSAI standards and will need amending, especially as regards the criteria for dismissal of the Chairman and the remit and scope of audit. There has been limited progress in moving away from inspection activities towards financial and systems-based audits. The Development Strategy for 2009-2013 still needs to be formulated so as to strengthen the institution and its audit performance.

Overall, preparations in the area of financial control are advancing slowly.

#### 4.2.8. *Statistics*

There has been progress in **statistical infrastructure**. The budget of the Albanian statistical office (INSTAT) was increased, its salary scales were upgraded and additional staff have been recruited. Working conditions at INSTAT headquarters improved. Offices were renovated and the IT infrastructure was upgraded. A new organisational structure for INSTAT has been prepared and provides for a reduction in the number of regional offices by merging district offices at the level of prefectures. The multi-annual statistical programme 2007 – 2011 was adopted by the Parliament. The Bank of Albania and INSTAT signed a cooperation agreement with the view to improving monetary and financial statistics. However, cooperation agreements should also be signed with other producers of statistics.

Some progress has been made in **classifications** and registers. Most major statistical classifications are in place and comply with EU standards. However, a classification of statistical regions comparable to the NUTS level 2 classification is not yet established. The quality of the statistical business register still needs to be improved.

Noticeable progress has been made in some key **sectoral statistics**. Concerning demographic and social statistics, the results of the household budget survey and the labour force survey 2007 have become available. The population census is scheduled for 2011 and INSTAT has initiated preparatory activities. However, measures are still required in order to ensure comprehensive registration of all demographic events.

Efforts are needed to improve statistics on regional level in order to satisfy new demands generated by the on-going decentralisation process. In the field of regional statistics, data are collected mainly from administrative sources and only at county level. As regards macro-economic statistics, quarterly national accounts have been prepared from 2005, but further work is needed to fully align the national accounts with ESA 95.

The coverage of business statistics has been improved since the beginning of 2008. Concerning agricultural statistics, the preparation of a census on agriculture has started. However, efforts are required to ensure that agriculture statistics comply with EU standards, and cooperation between INSTAT and the Ministry of Agriculture needs to be enhanced.

Overall, there has been progress in the field of statistics. Preparations are advancing, but further improvements are still necessary in key areas, such as macro-economic, regional, business and agricultural statistics.

## **4.3. Justice, freedom and security**

### *4.3.1. Visa, border, control, asylum and migration*

There has been some progress with management of **visas**. Preparations for a reliable civil registry and a uniform address system are making headway. Computerisation of the civil registry data has been completed. In September, civil registry offices started issuing printed certificates. In July 2008, a company was awarded the contract for production and distribution of ID cards and biometric passports. Completion of the civil registry and address system is vital as a source of data for ID cards and to ensure adequate document security.

The EC-Albania visa facilitation agreement entered into force in January 2008. The dialogue on visa liberalisation between the EU and Albania was launched and a roadmap, specifying the measures to be taken, was presented to Albania in June 2008. Albania delivered a first report on implementation of the roadmap in September 2008.

Albania operates a visa-free regime for all EU Member States. It signed a visa-free agreement with the former Yugoslav Republic of Macedonia in February 2008. Currently, the positive and negative lists are not fully harmonised with the EU visa list, but preparations are underway.

The Law on Foreigners, adopted in July 2008, includes amended rules for issuing visas at the border. For residence permits of over three months, a visa will also be required when the law enters into force in December 2008. For now, visas issued at the border are limited either to humanitarian reasons or to tourist visas mainly for Latin American countries which are on the EU positive list. Initial steps have been taken to set up a national visa centre. Overall, Albania has continued to make moderate progress on visa management.

Albania has made progress in the field of **border control**. The new Law on State Border Control was approved in January 2008. The Albanian State Police (ASP) has prepared a progress report on implementation of the National Integrated Border Management (IBM) Strategy and the associated Action Plan. Implementation of the IBM objectives for 2008 is ongoing and advancing moderately, particularly as regards IT aspects of border crossing points and infrastructure. However, despite improvements, further investments are required to improve the infrastructure at border crossing points (BCP). 15 of the 26 border crossing points have been linked electronically via the Total Information Management System (TIMS) and equipped with the relevant facilities. Several cross-border meetings were held between the border police of Albania and the former Yugoslav Republic of Macedonia, Greece and Montenegro. Local border police officers cooperate with their counterparts across the border. Staffing levels in the border police force remain low. The existing bilateral agreements on police cooperation provide a sound legal basis for cross-border cooperation. However, cross-border cooperation needs further improvement and institutionalisation. Negotiations to set up a working arrangement with FRONTEX have started.

Construction of the Murriqan joint border crossing point (JBCP) with Montenegro was launched in May 2008. Construction of a joint BCP with the former Yugoslav Republic of Macedonia has started at Xhepisht Trebishtit.

Specialised training has been given to 446 mid-ranking and senior border guards. A broader longer-term training policy, aiming at building capacity to detect falsified documents, illegal migrants or victims of trafficking, has yet to be implemented.

