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A Small Central Institution Increases Economic Development and Efficiency: Albanian Case compared with Regional Balkan States

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Abstract

On the basis of contribution of central institution impact on economic development and efficiency, the report scrutinizes the development of Albania. The report may emphasize on the role of bank 'as central institution' in the development of an economy. Efficiency of the financial institution in the small economy of a country has vital part of the Albanian economy. Financial crises have also left effects on Albanian economy, from which one of the most important issue faced is, instability of financial market. This may have lot of impacts on the working of the financial institutions of Albania. Taking recent future research and results, which are derived from researchers and multiple studies, this report may have a detailed situation about the measures taken in Albania. In this phenomenon there was a full support by the government to bring stability in the country and to develop the economy.

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Keywords: Efficiency of financial institution; economic growth; financial development; macroeconomic stability.

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1. Introduction

Albanian economic policies intended to maintain the stability of macroeconomic parameters, reducing the poverty, achieving economic consolidation with budgetary deficit and adopting of non inflationary economic growth polices by the end of 90s. While on same decade the economy of Albania has experienced a move from its Communist past into an open-market economy. Public financing was the major subject to aiming reformation, through which government expenditures cuts while there is an expectation of revenues boosting. Major step which has been witnessed and adopted that more tax revenues reduction in the shape of lowering the rate of duties due to Free Trade Agreement Agreements. Atlas.media.mit.edu (2015) describe in its report that the nation experiences richness in the national resources and the economy is for the most part supported by export products as Crude Petroleum 23%, Leather Footwear 9.3%, Footwear Parts 5.3%, Semi-Finished Iron 3.4% and Chromium Ore 3.3%. Reduction in rate of duties showed good and fast relief and this was followed by considerable increase in national, excise taxation level and put a change in threshold for Value Added Tax registration. Tax legislation amendments were settled with new system of tax, and approval of a 10% of flat income tax in 2007 and profit tax reduction to 10% in 2008. With the start of 2014, the exports appear to pick up the momentum and have increased 300% from 2008; in spite of the fact that their commitment to the gross domestic product is still direct (the product exports for every capita starting 2014 is around $1,100). While Albania is a not a rich country, it is a middle income country by Western European norms, with GDP per every capita is more prominent than the few nations in the region. Atlas.media.mit.edu (2015) revealed that Albania is ranked 81 with an Economic Complexity Index (ECI) of -0.195465. Albania's GDP per capita (communicated in PPS – Purchasing Power Standards) remained at 35 percent of the EU normal in 2008. Instat.gov.al (2015) reveals that unemployment rate of 13.3% is extensively lower than numerous nations in Balkans like, Serbia has an unemployment rate of 24%. Consequences of Albania's endeavours were at first empowering. Driven by the horticultural area, genuine GDP became by an expected 11% in 1993, 8% in 1994, and more than 8% in 1995, with a large portion of this development in the private segment. Yearly swelling dropped from 25% in 1991 to single-digit numbers and rate of currency has been settled. Albania got to be less subject to sustenance help. The velocity and energy of private entrepreneurial reaction to Albania's opening and changing was superior to anticipate. Starting in 1995, in any case, advancement stalled, with unimportant GDP development in 1996 and a 9% withdrawal in 1997. A debilitating of government resolve to keep up adjustment strategies in the decision year of 1996 added to recharging of inflationary weights, impelled by the financial backing deficiency which surpassed 12%. Expansion approached 20% in 1996 and half in 1997. Instat.gov.al (2015) describes that the breakdown of monetary fraudulent business models in mid 1997 – which had pulled in stores from a generous bit of Albania's populace – activated serious social agitation which prompted more than 1,500 passing, broad annihilation of property, and an 8% drop in GDP. Rate of currency, at first lost up to a large portion of its esteem amid the 1997 emergency, before bouncing back to its January 1998 level of 143 to the dollar. The new government, introduced in July 1997, has taken solid measures to restore open request and to resuscitate trade and an economic activity.

