

NewsLetter 20 Years



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ECONOMIC OPINION

CAPITAL MARKETS IN ALBANIA



Mark Crawford
Aksioner ISB

Two months ago I gave a public interview stating that the capital markets situation in Albania is similar to a new football stadium, full of players, referees, and fans, but there is no ball to play with. Albania has spent millions of dollars over the last three decades to put the rules of play into legislation, to develop the Financial Services Authority to referee the sector, and licenses a couple of players in the market, including my own firm Aksioner ISB. There are Albanians and internationals that have interest to deploy capital via a local capital market structure; however there are no equities or debt listed, aside from treasury bills. The Treasury bill market is dominated by banks, which is normal. With no bonds or equities listed, it is as if, teams, fans and referees are gathered for a football match with no ball. The problem isn't rewriting the rules, or reshuffling the players, or even issuing or revoking licenses. The problem is getting a ball with which the game can be played.

In the region, most other governments took a strategic decision to use capital markets to privatize a number of formerly State owned Enterprises, either in part or in whole. Albania made a conscious decision not to do that. As such, Albanians have been excluded from participating in their...

» Continues on page 4

PASURITË E FSHEHURA

AmCham presents eighth edition of its BUSINESS INDEX, 2019-2020

On page **2**



COVID-19 EFFECTS:

ECONOMY TO SEE LARGEST CONTRACTION SINCE 1997

COVID 19- ECONOMIC NEWS

On page **5**

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AmCham presents eighth edition of its Business Index, 2019-2020

The American Chamber of Commerce in Albania (AmCham) presented today the eighth edition of its Business Index, which covers 2019, at the “Economic Growth Starts with the Business Climate” Conference. Panel participants who addressed the report’s findings and discussed the challenges of the business climate in Albania were the Minister of State for Entrepreneurship Protection, Mr. Eduard Shalsi; the U.S. Ambassador to Tirana, Her Excellency, Ms. Juri Kim; the Albania Head of the European Bank for Reconstruction and Development, Mr. Matteo Colangeli; the Head of Economic Policy at the Democratic Party, Ms. Jorida Tabaku; AmCham’s President, Mr. Enio Jaço and AmCham’s Executive Director, Mr. Ilir Trimi.

The AmCham Business Index for 2019 dropped to 38 points from 100 possible, reflecting a drop of 4.98 points compared to the previous year.

The Index’s findings were made

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ABOUT THE AMCHAM BUSINESS INDEX FOR 2019

The 2019-2020 Business Index brought the views and appraisals of AmCham members, reflecting deep

concerns about some of the basic business climate parameters. As a result, the Business Index saw a decline (-4.99 points), dropping for 2019 at 38.17, from 43.16 in 2018.

Looking in more detail at Business Index indicators, the perception of AmCham members on the “Business Climate” indicator marked a significant decrease (-10.35 points) compared to 2018, dropping to 30.24 from 40.58 and thus constituting the indicator with the most significant decrease. Respondents’ perceptions of the “Internal Political Climate” in-

dicator were also negative and saw a decrease (-7.68 points). Although AmCham respondents continued to perceive a decline in the “Albanian Economic Performance” indicator (-6.32 points), a more detailed analysis of this indicator shows that most of them have maintained or increased investment and employment in 2019. AmCham members also expressed dissatisfaction with the “Reforms and Economic Policies” indicator of governance, which was downgraded (-6.07 points), while the “Corruption Level” indicator also received a negative rating (-5.90 points).

Surveyed businesses continued to perceive in 2019 a decline in continuous and unresolved issues in indicators like “Monopoly and Unfair Competition” (-2.55 points), “Informal Economy Level” (-4.54 points) and “Implementation of Laws and Regulations” (-5.04 points).

Meanwhile, AmCham members reflected a stable perception of the “General Tax Level” indicator (+0.07 points) and a positive assessment for their relations with the customs authorities (+2.12 points) and the tax authorities (+0.36 points).

Mr. ENIO JACO*President of AmCham*

“The results of the 2019 Index are not good. This should put us all in an emergency footing to improve the situation. Post-COVID-19 is not a normal situation and both the threat and the opportunity are too great to ignore. To take advantage of this moment, we have to work together -- first and foremost, the private sector and the public administration, political forces and international partners -- to create together a transparent business environment, with clear market rules that would make Albania one of the most attractive countries for investment in the Balkans.”

“

Mrs. YURI KIM*US Ambassador to Tirana, Her Excellency*

“What I hear from Albanian people is they want to see leaders working together for the sake of the people. They want government to enable them to have a fair shot – free of fear and corruption – a fair shot to earn more money, achieve a decent standard of living, and give their children a better future... The Albanian people want results, not insults. They want vision, not division. We are confident that the Albanian people and leaders are capable of rising to this challenge, and the United States stands ready, as always, to support you.”