The Law on the Coast Guard, adopted in 2007, includes separation of tasks between the border police and the coast guard and is being implemented, albeit slowly. Civilian command of the coast guard, in line with Ohrid commitments, is still pending. A joint operations centre to coordinate sea operations has not yet been established. The administrative and operational capacity of the coast guard remains weak. Equipment to patrol the blue border needs upgrading. Specialised training and closer coordination between the border police and customs authorities are needed.

Overall, Albania continues partially to meet its objectives in the field of border control, but the human resources remain insufficient to carry out these tasks efficiently.

There is limited progress to report on **asylum** issues. An efficient asylum system is not in place. The review of the legal framework for approximation to EU Standards has not been completed. Since January 2008, eight persons have requested asylum in Albania. One of them has been granted temporary asylum on humanitarian grounds.

Financial and human resources at the Department for Citizenship and Refugees are not sufficient to fulfil the obligations under the 1951 Convention relating to the status of refugees, particularly for implementation of the pre-screening system. Coordination with the border police is weak. Asylum procedures at reception centres are not applied in a standardised manner. The infrastructure needs upgrading.

A more effective data management system for asylum and migration is required; more resources need to be provided to establish a migrant registry and for mapping Albanian migrants abroad. The Total Information Management System (TIMS) introduced at 15 border crossing points needs to be turned into an effective tool for data collection and management.

Overall, Albania continues partially to meet its targets in the field of asylum.

Some progress can be reported in the area of **migration**. In May 2008, the Ministry of Labour and Social Affairs (MLSA) established a Coordination and Monitoring Plan for implementation of the National Strategy on Migration, including the associated Action Plan. The Ministry is actively coordinating implementation of the strategy, but the inter-ministerial coordination mechanism has not been established yet. Preparations for implementation of the migration strategy are proceeding, albeit slowly.

Seasonal peaks of illegal migration remain problematic, especially on the border between Albania and Greece, owing to the high demand for seasonal agricultural work. This border is the most critical entrance point for illegal immigrants to the EU from Albania. In the first eight months of 2008, a total of 9,382 persons were apprehended at the border, up from 5,955 for the whole of 2007. Although no cases of illegal migrants across blue borders have been reported, there is still a need to strengthen border surveillance by providing adequate infrastructure.

Detection of illegal migration has improved due to the enhanced detection capability of the border police. Figures for the first half of 2008 show higher refusal rates for entry into Albania. Detection of falsified foreign passports in the first half of 2008 already equals the total figure reported in 2007.

The Department for Border Police and Migration is upgrading reception and processing facilities for illegal migrants at several of the main border crossing points. However, facilities

overall are poor. Cooperation with neighbouring countries on illegal migration needs to be enhanced.

In January 2008, new regional directorates were established within the border and migration police. The border police consists of eight regional directorates and 34 border police stations, 12 of which serve as readmission points. A Return and Readmission Unit was established within the Department for Border Police and Migration. However, human resource allocations remain inadequate, especially during peak seasonal inflows.

Albania signed protocols implementing the EC-Albania readmission agreement with Austria and the Benelux countries and draft protocols with Greece and the Czech Republic. Negotiations are underway for renewing the readmission protocol with Italy and for signing protocols with France, Slovenia and Slovakia. Border and migration police staff cuts could limit Albania's capacity to meet its obligations under the readmission agreement.

Albania has signed readmission agreements with Croatia and the former Yugoslav Republic of Macedonia. The provisions in the EC-Albania readmission agreement concerning readmission of third-country nationals entered into force in May 2008. The other parts of the agreement had entered into force on 1 May 2006. A closed reception centre is under construction, but accommodation of third-country nationals remains inadequate.

Overall, illegal migration remains a significant problem, especially at the Albanian–Greek green border. Albania continues partially to meet its targets in the field of migration.

#### *4.3.2. Money laundering*

Limited progress has been made in the fight against **money laundering**, which continues to be a major problem. Albania's economy, particularly the private sector, remains largely cash-based. In terms of mechanisms to control cash transactions, there is no strategy in place.

The Law on money laundering and financing of terrorism was adopted in May 2008, but by-laws to implement it are pending. In 2008, several regulations were adopted on the handling of confiscated assets. Training courses were organised for banks and notaries. Thresholds for reporting of transactions were lowered and are now in line with international standards. Although the law incorporates international instruments, such as the MoneyVal recommendations, it is still not fully aligned with the *acquis*. Better definition of concepts and implementation guidelines are needed.

A national strategy to prevent and fight against money laundering and financing of terrorism has not yet been adopted.

The General-Directorate for the Prevention of Money Laundering, (Financial Intelligence Unit - FIU), under the Ministry of Finance, is responsible for collection, analysis and dissemination of financial intelligence. Premises and equipment levels have improved. However, the FIU's capacity remains limited. Staff turnover remains a concern. Coordination and cooperation with the Prosecutor's Office remains problematic.

