

B a n k o f A l b a n i a

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BALANCE OF PAYMENTS

BULLETIN

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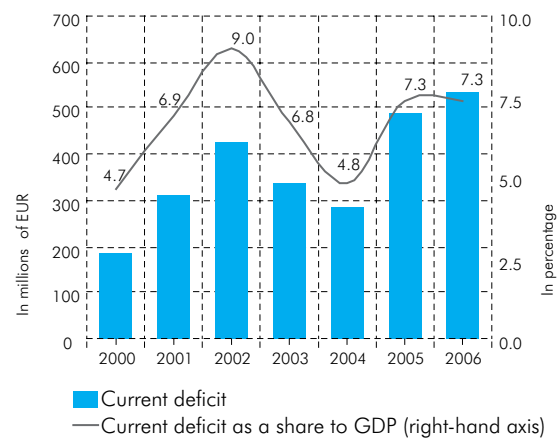
## 1 OVERALL DEVELOPMENTS IN THE BALANCE OF PAYMENTS OVER 2006

The external sector of economy presented with a negative balance on current account over 2006, mainly caused by a high trade deficit. Capital inflows were sufficient to offset the current deficit, allowing as such an overall positive balance amounting to EUR 207 million.

The relative current account indicator to the GDP accounted for about 7.3 per cent, maintaining the same level as in the previous year.

Trade deficit has been representing a permanent feature of foreign trade developments, affecting the high levels of current account deficit. The high demand for imports, partly to meet the economic growth need and partly to meet the consumer needs, has provided evidence for the expansion of the imports' base over the years. This dynamics observed in imports was not followed by the growth of exports, causing the trade gap to deepen and constitute the main driver for the high current deficit.

Chart 1 Current deficit as a share to GDP



Source: Bank of Albania

The growth of imports over 2006 was a result of several external factors – the unusual oil price rise and the price rise of certain goods in the international markets – and of internal factors – the aggravated energy situation in the country, which led to high imports in energy.

The relative indicator of imports to the GDP accounted for about 31.8 per cent over 2006 compared to 29.8 in 2005.

Over 2006, Albania recorded the highest trade deficit ever, which amounted to EUR 1.7 million. Nevertheless, it would have resulted more aggravated, if exports did not make any progress.

The slowdown in exports over the previous year – owing to the increase of the competitive pressures in key industries of the Albanian exports (textiles and footwear), to the opening of the European markets towards the Far East countries (China and India) and Turkey, followed by the economic growth slowdown in partner countries and the aggravated situation with the energy

supply in the country – recovered considerably over this year. Export revenues accounted for about 8.7 per cent of the GDP, which represents the highest level ever.

The considerable inflows in the form of current transfers over the years, helped to reduce the high trade deficit, causing the balance of payments position to improve. Over 2006, the net flow of current transfers amounted to about EUR 1 billion, out of which about 93 per cent are a contribution of workers' remittances. The latter totalled EUR 935 million, sharing about 12.8 per cent of the GDP.

On the other hand, this year's current deficit was fully able to be financed by the foreign capital inflows in the form of capital transfers and by the financial flows in the form of foreign direct investments and borrowing from abroad.

These capital inflows caused the overall balance of payments to end in a surplus of about EUR 207 million, from EUR 125 million the previous year. The overall balance surplus led to the increase of foreign reserve, which as of end 2006 totalled EUR 1.3 billion. It also partly provides evidence for the stability of lek over the year.

Despite the presence of the current deficit throughout the transition period, its level over the last two years makes an issue to pay attention to. Although the adequate foreign reserve, the economic growth and the overall macroeconomic stability allow such a high deficit in the short run, its stability in the long run requires special attention.

Even in the short-run, the long-term stable sources constitute the favourite means to finance the deficit. Foreign direct investments are the key source of financing, since they are stable and frequently contribute to technology and managing skills. Although Albania has attracted high flows of foreign direct investments during the privatization period, their relative indicator as a share to GDP remains low. For 2006, it accounted for 3.6 per cent of the GDP.

The financing of the ongoing current deficit through borrowing from abroad is generally considered a risky strategy, though it facilitates the country's external position of being faced with the financial solvency of external debt. External debt service is assessed at modest levels. For 2006, it accounted for about 4.1 per cent of total exports.

In the short-term period, attention should be paid to the narrowing of current deficit and to its financing through long-term and stable flows.

Considering that the increase of current deficit is mainly a consequence of the trade deficit deepening, this is where the policy decision-making should focus on.

Current deficit may be yet stable in the short-term; however this stability may be put in question in the long-term, in case structural reforms will not be



put in place for the growth of exports. In the medium-term, once the business environment improves, attention will be paid to the increase of domestic and foreign investments towards export-oriented activities.

	2004	2005	2006	2004	2005	2006
	In million EUR			As a share to GDP		
Current account	(286.2)	(493.2)	(534.7)	(4.8)	(7.3)	(7.3)
Trade balance	(1,276.7)	(1,476.7)	(1,685.4)	(21.3)	(21.9)	(23.1)
Export	485.6	530.2	630.6	8.1	7.9	8.7
Import	(1,762.3)	(2,006.9)	(2,316.0)	(29.4)	(29.8)	(31.8)
Services (net)	(40.5)	(140.4)	(66.8)	(0.7)	(2.1)	(0.9)
Income (net)	140.7	135.0	208.6	2.3	2.0	2.9
Current transfers (net)	890.3	988.9	1,008.9	14.8	14.7	13.9
Capital account (net)	422.9	441.2	552.1	7.0	6.5	7.6
Overall balance	233.7	125.1	206.6	3.9	1.9	2.8

Source: Bank of Albania

Table 1 Main indicators of the balance of payments as a share to GDP

## 1.1 EXTERNAL TRADE INDICATORS

Many key balance of payments indicators provide evidence for improvement over 2006, although some others have not performed well.

Albania's trade openness scale<sup>1</sup> improved to 74 per cent from 68 per cent the previous year; however, it remains in very low levels compared to the other economies in the region. Considering the relation between trade openness and economic growth, the increase of the country's trade openness is a welcome development. However, such a development would be more encouraging if it derived from exports, since export-oriented companies, which are faced with the strong international competition, are often more efficient. Unfortunately, the improvement of this indicator over 2006 was to a large extent a consequence of the increase in imports.

Export in goods and services increased by about 22 per cent over 2006 compared with the previous year. External debt service is assessed at modest levels, reaching to about 4.1 per cent of total exports or quite below the 25 per cent level, generally considered as the critic one.

The role of imports in the increase of the trade openness indicator was also reflected in the ratio of current deficit to the GDP, which may be used to measure the current deficit stability. This ratio has been aggravating over the last two years, as a result of the great increase of imports. Current deficit, excluding official transfers accounted for 8 per cent.

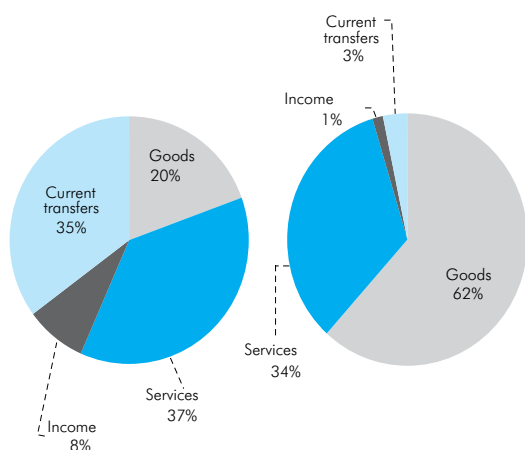
The relative indicator of foreign direct investments to the GDP accounted for 3.6 per cent, increasing slightly by about 0.3 percentage points compared with the previous year. This ratio is considered at low levels compared with the other countries in the region.

A critical indicator of the external sector is the adequacy of reserves, the ratio of imports coverage for example, which measures the ability of an economy to meet its needs for imports (of goods and services) through its reserve. For 2006, this ratio stands at 4.5 months of imports, which represents a satisfactory level<sup>2</sup>.

## 1.2 CURRENT ACCOUNT

Year 2006 was characterized by an intensive activity in the external sector expressed in the considerable increase of current income and expenditure. The volume of current transactions grew by 15 per cent compared with the previous year, amounting to EUR 7 billion. More than 95 per cent of current expenditure was used for the purchase of goods and services. About 35 per cent of current income was in the form of current transfers, while services and the exports in goods have provided 37 per cent and 20 per cent of income, respectively.

Chart 2 Distribution of income and expenditure in current account



Source: Bank of Albania

Current deficit stood at EUR 535 million in 2006, increasing by about 8 per cent compared to 2005 and accounting for about 7.3 per cent of the GDP. The high trade deficit which characterized the developments in the external sector of economy over this year neutralized the positive effects of the considerable reduction of the deficit position in the services account and the increase of positive flows in the net factorial income, remaining the main cause for the deepening of current deficit for this period.

Although the annual growth rate of exports (19 per cent) was higher than that of imports (15 per cent), the volume of the latter caused the trade deficit to grow by about EUR 209 million or by 14 per cent.

Services account increased this year, both in terms of income and of expenditure. Compared with the previous year, income grew faster than expenditure. As a consequence, the net result of transactions in services led to the considerable reduction of this account's deficit by about EUR 75 million.

The positive balance of current inflows in the form of transfers and income is assessed to be about EUR 94 million higher compared with the previous year. This development mainly owes to increase of income from the interest on residents' units investment abroad.

### 1.2.1 FOREIGN TRADE

Trade relations constitute the main component of our current transactions with the rest of the world. Over this year, they shared 43 per cent of current

transactions, recording an overall trade volume of EUR 2.9 million. The annual growth by EUR 410 million or 16 per cent is estimated to be 1.5 times as high as the previous year's.

	Unit	2004	2005	2006
Exports fob	mIn EUR	485.6	530.2	630.7
Imports cif	mIn EUR	1,830.5	2,083.9	2,410.9
Trade balance	mIn EUR	-1,344.9	-1,553.7	-1,780.2
Trade volume	mIn EUR	2,316.1	2,614.0	3,041.7
Exports growth (compared to previous year)	%	22.9	9.2	19.0
Imports growth (compared to previous year)	%	11.7	13.8	15.7
Exports/GDP	%	8.1	7.9	9.0
Imports/GDP	%	30.5	30.9	34.4
Trade balance/GDP	%	-22.4	-23.1	-25.4
Coverage level of imports by exports	%	26.5	25.4	26.2
Scale of economic openness	%	38.6	38.8	43.4

Table 2 Trade in goods

Source: Bank of Albania

Imports continue to represent the main direction of Albania's flow of trade transactions with the rest of the world, sharing more than 79 per cent of trade volume.

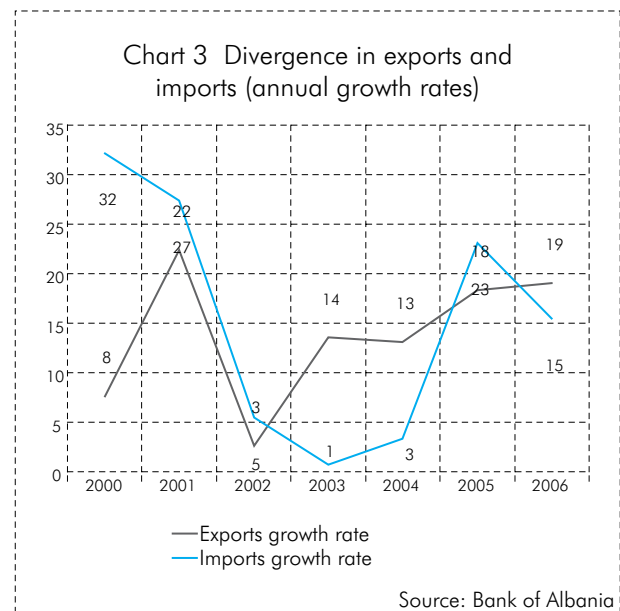
Although the promising increase of exports over this year (by 19 per cent) exceeded the increase of imports (by 15 per cent), their low base did not reduce the trade deficit, which continues to deepen amounting to EUR 1.8 billion or 14 per cent higher than the previous year.

In nominal terms, the import of goods grew by EUR 324 million, totalling EUR 2.4 billion as of end year, while the export of goods ended with a total of EUR 630 million of income. This year continued to record low levels of the contribution of exports to the GDP, accounting for 9 per cent. However, this indicator improved compared with the previous year.

- Export of goods

There is a disproportional distribution of our exports by the two sectors of production. Industry, which shared 92 per cent of total exports, was assessed to be 19 per cent higher than the previous year. Worth mentioning is the considerable increase in the export of agricultural goods, which grew by 15 per cent. These goods were mostly concentrated in prepared foodstuffs of meat and fish and oil seeds.

Domestic export displayed positive developments (export in copper, minerals and mineral fuels), contributing significantly to the increase of income from export for 2006.



The export of copper and articles of copper tripled, being oriented mostly towards the Italian market. Its contribution to the annual growth of export is estimated at about 15 per cent.

The export in mineral products increased by about 72 per cent, contributing to the increase of total income from the export in goods by about 20 per cent.

The export of chrome and iron provided the main contribution to the growth of the volume of export in minerals over 2006. Export of chrome increased by four times, both in nominal and quantitative terms, having China as its country destination. Meanwhile the export of iron doubled and it was oriented towards the regional countries (mostly to Macedonia). The price rise of these goods in the international markets is believed to have had a considerable impact on the performance of their export.

The export of fuels also doubled. Crude oil shares about 70 per cent of this category's export. Its main destination was Italy. The effect of these exports on the total income from export is estimated at 12 per cent for 2006, being affected by the oil price rise, as well.