1.1 Theoretical Background

Kawai & Prasad (2011) refute that it is indispensable to consider of financial market development in the growth of economy and there are two basic interactions needed to consider between financial development and economic growth. First is consider as "demand following" and having the views that the demand for financial services as reliant upon the growth of real output and also depending upon the commercialization and transformation in the sectors of economics. So formation of financial institutions and their financial assets with liabilities may have a reaction for that demand of these services which investors give to this real economy. The financial system may support and maintain the leading sector in escalation process. So the financial system persuade as an outcome of real economic growth.

1.2 Albanian Banking Market (Modelling as small central institute)

While discussing an efficient (small centrally administrated institute) banking market it must be noted that possessing a developed economy as banking system it is a major requirement to develop economy as basic banking system and it is a major strength of any economy. While discussing Bank of Albania as effective and powerful small public sector organization it may also consider that banking sector obviously is a backbone of the economy of any country. The Bank of Albania has been materialized as a powerful institution, which may contribute in making the banking sector of Albania in the right direction and on a healthy atmosphere. Any financial sector may depend on financial ratio as net interest margins (NIM), overhead costs to total assets, cost income ratio (CIR) and operating expense to operating revenues and return on investments. And it is a common rule that if the overhead costs are high and net interest margin is high then efficiency of the bank is well thought out as low. Cost incurred on these ratios is high as well as there is a top block in borrowed and deposited interest, which decrease the efficiency of bank. Furthermore higher ratios of cost income ratio and overhead cost to total assets, operating expenses to operating revenues may also have indication to poor progress of bank. While ROA is mentioned as the basic tool to assess the performance of the banking system, in general and as a whole and it mentioned the profitability and progress of the bank. While in our case the use of ROA for indicating the presentation and performance of Bank of Albania indicated the positive results incessantly for the area of 2002-2007. Bank showing high operational expenses in the field of expenses, but the result of the bank from the main area of operation were positive. But while in the year of 2008 this trend has been broken which demonstrates the weakness of Bank of Albania. Gearing up again in 2010 and rising very swiftly in net profit side but it shows clearly that the growth did not keep its pace on next year and bank again shows the poor performance in 2011 as shown in figure mention below efficiency indicator from 2003 - 2012.

Table 1. Efficiency Indicators of Albanian Banking (in%)

Albanian Banking					
Year	ROA	NIM	Operating Expense to Operating Revenues	Cost to Income Ratio	Overhead costs to total assets
2002	1.3	2.95	55	66.01	2.48
2003	1.35	3.57	50	64.58	2.22
2004	1.38	3.07	62	66.74	2.35
2005	1.5	3.65	55	55.64	2.24
2006	1.46	4.55	54	60.2	2.34
2007	1.67	4.1	50	56.25	2.19
2008	0.81	4.19	51	52.78	2.42
2009	0.42	4.05	58	55.84	2.45
2010	0.82	4.23	58	51.86	2.31
2011	0.27	4.22	62	49.4	2.07

*Source: Bank of Albania (2003 – 2012)

1.3 Albanian Banking Market and Macroeconomic

Stability of macroeconomic parameters is a backbone of any country's economy; Government of Albania implemented the Economic and Fiscal Program (EFP) year 2012 – 2014. Considering this program, government also takes a step forward to public investments on broader perspective which may lead the economic growth to European Union income level. Resulting the effect of financial crises in 2008 was low impact on the Albanian economy if compare with neighbouring countries.

Table 2. Comparison between Non EU Western Balkan States and EU Members Bulgaria, Croatia and Romania (2012)