A new office to combat money laundering, within the State police, became operational in January 2008. However, the link between criminal intelligence and investigations remains weak. The lack of coordination between the judiciary and the police also results in unprocessed intelligence, which is subsequently lost. The investigative and enforcement capacity of the police and the Prosecutor General remain weak.

Under the Prosecutor General, a task force has been established. The Joint Investigation Unit for the Fight against Economic Crime and Corruption (JIU) is now operational. However, the administrative capacity of the JIU requires further strengthening.

Progress can be reported as regards unregistered currency exchanges. The Bank of Albania approved new regulations on licensing and supervision of foreign exchange offices. The number of officially licensed foreign exchange offices increased significantly. Controls at border crossing points have also been tightened up.

Overall, preparations in the fight against money laundering are at an early stage.

#### 4.3.3. *Drugs*

There has been limited progress in the fight against **drugs**, but drug trafficking remains a serious concern.

A National Strategy against Drugs for the period 2004–2010 is in place, but implementation is hampered by the scant human and financial resources allocated. The administrative capacity to implement the strategy needs to be further developed.

Some progress can be reported in the form of the signature, in November 2007, of Joint Orders on the prevention of drug use in schools and universities and on the handling of narcotics. The Ministry of the Interior's order against the cultivation of narcotics entered into force in early 2008. The authorities initiated some 2,000 drug-related prosecutions in 2007. To date, there has been no coherent and valid strategy for drug demand reduction and the availability of the services provided - including treatment and prevention - remains limited.

Drug-related prosecutions have increased. Large amounts of cocaine and cannabis have been confiscated. By contrast, seizures of heroin at border crossing points have fallen by roughly 50%.

The government continues to make use of joint counter-narcotic task forces, which include representatives of the Ministry of the Interior, the border police, the tax police, the road police and the customs authorities. Inter-agency cooperation has improved and international cooperation in the field of counter-narcotics continued. Additional emphasis should be placed on the training of counter-narcotics personnel.

In 2008, a new central storage facility for seized drugs and a new centre for the destruction of drugs were built. However, the procedures for storing, analysing and destroying seized drugs lack transparency.

On the production side, an action plan to fight cultivation of narcotic plants was approved in March 2008. Over the reporting period, cultivation of cannabis has been further reduced. However, Albania remains a source country for cannabis. There is no government crop-substitution programme.

Overall, Albania is making moderate progress in the fight against drugs.

#### 4.3.4. *Police*

There has been continued progress in management of the State **police**, with the entry into force in 2008 of the new State Police Law. Other areas in which progress has been made

include border and port security, training reforms and establishment of border control information systems, such as databases and passport and fingerprint control IT systems. However, unclear lines of responsibility and poor accountability among the relevant bodies remain causes for concern.

The Albanian State Police Law is having a positive effect on the behaviour of police managers, on recruitment and on career structures for officers. The internal control structures are being developed. However, staffing levels at the Albanian State Police (ASP) are not yet stabilised. The transfer of police officers on the basis of experience and qualifications, completed in June 2008, highlighted skills gaps, particularly in specialist departments. In addition, the practice of removing previously trained and competent staff from their posts is adversely affecting the police. Another problem is that staff who have failed basic competence tests are retained within the State police training programme for up to three years. The overall management of police human resources is still unsatisfactory.

In April 2008, a cooperation agreement was signed between the State police and the General Prosecutor (GP) to define responsibilities with the aim of reducing any potential overlap during investigations. Despite a pilot scheme of standardised case reporting forms, there has been little progress in establishing police case reporting systems. Investigative capacity, both in the police force and at the General Prosecutor's office, remains weak. It is hampered by lack of cooperation and parallel investigative structures inside the GP's office.

More efforts are needed to develop reliable crime statistics. Many crimes go unreported and the low level of recorded offences remains unexplained.

Albania has started implementing the strategic agreement with Europol which entered into force in May 2007. This provides for closer cooperation and better exchange of information. Europol and Albania are also working on conclusion of an operational agreement for exchanges of personal data. Albania ratified the South-East Europe Police Cooperation Convention, which entered into force in 2007. Implementation of the community policing strategy has started.

Overall, preparations concerning policing are continuing to advance, but structural improvements need to be followed by operational results.

#### *4.3.5. Fighting organised crime and terrorism*

Limited progress can be reported in the fight against **organised crime**, which is a key European Partnership priority. The national strategy for fighting organised crime was adopted in July 2008, but remains to be implemented. Organised crime continues to be a serious problem in Albania.

Difficulties in cooperation between police and prosecutors continued to hamper the fight against organised crime. Although cooperation between organisations has improved at high levels, at operational level it is still problematic. The standardisation of case reporting will be the key to progress here.

