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	E-00	FRB-00	H-01	TEDE-00	INR-00	IO-00	ITC-01
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 FM AMEMBASSY TIRANA
 TO SECSTATE WASHDC IMMEDIATE 0393
 INFO AMCONSUL STRASBOURG
 AMEMBASSY ROME
 USEU BRUSSELS
 AMEMBASSY ATHENS
 USDOC WASHDC
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 DEPT OF TREASURY WASHDC
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STATE FOR EB/IFD

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MILAN FOR AGATT HIGGINS

USVIENNA FOR USDEL OSCE

E.O. 12958: DECL: 08/23/2001

TAGS: EFIN, AL

SUBJECT: WORLD BANK CONCERNS RE THE ALBANIAN ECONOMY

REF: A) TIRANA 1896 B) TIRANA 1868

1. (U) CLASSIFIED BY AMB M.R.LINO;
REASON: 1.5 (D).

SUMMARY

2. (C) A SENIOR WORLD BANK OFFICIAL NOTED "STRONG CONCERNS" ABOUT THE DIRECTION OF THE ALBANIAN ECONOMY TO PRESIDENT BERISHA AND PM MEKSI DURING THE RECENT VISIT OF A WORLD BANK DELEGATION TO TIRANA. HE CITED THREE PRIMARY PROBLEM AREAS: THE COUNTRY'S GROWING BUDGET DEFICIT; SLOWNESS IN INSTITUTION BUILDING; AND

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THE UNCHECKED EXPANSION OF PYRAMID SCHEMES IN THE COUNTRY'S INFORMAL BANKING SECTOR. THE ALBANIAN ECONOMY ALSO EXHIBITS POSITIVE ASPECTS, INCLUDING A VIBRANT PRIVATE SECTOR; STRONG OVERALL GROWTH IN SEVERAL KEY SECTORS INCLUDING CONSTRUCTION; AND INCIPIENT INDUSTRIAL DEVELOPMENT. WORLD BANK OFFICIALS UNDERScoreD THAT TOP GOA OFFICIALS FAIL TO ACKNOWLEDGE THE POTENTIAL RAMIFICATIONS OF FAILURE OF THE PYRAMID SCHEMES. THEY PREDICT A NEW PACT WITH THE IMF WILL EMERGE BY YEAR'S END. END SUMMARY.

WORLD BANK DELEGATION EXPRESSES "STRONG CONCERNS"

3. (C) THE AMBASSADOR MET WITH WORLD BANK DIRECTOR FOR CENTRAL EUROPE AND ASIA, JEAN-MICHEL SEVERINO, DURING HIS VISIT TO ALBANIA SEPTEMBER 6-10. SEVERINO HEADED UP A DELEGATION OF TECHNICAL EXPERTS. ECONOFF ALSO CALLED ON WORLD BANK RESIDENT REPRESENTATIVE CARLOS ELBIRT FOR A READ-OUT OF THE DELEGATION VISIT ON SEPTEMBER 11. SEVERINO AND HIS TEAM MET WITH SENIOR ALBANIAN OFFICIALS, INCLUDING PRESIDENT SALI BERISHA AND PRIME MINISTER ALEKSANDER MEKSI, DURING HIS STAY.

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4. (C) ACCORDING TO ELBIRT, SEVERINO OUTLINED FOR HIS INTERLOCUTORS THREE PRIMARY PROBLEM AREAS FOR THE STATE OF ALBANIA'S ECONOMY:

-- FIRST, HE CITED THE COUNTRY'S GROWING BUDGET DEFICIT AND RECOMMENDED STEPS TO CORRECT THE FISCAL SITUATION

-- SECOND, SEVERINO CRITICIZED THE SLOW PACE OF

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INSTITUTION BUILDING IN THE COUNTRY, TELLING THE ALBANIANS THAT DEVELOPING STRONGER LEGAL AND JUDICIAL SYSTEMS MERITED ADDITIONAL EFFORT.