Table 3 Export according to SITC classification

CODE	Description	2004			2005			2006		
		In millions of EUR			Share in %			Change in %		
0	Foodstuffs and live animals	19.9	20.4	26.8	4.1	3.9	4.2		31.1	
1	Beverages and tobacco	7.6	9.6	8.3	1.6	1.8	1.3		(13.5)	
2	Raw materials	18.5	25.6	34.9	3.8	4.8	5.5		36.0	
3	Fuels	13.2	15.4	27.3	2.7	2.9	4.3		77.6	
4	Animal or vegetable fats and oils	0.3	0.2	0.5	0.1	0.0	0.1		88.4	
5	Chemical products	2.8	4.8	6.2	0.6	0.9	1.0		30.1	
6	Manufactured goods	97.3	114.3	141.5	20.0	21.6	22.4		23.8	
7	Machinery and equipment	19.1	22.1	24.5	3.9	4.2	3.9		10.7	
8	Other manufactured goods	307.0	317.7	360.8	63.2	59.9	57.2		13.6	
9	Miscellaneous	-	-	-	-	-	-		-	
	TOTAL	485.6	530.2	630.7	100.0	100.0	100.0		19.0	

Source: Bank of Albania

- Import of goods

The unusual oil price rise, the high imports in energy and the price rise of metals in the international markets, along with the high demand for consumer goods, were the main factors which led to the increase of imports for 2006.

The meeting of domestic needs with energy and the energy price rise, - following the oil price developments - (see Box 2), rose the expenditure in the imports of this category by five times. The imported quantity grew significantly as well, by as much as 3.5 times compared with the previous year. The imports in fuels resulted to be 22 per cent higher than in 2005. The contribution of energy and fuels to the total growth of import is estimated at 8 per cent and 12 per cent, respectively.

Table 4 Import according to SITC classification

CODE	Description	2004	2005	2006	2004	2005	2006	2006/2005
		In millions of EUR			Share in %			Change in %
0	Foodstuffs and live animals	266.08	272.33	320.9	14.5	13.1	13.3	17.8
1	Beverages and tobacco	61.51	64.71	77.3	3.4	3.1	3.2	19.5
2	Raw materials	58.82	75.91	86.1	3.2	3.6	3.6	13.4
3	Fuels	141.10	181.77	254.9	7.7	8.7	10.6	40.2
4	Animal or vegetable fats and oils	26.52	28.50	31.5	1.4	1.4	1.3	10.7
5	Chemical products	166.62	201.75	252.5	9.1	9.7	10.5	25.2
6	Manufactured goods	427.48	509.85	618.2	23.4	24.5	25.6	21.3
7	Machinery and equipment	431.49	488.97	484.7	23.6	23.5	20.1	(0.9)
8	Other manufactured goods	250.90	260.07	284.7	13.7	12.5	11.8	9.5
9	Miscellaneous	-	-	-	-	-	-	
	TOTAL	1,830.51	2,083.85	2,410.9	100.0	100.0	100.0	15.7

Source: Bank of Albania

These last years' high demand for pharmaceutical products, influenced as well by the global developments in this item<sup>3</sup>, brought about a considerable increase in the import of chemical products by 25 per cent compared with the previous year.

There is upward tendency in the import of agricultural products, which accelerated the growth rates over 2006, compared with the previous year, being 18 per cent higher. They also exceeded the growth rate of industry by 15 per cent. Grains, beverages and alcohol provided most of the impact.

The ever-increasing high demand in construction along with the price rise led to the increase of the import of metals by 30 per cent. Meanwhile, machinery and appliances, which share 14 per cent of imports, decreased slightly this year (by 1 per cent), shifting from the upward trend which has been characterizing this commodity group over the last years. However, their import remains about 30 per cent higher than the average imports in machinery and appliances over 2000-2005.

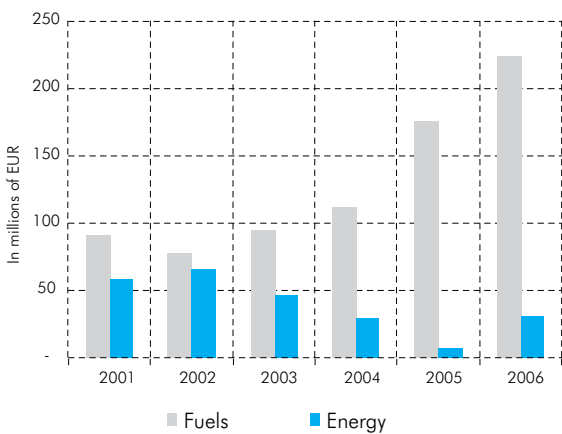
**Box 1 Fuels – The global developments and the impact on foreign trade**

World economy is for some years being faced with the phenomenon of fuels natural resources and with the manipulation with their prices. The incessant turbulence in the Middle East, such as the war in Iraq, the nuclear programme in Iran and the lack of stability in Saudi Arabia caused the largest fuels production region to reduce their export. Almost all these countries suffered from the decrease of the new fuel production, while East Europe and former Soviet Union countries increased the production by 4.3 per cent. Oil price peaked in July, when one oil barrel reached USD 78, while the average price for the entire year was estimated at USD 67, being USD 10 higher than in 2005.

The overwhelming increase of consumption in the fuels exporting countries was one of the most interesting tendencies observed over 2006. The slower production in the region and the rapid growth of demand from the exporters implies fewer fuels available to be exported.

Fuels and lubricants increased considerably by 40 per cent compared with the previous year, sharing 11 per cent of total import expenditure of our country. In terms of volume, fuels increased by 10 per cent, while in terms of millions of EUR this increase was more considerable (28 per cent), as a result of the price rise.

Chart 1, box 1 Fuels performance over the years



Source: Bank of Albania

The inadequate weather conditions which characterized Europe over winter and the energy crisis, deriving from the cease of gas supply from Russia, pushed the high energy prices. As a result, the Europeans found out that their energy consumption was somehow dependant on the Russian Government and on import.

Albania spent EUR 31 million for the import of energy. Worth mentioning is the double effect of the European currency appreciation to the American dollar, which made the exports more costly, but at the same time, made the energy import less costly.

The high fuels and energy prices bring about the increase in the cost of goods production, providing a direct impact on the level of prices and on inflation.

## Box 2 The compilation and analysis of imports by BEC

Broad economic categories (BEC) are used to provide more aggregated analyses of foreign trade. The classification by BEC categories has been applied in foreign trade data since 2003.

BEC classifies products from the Standard International Trade Classification (SITC), firstly on the basis of their nature (i.e. whether they are primary or secondary) and secondly, according to their main end use. The classification of foreign trade statistics by economic categories BEC provides to the users and analysers of such statistics the categorization of trade according to their main end use. It classifies products into 19 different categories, which in compliance with the national statistics are grouped in 3 large groups: capital goods, intermediate goods and consumer goods.

Foreign trade transactions show a more pronounced concentration towards intermediate goods, which shared most of imports over 2006 (51 per cent). Our country remains a large volume importer of consumer goods (37 per cent), which have increased significantly to the prejudice of capital goods.

Intermediate goods, which include a broad range of items, provided most of the effect on the increase of total annual import, sharing 60 per cent. This further expansion is a result of the high demand for processed industrial materials. They shared 66 per cent of this category, where plastic and items thereof provided most of the influence. In a more detailed distribution of intermediate goods, semi-final goods share most of the weight (81 per cent), while primary ones, parts and accessories share 9 per cent and 10 per cent, respectively. The classification of fuels and lubricants processed as intermediate and consumer goods provided a considerable impact on the expansion of these categories, reflecting as such the large volumes of energy imported over the year and the general price rise of these goods<sup>4</sup>. Meanwhile, the high consumer demand for beverages and foodstuffs was reflected in high levels of representation in consumer goods (31 per cent).

	2004	2005	2006	2006/2005
				Change in %
Capital goods	14.8	14.7	12.3	(3.6)
Intermediate goods	47.8	48.9	50.5	19.4
Consumer goods	37.4	36.4	37.3	18.5

Capital goods, which have had a considerable upward trend over the last years reflecting the high demand for investment in the country, decreased by 3.6 per cent over 2006.

Table – BEC in the statistical annex provides a more detailed presentation of trade import by BEC classification.

Chart 1, box 2 Contribution to the change of total imports



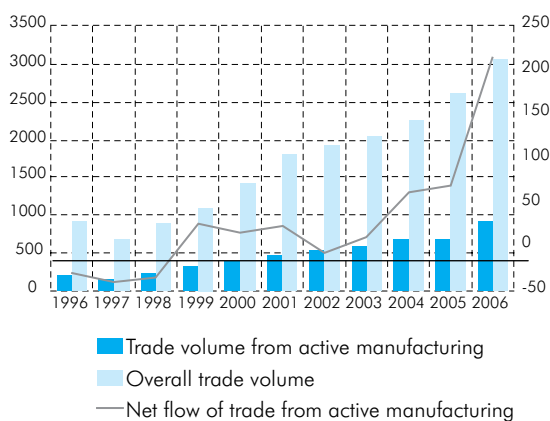
Source: Bank of Albania

- Trade from active manufacturing industry

The tightening of the manufacturing industry in the country, observed over last year – owing to the increase of competitive pressures in key industries of Albanian exports (textiles and footwear), to the opening of European markets towards the Far East countries (China, India) and Turkey, followed by the economic growth slowdown in partner countries and the aggravated situation with the energy supply in the country – recovered considerably over this year.

With an overall volume of EUR 791 million, trade from active manufacturing industry maintained the same representation levels as the previous year, sharing about 26 per cent of trade transactions carried out over 2006.

Chart 4 Contribution of trade from active manufacturing to total volume of trade (imports + exports in millions of USD)



Source: Bank of Albania

Re-exports shared 71 per cent of total exports, while 14 per cent of imports were raw material to be further processed.

EU's anti-dumping measures<sup>5</sup> influenced on the improvement of domestic manufacturing industry (textiles and footwear) performance overwhelmingly. Trade surplus resulting from this industry over 2006 was 45 per cent higher than the previous year's. Textiles and footwear industry represents the core of the exporting industry in the country, providing a contribution to the annual income from the export of goods by about 55 per cent.

Italy and Greece, our neighbouring countries, remain the dominant markets in the activity of this industry.

- Trade by trading partners

The EU remains dominant in our country's trade exchanges with the rest of the world, sharing 64 per cent of their total. The low diversification level of trade geographical distribution provides evidence for a more pronounced dependence on our neighbouring countries, Italy and Greece, drawing the attention for exploring new markets.

Year 2006 brought about the conclusion of two very important agreements for our country, with the EU and Turkey (see Annex 1). Over the last years, Turkey has become one of Albania's main trading partners, with a volume of transactions of EUR 190 million. This large volume adds to the conclusion of the FTA with this country. The conclusion of the SAA negotiations is expected to provide significant impacts on the opening of markets with these countries. These agreements became effective on 1 December 2006 and on 1 January 2007.



Export	Share in exports			Annual change %
	2004	2005	2006	
Total	100.0	100.0	100.0	19.0
EU-15 countries	89.9	88.0	87.7	18.6
Italy	73.0	72.4	72.6	19.3
Greece	12.0	10.5	9.6	9.4
Germany	3.1	3.3	3.2	13.1
South East European countries	8.5	9.2	9.3	19.8
Former Yugoslavia	0.4	0.8	1.4	91.0
Macedonia	1.2	1.6	1.6	20.9
Kosovo	4.5	4.1	3.8	8.6
Other countries	1.6	2.7	2.9	28.5

Source: Bank of Albania

Table 5 Distribution of exports by trading partners over the years

Exports growth rates towards EU and regional countries seem to have had the same performance over 2006, being estimated at 18.6 per cent and 19.8 per cent, respectively. Quite the opposite is the situation in imports, where there has been a large flow from the regional countries, increasing by 32 per cent. The Balkans, i.e. Romania, supplied our country with fuels and energy, which as a result recorded the most considerable growth in imports (about 170 per cent). Our regional partners also experienced high expansion rates in imports, providing evidence for the benefits deriving from the conclusion of the Free Trade Agreements.

The resetting of quota from the WTO on the export of textiles in June 2005 brought about the reduction of the influence of Chinese competition on this industry. The same performance was observed over 2006, when Chinese imports grew moderately by 4 per cent.

Import	Share in imports			Annual change %
	2004	2005	2006	
Total	100.0	100.0	100.0	15.7
EU-15 countries	65.0	60.4	57.5	10.1
Italy	32.6	29.3	28.1	10.9
Greece	18.6	16.6	15.8	10.0
Germany	6.2	5.4	5.6	20.7
South East European countries	12.8	14.8	16.9	32.1
Bulgaria	2.0	2.8	2.7	12.0
Bosnia and Herzegovina	0.0	0.1	0.3	142.8
Croatia	1.3	1.2	1.4	38.5
Serbia and Montenegro	0.6	0.6	0.9	64.0
Macedonia	1.0	1.2	1.6	50.4
Romania	0.4	0.7	1.7	173.5
Turkey	7.1	7.5	7.6	17.4
Russia	2.8	4.1	4.1	16.1
Ukraine	2.5	2.9	3.9	54.5
Other countries	22.0	25.0	25.6	19.5

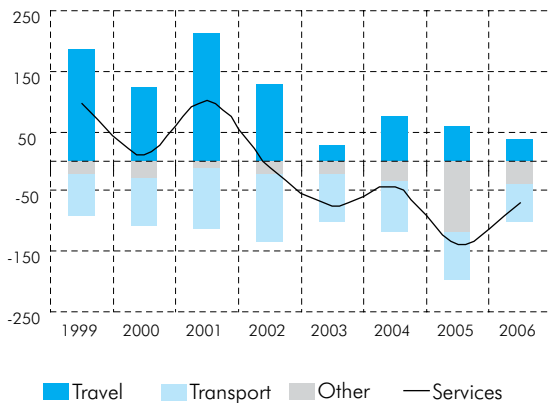
Source: Bank of Albania

Table 6 Distribution of imports by trading partners over the years

1.2.2 SERVICES

Trade relationships in the area of services are being ever-increasingly present in Albania's trade exchanges with the rest of the world, contributing to the development and global integration of our country.

Chart 5 Balance of services - net flow in millions of EUR



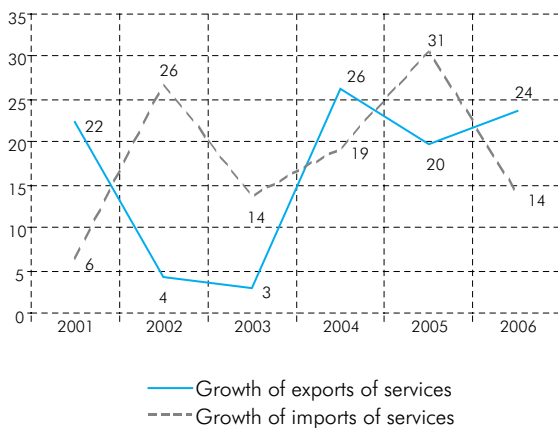
Source: Bank of Albania

In terms of annual average, trade in services has increased by about 17 per cent over 2000-2006. It has grown under more rapid rates than trade in goods, whose trade volume has grown on average by 13 per cent.