At present, there is a lack of capacity to engage in longer-term operations aimed at the higher echelons of organised crime. This problem is exacerbated by the lack of capacity for intelligence-led policing, which hampers such operations. There are no manuals for prosecutors giving guidance on investigations. Since May 2008, police officers working within the judicial police units of the Prosecutor's Office have returned to the ASP. This

should help to improve cooperation and reduce any overlaps. However, investigative capacity within the police and the General Prosecutor's Office remains weak.

Cooperation between Interpol Tirana and other countries has continued, particularly at borders with Greece. The number of wanted Albanians that have been traced and returned to Albania has increased. In the first half of 2008, 62 extraditions to Albania took place. As a result of international cooperation, several criminal organisations operating abroad have been dismantled and gang leaders arrested.

The national action plan against the trafficking of stolen vehicles was adopted in April 2008. Implementation is underway. However, coordination between the various law enforcement bodies remains an issue.

Regarding police use of criminal intelligence databases, the MEMEX information servers are still located at the Ministry of the Interior (MoI) and not at police headquarters. Improvements in the way in which the State police gathers and uses intelligence are critical in order to reap the full benefits of the MEMEX technology.

There has been some progress in the fight against **trafficking in human beings**. However, much remains to be done, particularly in the area of victim protection and identification. Albania continues to be a source country for human trafficking, particularly of women and girls for sexual exploitation. Children are also trafficked for begging and other forms of child labour. Approximately half of all Albanian trafficking victims are under the age of 18. Internal sex trafficking of women and children is on the rise, particularly from the Roma minority.

The Criminal Code was amended in February 2008 to strengthen the legal framework for criminal prosecution of trafficking in human beings. A database on victims of trafficking has been installed at the Department for Border Police and Migration, but is not yet operational.

The Office of the National Anti-Trafficking Coordinator (ONAC) coordinated the consultation process leading to the adoption, in July 2008, of the National Strategy to Combat Human Trafficking and the National Action Plan for 2008-2010. The strategy for protection of child victims of trafficking was also adopted. However, much remains to be done, particularly in terms of victim protection. More political will and better coordination are needed for the implementation of the anti-trafficking strategy, particularly regarding victim protection.

The ONAC held meetings with neighbouring countries to enhance regional cooperation. An additional protocol was signed with the former Yugoslav Republic of Macedonia in 2008 which includes referral and assisted return of victims. Agreements have been signed with Montenegro, the former Yugoslav Republic of Macedonia and Kosovo on exchanges of information regarding cross-border criminal activities.

However, the lack of reliable statistics and of a proper capacity for identifying victims is hampering progress. Coordination between NGOs and law enforcement bodies needs to be improved. Coordination and cooperation among the recently established structures at central and local levels (responsible authority and regional anti-trafficking committees) is still weak. The national referral mechanisms are not yet operational; there is no nationwide coverage (especially in remote areas) and no alternative protection and assistance for victims of trafficking. Training for law enforcement officials within the anti-trafficking sector should be enhanced.

Albania is only partially meeting its objectives in the fight against trafficking in human beings.

In the **fight against terrorism**, Albania has continued to make headway. The Council of Europe Convention on the prevention of terrorism was ratified in 2005. Strategies, action plans and operational responses to the threat of terrorism in Albania are under preparation. A National Counter-Terrorism Strategy is being drafted, including the police, intelligence and security services together with a number of other stakeholders. The capacity and integration of the various institutions involved has continued to improve.

Overall, in the fight against organised crime, Albania is continuing to make moderate progress. Albania is only partially meeting its objectives in the fight against trafficking in human beings. Preparations for a more efficient counter-terrorism framework are still at the early stages.

#### *4.3.6. Protection of personal data*

There has been progress in the area of protection of personal data. The new Law on protection of personal data entered into force in April 2008. In September 2008, the Commissioner for Data Protection was appointed by parliament and the structure for the independent data protection supervisory authority was agreed. Overall, preparations in the field of protection of personal data are advancing.