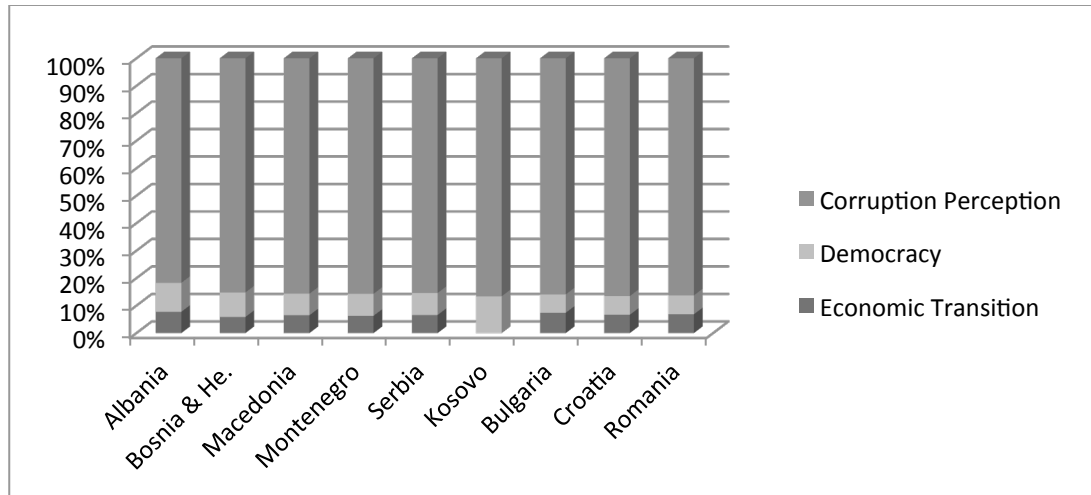| Country	Economic Transition	Democracy	Corruption Perception
Albania	3.13	4.25	33
Bosnia & He.	2.89	4.39	42
Macedonia	3.26	3.93	43
Montenegro	3.01	3.82	41
Serbia	3.01	3.64	39
Kosovo	-	5.25	34
Bulgaria	3.53	3.18	41
Croatia	3.54	3.61	46
Romania	3.49	3.5	44

Figure 1. Comparison between Non EU Western Balkan States and EU Members Bulgaria, Croatia and Romania (2012)

Table 3. Comparison between Non EU Western Balkan States and EU Members Bulgaria, Croatia and Romania (2012)

Country	Population (in millions)	GDP (billion US $)
Albania	3.16	28.5
Bosnia & He.	3.83	34.1
Macedonia	2.11	23.8
Montenegro	0.62	8.4
Serbia	7.22	86.2
Kosovo	1.81	13.6
Bulgaria	7.3	116.4
Croatia	4.27	87.6
Romania	21.32	352.3

*(Source: Petrovic & Ross Smith (2015 Comparison)

2. Problem Statement

This project addresses to make clear sense about how an institute may be helpful in the economic development of Albania. As describing the efficiency of banking system, which has been chosen as small institution in this case study, has an important role in Albanian economy. In the case of Albania major financial instability made some negative effects on the potential of banking system. Major steps have been taken to suggest in this report how to fix the stability issues; facing by financial institutes and how collaboration of government and these institutions can do better sources of success in future.

3. Research Questions

How a small central institution increases economic development and efficiency in the context of Albanian economy if compared with Regional Balkan States?

4. Purpose of the Study

"The purpose of the mixed methodology report is to explore the main impact of a small institution to an economy of Albania. I emphasize on the role of bank 'as central institution' in the development of an economy".