-- FINALLY, SEVERINO UNDERScoreD THE PRECARIOUSNESS OF THE UNCHECKED EXPANSION OF ALBANIA'S MASSIVE PYRAMID SCHEMES IN THE INFORMAL BANKING SECTOR, WHICH MASQUERADE AS HIGH-INTEREST INVESTMENTS.

SOME POSITIVE ASPECTS OF THE ECONOMY

5. (U) ALONG WITH THE PROBLEMS, THE WORLD BANK GROUP ALSO CITED SOME POSITIVE ASPECTS OF THE ECONOMY. RESIDENT REPRESENTATIVE ELBIRT NOTED THE COUNTRY'S VIBRANT PRIVATE SECTOR, WHICH ACCORDING TO THE MINISTRY OF TRADE IS RESPONSIBLE FOR UP 80 TO 85 PERCENT OF GDP. THERE IS CONTINUED STRONG ECONOMIC GROWTH GENERALLY, AND ESPECIALLY IN THE CONSTRUCTION SECTOR. THE "INCIPIENT" INDUSTRIAL SECTOR DEVELOPMENT WAS ALSO CITED BY ELBIRT AS A POSITIVE EXAMPLE. ALBANIA HAS HAD THE HIGHEST ECONOMIC GROWTH RATE IN EUROPE FOR THE LAST

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MILAN FOR AGATT HIGGINS

USVIENNA FOR USDEL OSCE

E.O. 12958: DECL: 08/23/2001

TAGS: EFIN, AL

SUBJECT: WORLD BANK CONCERNS RE THE ALBANIAN ECONOMY

TWO YEARS AND UNTIL VERY RECENTLY IT HAD REACHED
 VIRTUALLY ZERO INFLATION. ITS AGRICULTURAL SECTOR HAS
 ALSO EXHIBITED THE STRONGEST GROWTH RATE IN EUROPE FOR

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THE LAST TWO YEARS.

THE POLITICS OF THE ECONOMY

6. (C) ELBIRT SAID THE GOA, WHICH HAS BEEN THE SUBJECT OF INTERNATIONAL CRITICISM FOR ITS FLAWED PARLIAMENTARY ELECTIONS IN MAY, TRIED TO MAKE AS MUCH POLITICAL PROFIT AS IT COULD FROM SEVERINO'S VISIT. SEVERINO WAS UNHAPPY, HOWEVER, WITH THE HIGH PROFILE THE GOVERNMENT AND MEDIA GAVE THE VISIT.

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7. (C) ELBIRT SAID OFFICIALS, INCLUDING DEPUTY PRIME MINISTER AND FOREIGN MINISTER TRITAN SHEHU, TRIED TO IMPRESS ON SEVERINO THEIR INTENTION THAT UPCOMING LOCAL ELECTIONS SCHEDULED FOR OCTOBER 20 BE FREE AND FAIR. SHEHU SAID THE SUCCESS OF THE ELECTIONS WOULD CARRY OVER INTO THE ECONOMIC AREA AS WELL: THE GOVERNMENT WOULD BEGIN TO REIGN IN ITS OVERSPENDING FOLLOWING THE ELECTIONS.

INFLATION

8. (C) WHILE PRAISING IMPROVED COLLECTION PROCEDURES FOR ALBANIA'S TWO-MONTH-OLD VALUE-ADDED TAX, RESIDENT REPRESENTATIVE ELBIRT STRONGLY CRITICIZED WHAT HE CALLED THE UNDER-REPORTING OF INFLATION BY THE GOVERNMENT. "I KNOW INFLATION WAS 5 PERCENT IN JULY, BUT THE GOVERNMENT REPORTED IT AT 1.3 PERCENT. IN AUGUST IT WAS REPORTED AS 1.9 PERCENT, BUT WHO KNOWS?" ELBIRT SAID. HE ADDED THAT THE LEK HAD STABILIZED AGAINST THE DOLLAR, BUT PRIMARILY BECAUSE OF THE DOLLAR'S DECLINE RELATIVE TO MAJOR EUROPEAN CURRENCIES. SINCE THE CENTRAL BANK IS NOT INTERVENING TO PROP UP THE LEK, THE CURRENCY HAS TO DEVALUE FURTHER GIVEN THE CURRENT RATE OF INFLATION AND HIGH BUDGET DEFICITS, HE SAID.

