

THE POLITICAL AND ECONOMIC OUTLOOK FOR ALBANIA

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POWER STRUGGLE

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There is no end in sight to the six-month-old post-election crisis within the governing Socialist Party, with the main protagonists at odds over the presidential election. The longer the crisis continues, the greater the threat to the country's generally improved economic performance.

Last month, Prime Minister Ilir Meta said Albania had finally entered a decade of stability and that his three-month old government would survive a full four-year term. His remarks came amid a worsening row within the Socialist Party (PS) leadership in the course of which Fatos Nano, the party leader, has already brought about the resignations of three key pro-Meta ministers. Nano has since blocked the appointment of successors.

Political outlook

The struggle between Nano and Meta -- the latter enjoys the support of a large majority of the PS leadership -- is set to dominate the coming months. Since he stepped down as prime minister in the wake of the September 1998 anti-government riots, Nano has not held top-level public office, and his power base within the PS leadership has diminished. He is now keen to return to the administration by running for the presidency, which falls vacant in July when President Rexhep Meidani's term expires. However, the president is elected by parliament, and Meta -- who can count on the backing of the majority of PS deputies -- has made it clear he will block his rival's plans.

Nano began his onslaught on Meta by publicly denouncing corruption in the government and shaming three ministers into resigning in December. He is now increasing the pressure on the prime minister and the rest of the PS establishment by calling for a referendum among the party membership to elect the party chairman as well as its candidate for the state presidency. In the process, the powers of the PS chairman would be boosted. Nano is also proposing that the electorate -- rather than parliament -- elect the head of state. This would require a constitutional amendment.

Defensive Meta. The ferocity and success of Nano's attack has surprised Meta. The boost provided by the PS election victory and the party leadership's resounding endorsement of Meta as the PS candidate for the premiership have been challenged simply by using the media to exploit public anger over corruption. However, Meta hopes to consolidate his position in a vote of confidence as part of the PS members' referendum package. As a competent administrator under whose two-year premiership a number of major infrastructure projects have been completed, Meta enjoys considerable popularity. That remains the case, despite allegations of corruption surrounding his government and worsening power cuts this winter.

Berisha and the PD. The usually vociferous and controversial former President Sali Berisha, leader of the main opposition Democratic Party (PD), has been relatively inactive during the PS infighting. Until now, the PS and its four partners in the governing coalition -- the Social Democrats, the Democratic Alliance, the ethnic Greeks' Union of Human Rights and the Agrarians -- have been united by fear of Berisha, arising from his five-year authoritarian presidency. However, Berisha is likely to end the PD deputies' boycott of parliament which was prompted by allegations of irregularities during last summer's parliamentary election. This would enable the former president to portray himself to the international community as the champion of political stability. It will also allow his party to exploit any PS discord during voting for a new president.

Should a presidential candidate fail to gain 60% support -- that is the backing of 84 deputies -- fresh parliamentary elections must be called.

Political uncertainty. The Nano-Meta duel has created a degree of political uncertainty not seen in Albania since the immediate aftermath of the collapse of fraudulent pyramid schemes and the subsequent uprising against the Berisha administration in 1997 (see OADB, February 10, 1997, IV). While political infighting does not appear to have damaged Albania's generally precarious overall stability there is growing international and domestic concern about the consequences of a prolonged period of instability. Albania's main foreign partners (the United States and the EU) are increasingly apprehensive about Nano and the impact of his presidential ambitions. Concerns about the current political crisis will be voiced on January 24, when leading Albanian politicians meet the European Parliament's Foreign Relations Committee in Brussels. If the situation does not seriously deteriorate, the European Commission and Albania will begin talks later in the year on a Stabilisation and Association Agreement of the type the EU has already concluded with Macedonia and Croatia (see OADB, December 7, 2001, II).

Economic outlook

There are, as yet, no signs that the political crisis is having a negative impact on the economy:

GDP growth. The 2002 budget envisages 7% growth -- almost identical to the annual figures for each of the last four years. The sustained vigorous growth is from a very low base figure and per capita GDP is unlikely to rise much above 1,300 dollars. Unemployment remains, on official figures, at 17%; most estimates are much higher. A further one-fifth of the labour force are employed abroad, mostly in Greece.

Inflation. Inflation is projected at 2-4% -- possibly slightly down on the 2001 figure of 4%, which included some inflationary pressures caused by election-induced pension increases. If the economy continues to perform well, the lek may again appreciate against the dollar after a 3% gain in 2001, which took it to 137 to the dollar.

External position. Remittances by Albanians working in the West will continue to play an important role in reducing the trade deficit (estimated at 912 million dollars in 2001) by around 600 million dollars. Foreign direct investment, which increased by 40% in 2001 to reach an estimated 207 million dollars, is set to continue -- unless political disputes lead to instability. The reduction in the average tariff rate from 10.6% to 7.7% during 2001 is another encouraging sign of liberalisation.

Privatisation and enterprise reform. There are several major privatisation deals underway with others set to follow in 2002. Portions of Albpetrol, the state oil production, refining and distribution company, have been sold. INSIG, the dominant player in Albania's insurance market, and the Savings Bank --Albania's largest and now only state-owned bank -- are due to be sold in 2002. The fixed-line telephone operator, Albtelecom, now in the process of privatisation, will lose its monopoly position by January 1, 2003. Increased competition and price cuts are set to continue in the mobile phone sector where a second operator (Vodafone-Panfon) began trading after winning a tender in 2001.

To date, the PS power struggle has not created instability beyond the political establishment. Four years of solid growth may have made society and economy more resilient than at any time since 1991. However, stability could be threatened if Nano and Meta do not reach a compromise over the presidential elections while fresh parliamentary elections could produce a more ambiguous result than last year's ballot.