## STATISTICAL ANNEX

**STATISTICAL DATA (as of 29 September 2008)**  
Albania

| <b>Basic data</b>   | Note | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
|---|------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Population (thousand)   | 1)   | 3 354   | 3 373   | 3 058   | 3 063   | 3 084   | 3 103   | 3 120   | 3 135   | 3 149   | 3 153   |
| Total area of the country (km <sup>2</sup> )  |      | 28 750  | 28 750  | 28 750  | 28 750  | 28 750  | 28 750  | 28 750  | 28 750  | 28 750  | 28 750  |
| <b>National accounts</b>  | Note | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
| Gross domestic product (GDP) (million national currency)                                  |      | 409 209 | 471 578 | 523 043 | 583 369 | 622 711 | 694 098 | 750 785 | 814 797 | 891 000 | :       |
| GDP (million euro)  |      | 2 419   | 3 209   | 3 945   | 4 541   | 4 705   | 5 048   | 5 881   | 6 561   | 7 239   | :       |
| GDP (euro per capita)   |      | 721     | 951     | 1 290   | 1 482   | 1 525   | 1 627   | 1 885   | 2 093   | 2 299   | :       |
| GDP (in Purchasing Power Standards (PPS) per capita)                                      |      | :       | :       | :       | :       | :       | :       | :       | :       | :       | :       |
| SI: GDP (in PPS per capita, EU-25=100)  |      | :       | :       | :       | :       | :       | :       | :       | :       | :       | :       |
| SI: Growth rate of GDP (national currency, at constant prices, % change on previous year) |      | 9.0     | 13.5    | 6.7     | 7.9     | 4.2     | 5.8     | 5.7     | 5.8p    | 5.5p    | :       |
| SI: Employment growth (national accounts, % change on previous year)                      |      | :       | :       | :       | :       | :       | :       | :       | :       | :       | :       |
| Labour productivity growth: GDP growth per person employed (% change on previous year)    |      | :       | :       | :       | :       | :       | :       | :       | :       | :       | :       |
| SI: Unit labour cost growth (national accounts, % change on previous year)                |      | :       | :       | :       | :       | :       | :       | :       | :       | :       | :       |
| SI: Labour productivity (GDP in PPS per person employed, EU-25=100)                       |      | :       | :       | :       | :       | :       | :       | :       | :       | :       | :       |
| Gross value added by main sectors (%)   |      |         |         |         |         |         |         |         |         |         |         |
| Agriculture   |      | 28.8    | 25.8    | 25.5    | 23.6    | 23.4    | 23.5    | 22.3    | 20.7p   | :       | :       |
| Industry  |      | 7.4     | 7.3     | 7.8     | 7.3     | 6.9     | 8.7     | 10.0    | 9.7p    | :       | :       |
| Construction  |      | 5.0     | 6.0     | 8.3     | 10.4    | 12.0    | 13.7    | 13.9    | 14.3p   | :       | :       |
| Services  |      | 58.8    | 60.9    | 58.5    | 58.6    | 57.6    | 54.0    | 53.8    | 55.3p   | :       | :       |
| Final consumption expenditure, as a share of GDP (%)                                      |      | 102.4   | 92.7    | 86.0    | 80.9    | 86.0    | 86.1    | 89.2    | 87.0p   | :       | :       |
| Households and NPISH, as a share of GDP (%)   |      | 92.2    | 82.7    | 76.6    | 70.5    | 74.8    | 75.2    | 78.2    | 76.2p   | :       | :       |
| General government, as a share of GDP (%)   |      | 10.3    | 10.0    | 9.5     | 10.4    | 11.2    | 10.9    | 11.0    | 10.8p   | :       | :       |
| Gross fixed capital formation, as a share of GDP (%)                                      |      | 21.0    | 23.0    | 31.7    | 38.4    | 37.9    | 40.5    | 37.2    | 36.3p   | :       | :       |
| Changes in inventories, as a share of GDP (%)   |      | 0.3     | 0.7     | 2.4     | 1.3     | 0.8     | -1.8    | -4.0    | 1.2p    | :       | :       |
| Exports of goods and services, relative to GDP (%)  |      | 10.8    | 15.8    | 17.9    | 18.4    | 19.6    | 20.4    | 22.0    | 22.8p   | :       | :       |
| Imports of goods and services, relative to GDP (%)  |      | 34.6    | 32.2    | 38.1    | 39.0    | 44.3    | 45.1    | 44.4    | 47.3p   | :       | :       |
| <b>Industry</b>   | Note | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
| Industrial production volume index (2000=100)   |      | :       | :       | :       | :       | :       | :       | :       | :       | :       | :       |
| <b>Inflation rate</b>   | Note | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
| SI: Consumer price index (CPI), (total, % change on previous year)                        |      | 8.7     | -1.0    | 4.2     | 3.5     | 1.7     | 3.3     | 2.2     | 2.0     | 2.5     | 3.1     |
| <b>Balance of payments</b>  | Note | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
| Balance of payments: current account total (million euro)                                 |      | -61     | -129    | -185    | -316    | -444    | -350    | -340    | -589    | -471    | -832p   |
| Balance of payments current account: trade balance (million euro)                         |      | -537    | -626    | -897    | -1 149  | -1 218  | -1 177  | -1 277  | -1 477  | -1 658  | -2 104p |
| Balance of payments current account: exports of goods (million euro)                      |      | 185     | 258     | 277     | 340     | 348     | 395     | 486     | 530     | 631     | 786p    |
| Balance of payments current account: imports of goods (million euro)                      |      | 722     | 884     | 1 174   | 1 489   | 1 567   | 1 572   | 1 762   | 2 007   | 2 290   | 2 890p  |
| Balance of payments current account: net services (million euro)                          |      | -38     | 96      | 12      | 100     | -8      | -72     | -41     | -140    | -32     | 13p     |
| Balance of payments current account: net income (million euro)                            |      | 69      | 71      | 115     | 150     | 116     | 132     | 138     | 131     | 209     | 217p    |