IMF AGREEMENT BY THE END OF THE YEAR?

9. (C) CONTRARY TO THE IMF'S OWN ASSESSMENT OFFERED DURING A RECENT IMF NEGOTIATING TEAM VISIT, VISITING

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WORLD BANK DIRECTOR SEVERINO SAID HE EXPECTS A NEW
AGREEMENT BETWEEN ALBANIA AND THE FUND BY YEAR'S END.
HE SAID THAT PRESIDENT BERISHA TOLD HIM THAT HE
INTENDS, AFTER THE OCTOBER ELECTIONS, TO TAKE ALL THE
STEPS THE IMF REQUIRES TO GET BACK IN LINE WITH THEIR
PROGRAM. THE GOA REALIZES, NOTED SEVERINO, THAT IT
NEEDS THE IMF TO SURVIVE ITS CURRENT BUDGETARY CRISIS
AND SO WILL DO WHATEVER IT TAKES TO SECURE A NEW PACT.
HOWEVER, SEVERINO ADDED THAT BECAUSE THE ELECTIONS ARE
SO LATE IN THE YEAR, IT WILL BE DIFFICULT FOR THE GOA
TO MEET ALL THE IMF REQUIREMENTS IN SO SHORT A TIME
BEFORE THE END OF THE YEAR. HOWEVER THE UPCOMING
ELECTIONS DID NOT PERMIT BERISHA TO TAKE ANY TOUGH
MEASURES NOW.

PRIVATIZATION OFF COURSE

10. (C) IN THE KEY AREA OF PRIVATIZATION OF LARGER
"STRATEGIC" STATE ENTERPRISES, RESIDENT REPRESENTATIVE
ELBIRT WAS LESS SANGUINE ABOUT THE GOA'S PROGRESS. HE
SAID THE GOA IS NOT MOVING FAST ENOUGH IN THIS AREA AND

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TO SECSTATE WASHDC IMMEDIATE 0395
INFO AMCONSUL STRASBOURG
AMEMBASSY ROME
USEU BRUSSELS
AMEMBASSY ATHENS
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DEPT OF TREASURY WASHDC
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IS FAILING TO POSITION ITSELF TO TAKE MAXIMUM ADVANTAGE OF THE CASH POTENTIAL POSED BY PRIVATIZING PUBLIC UTILITIES, TELECOM, AND MINES. CALLING ENERGY AND WATER DISTRIBUTION "A DISASTER," ELBIRT SAID THE GOVERNMENT HAD PROMISED TO DEAL WITH "EVERYTHING" WRONG IN THIS SECTOR, AGAIN AFTER THE OCTOBER LOCAL ELECTIONS.

11. (C) ELBIRT SAID THAT THE ONLY TWO MINISTERS FROM THE PREVIOUS CABINET WHOM HE SEES AS BEING BEYOND REPROACH FOR CORRUPTION, FORMER FINANCE MINISTER AND DEPUTY PRIME MINISTER DYLBERT VRIONI AND FORMER MINISTER OF CONSTRUCTION AND TOURISM AND DEPUTY PRIME MINISTER

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DASHAMIR SHEHI, WERE BOTH MARGINALIZED IN THE NEW
CABINET. VRIONI, NOW MINISTER OF PRIVATIZATION, TOLD
ELBIRT AND SEVERINO SEPT. 10 THAT HIS NEW PORTFOLIO
WILL NOT INCLUDE PRIVATIZING UTILITIES AND STRATEGIC
INDUSTRIES; RATHER, THESE SPINOFFS WOULD BE LEFT IN THE
HANDS OF THE INDIVIDUAL MINISTRIES OVERSEEING THESE
AREAS. ELBIRT CALLED THIS A BAD SIGN.