In the overall trade volume (goods and services), services have provided more than 64 per cent of income in foreign currency, while the import of services shared about 31 per cent of total imports, on average over 2000-2006.

Trade exchanges in services totalled about EUR 2.5 billion in 2006, increasing annually by 18.4 per cent compared to the previous year. This volume is assessed to have grown by 3 percentage points compared with the previous year, accounting for 34 per cent of the GDP.

Chart 6 Annual growth of imports and exports of services



Source: Bank of Albania

Its net position over the last years has fluctuated around negative figures (see chart 7). For 2006, net export of services amounted to EUR 67 million, improving considerably compared with the previous year. Income from export in services grew faster than expenditure for imports of services (chart 8).

The awareness of our economic actors to enhance the quality and expand the range of services provided to non-residents is to be commended. The improvement in the net position of services for this year owes to the considerable increase of income in other services, which brought about the significant reduction of deficit in this category, amortizing also the surplus narrowing in travel.

Developments in services have been characterized by the market liberalization, the expansion of technology in information services, the variety of cultural services and by the increase in the volume of financial services. However, the services provided in travel continue to provide the main contribution to this sector for Albania (table 7).

	Share in exports (in %)		Share in imports (in %)	
	2005	2006	2005	2006
Total	100.0	100.0	100.0	100.0
1.Transport services	10.6	10.9	16.6	15.8
2.Insurance services	0.5	0.2	2.2	2.3
3.Travel services	71.5	67.3	57.4	60.9
4.Other services	17.5	21.6	23.8	21.1
i. Communication services	6.0	3.5	1.1	0.5
ii.Construction services	0.2	0.2	0.1	0.1
iii.Computer and information services	0.3	0.1	0.2	0.2
iv.Technical assistance	0.0	0.0	3.7	1.3
v.Government services	0.9	1.5	1.1	0.8
vi.Financial services	1.3	1.7	1.3	1.3
vii.Business, cultural and personal services	1.3	1.7	8.1	5.6
viii.Other services	7.5	12.9	8.2	11.4

Source: Bank of Albania

Table 7 Structure of services' import and export

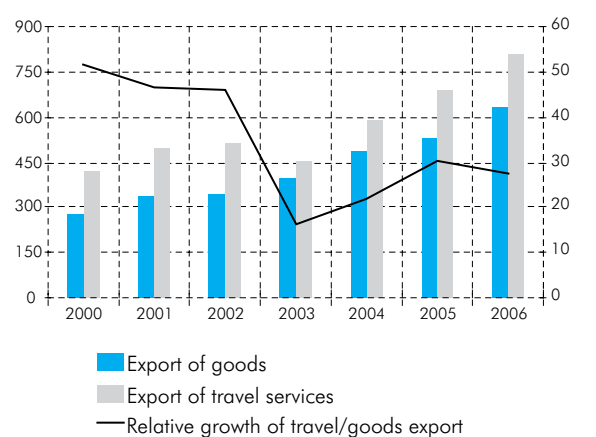
- Travel services

Tourism in Albania currently represents the activity with the highest foreign currency inflows. According to the Bank of Albania estimations, export in tourism generated about EUR 804 million of income over 2006, which is about 28 per cent higher than the amount of export in goods.

The positive balance of this account has been reducing to EUR 37 million from EUR 56 million the previous year, as a result of the more rapid growth of import (21 per cent) to export (16 per cent). Net income managed to finance 2 per cent of trade deficit for 2006.

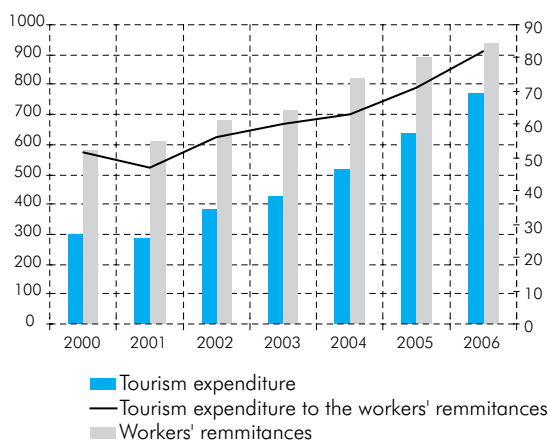
The annual growth of income from tourism is estimated at about 16 per cent. This growth was mainly influenced by the increase of foreign visitors and expatriates visiting Albania (about 21 per cent higher than over 2005), apart from the slight increase of their daily expenses and duration of stay in Albania. About 90 per cent of inflows derive from the European Union countries, mainly from the expatriates resident in these countries. The rest of inflows derive from the regional countries. Income from tourism indirectly increase the demand for production factors (land, labour and capital), consequently increasing the contribution to national income, making tourism a high-profit activity. According to the sales indicator for 2006, hotels and restaurants are assessed as one of the sectors with the highest growth rate, in particular over the second and third quarter of the year. For 2006, it increased annually by 27 per cent. As indicated by chart 7, the export of travel services has provided more foreign currency inflows than the export of goods. The same trend is expected to be present in the future.

Chart 7 Performance of the export of goods and the relative growth of travel/goods export



Source: Bank of Albania

Chart 8 Tourism expenditure to the workers' remittances



Source: Bank of Albania

Demand for goods and services from Albanian resident visitors in the European Union countries, represented by Greece, Italy, regional countries such as Kosovo, Montenegro and Macedonia, led the import of tourism services to record about EUR 768 million. These expenditures share about 82 per cent of workers' remittances and are assessed to have grown annually by about 21 per cent (chart 8). The increase by 22.4 per cent of the number of visitors seems to have influenced on this growth, while the estimating coefficients for the duration of stay and the average daily expenses have maintained the same levels as in the previous year.

Tourism is ever-increasingly being considered as a supportive source for current account. The improvement of tourist services in the country, in

particular of infrastructure, would both increase the income and reduce the expenditure in this sector. Despite the strong competition from the regional countries (Greece, Montenegro, and Croatia) and the absence of subsidies, tourism has the potential to contribute positively on the economic growth. The undertaking of development policies in this sector, along with the international marketing, should firstly aim to improve the infrastructure. Its upgrade and modernization is a demand of this sector and the economy, on the whole.

- Transport and insurance services

Transport services follow the performance of trade in goods and travel services. Over 2006, these services recorded a deficit of EUR 69 million, which is lower than the previous year, as a result of the greater annual growth in exports (27 per cent) than in imports (8 per cent). The liberalization in transport, by bringing new transport, air, road and sea companies will further enhance the quality and subsequently increase the volume of these services.

Albania continues to be a net importer of insurance services, which amounted to EUR 26 million. The deepening of the negative deficit in these services was a consequence of the decline in exports by 60 per cent and the increase in imports by 15 per cent, compared to the previous year. For more than a decade, this market has been characterized by the privatization process, the growing number of operating companies, which have all led to the increase of foreign investors' interest in purchasing some of them. The abovementioned developments are assessed as positive, in particular in terms of the growth in the exports of these services, which will in turn improve the deficit position in these services.

- Other services

As of end year, other services ended with a deficit of EUR 9 million, compared with the deficit of EUR 95 million the previous year. This category of

services is being developed under rapid rates, in particular in terms of exports. Income from the export of other services has grown annually by 50 per cent, drawing the attention for the acceleration of this activity in the country. The economic developments within this category have been characterized by the market liberalization in communication services, the expansion of technology in information services, the variety of cultural services and by the growing volume of government and financial services.

### 1.2.3 INCOME

The positive balance on factorial income as of end year (EUR 208.6 million) has increased overwhelmingly compared with the previous year (53.2 per cent). This year's growth does not only attribute to the balance of income from the labour of seasonal workers, but also to the net income in the form of interests or dividends accumulated from the investment of the banking system portfolio and foreign reserves in non-resident financial institutions.

The income derived from the labour of seasonal workers (EUR 145 million) recorded an annual growth of 46.1 per cent. Income from our investment abroad has grown by 49 per cent, mainly as a result of the banking system investment in the form of portfolio investment, which grew annually by 36 per cent. Worth mentioning is the income in the form of interests, deriving from our banking system's foreign reserves abroad, and dividends from our direct investments – of the financial sector mainly – in foreign economies.

Outgoing income amounted to about EUR 54.4 million. They are represented by the external debt services in the form of matured interests and by the interests or dividends deriving from the foreign investments of non-resident units.

Over 2006, Albania paid EUR 24 million to settle the interests on its external debt, which are assessed to have slightly decreased compared with the previous year (4 per cent).

### 1.2.4 CURRENT TRANSFERS

Workers' remittances are vital to most Albanian people. Over the last years, they are not only considered as a source of income for non-productive purposes or as a way to meet the current vital needs, which relate to the improvement of living conditions, but they have also been a financial source for productive purposes, in the form of investment in real estates or other long-term investments.

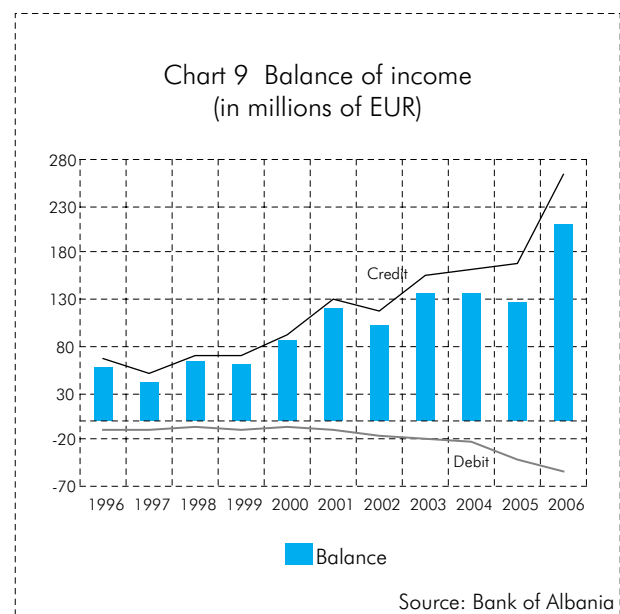
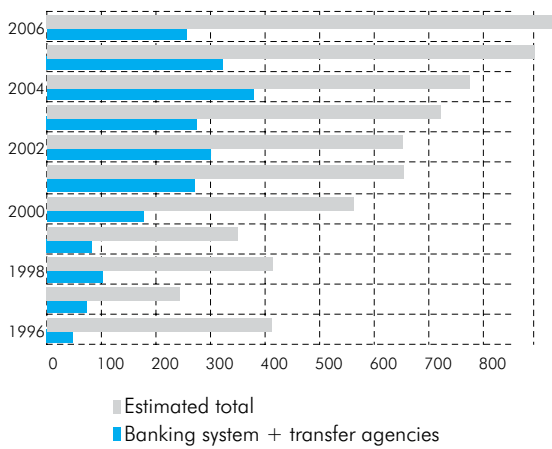


Chart 10 Performance of workers' remittances (in millions of EUR)



Source: Bank of Albania

Total workers' remittances for 2006 amounted to about EUR 935 million or 13 per cent of the GDP. They grew by 4.6 per cent compared to the previous year; however, there is a downward trend compared with the previous years. The contribution of these remittances to reducing the trade deficit is estimated at about 55.5 per cent, which is 5 percentage points less than the previous year.

Workers' remittances were also followed by the official transfers, which totalled about EUR 50 million, out of which 77 per cent were in the form of technical assistance.

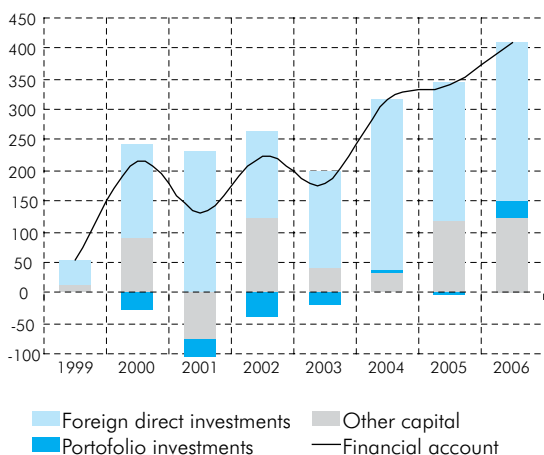
### 1.3 CAPITAL AND FINANCIAL ACCOUNT

Year 2006 was characterized by large capital inflows and outflows. Besides the increase in one-sided capital transfers, there have been large capital flows over 2006. However, this year ended with a positive balance on capital and financial account (about EUR 552.3 million), fully enabling the financing of current deficit.

Capital transfers, which are mainly characterized by investment grants both in public and private sector, were assessed to be EUR 143 million or 44.6 per cent higher than in the previous year.

As far as financial account is concerned, there has been a significant growth of our foreign assets – mainly of the banking system – invested out of the Albanian economy. These were short and medium-term investments. The great accumulation of foreign assets in the banking system pushed the latter to choose the option of increasing its investment in financial institutions abroad. There has also been a change in the ratio of these financial institutions' investment assets, shifting the portfolio investments to foreign assets in the form of deposits in foreign banks.

Chart 11 Financial account over the years – net flow in millions of EUR



Source: Bank of Albania

#### 1.3.1 NATURE AND COMPOSITION OF CAPITAL FLOWS

Financial account flows are divided into three main categories – direct investments, portfolio investments and other investments.

- Direct investments

Foreign direct investments flows amounted to EUR 260 million over 2006, compared to EUR 224 million over the previous year. They continue to remain a key factor in the increase of financial liabilities and in the performance of our country's capital and financial transactions. Investors from the European Union countries (Italy and Greece), being our trade partners, continue to dominate these investments, which are mostly concentrated on the textiles manufacturing industry (clothing and footwear).