“

Mr. EDUARD SHALSI*Minister of State for Entrepreneurship Protection*

“Focused on improving institutions and processes that deal with business requests, and, establishment of a network of coordinators for the identification, treatment and ways of solving various business problems. Moving to online services and processing business requests based on a traceability system is clear proof of the government’s serious efforts to build sustainable systems, avoid bureaucracy and delays as well as increase the quality of communication between state and business institutions”

“

Mrs. JORIDA TABAKU*Head of Economic Policy at the Democratic Party*

“The results presented show that the situation in Albania is not what we would like. I’m talking about the present and the future, taking a look at the problems presented by this

report and others like Doing Business. Talking about business has become challenging. Neither we nor the business community have the luxury any longer to waste more time, more potential, to lose 21 percent of the GDP represented by the American Chamber of Commerce by not listening to these concerns,”

Mr. MATTEO COLANGELI*the Albania Head of the European Bank for Reconstruction and Development,*

“The EBRD is interested in encouraging business-government discussions on issues that arise and that need solutions and the establishment of the Investment Council is one structure to

develop precisely this dialogue. If we look at how we can work to improve the climate for foreign investment, we believe that the implementation of justice reform and the implementation of the laws will bring solutions to many issues, such as the public administration’s work, property rights, the fight against corruption, etc.”



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» Continues from page 1

...own economy through passive investment. The lack of a capital market has shielded Albania from some of the global fluctuations that have happened over the last few decades, however, considering that Albania is on the lower end of the European economies, shielding local investors from a decline while at ground zero and prohibitively restricting any economic upside through the lack of opportunity is not an attractive strategy.

Broadly, Albanian investment mentality is still developing in terms of how it evaluates risk and reward. Most companies are privately held and when Albanians invest, it is often on the basis of personal relationship rather than true market understanding. As such there is often an implicit feeling of personal guarantees, exact outcomes and guaranteed returns. It is an immature view of investment, but it is pervasive in the country and even among some Albanian-American immigrants that I have met. After swimming upstream on this issue for several years, I have determined that the market may simply need more time to mature before true broad-based equity investment is feasible. Instead Albanians need to be given choices that reflect relatively predictable returns in equity, such as ownership in utilities, and those that provide contractual returns such as bonds.

Given this reality, two things should happen to help develop Albania's capital markets sector. First, the Government should kick-start the capital markets by listing a minority share of the national electricity company and municipal water companies. Utility companies, such as municipal water companies and the national electricity company, provide a predictable return and will be attractive not only to local but interna-

CAPITAL MARKETS IN ALBANIA



tional investors. This is the first pillar of action.

Second, tradable bonds should be encouraged and listed on the existing exchange. There are several corporate bonds that have been approved and are in the market today, mostly related to financial institutions and, of those mostly related to banks. These bonds are highly regulated and issued by regulated sectors of the Albanian economy. They fit the Albanian mentality for predictable returns and should be second pillar of the capital markets.

The Government should incor-

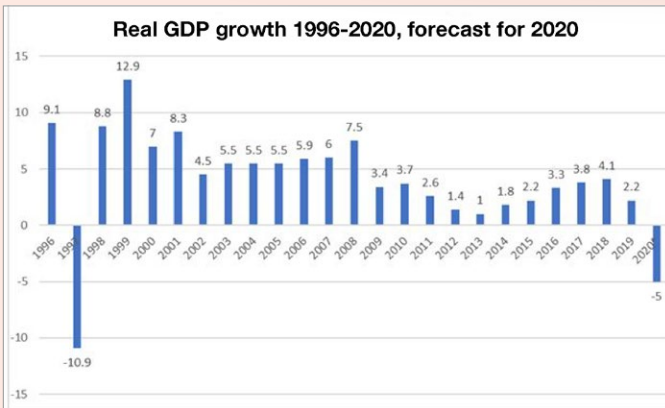
porate bonds as the mechanism of delivery within its draft fiscal amnesty in order to boost the economy. The reported current draft law states that cash deposits included in the fiscal amnesty should go into commercial bank deposits. This is the wrong approach. It will have little impact on the real economy. The banks in Albania are already liquid and an influx of new liquidity, increasing liquidity in Albanian Lek may have a nominal impact on lowering lending rates, but will more likely just be reflected in dormant liquidity. Increases in hard currency deposits will have an even

worse impact, considering that much hard currency liquidity is already held aboard, occasionally at negative interest rates.