|  |      |         |         |         |         |         |         |         |         |         |         |
|--|------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Balance of payments current account: net current transfers (million euro)                              |      | 445     | 330     | 586     | 583     | 667     | 767     | 839     | 897     | 1 011   | 1 043p  |
| of which government transfers (million euro)   |      | 73      | 156     | 105     | 31      | 41      | 53      | 61      | 61      | 43      | 60p     |
| Foreign Direct Investment (FDI) in the reporting economy (million euro)                                |      | 40      | 39      | 157     | 231     | 141     | 157     | 267     | 209     | 250     | 466p    |
| <b>Public finance</b>  | Note | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
| General government deficit/surplus, relative to GDP (%)  |      | -11.8   | -9.0    | -7.6    | -6.9    | -6.1    | -4.9    | -5.1f   | -3.4    | -3.3    | :       |
| SI: General government debt, relative to GDP (%)   |      | 53.5    | 53.7    | 60.2    | 58.5    | 63.9    | 61.5    | 58.3    | 55.3    | 59.7    | :       |
| <b>Financial indicators</b>  | Note | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
| Gross foreign debt of the whole economy, relative to GDP (%)   |      | 17.0    | 16.1    | 17.0    | 17.2    | 22.1    | 21.1    | 19.0    | 16.6    | 16.9    | :       |
| Gross foreign debt of the whole economy, relative to total exports (%)                                 | 2)   | 156.3   | 101.6   | 94.9    | 93.1    | 112.5   | 103.5   | 86.5    | 73.0    | :       | :       |
| Money supply: M1 (banknotes, coins, overnight deposits, million euro)                                  |      | 496     | 701     | 936     | 1 113   | 1 154   | 1 053   | 1 354   | 1 833   | 2 011   | 1 994   |
| Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)                        |      | 1 180   | 1 631   | 1 995   | 2 376   | 2 453   | 2 542   | 3 066   | 3 431   | 3 882   | 4 068   |
| Money supply: M3 (M2 plus marketable instruments, million euro)  |      | 1 418   | 1 993   | 2 475   | 3 069   | 3 148   | 3 261   | 3 973   | 4 654   | 5 478   | 6 157   |
| Total credit by monetary financial institutions to residents (consolidated) (million euro)             |      | 105     | 135     | 175     | 217     | 292     | 369     | 548     | 982     | 1 554   | 2 326   |
| Interest rates: day-to-day money rate, per annum (%)   |      | :       | :       | :       | :       | :       | :       | :       | :       | :       | :       |
| Lending interest rate (one year), per annum (%)  | 3)   | 25.0    | 25.8    | 24.0    | 11.9    | 16.0    | 10.5    | 13.7    | 12.2    | 11.2    | 13.6    |
| Deposit interest rate (one year), per annum (%)  | 4)   | 16.5    | 9.1     | 8.0     | 7.8     | 9.3     | 7.6     | 6.0     | 5.6     | 5.5     | 6.3     |
| euro exchange rates: average of period - 1 euro = ... national currency                                |      | 169.164 | 146.960 | 132.580 | 128.470 | 132.360 | 137.510 | 127.670 | 124.190 | 123.080 | 123.630 |
| Effective exchange rate index (2000=100)   |      | :       | :       | :       | :       | :       | :       | :       | :       | :       | :       |
| Value of reserve assets (including gold) (million euro)  |      | 573     | 488     | 697     | 853     | 902     | 908     | 1 103   | 1 144   | 1 429   | 1 564   |
| <b>External trade</b>  | Note | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
| Trade balance: all goods, all partners (million euro)  |      | -565    | -754    | -896    | -1 145  | -1 259  | -1 252  | -1 344  | -1 212  | :       | :       |
| Value of exports: all goods, all partners (million euro)   |      | 185     | 329     | 283     | 340     | 331     | 395     | 479     | 906     | :       | :       |
| Value of imports: all goods, all partners (million euro)   |      | 750     | 1 083   | 1 179   | 1 486   | 1 590   | 1 648   | 1 823   | 2 118   | :       | :       |
| Terms of trade (export price index / import price index, %change to the previous year)                 |      | 5.4     | 11.0    | -6.1    | 1.3     | -1.5    | -1.7    | 0.8     | -18.9   | 25.3    | -2.5    |
| Share of exports to EU-27 countries in value of total exports (%)                                      |      | 94.2    | 95.6    | 93.2    | 91.3    | 92.6    | 93.8    | 90.9    | 93.2    | :       | :       |
| Share of imports from EU-27 countries in value of total imports (%)                                    |      | 88.0    | 82.8    | 80.7    | 80.3    | 77.0    | 74.3    | 70.5    | 67.2    | :       | :       |
| <b>Demography</b>  | Note | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
| Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)                       | 1)   | 12.5    | 12.8    | 11.4    | 12.5    | 9.5     | 9.3     | 8.1     | 7.2     | 5.5     | 5.9     |
| Net migration rate: immigrants minus emigrants (per 1000 inhabitants)                                  |      | -6.8    | -110.8  | -9.8    | -5.7    | -3.4    | -3.9    | -3.1    | -2.6    | -4.4    | -0.4    |
| Infant mortality rate: deaths of children under one year of age per 1000 live births                   |      | 15.0    | 12.2    | 13.8    | 10.8    | 10.2    | 8.4     | 7.8     | 7.6     | 7.4     | 5.6     |
| Life expectancy at birth: male (years)   |      | :       | 71.7    | 72.1    | 72.1    | 72.1    | 72.1    | 72.1    | 72.1    | 73.9    | :       |
| Life expectancy at birth: female (years)   |      | :       | 76.4    | 78.6u   | 77.5    | 77.9    | 78.6    | 78.6    | 78.6    | 78.0    | :       |
| <b>Labour market</b>   | Note | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
| Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)         | 5)   | :       | 68.3    | 66.2    | 62.3b   | 61.8    | 60.1    | 58.8    | 57.8    | 53.7    | :       |
| SI: Employment rate (15-64): share of population aged 15-64 that is in employment (%)                  | 5)   | :       | 55.7    | 55.0    | 52.1b   | 52.1    | 51.1    | 50.3    | 49.7    | 48.7    | :       |
| Share of male population aged 15-64 that is in employment (%)  | 5)   | :       | 69.0    | 66.0    | 64.0b   | 63.9    | 62.6    | 61.2    | 60.0    | 58.8    | :       |
| Share of female population aged 15-64 that is in employment (%)  | 5)   | :       | 42.3    | 44.1    | 39.6b   | 39.7    | 39.1    | 38.9    | 38.8    | 38.1    | :       |
| SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%) |      | :       | :       | :       | :       | :       | :       | :       | :       | :       | :       |
| Employment by main sectors (%)   |      |         |         |         |         |         |         |         |         |         |         |