The free trade agreements with the EU are expected to have a positive impact on the increase of the direct investments flow from the European countries.

The rapid developments which characterized the construction sector over the last years seem to attract the interest of foreign investors. The presence of foreign capital in this sector has increased considerably over the last two years, bringing new foreign capital flows in new supporting areas of this sector, such as in architecture or engineering activities. There have also been positive developments in terms of foreign capital in the financial system and telecommunication.

- Portfolio investments

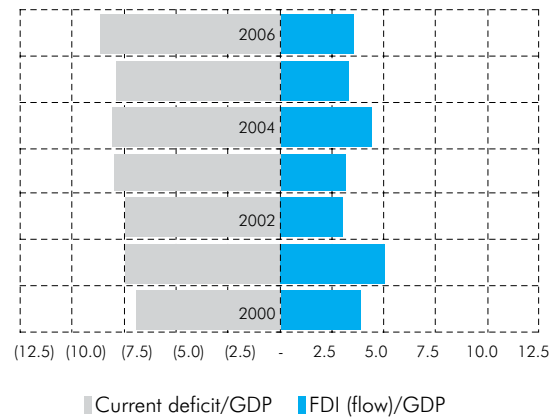
Portfolio investments in the Albanian balance of payments were in the form of our financial assets – mainly of our banking system – in Treasury bills issued by foreign governments. As of end 2006, the Albanian stock of portfolio investments abroad was estimated to total EUR 84 million, dropping by EUR 27.2 million. This dropping is a result of the shift of the banking system assets to investments in the form of short and medium-term deposits, held with the financial institutions abroad. As far as the structural composition by currency is concerned, 77 per cent of portfolio investments were dominated in USD, 16 per cent in EUR and 7 per cent in British pound.

- Other investments

*Financial liabilities* in the form of non-resident institutions' deposits in our banking system dropped by about EUR 124 million. In terms of structure of deposits by denomination, the European currency deposits dominate sharing 61 per cent, followed by the American dollar 32 per cent and the Swiss franc, sharing 6 per cent.

Albania's liabilities in the form of trade credit increased by about EUR 8 million, being also reflected in the increase of imports for this period. However,

Chart 12 Current deficit financing through foreign direct investments



Source: Bank of Albania

this year was extended about 13 per cent more of trade credit compared with the previous year.

There was also a considerable increase of EUR 67 million in other foreign liabilities in the form of short and medium-term loans extended from non-resident units.

Foreign direct investment inflows and those in the form of deposits were followed by capital flows in the form of borrowing, increasing Albania's external debt through the extension of long-term and soft loans from abroad by EUR 150.3 million. These capital flows remain key factors in the increase of Albania's financial liabilities to the rest of the world.

This increase mainly financed investments and consumption and it was reflected in the increase of consumer imports and of companies' needs for capital and/or capital goods. The increase of these liabilities brought about the increase in the future payments of external debt. External debt service for 2006 reduced our liabilities by about EUR 55 million, sharing only 3 per cent of our exports over 2006. This figure provides evidence for the financial solvency being within the accepted levels. Meanwhile, private borrowing seems to have slowed its growth rates down. Compared with the previous year, the increase of this sector's liabilities is assessed to have been half as much as the previous year's inflow and it only shares 20 per cent of borrowing. In terms of structure of external debt created from borrowing, it is dominated by the SDR (58 per cent), followed by the European currency and the American dollar.

The increase of these liabilities, which accounts for 43 per cent of financial account net flows, has mainly financed the consumption in economy. This was also reflected in the growth of imports to finance the companies' needs for capital and/or capital goods, by creating new liabilities in the form of future payments of external debt.

In terms of sectoral distribution, government and public guaranteed borrowing shares most of the weight by 67 per cent and 33 per cent, respectively. For 2006, they both grew by EUR 118 million. As of end year, Albania had a public external debt of EUR 1.057 billion and a guaranteed public debt of EUR 180 million.

The level of debt created from borrowing accounts for about 18 per cent of the GDP. As a stock of liabilities per capita, this debt is relatively low compared with the other regional countries.

In terms of denomination, the external debt is dominated by the SDR (about 36 per cent), followed by the European currency (21 per cent), the American dollar (16 per cent) and other currencies (28 per cent).

Interest and principal payments (external debt service), created from borrowing from abroad are assessed to be in moderate levels, accounting for about 11 per cent of total exports for 2006. We may conclude that Albania



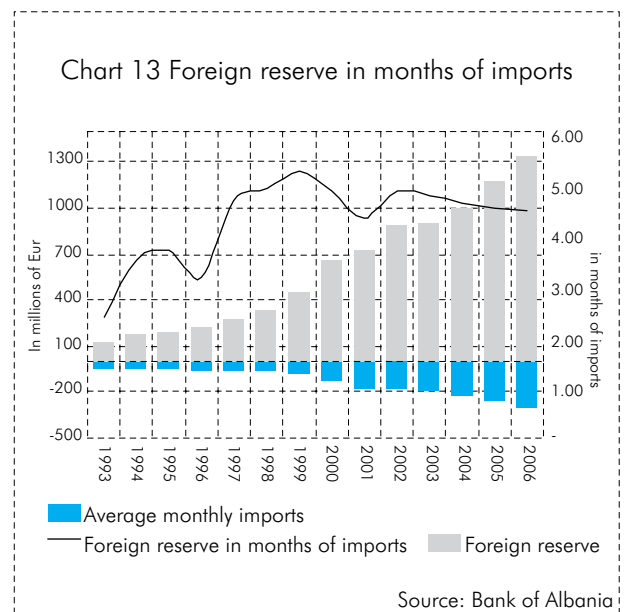
is not on the verge of being faced with financial solvency of external debt created from borrowing.

Albania's financial claims on the rest of the world grew by EUR 148 million or about 7 times as high as the previous year. Foreign assets held by the banking system in the form of deposits abroad, which share the largest weight in this growth, are assessed to have grown by about EUR 157 million, compared with the previous year's dropping. In terms of denomination, 55 per cent are in USD, while the rest is in EUR (39 per cent) and the British pound (6 per cent). The growth of these assets resulted from the increase of resident and non-resident deposits in our banking system, which invested them in financial institutions abroad. There has also been a shift in the ratio of investment assets. The banking system preferred to shift these assets from portfolio investment to deposits held abroad. Hence, financial assets in the form of portfolio investment amounted to EUR 84.3 million, dropping by about EUR 27 million, annually. In terms of denomination, portfolio investment were dominated by those in USD, about 77 per cent, in EUR 16 per cent, and the British pound 7 per cent.

Cash in foreign currency grew by EUR 18 million over 2006. Its performance did not display significant shifts. In terms of denomination, at end year 2006, cash foreign assets were 32 per cent in USD, 62 per cent in EUR and 5 per cent in the British pound.

#### 1.4 FOREIGN RESERVES

Foreign assets inflows in the form of financial capital were reflected in the increase of the monetary authority reserves by about EUR 206 million. As of end year, foreign reserves totalled EUR 1.3 billion, which is fully sufficient to cover about 4.5 months of import of goods and services.



## 2 ANNEX

### 2.1 ALBANIA'S TRADE POLICY

Until 1990, the Albanian Government had the monopoly on foreign trade and controlled it through an extensive centralized governing mechanism. Until that time, there were only 6 state-owned enterprises operating in the trade in goods, 5 in services and 2 or more dealing with licences and agreements. In the context of foreign trade policies, exports were paid careful attention, in order to strictly maintain a balanced trade.

The collapse of the centralized system brought about significant changes in the way foreign trade was managed. In August 1990, the Government put an end to the monopoly on trade and let the state-owned enterprises manage foreign trade. A year later, Albanian private companies were permitted to trade with other countries and the Albanian Government decided to allow the domestic companies to export anything, but certain items. Customs tariffs were also set, varying from 10 per cent on food to 30 per cent on new machinery and appliances.

The Albanian foreign trade is now going through the liberalization process. Since 1994, the level of customs tariff on imports dropped from the highest tariff (40 per cent) to 15 per cent in January 2001.

In the context of the multilateral trading system, Albania became a member of the World Trade Organization in September 2000. The country's trade policies are now anchored by the global trade regulatory system, which makes these policies much more transparent and reliable. In the context of the membership into the WTO, our country committed to set a maximal tariff of 20 per cent, while undertaking sectorial initiatives for the gradual liberalization of trade.

In the context of the European integration, in 2003, Albania began the negotiation process with the European Union for the conclusion of the Stabilization and Association Agreement (SAA). The authorities have gone through a technical round of negotiations for the chapters of trade in industrial goods and a number of trade negotiations for agricultural products.

Following the signing of the Stabilization and Association Agreement (SAA) on 12 June 2006 in Luxembourg, the development and enhancement of trade

relationships between Albania and the EU countries became ever-increasingly necessary. To this purpose, on 1 December 2006 the Interim Agreement became effective. It allows the application of SAA trade-related provisions. It replaced the Agreement on Trade and Economic Co-operation between Albania and the EU within a 10-year period. According to this agreement, the customs taxes on Albanian industrial goods entering the European market become zero. The same rule is applied for most of the agricultural products, while for other products, the taxes will drop gradually until they are fully abolished. The implementation of standards will ever-increasingly become a determining factor in establishing how much is to be spent in order to achieve the European standards.

Trade policy with the regional countries. With the support of the European Union, South East European countries (seven of them: Albania, Bosnia and Herzegovina, Macedonia, Bulgaria, Romania, Croatia, Serbia and Montenegro, and later on Kosovo and Moldova) concluded in 2001 a Memorandum of Understanding for the facilitation and liberalization of trade between them. This implies free movement of goods and services, along with the better use of comparative advantages of countries. The final goal is to establish a free trade area between these countries by the beginning of 2008, through free trade agreements.

Upon the entry into force of the Free Trade Agreement with Bosnia and Herzegovina on December 2004, Albania completed the bilateral framework of free trade agreements in the region.

The establishment of the free trade area between the regional countries mainly covers industry, while agriculture and foodstuffs industry is in many cases envisaged to open partially and gradually or maintain the current trade regime.

Bilateral agreements. In the context of the Memorandum of Understanding for the Facilitation and Liberalization of Trade, of the Stability Pact (concluded on June 2001 in Brussels by the ministers of trade of South East European countries), the Albanian Government committed to implement liberal trade policies. One of the Stability Pact requirements requires the Balkans to be transformed into a free trade area. Albania has concluded bilateral agreements with all countries part of this Memorandum, including Kosovo.

The last Free Trade Agreement for Albania was the one concluded with the Republic of Turkey on 21 December 2006. This is an asymmetric agreement, upon which the Albanian goods exported to Turkey are not subject to customs taxes. Similarly, the tariffs on particular industrial goods imported from Turkey will continue to drop and be abolished after 5 years.

Currently, the Free Trade Agreements with Bulgaria and Romania are not effective, since they have become EU members. Therefore, the Interim Agreement is applied. Free trade agreements with other regional countries, except Turkey, will be terminated upon the entry into force of the CEFTA in May 2007.<sup>6</sup>

Central European Free Trade Agreement. On 6 April 2006, at the South East Europe Prime Ministers Summit in Bucharest, a joint declaration on expansion of CEFTA to Albania, Bosnia and Herzegovina, UNMIK on behalf of Kosovo, Serbia and Montenegro was adopted. Current CEFTA member countries are Croatia and Former Yugoslav Republic of Macedonia. The new enlarged agreement was initiated on 9 November 2006 in Brussels and has been signed on 19 December 2006. It will be ratified within 31 March 2007 and the new CEFTA Treaty will become effective on 1 May 2007. The enlarged CEFTA will consolidate the bilateral net of free trade agreements and will provide for equal partnership. It will provide free access to the Albanian exports in a large market. Moreover, it will establish joint institutions in order to further boost the economic development and to handle trade barriers cooperatively. An open market between the regional countries will provide Albania with the opportunity to integrate with the European economy.

## 2.2 ANALYSIS OF TOURISM SURVEY FOR 2006

In the balance of payments, tourism includes the transactions carried out by an individual while travelling or staying in an economy other than his, for a period of less than one year, for business or personal purposes<sup>7</sup>.

Tourism survey was first carried out in 1999 by the Balance of Payments Division, in order to compile the travel services statistics. This survey is considered as very useful in the balance of payments, since it enables the estimation of travel income and expenditure.

### 2.2.1 METHODOLOGY

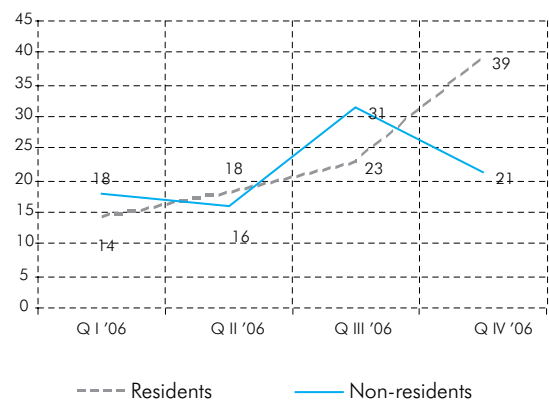
The survey methodology is as follows:

- Surveyor – Bank of Albania
  - Interviewer- on-site interviewer, under the supervision of INSTAT
  - Mode of survey – On-site interviewing
- a. Purpose of survey – The main purpose of the survey is to collect information on the average duration of stay and the average daily expenses of resident and non-resident tourists during their travels in Albania and abroad. The other information serves for analysis purposes. Tourism survey covers a considerable part of border checkpoints, the characteristics of each group interviewed, the purpose of visit and the duration of stay. It also provides explanation on the expenditures carried out in various periods of the year.
  - b. Defining the population and the interviewing spots – The population intended to be covered through this survey consists of two groups. The first group comprises resident tourists<sup>8</sup>, who return from their travels abroad for tourism purposes. The second group comprises non-resident tourists who leave Albania after a tourist journey. The

interviewing spots are the border checkpoints of the Republic of Albania. These border checkpoints are defined based on the data made available by the Ministry of Internal Affairs on the number of tourists coming in and going out of the territory of the Republic of Albania.