AN IMPENDING CRASH?

12. (C) LIKE ALMOST EVERY OBSERVER OF ALBANIA'S
CURRENT ECONOMIC SITUATION, VISITING WORLD BANK
DIRECTOR SEVERINO DWELT ON WHAT HE SEES AS THE COMING
CRASH OF THE FOUR MASSIVE PYRAMID SCHEMES OPERATING IN
THE COUNTRY IN THE GUISE OF HIGH-RISK, HIGH-INTEREST
INVESTMENT FUNDS. SUCH A COLLAPSE WOULD HAVE MAJOR
ECONOMIC, AND POLITICAL, RAMIFICATIONS, POSSIBLY HE
SAID EVEN ENDANGERING THE CURRENT GOVERNMENT. MAKING
MATTERS WORSE, TOP OFFICIALS (INCLUDING THE PRESIDENT
AND PRIME MINISTER) APPARENTLY FAIL TO PERCEIVE THE
POLITICAL IMPLICATIONS OF A CRASH. SAID SEVERINO, "THE
PRESIDENT LAUGHED. THEY'RE NOT TAKING THIS SERIOUSLY.
THEY SAY, 'IF PEOPLE WANT TO PUT THEIR MONEY IN THESE
THINGS THEN THAT'S THEIR PROBLEM!'"

13. (C) RESIDENT REPRESENTATIVE ELBIRT ESTIMATED
ALBANIANS HAVE BETWEEN USD 100 MILLION AND 200 MILLION
TIED UP IN THESE PONZI-TYPE SCHEMES. "100 MILLION
DOLLARS, THAT'S 5 PERCENT OF GDP," ELBIRT NOTED. EVEN
MORE WORRISOME, HE SAID, ARE INDICATIONS THAT THE FUNDS
ARE POSSIBLY BEING USED FOR MONEY LAUNDERING. THE LURE

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OF THE HIGH-INTEREST PYRAMID SCHEMES ALSO WERE MAKING
IT DIFFICULT FOR THE GOVERNMENT TO RAISE FUNDS TO
FINANCE THE DEFICIT.

14. (C) VISITING WORLD BANK DIRECTOR SEVERINO
PREDICTED THE GOVERNMENT WOULD NOT LET THE FUNDS CRASH
BEFORE THE OCTOBER ELECTIONS, BUT THERE WAS NO
CERTAINTY IN THE MATTER. ONE SCHEME IS APPARENTLY NOW
OFFERING 20 PERCENT INTEREST PER MONTH, A SIGN, HE

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NOTED, OF IMMINENT COLLAPSE. "WHATEVER HAPPENS," SEVERINO SAID, "IT WILL HAVE AN ENORMOUS IMPACT ON THE ECONOMY AND THE STANDARD OF LIVING." RESIDENT REPRESENTATIVE ELBIRT NOTED THAT FIVE SMALLER SCHEMES ALREADY HAD FAILED AND HE HEARD THAT THE CHIEFS OF THE BIGGEST OF THE SCHEMES -- THAT RUN BY VEFA HOLDING -- ARE LOOKING TO BUY PROPERTY IN HUNGARY TO WHICH "THEY WILL MAKE THEIR ESCAPE."