5. Research Methods

Colombo & Stansa (2006) describe that a subjective routine can be connected either to memoir, grounded hypotheses, contextual analysis or ethnography. Thus, it was discovered to be a suitable approach in managing learners. A contextual analysis methodology was utilized following the convention of contextual analysis system has been utilized as a part of different comparative setting particularly in learning organizations. Keeping in mind the end goal to acquire a high number of respondents in a brief time, Qualtrics online overview programming was consistently received in gathering the information. Qualtrics is a programming with adaptable capacities of online information gathering, testing, and examining input. The study was concerned with higher learning understudy at the University particularly those with livelihood or which had involvement in a vocation setting. Abaid, Detragiache & Tressel (2008) urge that proposing a target and exact information numerically accumulated, empowers the representation of data through charts, tables, and outlines. Online polls were controlled to college understudies, and more than 200 understudies were reached via email. 170 of them reacted to the poll from over the scope of associates; 150 finished the study. The study involved a progression of shut finished inquiries relating IT administration to duty agreeability, reasonableness, and assessment learning. Meetings, every enduring less than two hours, occurred in the Campus environment with every session being sound taped to guarantee the precision of records and to empower the group to concentrate on learners' reaction. The members marked an assent structure allowing taping of the session and interpreting of verbatim for information examination before the meeting. This alternative gave a method for get-together moderately unpredictable reactions that customarily couldn't be spoken to numerically. The choice of respondents was in light of stratified testing system as it didn't cover all understudies in the college. A second meeting just occurred when elucidation was required. The specialist utilized an outsider to distinguish potential predisposition in the interpretation process. The member had an opportunity to view the recording at a later stage to affirm the exactness and be asked for any subsequent remarks or inquiries. A few stages were taken after to guarantee that the protection of the members was ensured in the study. Initially, the testers agreed it was intended to guarantee that the respondent was ensured. This included getting consent from the University organization before starting any methodology of information accumulation. Distinguished Participants in the exploration study were welcomed in composed and educated of the targets and objectives of the study. Moreover, they were instructed with respect to information accumulation and capacity systems for the study. Prior to the meeting, the journalist marked an

assent structure demonstrating his or her longing to take the examination study. The unruffled information was put away in secured file organizer in the workplace of the analyst. A controlled toward oneself organized survey was managed every comprising of information inquiry requesting the respondent to reply with "yes," "no" and "don't have the foggiest idea" choices. Likewise, the survey comprised of inquiries with respect to saw charge consistence and decency where the answers went from unequivocally settle on a truce firmly. The risk capacities in the SPSS 13 were utilized to test the relationship framework and different relapse of the study measure. A portion of the things were dispensed to expand the alpha coefficients.

6. Findings

While talking about impacts of institutional productivity on Albanian economy, this report has given quantitative examination to backing the theme and highlights the impacts of different money related components and its part in development of the economy. Alongside the saving money and monetary improvement in the economy, different components, for example, Freedom from debasement, Fiscal opportunity, Business flexibility, Labour flexibility and Trade flexibility are considered as autonomous variables indicating institutional advancement in Albania. Outside immediate interest in the nation was albeit having negative development throughout the most recent few years, yet it has brought about the development of residential business advancement and creation level. General GDP of the nation was $12.90 billion in 2013 wherein FDI was 2.99 %. Considering FDI as the dependent variable, information was found to highlight the development on elements said above. Budgetary Freedom score for Albania's is 66.9 to make it world's 54th countries free of charge to business in the 2014 Index. Its general score has extended by 1.7 centres, with famous upgrades in exchange and speculation opportunity. It drove for endeavour opportunity and trade adaptability. Albania is situated 25th among the 43 countries in the European commercial centre making it over the world's normal score. Over the 20-year history of the Index, Albania has advanced its money related adaptability score by around 17 centres, a fundamental 20 change. With score which extends in nine of the 10 monetary open doors, Albania has climbed a little bit at a time into the "respectably free" class. Conspicuous structural changes have included trade liberalization, privatization, execution of centred level cost rates, and modernization of the nature's turf. Nearby the convincing backing of low extension, more important cash related quality has similarly been achieved. The lawful stays subject to political hindrance, and deeper institutional changes to destroy holding up contamination also extend lawful self-rule are segregating to ensuring more imperative money related open door in Albania. Climbing financial deficiencies recently have extended open commitment to more than 60 percent of GDP, as far as could be allowed to be set in 2008.