- c. The selection of the interviewing sample – The selection of surveying population is defined based on the records of the Ministry of Internal Affairs on the flow of tourists coming in and going out of the border checkpoints of the Republic of Albania. The size of the sample for each border checkpoint is determined by using the typical proportional sample method as the most appropriate approach in our case, since we have grouped data. The survey is held every quarter, with a sample volume of 1000 individuals per quarter, out of which 500 resident tourists are interviewed while returning from their travel abroad and 500 non-resident tourists are interviewed when leaving Albania.
- d. Data processing – The entry and processing of data is made by the Statistics Department of the Bank of Albania. Prior to the processing, the deletion of the data from the extreme values is made and the average daily expenditures reported in different currencies are converted into euro. The data processing is according to the border checkpoints, in order to measure the specific weight for each travellers' group.

Chart 1 Annual growth performance of the number of residents and non-residents in quarters



Source: Ministry of Internal Affairs

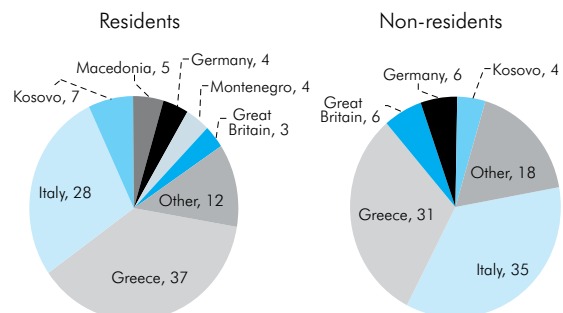
### 2.2.2 ANALYSIS OF RESULTS

- Number of travellers

In absolute terms, the number of travellers recorded in the border checkpoints increased over 2006 compared with the previous year. Chart 1 presents the annual growth of the number of residents and non-residents coming in and going out over quarters in 2006, opposed to the previous year. While there is a constant increase in the number of residents going abroad, the growth rate of people coming in Albania has had seasonal fluctuations, peaking in the third quarter with 31 per cent. Compared with the previous year, the largest concentration of residents' travels was observed over the last quarter, recording an annual growth of 39 per cent.

Based on the size of survey sample, the following chart presents the distribution by countries, i.e. the residents' destination and the non-residents' origin country.

Chart 2 Distribution of residents and non-residents by countries



Source: Bank of Albania

The following table provides the distribution of total non-resident population by countries, calculated based on the information recorded in the border checkpoints.

Table 1 Distribution of non-residents by countries over the years and the annual change for 2006 (in percentage)

	Share to total non-resident visitors			Annual growth (2006/2005)
	2004	2005	2006	%
Total	100.0	100.0	100.0	31.4
EU-15 countries	26.4	27.0	26.0	32.1
Italy	8.0	7.8	6.9	21.3
Greece	6.3	6.1	5.6	26.7
Great Britain	4.8	4.7	5.4	59.4
Germany	2.9	3.2	3.0	26.5
France	1.1	1.4	1.4	35.1
South East European countries	65.3	63.6	60.8	31.4
Kosovo	32.6	28.8	26.4	26.1
Macedonia	15.5	19.0	19.9	43.7
Montenegro	8.6	7.6	7.0	26.1
Serbia	5.1	4.5	4.1	26.1
Turkey	1.8	1.8	1.4	8.1
Other countries	8.3	9.4	13.2	37.5

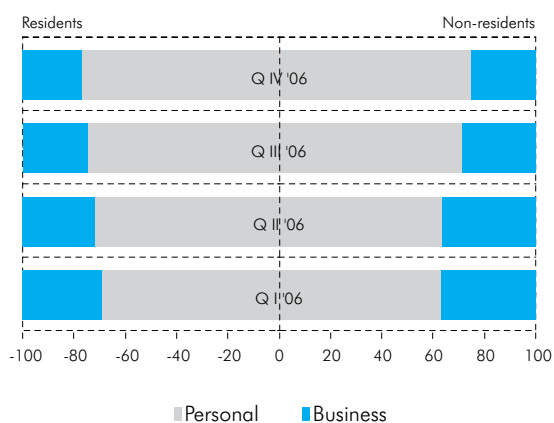
Source: Ministry of Internal Affairs

About 61 per cent of non-resident travellers entering Albania are mainly from the South East European countries, 26 per cent from the European Union countries and 13 per cent from other countries. Most of the visitors from the European Union are from Italy (7 per cent), Greece (6 per cent), Germany (3 per cent), while the region is represented by Kosovo (26 per cent), Macedonia (20 per cent) and Montenegro (7 per cent).

Despite the fact that the European Union comprises about 80 per cent of the main residents' destinations, the most visited countries remain Greece (37 per cent) and Italy (28 per cent). About 20 per cent of total residents travelled

to the regional countries, mainly to Kosovo (7 per cent), Montenegro (4 per cent), Macedonia (5 per cent) and Turkey (3 per cent).

Chart 3 Distribution of residents and non-residents by their purpose of visit



Source: Bank of Albania

The abovementioned analysis of the distribution of travellers by countries provides us with the composition of the basket of currencies, coming in and going out. The euro, the British pound and the American dollar dominate this basket.

Tourism in Albania is characterized by the seasonality, which affects both the purpose of travel and the expenditures carried out. Over the first half of 2006, 40 per cent of non-residents visited Albania for business purposes, while over the second semester, about 70 per cent visited the country for personal purposes.

Throughout the year, the Albanian residents have mainly travelled abroad for personal purposes, as indicated in 70-80 per cent of the surveys. While 20-30 per cent represents the residents who have travelled for business purposes.

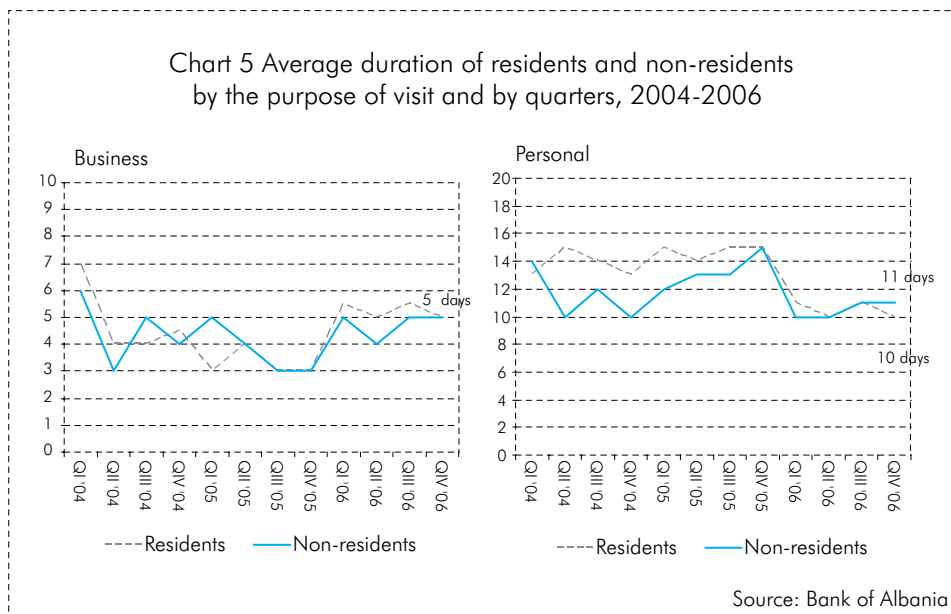
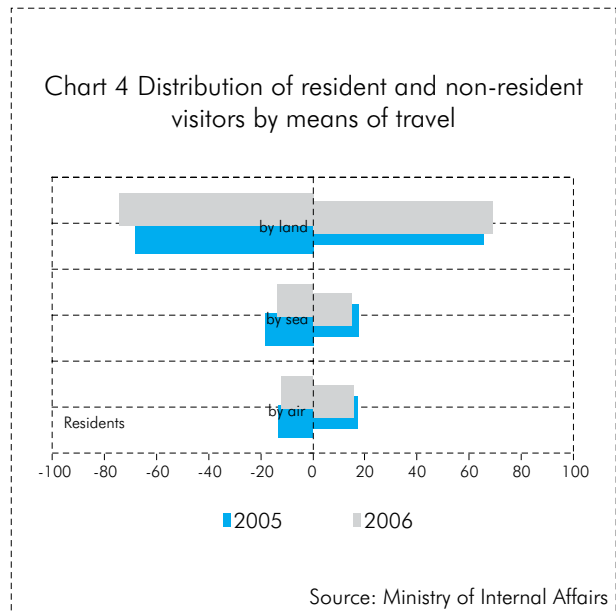
As shown from the chart, an average of 65 per cent of travellers from both groups has travelled by land, 20 per cent by sea and 15 per cent by air. The chart shows that residents have preferred to travel more by land and less by sea compared with the previous year.

- Duration of stay

The duration of stay of residents travelling abroad has dropped for personal travel and increased for business travel compared with the previous year. For personal purposes, the duration of stay lasted for about 10 days, while for business purposes it averaged from 5 to 6 days, compared with the duration of stay from 3 to 4 days of the previous year. Non-residents stayed 2 days less for personal purposes and 1 day more for business purposes compared with 2005. That is, non-residents have on average stayed for 5 days for business purposes and 11 days for personal purposes.

The duration of stay for both residents and non-residents is conditioned by the seasonal periods. There is a longer duration of stay during the third and fourth quarter. The number of travellers coming in and going out of the country is also bigger during these quarters.

Meanwhile, the duration of stay for personal purposes is longer than that for business purposes (see chart 5).

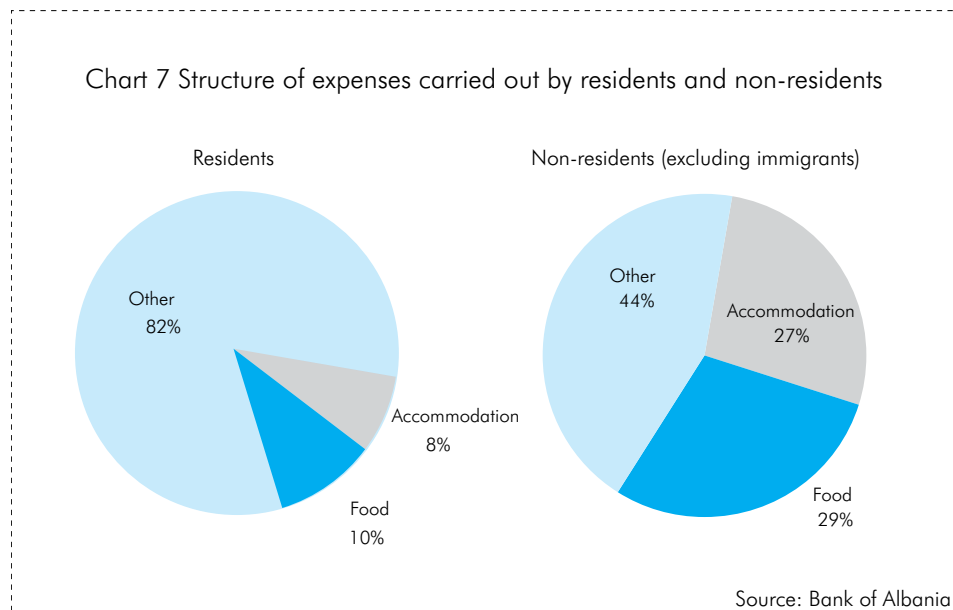


- Average daily expenses

Compared with 2005, average daily expenses for personal purposes increased by 12 per cent for both groups of travellers.

Residents spent around EUR 65-80 a day for personal purposes, compared with EUR 63-75 a day the previous year. Non-residents spent an average of EUR 75 a day, compared with the average expenses of EUR 68 the previous year. Average expenses for business purposes dropped by 9 per cent. Both residents and non-residents spent EUR 90-110 and 100-120 a day, respectively. The highest peak of expenses occurred in the last quarter, when there was a larger number of travellers.

The following chart presents the structure of expenses and the weight they share in the resident and non-resident travellers' budget. For comparative





purposes, we have excluded the expenses carried out by Albanian non-residents, considering that they are mostly accommodated in their relatives. As shown in the chart, for the Albanian residents, accommodation and food expenses have a moderate share, 8 per cent and 10 per cent, respectively. Meanwhile, other purchases share most of the weight 82 per cent. Foreign travellers continue to maintain the same trend in expenses observed in the previous years, where about 60 per cent is used for accommodation and food, while the rest is used for different expenses.

### 3 METHODOLOGICAL ANNEX

*Non-resident:*

Any individual, enterprise or organization established in a country other than Albania. Banks operating in other countries are examples of non-residents. The persons who do not generally live in Albania (for more than a year) are also non-residents.

*Resident:*

All enterprises operating in Albania, whether they are property of Albanian or foreign individuals. The persons who generally live in Albania are also considered residents, regardless of their citizenship or nationality. An exemption to this rule is the foreign personnel of embassies accredited to Albania. They are considered non-residents. In general, if troubles are encountered while determining the residency of an entity, it will be established based on the period this entity has been operating in Albania. In case this period is longer than one year, the entity will be considered as a resident.

*Import of goods:*

The process of changing the ownership of moveable goods (with a few exceptions) from a non-resident to a resident.

*Export of goods:*

The process of changing the ownership of moveable goods (with a few exceptions) from a resident to a non-resident.

*Trade balance:*

The difference between exports and imports. A country has a trade deficit if it imports more than it exports; the opposite scenario is a trade surplus.

*SITC classification:*

SITC classification is the Standard International Trade Classification which is a one-digit statistical classification of the commodities entering external trade. It is designed to provide the commodity aggregates required for purposes of economic analysis and to facilitate the international comparison of trade-by-commodity data. This classification derives from the regrouping of the harmonized system HS of 97 commodity groups.

*Imports for active manufacturing:*

Goods acquired temporarily and intended to be used as raw material for further processing.

*Re-exports:*

Goods entered in a country and intended to be exported only, after their processing and change in the domestic economy.

*Free trade agreement:*

It is a negotiable and agreed on document between trading partners, which establishes unimpeded exchange and flow of goods and services and abolishes or breaks tariffs and trade barriers significantly.

*Economic openness scale:*

It measures the trade volume in terms of a country's GDP, expressing how open the economy of a country is to the rest of the world. The highest the rate, the more opened the economy of a country is.