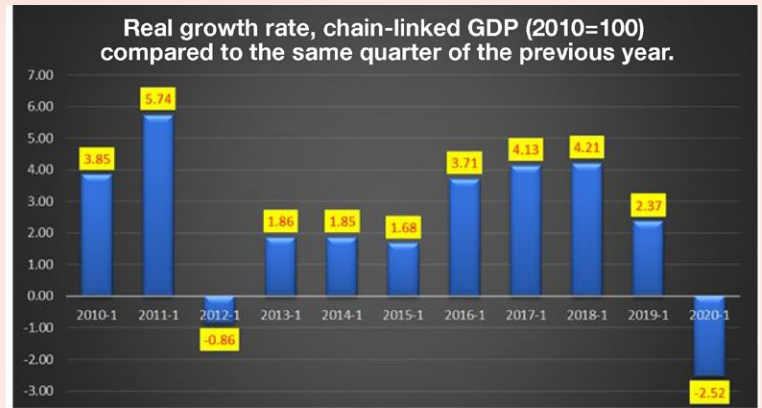
Fiscal amnesty should be implemented via a mechanism of Patriot Bonds. The Albanian Patriot Bonds would be tradable, could be issued by either the Federal Government or the Municipality, and would be earmarked for a specific purpose. Specific purposes for such a Patriot bond could include the refurbishment of a school impacted by the earthquake, or a new hospital to treat infectious diseases. Regardless, the purpose would be specific and easily deployed into the economy. Such a Patriot bond would be open to all investors however; the Bond would target participants in fiscal amnesty program in the initial emission, offering a zero percent coupon, giving the Government a zero cost source of funding for longer tenures, such as twenty years. The Patriot Bond would then trade, likely at a market-led discount, and if bond holders wished, they could monetize their position by selling via the capital market. The zero percent coupon, and the discount if monetized early, would be the effective tax on the bond holder, the cost of the fiscal amnesty.

Finally, the Government has stated that it plans to legalize medical cannabis in Albania and has been considering legislation as recently as this past May. There may be a temptation to create a private monopoly or oligopoly with such legalization. Such temptation should be rejected. Instead, the Government should create a model patterned after the Canadian experience. Following a Canadian model there would be the possibility for new entities to exist at the municipal and federal levels which could securitize future cash flows, issuing bonds, which will be tradable and allow the public of Albania to participate as investors. The Government would then be redirecting this presently illegal situation toward a productive one, bringing in new revenue and formal employment opportunities as well as providing a path for broader public financial participation via bonds. By using bonds the Government will provide another tool with which the Albanian Capital Markets can get a jump start. This sector will attract both domestic and international capital and is a good way to get Albania on the map for investors.

There is still time to develop capital markets in Albania. This opportunity shouldn't be missed.



Source: INSTAT



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MONITOR MAGAZINE

The first quarter of 2020 indicates Albania is headed for the largest economic downturn in the past two decades. The double hit of the Nov. 26, 2019 earthquake and the COVID-19 lockdown that started in mid March led to negative economic growth of -2.52% in January-March 2020. The quarter marked the biggest contractions since the start of quarterly GDP measurements in 2010.

On an annual basis, the country's economy is expected to shrink the most since 1997. According to forecasts by international financial institutions and the Ministry of Finance, the country's economy is expected to shrink by -5% this year, while the most pessimistic forecast comes from the EBRD with -9%. In three decades of post-communist transition, the Albanian economy saw its worst years in 1991 with -29% negative growth and in 1997 with -10.9% negative growth.

Forecasts for this year's economic downturn range from -5% to -9%, according to the EBRD, but the extension of the pandemic's effects past June and the lack of accurate forecasts for a possible second wave in the fall, makes economic performance uncertain.

The pandemic curve and that of economic recovery are directly related, signaling that the pandemic will hold the country's economy

COVID-19 EFFECTS: ECONOMY TO SEE LARGEST CONTRACTION SINCE 1997

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hostage until it ends.

In the first decade of transition, the economy contracted by nearly 30% in 1991 as a result of a radical shift from a centralized to a market economy. Thousands of state-owned and agricultural enterprises across the country were shut down as the enterprise shifted to private management. By 1997, the economy had grown some but it was hit by the severe financial crisis caused by pyramid schemes, causing a decline within the year by -10.9%. As

the decline was very strong in 1997, the next two years reflected an increase of 8.8% in 1998 and 12.9% in 1999, aided by the large flow of foreign aid the country received due to the Kosovo refugee crisis.

In the decade after 2000, the country's economy went through an upward cycle driven by Foreign Direct Investment and the rapid development of the banking system. From 2000 to 2008 the country's economy grew by an average of 6% per year, but at certain periods,

it was affected by the severe energy crisis that hit the country due to lack of rainfall and occasional political crises.

With the global financial crisis of 2008, the economy entered a new cycle, where in addition to the crisis, some domestic resources that had fueled growth matured.

Growth rates halved from 2009-2013, with an average of about 3%. The political rotation in 2013 further weakened the growth cycle, with a result of only 1% growth for that year, which was the lowest point after the financial crisis until 2019.

From 2013 to 2018, the economy recorded a gradual growth at an average rate of 3%, driven mainly by increased exports and Foreign Direct Investment in two major projects -- the TAP pipeline and the Devoll River HPPs.

With the completion of these projects and the shock of the Nov. 26 earthquake, growth rates weakened to just 2.2% in 2019, while 2020 is expected to be a dark spot in the country's post-communist economic history.