COMMENTS

15. (C) SEVERINO'S AND ELBIRT'S REMARKS ABOUT THE POTENTIAL DANGERS POSED BY THE PYRAMID SCHEMES IN THE

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INFORMAL BANKING SECTOR REFLECT THE OPINION OF THE IMF AS WELL. SEVERINO SAID THAT THE HEAD OF THE LAST IMF TEAM HAD ALSO HIT THE GOA HARD WITH ADVICE TO DO SOMETHING ABOUT THE INFORMAL BANKING SECTOR. THE POTENTIAL PROBLEMS ASSOCIATED WITH THIS LOOMING DANGER FAR OVERSHADOW THE POSITIVE DEVELOPMENTS IN ALBANIA'S ECONOMY. THE WORLD BANK'S IS THE LATEST IN A SERIES OF WARNINGS FROM ALBANIAN AND FOREIGN OBSERVERS ABOUT THE DANGER THAT THESE OPERATIONS POSE TO THE ECONOMY. THE DISTURBING TWIST IS ELBIRT'S ASSESSMENT THAT THE PRESIDENT AND PRIME MINISTER FAIL TO APPRECIATE THE DANGERS INHERENT IN SUCH A SITUATION.

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16. (C) OTHER REPORTS, HOWEVER, INDICATE AT LEAST SOME GOA OFFICIALS DO UNDERSTAND THE THREAT THAT THE VEFA SCHEME AND OTHER SUCH OPERATIONS POSE (REF A). THE HEAD OF THE CENTRAL BANK, FOR EXAMPLE, TOLD EMBOFFS IN JULY ABOUT HIS EFFORTS TO CONTAIN THE PROBLEM (REF B) WHILE OTHERS REPORT THE GOA WILL DO ALL IT CAN TO PREVENT A COLLAPSE. THE PROBLEM, HOWEVER, MAY BE WELL

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BEYOND THE GOA'S CAPACITY TO CONTROL.

17. (C) REGARDING THE BUDGET DEFICIT, SEVERINO DID NOTE THAT IT IS FAIRLY NORMAL FOR A COUNTRY TO OVERSPEND IN AN ELECTION YEAR. HE SEEMED LESS CONCERNED ABOUT THIS ASPECT OF HIS CRITIQUE OF THE ECONOMY THAN OTHERS. HE DID BELIEVE THAT BERISHA WOULD TAKE STEPS TO BRING THE ECONOMY IN LINE WITH IMF REQUIREMENTS AFTER THE OCTOBER ELECTIONS, IN SPITE OF THE HARDSHIPS THIS MIGHT INFLICT ON THE POPULATION.

18. (C) "THE BIGGEST PROBLEM," NOTED SEVERINO, "IS THAT IN THE BEGINNING YEARS THE GOVERNMENT TOOK THOSE STEPS THAT WERE RELATIVELY PAINLESS AND BERISHA WAS IN THE FULL FLUSH OF PUBLIC CONFIDENCE. NOW HE IS FACED WITH THE REALLY TOUGH DECISIONS AND HE HAS LOST CREDIBILITY AFTER THE MAY ELECTIONS. I DON'T KNOW HOW HE WILL MANAGE IT." SEVERINO WENT ON TO SAY THAT THE MEASURES BERISHA HAS TO TAKE WILL AFFECT THE PRIVATE SECTOR MOST, THOSE WHO UNTIL NOW HAVE NOT PAID INCOME TAX AND HAVE NOT BEEN RESTRICTED IN ANY WAY. BERISHA, HE ADDED, WILL HAVE POWERFUL INTERESTS FIGHTING HIM ALL THE WAY.

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19. (C) THE PACE OF INSTITUTION BUILDING HAS INDEED BEEN SLOW. AS THE GOVERNMENT CONSTANTLY REMINDS US WITH RESPECT TO THE ELECTIONS, IT IS HARD TO CHANGE A MINDSET AFTER FIFTY YEARS OF TOTALITARIANISM. THE BUREAUCRATIC SYSTEM WHICH WAS RULED BY ONE MAN -- ENVER HOXHA -- IS SLOW TO CHANGE. MANY OF THE USAID AND EUROPEAN DEVELOPMENT PROGRAMS ARE AIMED AT INSTITUTION BUILDING. BUT CREATING INSTITUTIONS THAT PERFORM INDEPENDENTLY WILL TAKE TIME. END COMMENT.

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