*Rules of origin:*

Rules of origin are the criteria needed to determine the national source of a product. The general accepted rule for determining the origin is that the country where the final essential transformation or the adequate process is made is the product country of origin.

*BEC (Broad Economic Categories):*

The classification of foreign trade statistics by economic categories BEC provides to the users and analysers of such statistics the categorization of trade according to their main end use.

*Intermediate goods:*

Goods purchased for resale or for use in producing final goods for consumers. In the process of production, intermediate goods become part of the final product or are entirely changed during the process.

*Capital goods:*

Goods used for the production of final goods and services, which are not part of them, such as machinery, transportation means, office equipment, etc.

*Consumer goods:*

Goods acquired for personal use.

*Tourism:*

It is the balance of payments component, in which are recorded all the transactions in goods and services related to the travellers' expenditures. According to the IMF manual, these transactions are recorded in the debit and credit of "travel".

*Traveller:*

According to the balance of payments, a traveller is an individual staying, for less than one year, in an economy of which he is not a resident for any purpose other than: (a) being stationed on a military base or being an employee (including diplomats and other embassy personnel) of an agency of his or her government; or (b) being an accompanying dependent of an individual

mentioned under (a); or (c) undertaking a productive activity directly for an entity that is a resident of that economy.

*Tourist:*

Travellers who spend at least one night in the economy they are travelling.

*Tourist expenditure:*

Tourist expenditure covers all goods and services acquired by travellers from the economies in which they are travelling, paid for on his or her behalf.

*Personal travel:*

This category covers goods and services acquired by travellers going abroad for purposes other than business. Included are leisure activities such as holidays, participation in sports and other recreational and cultural activities, visits with relatives and friends, pilgrimage and religious observances, studies, and health-related purposes.

*Business travel:*

The business travel category covers the acquisition of goods and services by: a) business travellers going abroad for all types of business activities, such as sales campaigns, meetings, etc.; b) seasonal and border employees.

*Foreign direct investment:*

Direct investment is the category of international investment that reflects the objective of a resident entity in one economy (direct investor) obtaining a lasting interest in an enterprise resident in another economy. Direct investment implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise (Balance of Payments Manual, IMF fifth edition recommends a minimal capital participation of 10 per cent).

*Portfolio investment:*

Portfolio investment includes equity securities, debt securities different from the direct investment. Referring to the Balance of Payments Manual, IMF fifth edition, the degree of influence by the investor on the management of the enterprise is recommended to be less than 10 per cent.

*Other investment:*

“Other investment” account is a residual category that includes all financial transactions not covered in direct investment, portfolio investment, or reserve assets. In the Albanian balance of payments, this category mainly includes borrowing, currency and deposits, trade credit, as well as other assets and liabilities.

*Reserve assets:*

Reserve assets consist of those external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitude of such imbalances through the intervention in exchange markets to affect the currency exchange rate, and/or for other purposes.

## 4. STATISTICAL ANNEX

BALANCE OF PAYMENTS	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
in millions of EUR											
Current Account	-50.0	-312.6	-61.4	-129.2	-185.2	-315.4	-422.4	-331.0	-287.8	-493.2	-534.7
Merchandise: Exports	194.6	140.2	184.8	258.2	277.0	340.3	348.4	394.9	485.6	530.2	630.6
Merchandise: Imports	-736.4	-614.5	-721.7	-884.4	-1,174.2	-1,489.1	-1,566.5	-1,571.8	-1,762.3	-2,006.9	-2,316.0
Trade Balance	-541.8	-474.3	-537.0	-626.2	-897.2	-1,148.8	-1,218.1	-1,176.9	-1,276.7	-1,476.7	-1,685.4
Services: Credit	101.7	60.0	76.8	252.4	482.9	596.8	612.3	632.9	807.5	967.3	1,194.8
Services: Debit	-113.7	-89.6	-114.8	-156.0	-471.1	-497.0	-620.5	-705.0	-848.0	-1,107.7	-1,261.5
Income: Credit	66.7	45.8	76.4	80.4	124.5	171.1	159.4	172.3	166.5	178.4	263.0
Income: Debit	-9.6	-9.5	-7.8	-9.7	-10.0	-15.0	-21.8	-21.5	-24.0	-43.4	-54.4
Private Unrequired Transfers	380.2	129.6	372.0	174.3	481.2	546.1	625.6	714.1	826.3	927.6	966.4
Official Unrequired Transfers	66.6	25.4	72.9	155.7	104.6	31.4	40.7	53.0	60.7	61.4	42.5
Capital Account	3.9	1.9	27.7	63.3	84.8	131.9	127.4	138.2	106.2	99.2	143.4
Financial Account	40.1	116.3	16.6	33.8	197.5	115.0	217.6	167.0	306.8	332.6	403.2
Direct Investment	72.0	42.3	40.0	38.5	156.6	230.7	141.4	156.9	278.4	224.1	258.6
Portfolio Investment	0.0	0.0	0.0	0.0	-28.7	-25.7	-40.3	-20.6	4.6	-2.0	27.2
Other Capital*	-31.9	74.0	-23.4	-4.6	69.6	-90.0	116.6	30.7	23.8	110.4	117.4
Net Errors and Omission	43.4	218.5	63.6	128.9	30.4	216.3	102.4	104.7	98.7	177.0	188.9
Overall Balance	37.3	34.8	53.6	116.6	147.0	161.4	30.6	88.9	233.7	125.1	206.6
Reserve and Related Items											
Reserve Assets	-37.3	-34.8	-53.6	-116.6	-147.0	-161.4	-30.6	-88.9	-233.7	-125.1	-206.6
Use of Fund Credit and Loans	0.0	10.7	7.1	19.8	19.5	13.6	5.5	10.0	9.6	9.4	5.8
Memorandum Items											
Total Change in Reserve Assets	-31.7	-25.1	-67.5	-91.4	-141.8	-146.0	-103.0	-158.0	-276.1	-47.4	-157.3
of which: Revaluation	-5.9	-13.7	14.8	-24.6	-1.4	-15.7	72.7	69.6	42.4	-77.4	-49.3
* / not included use of Fund credit and loans											
Source: Bank of Albania											

BALANCE OF PAYMENTS 2006										
in millions of EUR	QIV '05		QI '06		QII '06		QIII '06		QIV '06	
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
A. Current Account	721.8	-944.2	737.2	-868.7	766.2	-919.4	853.3	-960.2	865.5	-1008.6
Goods, Services and Income	431.9	-904.6	477.8	-835.2	501.0	-883.2	548.1	-931.4	561.6	-982.1
1. Goods, Balance of Payments Basis	131.7	-585.7	144.4	-515.2	165.7	-579.5	153.2	-568.5	167.3	-652.9
1a. Goods, Reported Trade	131.7	-581.4	144.4	-512.5	165.7	-577.4	153.2	-567.1	167.3	-649.9
1b. Goods from Aid		-4.2		-2.7		-2.1		-1.4		-2.9
1c. Goods from migrants		0.0		0.0		0.0		0.0		0.0
2. Services	253.2	-306.6	277.4	-312.7	282.0	-291.5	337.2	-355.8	298.1	-301.6
2a. Transport Services	29.6	-56.3	29.7	-46.5	28.8	-44.6	39.1	-48.7	32.2	-58.9
i. Freight Services	16.7	-40.4	15.3	-36.4	17.2	-41.0	16.7	-39.9	19.0	-45.6
ii. Passenger Services	5.1	-5.2	8.3	-5.3	6.4	-1.0	16.6	-6.2	4.1	-6.7
iii. Other	7.9	-10.7	6.1	-4.8	5.1	-2.6	5.8	-2.6	9.0	-6.6
2b. Insurance	0.9	-6.7	0.9	-6.0	0.6	-7.8	0.3	-6.8	1.1	-7.9
2c. Travel	175.2	-157.3	199.4	-187.2	193.5	-180.0	220.8	-216.0	190.8	-184.5
i. Business	17.7	-15.2	60.8	-51.2	49.2	-33.7	41.5	-38.7	35.8	-29.8
ii. Personal	157.4	-142.1	138.6	-136.0	144.4	-146.2	179.3	-177.3	155.0	-154.7
2d. Other Services	47.4	-86.3	47.5	-73.0	59.2	-59.1	76.9	-84.2	74.1	-50.3
i. Communication Services	14.1	-3.0	10.2	-1.2	10.4	-1.7	10.5	-1.8	10.9	-1.2
ii. Construction Services	1.3	-0.5	0.3	-0.8	0.1	-0.2	0.9	-0.5	0.5	-0.1
iii. Computer Services	0.2	-0.5	0.1	-1.2	0.1	-0.6	0.1	-0.4	0.7	-0.5
iv. Technical Assistance	0.0	-12.4	0.0	-5.2	0.0	-6.0	0.0	-2.8	0.0	-2.0
v. Government Services	4.0	-4.0	6.6	-1.7	4.7	-4.2	6.2	-2.9	1.0	-1.4
vi. Financial Services	2.1	-4.6	1.1	-2.2	5.6	-5.4	6.5	-3.7	7.0	-4.7
vii. Business, Cultural and Personal Services	3.3	-31.0	3.6	-19.0	7.1	-14.5	3.8	-25.1	5.9	-12.3
viii. Other	22.5	-30.2	25.5	-41.8	31.1	-26.5	49.0	-47.0	48.1	-28.1
3. Income	47.1	-12.3	55.9	-7.3	53.2	-12.2	57.7	-7.2	96.1	-27.6
3a. Compensation of Employees	26.1	-1.7	27.1	-1.4	28.6	-1.5	30.9	-1.2	58.5	-16.5
3b. Investment Income	21.0	-10.6	28.8	-5.9	24.6	-10.7	26.8	-6.0	37.6	-11.1
i. Direct Investment Income	0.0	-0.6	0.0	-0.6	3.1	-1.7	0.0	-0.1	7.2	-1.4
- Divident	0.0	-0.6	0.0	-0.6	3.1	-1.7	0.0	-0.1	7.2	-1.4
ii. Portfolio Investment Income	10.3	-0.1	11.6	-0.1	9.0	-0.3	9.8	-0.5	10.6	-0.6
Capital	3.0	0.0	5.6	0.0	4.8	-0.1	5.7	-0.2	1.9	-0.6
Interest	7.2	-0.1	6.0	-0.1	4.1	-0.2	4.1	-0.3	8.8	0.0
iii. Interest on Reserves	7.1	-0.4	13.9	-0.5	8.6	-0.8	12.6	-1.3	14.0	-2.0
iv. Other Income (Debt)	3.6	-9.5	3.4	-4.7	3.9	-7.9	4.3	-4.2	5.8	-7.3
4. Current Transfers	289.9	-39.6	259.5	-33.5	265.2	-36.2	305.2	-28.8	303.9	-26.4
4a. General Government	22.5	-3.9	16.3	0.0	17.6	-5.0	7.8	-2.5	8.2	0.0
i. Technical Assistance	13.8	0.0	12.9	0.0	15.0	0.0	5.6	0.0	5.0	0.0
ii. Cash Grants	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iii. Goods and Other	5.2	-3.9	3.4	0.0	2.6	-5.0	2.2	-2.5	3.3	0.0
4b. Remittances from Expatriates	235.3	0.0	220.9	0.0	224.6	0.0	247.4	0.0	242.2	0.0
4c. Other	32.0	-35.7	22.3	-33.5	23.0	-31.2	50.1	-26.3	53.4	-26.4
Current Account Balance	-222.4		-131.5		-153.2		-106.9		-143.1	
-Excluding Official Transfers	-244.9		-147.8		-170.8		-114.7		-151.3	
B. Capital and Financial Account	220.3		108.4		138.4		41.0		264.5	
I. Capital Transfers	24.1		41.1		39.5		28.1		34.7	
1. Debt Forgiveness	0.0		0.0		0.0		0.0		0.0	
2. Other	24.1		41.1		39.5		28.1		34.7	
II. Financial Account	196.2		67.3		98.9		13.0		229.8	
1. Liabilities	132.8		100.6		119.3		123.1		214.0	
1a. Foreign Direct Investment	63.9		56.8		68.6		75.5		57.8	
i. Equity Investment	4.1		1.2		11.2		29.9		17.3	
ii. Other Capital	59.8		55.6		57.4		45.5		40.5	

1b. Borrowing	33.7	41.6	46.9	38.1	23.7
i. Official Borrowing	25.6	31.9	34.3	33.5	18.4
i. Private Borrowing	8.0	9.7	12.6	4.6	5.3
1c. Use of Fund Credit and Loans	0.0	2.9	0.0	2.8	0.0
1d. Repayments	-16.2	-14.2	-16.6	-9.9	-15.4
1e. Currency and Deposits	9.9	-4.4	1.0	14.6	112.9
1f. Trade Credits	7.8	-2.3	4.9	-4.7	9.6
1g. Change in Arrears	0.0	0.0	0.3	0.0	0.0
1h. Other Liabilities	33.7	20.2	14.3	6.8	25.3
2. Assets	63.5	-33.4	-20.4	-110.1	15.8
2a. Foreign Direct Investment	-1.3	0.0	-3.1	0.0	-5.2
i. Equity Investment	-1.3	0.0	-3.1	0.0	-5.1
ii. Other Capital	0.0	0.0	0.0	0.0	-0.1
2b. Portfolio Investment	5.4	4.6	-3.1	21.7	3.9
2c. Deposits	62.3	-56.4	-12.7	-123.8	36.9
2d. Currency	-6.4	9.9	-10.4	-0.5	-17.4
2e. Other Assets	3.6	8.5	8.8	-7.5	-2.4
C. Rezerves	-79.9	-15.6	-29.5	-76.1	-85.4
1. Gold	0.0	0.0	0.0	0.0	0.0
2. Foreign Currencies	-82.1	-14.7	-31.5	-76.0	-87.6
3. SDR	2.2	-0.9	2.0	-0.1	2.1
4. Reserve Position in the Fund	0.0	0.0	0.0	0.0	0.0
D. Net Errors and Omissions	82.0	38.7	44.2	141.9	-36.0