Table 3. Understanding Correlation

		Freedom from Corruption	Fiscal Freedom	Business Freedom	Labour Freedom	Trade Freedom	FDI
Freedom from Corruption	Pearson Correlation	1	0.806**	0.162	0.447	0.853**	-0.773**
	Sig. (2-tailed)		0	0.495	0.196	0	0
	N	20	20	20	10	20	20
Fiscal Freedom	Pearson Correlation	0.806**	1	0.37	0.025	0.915**	-0.638**
	Sig. (2-tailed)	0		0.108	0.946	0	0.002
	N	20	20	20	10	20	20
Business Freedom	Pearson Correlation	0.162	0.37	1	0.1	0.403	0.211
	Sig. (2-tailed)	0.495	108		0.784	0.78	0.371
	N	20	20	20	10	20	20
Labour Freedom	Pearson Correlation	0.447	0.25	0.1	1	0.317	0.045
	Sig. (2-tailed)	0.196	.946	0.784		0.372	0.901
	N	10	10	10	10	10	10
Trade Freedom	Pearson Correlation	0.853**	0.915**	0.403	0.317	1	
	Sig. (2-tailed)	0	0	0.078	0.372		-0.665**
	N	20	20	20	10	20	0.001
FDI	Pearson Correlation	-0.773**	-0.638**	0.211	0.045	0.665**	20
	Sig. (2-tailed)	0	0.002	0.371	0.901	0.001	1
	N	20	20	20	10	20	20

**Correlation is significant at the 0.01 level (2-tailed)

From the above results, it can be understood that keeping FDI as the dependent variable, all the other components of institutional growth dig up changed.

Table 4. Regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.989[a]	0.978	0.95	0.24555

a. Predicators (Constant) , Freedom from Corruption, Freedom of Labor, Trade Freedom and Fiscal Freedom

ANOVA

Model		Sum of Square	Df	Mean Square	F	Sig.
1	Regression	10.543	5	2.109	34.971	0.002
	Residual	0.241	4	0.6		
	Total	10784	9			

a. Dependent Variable : FDI

b. Predicators (Constant) , Freedom from Corruption, Freedom of Labour, Trade Freedom and Fiscal Freedom

Model if F and value is significant.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	-70.852	11.333		-6.252	0.0303
	Fiscal Freedom	0.467	0.093	1.816	5.032	0.007
	Business Freedom	0.112	0.016	1.018	6.987	0.002
	Labor Freedom	1.151	0.145	1.375	7.937	0.001
	Trade Freedom	-0.169	0.042	-1.375	-4.068	0.015
	Free from Corruption	-0.693	0.06	-2.33	-11.463	0

a. Dependent Variable : FDI

Result shown above and it is clear that at $P<0.05$, there is positive relation having significant impact on FDI from Fiscal freedom, Business, Labour, Trade freedom also have positive freedom at $P<0.05$ on FDI, but the corruption freedom is on negative on FDI at $P<0.05$.

7. Conclusions

Albania is presently experiencing an escalated macroeconomic rebuilding administration with the International Monetary Fund and the World Bank. The requirement for change is significant, incorporating all divisions of the economy. In 2000, the most established business bank, Banka Kombetare Tregtare /BKT was privatized. In 2004, the biggest business bank in Albania—then the Savings Bank of Albania—was privatized and sold to Raiffeisen Bank of Austria for US $124 million. Macroeconomic development has found the middle value of around 5% throughout the most recent five years and swelling is low and stable. In 2009, Albania was the main nation in Europe, together with San Marino and Liechtenstein, to have financial development; Albanian GDP genuine development was 3.7%. After a seemingly endless amount of time, the tourism division has increased a developing partake in the nation's GDP. Information distributed starting July 2012 by the National Institute of Statistics, INSTAT, demonstrate the economy shrunk by 0.2 every penny in the first quarter of the year. Be that as it may, changes are compelled by restricted authoritative limit and low salary levels, which make the populace especially defenceless against unemployment, value vacillation, and different variables that contrarily influence wage. The economy keeps on being reinforced by settlements of exactly 20% of the work compel that works abroad, basically in Greece and Italy. These settlements supplement GDP and help counterbalance the vast outside exchange deficiency. Most horticultural area was privatized in 1992, significantly enhancing labourer wages. In 1998, Albania recuperated the 8% drop in GDP of 1997 and pushed ahead by 7% in 1999. Global support has helped settle the high expenses of getting and returning evacuees from the Kosovo clash. It may end the note that economy of Albania is moving toward prosperity comparing with other Balkan regional states.

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