|  |      |       |       |       |       |       |       |       |       |       |      |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Agriculture  |      | 70.8  | 72.1  | 71.8  | 57.7b | 57.7  | 58.2  | 58.5  | 58.5  | 58.0  | :    |
| Industry   |      | 7.7   | 7.7   | 5.4   | 6.0b  | 7.6   | 7.2   | 8.1   | 7.9   | 8.0   | :    |
| Construction   |      | 1.0   | 1.0   | 1.2   | 6.1b  | 6.1   | 6.0   | 5.5   | 5.5   | 5.7   | :    |
| Services   |      | 20.5  | 19.2  | 21.5  | 28.5b | 28.6  | 28.5  | 27.9  | 28.1  | 28.3  | :    |
| SI: Unemployment rate: share of labour force that is unemployed (%)  | 5)   | :     | 18.4  | 16.8  | 16.4  | 15.8  | 15.0  | 14.4  | 14.1  | 13.8  | :    |
| Share of male labour force that is unemployed (%)  | 5)   | :     | 16.4  | 14.9  | 14.2  | 13.6  | 12.9  | 12.4  | 12.1  | 11.8  | :    |
| Share of female labour force that is unemployed (%)  | 5)   | :     | 21.4  | 19.3  | 19.9  | 19.1  | 18.2  | 17.5  | 17.2  | 16.8  | :    |
| Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)   |      | :     | :     | :     | :     | 26.8  | :     | :     | :     | :     | :    |
| SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%)  |      | :     | :     | :     | :     | :     | :     | :     | :     | :     | :    |
| <b>Social cohesion</b>   | Note | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007 |
| Average nominal monthly wages and salaries (national currency)   |      | :     | :     | :     | :     | :     | :     | :     | :     | :     | :    |
| Index of real wages and salaries (index of nominal wages and salaries divided by the CPI) (2000=100)   |      | :     | :     | :     | :     | :     | :     | :     | :     | :     | :    |
| SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%) |      | :     | :     | :     | :     | :     | :     | :     | :     | :     | :    |
| <b>Standard of living</b>  | Note | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007 |
| Number of passenger cars per 1000 population   |      | 27.1  | 27.3  | 37.4  | 43.6  | 48.2  | 56.4  | 60.9  | 62.2  | 71.4  | :    |
| Number of subscriptions to cellular mobile telephone services per 1000 population  |      | :     | :     | :     | 120.8 | 259.4 | 370.6 | 403.6 | 488.0 | 561.7 | :    |
| <b>Infrastructure</b>  | Note | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007 |
| Density of railway network (lines in operation, per 1000 km <sup>2</sup> )   |      | :     | :     | 13.9  | 14.3  | 15.0  | 15.0  | 15.1  | 15.0  | 15.5  | :    |
| Length of motorways (thousand km)  |      | :     | :     | :     | :     | :     | 0.0   | 0.0   | 0.0   | 0.0   | :    |
| <b>Innovation and research</b>   | Note | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007 |
| SI: Spending on human resources (public expenditure on education) relative to GDP (%)  |      | 3.2   | 3.3   | 3.1   | 3.3   | 3.0   | 3.1   | 3.2   | 3.2   | 3.1   | 3.2  |
| SI: Gross domestic expenditure on research & development, relative to GDP (%)  |      | :     | :     | :     | :     | :     | :     | :     | :     | :     | :    |
| SI: Percentage of households who have Internet access at home (%)  |      | :     | :     | :     | :     | :     | :     | :     | :     | :     | :    |
| <b>Environment</b>   | Note | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007 |
| SI: Total greenhouse gases emissions, CO <sub>2</sub> equivalent (tons, 1990=100)  |      | :     | :     | :     | :     | :     | :     | :     | :     | :     | :    |
| SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP 2004)  |      | 510.2 | 427.4 | 394.4 | 383.1 | 353.9 | 369.2 | 383.9 | :     | :     | :    |
| SI: Share of renewable energy in electricity consumption (%)   |      | :     | :     | :     | :     | :     | :     | :     | :     | :     | :    |
| SI: Road freight transport as a share of total inland freight transport (modal split of freight transport) (%)   |      | :     | :     | :     | :     | :     | :     | :     | :     | :     | :    |
| <b>Energy</b>  | Note | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007 |
| Primary production of all energy products (thousand TOE)   |      | 1 345 | 1 113 | 987   | 933   | 896   | 1 012 | 1 178 | :     | :     | :    |
| Primary production of crude oil (thousand TOE)   |      | 365   | 323   | 314   | 335   | 308   | 359   | 443   | :     | :     | 281  |
| Primary production of hard coal and lignite (thousand TOE)   |      | 49    | 33    | 20    | 15    | 5     | 19    | 19    | 0     | 0     | :    |
| Primary production of natural gas (thousand TOE)   |      | 17    | 14    | 12    | 8     | 8     | 12    | 9     | 11    | 11    | 10   |
| Net imports of all energy products (thousand TOE)  |      | 626   | 761   | 858   | 1 001 | 965   | 1 043 | 1 080 | :     | :     | :    |
| Gross inland energy consumption (thousand TOE)   |      | 1 971 | 1 874 | 1 845 | 1 934 | 1 861 | 2 055 | 2 258 | :     | :     | :    |