Source: Bank of Albania

EXTERNAL DEBT											
in millions of EUR	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Drawdowns	107.5	88.5	122.6	156.0	110.1	96.4	146.3	175.3	181.1	144.2	142.2
of which:											
Use of Fund Credit and Loans	-	13.8	8.9	22.3	17.8	10.8	5.0	12.2	9.6	9.4	5.8
Principal Due	18.7	18.0	10.7	16.8	17.1	20.9	39.2	37.0	40.1	41.8	54.2
Principal Paid	18.7	18.0	10.7	16.8	17.1	20.9	39.2	37.0	40.1	41.8	54.2
Change in Arrears	-	-	-	-	-	-	-	-	-	-	-
Interest Due	12.4	7.8	9.6	8.5	7.4	10.8	17.4	16.2	18.4	25.1	24.1
Interest Paid	12.4	7.8	8.8	8.5	7.4	10.8	17.4	16.2	18.4	25.1	23.7
Change in Arrears	-	0.0	0.8	-	-	-	-	0.0	-	-	0.4
Borrowing	107.5	88.5	113.7	156.0	110.1	96.4	146.3	175.3	181.1	144.2	142.2
Net Change in Arrears	-	0.0	0.8	-	-	-	-	-	-	-	0.4
Principal Falling Due	18.7	18.0	10.7	16.8	17.1	20.9	39.2	41.2	40.1	41.8	54.2
of which:											
Debt Forgiveness	-	-	-	-	-	8.4	0.4	-	-	-	-

Source: Ministry of Finance, the banking system and the Bank of Albania

CREDIT LINES BY SECTORS											
in millions of EUR	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
General Government											
Drawdowns	41.8	80.0	101.5	107.5	101.8	127.6	101.7	103.4	68.6	78.6	
Principal Due	0.3	0.5	4.8	1.8	3.3	11.8	12.6	17.8	20.1	28.9	
Principal Paid	0.3	0.5	4.8	1.8	3.3	10.3	12.6	17.8	20.1	28.9	
Increase in Arrears	-	-	-	-	-	1.5	-	-	-	-	
Interest Due	2.5	3.2	3.1	4.9	7.8	7.0	10.6	12.9	12.2	11.9	
Interest Paid	2.5	2.7	3.1	4.9	7.8	7.0	10.6	12.9	12.2	11.9	
Increase in Arrears	-	0.5	-	(0.0)	-	-	0.0	-	-	-	
Borrowing	41.8	80.0	101.5	107.5	101.8	127.6	101.7	103.4	68.6	78.6	
Net Change in Arrears	-	0.5	-	(0.0)	-	1.5	0.0	-	-	-	
Principal Falling Due	0.3	0.5	4.8	1.8	3.3	12.2	12.6	17.8	20.1	28.9	
Monetary Authority											
Drawdowns	13.0	9.7	8.3	21.0	13.4	7.1	0.0	0.0	-	0.3	
Principal Due	-	-	-	8.5	14.9	15.9	9.5	8.7	8.6	10.2	
Principal Paid	-	-	-	8.5	14.9	15.9	9.5	8.7	8.6	10.2	
Increase in Arrears	-	-	-	-	-	-	-	-	-	-	
Interest Due	0.2	1.8	1.5	3.1	3.8	1.0	1.0	0.7	0.7	0.7	
Interest Paid	0.2	1.8	1.5	3.1	3.8	0.9	1.0	0.7	0.7	0.7	
Increase in Arrears	-	-	0.0	(0.0)	-	0.1	-	-	-	-	
Borrowing	13.0	9.7	8.3	21.0	13.4	7.1	0.0	0.0	-	0.3	
Net Change in Arrears	-	-	-	(0.0)	-	-	-	-	-	-	
Principal Falling Due	-	-	-	8.5	14.9	15.9	9.5	8.7	8.6	10.2	

Source: Ministry of Finance, Bank of Albania



CAPITAL AND FINANCIAL ACCOUNT 2006												
in millions of EUR												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
I. Capital Transfers	3.9	1.9	27.7	63.3	84.8	131.9	127.4	138.2	106.2	99.2	143.4	
1. Debt Forgiveness	-	-	-	-	-	10.7	0.5	-	-	-	-	
2. Other	3.9	1.9	27.7	63.3	84.8	121.2	126.9	138.2	106.2	99.2	143.4	
II. Financial Account	40.1	127.0	23.7	53.6	217.0	128.6	223.2	177.0	316.5	342.0	408.9	
1. Liabilities	152.0	70.6	135.9	176.8	298.0	366.5	278.6	288.5	450.8	364.2	557.0	
1a. Direct Investment	72.0	42.3	40.0	38.5	156.6	230.7	141.4	156.9	278.4	224.1	258.6	
i. Equity Investment	72.0	42.3	40.0	40.2	156.6	230.7	-	-	-	4.1	59.6	
ii. Other Capital	-	-	-	(1.7)	-	-	141.4	156.9	278.4	220.0	199.0	
1b. Borrowing	69.0	40.2	91.1	117.8	109.9	105.2	156.2	126.4	190.5	147.8	150.3	
i. Official Borrowing	69.0	40.2	91.1	117.8	109.9	105.2	151.5	114.9	116.5	89.8	118.2	
ii. Private Borrowing	---	---	---	---	---	---	4.7	11.5	74.0	58.0	32.2	
1c. Use of Fund Credit and Loans	-	10.7	7.1	19.8	19.5	13.6	5.5	10.0	9.6	9.4	5.8	
1d. Repayments	(12.0)	(13.8)	(8.4)	(15.0)	(19.9)	(26.1)	(43.5)	(31.9)	(40.1)	(42.7)	(56.1)	
1e. Currency and Deposits	2.3	2.5	3.1	15.6	3.9	46.0	8.0	16.9	2.1	(29.9)	124.0	
1f. Trade Credits	20.6	(12.4)	2.4	(1.6)	28.0	(2.9)	6.7	9.6	13.6	8.3	7.5	
1g. Change in Arrears	0.1	1.1	0.5	0.0	0.0	(0.0)	1.5	0.0	-	-	0.2	
1h. Other Liabilities	-	-	-	1.7	-	-	2.7	0.5	(3.3)	47.2	66.6	
2. Assets	(111.9)	56.4	(112.2)	(123.2)	(81.0)	(237.9)	(55.4)	(111.4)	(134.4)	(22.2)	(148.1)	
2a. Equity Investment	-	-	-	-	(28.7)	(25.7)	(40.3)	(20.6)	(11.0)	(3.3)	(8.3)	
2b. Portfolio Investment	-	-	-	-	4.0	(59.1)	(22.3)	(31.4)	4.6	(2.0)	27.2	
2c. Deposits	(73.0)	49.9	(81.0)	(85.1)	49.4	(134.0)	30.3	(30.6)	(88.1)	52.9	(156.0)	
2d. Currency	(36.1)	9.6	(30.0)	(36.2)	(49.4)	(134.0)	30.3	(30.6)	(15.3)	(1.3)	(18.4)	
2e. Other Assets	(2.8)	(3.1)	(1.2)	(1.9)	(6.9)	(19.2)	(23.1)	(28.9)	(24.6)	(68.6)	7.4	
III. Reserve Assets	(37.3)	(34.8)	(53.6)	(116.6)	(147.0)	(161.4)	(30.6)	(88.9)	(233.7)	(125.1)	(206.6)	
1. Gold	-	-	-	-	-	-	-	-	-	(1.0)	(0.0)	
2. Foreign Currency	(37.3)	(34.8)	1.2	(97.2)	(144.7)	(152.2)	(37.1)	(87.7)	(229.1)	(191.9)	(209.7)	
3. SDR	-	-	(54.8)	(15.3)	(2.3)	(9.2)	6.5	(1.3)	(4.6)	67.8	3.2	
4. Reserve Position in the Fund	-	-	-	(4.2)	-	-	-	-	-	-	-	
Source: Bank of Albania												

INCOME TRANSACTIONS 2006											
in millions of EUR	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
INCOME	57.0	36.2	68.6	70.7	114.4	156.1	137.6	150.8	142.4	135.0	208.6
Credit	66.7	45.8	76.4	80.4	124.5	171.1	159.4	172.3	166.5	178.4	263.0
Debit	(9.6)	(9.5)	(7.8)	(9.7)	(10.0)	(15.0)	(21.8)	(21.5)	(24.0)	(43.4)	(54.4)
Compensation of Employees	40.9	20.8	45.9	47.6	71.0	83.6	98.0	94.0	105.1	94.1	124.6
Credit	40.9	20.8	45.9	47.6	71.0	83.6	98.0	97.7	108.9	99.4	145.2
Debit	(0.0)	(0.0)	-	-	-	-	-	(3.6)	(3.9)	(5.3)	(20.6)
Investment Income	16.1	15.4	22.7	23.1	43.4	72.5	39.5	56.8	37.4	41.0	84.0
Credit	25.7	24.9	30.5	32.8	53.5	87.5	61.3	74.6	57.5	79.1	117.8
Debit	(9.6)	(9.5)	(7.8)	(9.7)	(10.0)	(15.0)	(21.8)	(17.9)	(20.1)	(38.1)	(33.8)
Direct Investment Income	(1.6)	(1.9)	-	-	(0.1)	3.2	(0.6)	(0.9)	(0.2)	(2.5)	6.6
Credit	-	-	-	-	-	3.3	-	-	-	0.3	10.3
Debit	(1.6)	(1.9)	-	-	(0.1)	(0.1)	(0.6)	(0.9)	(0.2)	(2.8)	(3.6)
Portfolio Investment Income	-	-	-	-	-	-	21.0	31.2	21.0	21.5	39.4
Credit	-	-	-	-	-	-	21.0	27.5	21.0	30.1	41.0
Debit	-	-	-	-	-	-	-	-	-	(8.6)	(1.5)
Interest on Reserves	25.7	22.5	30.3	30.6	52.3	83.9	38.8	27.6	25.9	39.3	44.6
Credit	25.7	24.9	30.5	32.8	53.5	84.2	40.3	29.3	26.8	40.8	49.2
Debit	-	(2.4)	(0.2)	(2.2)	(1.2)	(0.3)	(1.6)	(1.7)	(0.9)	(1.5)	(4.6)
Other Interest Income	(8.0)	(5.1)	(7.6)	(7.5)	(8.8)	(14.7)	(19.6)	2.5	(9.4)	(17.3)	(6.7)
Credit	-	-	-	0.0	0.0	0.0	0.0	17.8	9.7	7.8	17.4
Debit	(8.0)	(5.1)	(7.6)	(7.5)	(8.8)	(14.7)	(19.6)	(15.3)	(19.1)	(25.1)	(24.1)

Source of data: Bank of Albania

CURRENT TRANSFERS TRANSACTIONS 2006											
in millions of EUR	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
CURRENT TRANSFERS	446.8	155.1	444.9	330.0	585.8	577.5	666.4	767.2	887.0	988.9	1008.9
Credit	476.0	186.5	495.3	503.4	690.0	646.4	727.5	839.2	959.7	1113.8	1133.8
Debit	-29.2	-31.4	-50.4	-173.4	-104.2	-69.0	-61.1	-72.0	-72.8	-124.9	-124.9
Foreign Official Transfers	66.6	25.4	72.9	155.7	104.6	31.4	40.7	53.0	60.7	61.4	42.5
Credit	77.0	28.8	77.5	158.4	107.5	36.1	42.6	53.9	60.8	65.3	49.9
Debit	-10.4	-3.4	-4.6	-2.7	-2.9	-4.7	-1.9	-0.8	-0.2	-3.9	-7.4
Technical Assistance	15.8	1.3	32.7	53.1	15.7	20.3	24.7	44.2	44.9	46.5	38.5
Credit	15.8	1.3	32.7	53.1	15.7	20.3	24.7	44.2	44.9	46.5	38.5
Debit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Grants	25.2	6.5	5.1	45.5	64.3	0.0	0.7	0.0	0.0	3.5	0.0
Credit	25.2	6.5	5.1	45.5	64.3	0.0	0.7	0.0	0.0	3.5	0.0
Debit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and Other	25.6	17.7	35.0	57.1	24.5	11.1	15.3	8.8	15.8	11.3	4.0
Credit	36.0	21.0	39.7	59.8	27.5	15.8	17.2	9.7	16.0	15.2	11.5
Debit	-10.4	-3.4	-4.6	-2.7	-2.9	-4.7	-1.9	-0.8	-0.2	-3.9	-7.4
Remittances from Expatriates	398.9	157.5	399.8	344.6	581.4	610.1	684.6	710.7	822.1	894.2	935.1
Credit	398.9	157.5	399.8	344.6	581.4	610.1	684.6	710.7	822.1	894.2	935.1
Debit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-18.7	-27.8	-27.8	-170.3	-100.2	-64.1	-58.9	3.5	4.2	33.4	31.3
Credit	0.1	0.2	18.0	0.4	1.1	0.2	0.3	74.6	76.8	154.4	148.8
Debit	-18.8	-28.1	-45.8	-170.7	-101.3	-64.3	-59.3	-71.2	-72.6	-121.0	-117.5