|   |      |       |       |       |       |       |       |       |       |        |      |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|--------|------|
| Electricity generation (thousand GWh)   |      | 5.1   | 5.4   | 4.7   | 3.7   | 3.2   | 4.9   | 5.5   | 5.5   | 5.6    | 3.0  |
| <b>Agriculture</b>  |      |       |       |       |       |       |       |       |       |        |      |
| Agricultural production volume index of goods and services (producer prices, previous year=100) | Note | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006   | 2007 |
| Total utilised agricultural area (thousand hectare)   |      | :     | :     | :     | :     | :     | 102.9 | 105.1 | 101.2 | :      | :    |
| Livestock: cattle (thousand heads, end of period)   |      | 1 144 | 1 144 | 1 144 | 1 139 | 1 140 | 1 121 | 1 122 | 1 077 | 1 120  | :    |
| Livestock: pigs (thousand heads, end of period)   |      | 705   | 720   | 728   | 708   | 690   | 684   | 654   | 655   | 634e   | :    |
| Livestock: sheep and goats (thousand heads, end of period)                                      |      | 83    | 99    | 103   | 106   | 114   | 132   | 143   | 147   | 152e   | :    |
| Production and utilisation of milk on the farm (total whole milk, thousand tonnes)              |      | 2 923 | 3 061 | 3 045 | 2 933 | 2 773 | 2 919 | 2 739 | 2 701 | 2 770e | :    |
| Crop production: cereals (including rice) (thousand tonnes, harvested production)               |      | 861   | 907   | 948   | 984   | 1 010 | 1 060 | 1 064 | 1 076 | 1 102e | :    |
| Crop production: sugar beet (thousand tonnes, harvested production)                             |      | 603   | 498   | 566   | 503   | 519   | 489   | 499   | 511   | 508    | :    |
| Crop production: vegetables (thousand tonnes, harvested production)                             |      | 56    | 40    | 42    | 39    | 39    | 50    | 40e   | 40e   | :      | :    |
|   |      | 605   | 610   | 620   | 677   | 669   | 675   | 678   | 685   | 688    | :    |

SI: Structural Indicator

e : estimate

f : forecast

p : provisional

b : break in serie

1. Source: Eurostat. Break in series in 2000.
2. Debt Outstanding Disbursed (DOD) cumulative stock covering external public debt and external publicly guaranteed debt, but excluding IMF credits. Total exports are calculated according to the national accounts concepts.
3. Average weighted rate applied on new 12-month loans over the respective months, on 12-month maturity.
4. Deposit interest rate represents the average weighted rate for newly accepted deposits over the respective months, on 12-month maturity.
5. Administrative data; unemployment refers to registered unemployment.