Source: Bank of Albania

IMPORT BY COMMODITY GROUPS, 2006		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
in millions of EUR												
Live animals, animal products		37.8	24.3	37.7	38.8	32.9	32.3	48.7	55.6	53.2	57.5	75.1
Vegetable products		130.9	75.6	73.8	80.6	98.4	113.7	114.0	105.3	132.9	121.7	139.5
Animal or vegetable fats and oils		21.5	18.4	24.1	16.9	23.2	22.4	23.2	25.6	26.5	28.5	31.5
Prepared foodstuffs, beverages, tobacco		71.1	41.7	64.9	102.1	106.0	120.7	138.8	138.7	145.0	161.6	187.8
Mineral products		39.0	43.6	62.2	76.3	153.8	205.9	204.1	194.8	196.3	253.8	336.7
Products of chemical industry and related		36.3	33.9	54.9	48.2	65.6	80.2	91.7	100.8	122.2	146.3	183.6
Plastic, rubber and items thereof		17.3	17.6	22.2	25.0	34.7	41.8	47.8	50.4	55.3	67.9	84.2
Raw hides and skins, leather		15.9	12.8	16.9	19.8	20.6	30.8	39.1	48.9	48.2	45.2	53.1
Wood and articles of wood		6.0	6.8	9.1	15.2	11.3	13.8	17.5	20.0	25.9	32.2	41.1
Pulp of wood, paper and paperboard		10.7	7.6	11.4	13.4	18.5	22.9	31.4	32.0	33.9	35.4	45.5
Textiles and textile articles		67.7	59.2	94.5	110.9	139.5	154.6	175.2	178.7	189.1	197.5	219.4
Footwear, headgear and umbrellas		47.1	32.7	35.9	32.7	30.1	52.8	59.1	57.4	56.8	57.6	62.7
Articles of stone, plaster, cement, ceramic products, glass		17.9	19.7	25.5	28.3	45.5	55.3	61.6	60.2	67.1	78.3	87.2
Pearls, jewellery, coins		1.0	0.1	0.3	0.8	2.9	0.5	0.4	0.6	0.8	1.0	1.2
Base metals and articles thereof		36.0	37.9	48.7	71.2	90.9	131.8	142.4	155.7	172.8	232.4	299.1
Machinery and mechanical appliances, electrical equipment		121.6	90.2	72.1	102.2	161.6	274.9	255.8	249.9	306.9	363.9	348.0
Vehicles, aircraft		45.9	28.2	49.0	66.3	87.0	79.0	86.0	106.1	124.5	125.0	136.7
Optical, photographic, measuring, medical instruments		10.0	7.1	7.7	12.3	20.1	22.4	16.1	19.0	32.4	27.7	28.6
Arms and ammunitions		0.5	0.4	0.6	1.9	0.4	0.7	0.7	0.6	0.4	1.0	0.7
Miscellaneous manufactured articles		15.4	12.9	19.0	22.2	28.2	35.2	39.8	37.6	40.0	49.3	48.7
Works of art, antiques		0.0	0.0	1.5	0.0	0.3	0.0	0.5	0.0	0.2	0.1	0.3
TOTAL		749.7	570.5	732.1	885.1	1,171.6	1,491.5	1,593.9	1,638.1	1,830.5	2,083.9	2,410.9

EXPORT BY COMMODITY GROUPS, 2006	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
in millions of EUR	5.6	3.6	3.7	3.2	2.0	2.5	2.3	2.4	2.1	3.0	4.4
Live animals, animal products	12.8	13.8	14.4	11.8	13.2	12.8	13.9	13.3	15.2	15.9	18.3
Vegetable products	3.9	0.0	0.4	0.3	0.0	0.0	0.0	0.4	0.3	0.2	0.5
Animal or vegetable fats and oils	7.4	8.0	11.2	12.0	14.9	15.7	7.7	16.8	22.2	24.3	26.8
Prepared foodstuffs, beverages, tobacco	18.6	7.5	21.1	16.4	8.1	6.6	9.7	10.4	19.6	27.7	47.7
Mineral products	2.1	1.0	0.7	0.7	1.5	3.4	1.7	2.2	1.8	2.4	1.4
Products of chemical industry and related	1.0	0.4	1.0	1.2	1.0	1.1	0.7	0.5	1.6	3.3	5.3
Plastic, rubber and items thereof	8.2	7.3	5.9	6.6	9.0	12.2	15.8	9.9	10.7	10.3	12.1
Raw hides and skins, leather	5.0	4.7	4.9	6.0	8.0	9.7	9.1	7.7	7.7	8.4	8.8
Wood and articles of wood	2.5	3.3	2.6	4.3	2.8	1.9	3.1	8.4	5.7	8.3	11.5
Pulp of wood, paper and paperboard	44.0	32.0	61.9	92.3	118.0	126.9	132.0	137.1	160.8	160.9	181.6
Textiles and textile articles	42.2	24.2	36.2	63.7	74.9	97.2	101.2	117.9	134.9	145.7	163.5
Footwear, headgear and umbrellas	0.3	0.4	1.5	0.6	0.8	2.0	2.0	1.8	2.2	2.5	4.0
Articles of stone, plaster, cement, ceramic products, glass	0.1	0.0	0.2	0.8	0.6	5.0	0.4	0.4	0.6	0.9	1.0
Pearls, jewellery, coins	20.4	12.7	8.3	13.7	23.4	27.2	32.7	43.8	69.3	81.2	101.7
Base metals and articles thereof	3.0	6.6	3.9	11.6	4.8	7.9	9.0	13.0	17.3	20.3	22.8
Machinery and mechanical appliances, electrical equipment	0.1	0.5	1.0	4.7	0.2	1.0	0.9	1.1	1.8	1.8	1.8
Vehicles, aircraft	0.2	0.1	0.7	0.4	0.6	0.2	0.3	0.2	1.6	1.0	0.6
Optical, photographic, measuring, medical instruments	0.5	0.0	0.0	-	1.8	0.5	0.7	0.3	0.5	0.5	3.3
Arms and ammunitions	2.6	3.0	5.4	7.4	7.7	5.7	7.3	7.6	9.6	11.4	13.7
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.1
Works of art, antiques	180.4	129.2	184.9	257.6	293.3	339.7	350.5	395.2	485.6	530.2	630.7
TOTAL											

Source: General Directory of Customs. The published statistics are compiled in concordance with the balance of payments methodology framework.

## EXPORT BY COUNTRIES

in millions of EUR	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
European Union	144.1	113.6	170.3	240.8	259.1	311.2	322.9	369.0	436.6	466.7	553.41
Austria	1.8	1.8	2.9	5.3	1.7	0.8	0.7	4.8	1.6	1.2	1.8
Belgium	2.1	0.7	2.7	2.3	1.4	0.5	-	0.1	0.3	0.3	0.5
Great Britain	0.5	0.1	2.2	1.0	0.2	0.2	1.5	0.4	0.2	0.7	0.5
Denmark	0.5	0.4	0.8	3.1	2.9	0.9	0.2	0.2	0.1	0.2	0.4
Finland	-	-	-	0.0	0.0	0.0	-	-	0.0	-	0.0
France	3.1	2.6	2.2	2.0	2.1	2.3	2.2	1.9	2.5	3.7	4.4
Germany	11.6	8.8	10.5	16.4	18.6	18.8	19.4	13.5	15.0	17.6	19.9
Greece	21.6	25.7	36.6	37.2	33.6	44.4	45.0	50.8	58.4	55.4	60.6
Ireland	0.1	0.3	-	0.1	-	-	-	-	0.0	-	-
Italy	97.2	66.0	110.5	173.0	197.5	241.9	251.3	296.0	354.6	383.9	457.9
Luxembourg	0.0	0.1	-	-	-	0.1	-	0.0	-	-	-
Netherlands	5.1	6.2	1.5	0.1	0.2	0.4	0.4	0.4	0.9	0.7	1.4
Portugal	0.0	0.0	0.0	-	-	-	-	-	-	0.0	0.0
Spain	0.5	0.0	0.2	0.2	0.2	0.3	1.0	0.3	0.5	0.5	0.8
Sweden	0.0	0.8	0.0	0.0	0.7	0.6	1.1	0.6	2.4	2.4	5.3
Regional Countries	13.3	10.1	5.7	8.7	13.1	19.4	14.6	15.8	41.2	49.0	58.7
Bulgaria	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.2	1.3	2.9	2.6
Bosnia and Herzegovina	-	-	-	-	-	0.0	0.1	0.0	0.3	0.9	3.4
Croatia	1.1	5.0	1.1	0.4	1.6	0.1	0.1	0.3	0.3	0.1	1.8
Former Yugoslavia	2.3	0.5	0.6	3.2	7.6	10.6	5.4	9.3	23.9	26.4	32.3
Macedonia	4.5	3.4	2.8	4.0	1.9	5.2	5.2	2.7	6.0	8.3	10.1
Romania	0.1	0.0	0.2	0.1	0.0	0.0	0.1	0.1	0.2	1.3	0.5
Turkey	5.2	1.2	1.0	1.1	1.9	3.4	3.6	3.3	9.2	9.1	8.0

Source: General Directory of Customs. The published statistics are compiled in concordance with the BoP methodology framework.

## IMPORT BY COUNTRIES

in millions of EUR	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
European Union	569.5	476.2	607.7	708.5	907.5	1,161.1	1,215.2	1,286.7	1,190.3	1,258.0	1,385.3
Austria	8.2	8.1	9.9	16.0	16.7	17.5	24.7	30.9	20.5	35.9	29.0
Belgium	18.0	6.1	7.1	9.6	6.1	10.0	7.2	8.9	14.3	15.9	20.4
Great Britain	10.2	5.2	4.4	9.3	8.2	50.7	44.2	37.2	10.5	18.2	33.6
Denmark	4.2	3.7	3.7	5.0	4.3	2.8	5.0	7.4	4.1	4.0	3.6
Finland	0.2	0.0	0.1	2.3	7.1	28.6	1.8	3.0	3.9	11.4	6.2
France	20.9	7.4	8.1	11.0	17.3	12.5	15.8	19.2	25.7	25.3	23.1
Germany	43.4	24.2	28.2	48.8	59.0	71.6	76.5	102.9	113.8	112.8	136.2
Greece	150.9	150.8	210.5	248.6	330.8	426.7	416.6	399.0	340.9	346.2	380.7
Ireland	0.4	0.5	0.2	0.7	3.1	5.1	4.3	2.3	5.9	8.9	7.4
Italy	302.7	260.3	322.6	331.9	432.7	497.8	581.7	626.2	596.6	610.8	677.2
Luxembourg	0.3	0.0	0.0	0.1	0.2	0.1	0.2	0.2	0.6	0.9	0.8
Netherlands	6.7	4.4	6.1	9.2	9.0	10.5	10.7	12.4	13.7	17.7	12.1
Portugal	-	-	0.0	0.2	0.5	0.1	0.8	0.3	1.3	2.1	1.8
Spain	0.6	3.7	6.6	13.2	12.1	16.4	21.3	31.2	27.7	35.7	41.2
Sweden	2.7	1.6	0.2	2.5	0.5	10.8	4.5	5.6	10.9	12.3	12.0
Regional Countries	109.6	58.8	62.9	104.5	151.5	186.5	229.2	240.8	232.3	304.2	403.5
Bulgaria	28.4	16.1	19.6	25.1	29.1	31.9	38.9	47.0	0.9	59.2	66.3
Bosnia and Herzegovina	-	0.0	0.1	0.0	0.1	0.1	0.8	1.3	36.9	2.7	6.5
Croatia	10.5	2.4	4.4	7.7	13.6	19.9	38.5	28.0	23.8	25.0	34.6
Former Yugoslavia	5.3	1.3	0.9	0.7	11.1	9.5	17.5	10.1	13.4	20.9	33.0
Macedonia	15.6	11.7	10.1	16.4	26.3	19.5	19.3	16.4	19.1	25.8	38.9
Romania	18.1	1.7	3.0	5.9	6.8	14.3	14.3	14.8	8.0	15.3	41.9
Turkey	31.6	25.6	24.9	48.8	64.5	91.3	99.9	123.2	130.1	155.3	182.4

Source: General Directory of Customs. The published statistics are compiled in concordance with the BoP methodology framework.

Classification of Imports by Broad Economic Categories (BEC)				
in millions of EUR				
	2003	2004	2005	2006
Capital Goods	194.7	270.8	306.4	295.5
Capital Goods (Except Transport Equipment)	135.9	197.0	230.9	214.2
Transport Equipment, Industrial	32.4	37.4	42.1	43.2
Passenger Vehicles (50 %)	26.5	36.3	33.3	38.1
Intermediate Goods	730.6	874.2	1,019.4	1,217.2
Food and Beverages, Primary, Mainly for Industry	37.1	54.2	52.0	67.4
Food and Beverages, Processed, Mainly for Industry	27.4	28.2	28.2	27.7
Other, Primary, Mainly for Industry	22.0	28.0	32.9	37.5
Other, Processed, Mainly for Industry	457.2	554.1	669.0	802.9
Fuels and Lubricants, Primary	1.4	1.3	0.6	3.7
Fuels and Lubricants, Processed (50 %)	34.5	47.2	71.3	91.7
Other Fuels and Lubricants, Processed	60.2	44.6	37.9	66.7
Parts and Accessories of Capital Goods	73.2	93.5	104.4	93.1
Parts and Accessories of Transport Equipment	17.6	23.2	23.1	26.4
Consumer Goods	568.9	685.4	757.9	898.1
Food and Beverages, Primary	51.0	62.0	60.8	71.4
Food and Beverages, Processed	138.4	160.4	174.4	207.3
Transport Equipment, Non-industrial	2.3	3.0	3.3	2.5
Durable	37.7	47.1	57.2	68.2
Semi-durable	147.7	165.5	169.6	189.9
Non-durable	130.7	163.9	187.9	228.9
Passenger Vehicles (50 %)	26.5	36.3	33.3	38.1
Fuels and Lubricants, Processed (50 %)	34.5	47.2	71.3	91.7
Consumer Goods not Elsewhere Classified	0.0	0.1	0.2	0.1
Total	1,494.2	1,830.5	2,083.9	2,410.9

\* Fuels and Lubricants (Processed) and Passenger Vehicles are classified as goods for double-use purpose.

Source: General Directory of Customs. The published statistics are compiled in concordance with the BoP methodology framework.

## NOTES

<sup>1</sup> Measured as the ratio of trade volume in goods and services to the GDP.

<sup>2</sup> There are not any specific criteria, it depends on the circumstances. The coverage with reserves of 3-6 months of imports is considered as adequate.

<sup>3</sup> World Trade Report reports that there has been a significant upward trend of exports in pharmaceutical goods from developed industrial goods, as a result of the high demand of the population for pharmaceutical products, leading as such to the rise in health-related expenditures.

<sup>4</sup> Fuels and lubricants (processed) and passenger vehicles are classified as goods for double-use purpose.

<sup>5</sup> Over 2006, an EU anti-dumping investigative commission discovered state subsidies in the footwear industry in China and Vietnam. The EU decided to impose an additional customs duty of about 19 per cent for the imports from these countries.

<sup>6</sup> Source: Ministry of Economy, Trade and Energy.

<sup>7</sup> Personal includes leisure activities, visits with relatives and friends, pilgrimage and religious observances, studies and health-related purposes.

<sup>8</sup> According to the Balance of Payments Manual, travellers are classified based on the concept of residency and not on the nationality. Residents and non-residents involved in this survey may or not be of Albanian nationality.

