

BALANCE OF PAYMENTS

YEAR 2000

The trends of Balance of Payments for the Year 2000 indicate a large growth of current transactions as a result of the increase in service transactions. Total value of the transactions that occurred during year 2000 is estimated around 3 billion dollars or 24% higher than that in year 1999. Apart from services, the current transactions and foreign trade in goods have contributed to this increase also. Large entries of capital enabled the balancing of the current deficit and increase of foreign currency reserves of the monetary authority.

A. FOREIGN TRADE

The development of foreign trade in goods for year 2000 might be considered as a negative trend. Total value of transactions of trading goods increased over 9% compared to 1999, but this was all due to an increase in import of goods. The latter, reached the record of 1 billion US dollars, increasing by 14.1% compared to the previous year. Unlike imports, total value of exports has declined almost 7% compared to 1999. As a result of that, foreign trade deficit increased by 22.8%, which is estimated around 814 million US dollars.

Goods imports, valued at a record of 1.07 billion US, have steadily increased since the beginning of the year, but this tendency is stronger during the last quarter as a result of electricity crisis that affected our country since the beginning of Fall. The crisis was reflected in large imports of "mineral products" group, which includes imports of electric current and fuel, and "electric and mechanic machinery and equipment" group. Imports of these two groups of products increased by 37% and 74% respectively compared to the previous year. Imports of consumption goods declined by 5.6% compared to the figure of the previous year. However, considering that the rise of imports in 1999 reflected the increase in consumption due to Kosovo crisis, which caused a 15% increase in population and in turn the rise of domestic demand during the second quarter, it is not hard to come to the conclusion that

imports of domestic consumption goods have not fallen below that of year 1999. Other groups affected by the increase of imports have been “transportation vehicles” by 13.5%, “basic metals and their derivatives” by 10.5%, chemical and plastic materials by 17.5% and 20.1% respectively. Compared to 1999, imports have declined by 3% for the “textile and by-products” group and by 21% for the “shoes and head wears”. These groups reflect imports of raw materials. The other groups do not play any role in determining the trend in imports therefore it is not worth pointing them out.

Despite the optimistic forecasts at the beginning of this year, exports not only did not meet the expectations, but also could not keep up with the figures of previous year, declining by 7%. This is totally due to the decline of re-exports of processed materials, mainly textile and shoes. Exports of domestic products have not changed from those of last year. Within this group, exports of traditional products have declined. Thus, exports of “mineral products” have sharply declined by 44% and those of “food, beverages, tobacco” have declined by 4%. Also, the exports of “machinery and equipment” group have declined by 36% compared to the figures of 1999.

Compared to 1999, exports have increased mainly in the “basic materials and their derivatives” and textile groups by 47.7% and 31% respectively. Statistics on textile group export point that the total exports have increased, while the re-exports of processed material within this group have declined. This shows that exports of domestic textile goods have increased.

B. SERVICES AND INCOME

Statistics on balance of payments for year 2000 indicate that service foreign trade (mainly tourism) has a vital importance for the Albanian economy. According to the estimations of Bank of Albania, income generated from this activity has been 1.5 times bigger than that from export of goods. Meanwhile, Albanians have spent around 272 million US dollars, or 51% of the total payments from emigrants in 2000, to travel abroad. Accordingly, by the end of the year, these services had a positive balance of 117 million US dollars. Tourism is dominant in the service trade account,

which had a slight closing surplus of 22.3 million US dollars. During 2000, the number of visitors traveling to Albania and abroad has increased by 52% and 58% respectively (as per statistics from Ministry of Public Order). This might be considered sufficient evidence that the activity in these services has increased.

As expected, increase in total volume of imports has caused the increase in imports of services related to transportation of goods and insurance. These transactions are dominant compared to other transactions in the same category, i.e. services in transportation of goods (estimated deficit is 2.5% higher than that of 1999) and insurance (estimated deficit is 13% higher than that of 1999).

Other Services category recorded 15.2 million dollars surplus which is 2.2% higher than that of previous year. This was enabled by reducing the communication expenses and increasing income from governmental services. However, their significance in the development of service trade is still modest, and their impact not very notable.

As of the end of 2000, the positive balance of transactions related to "Income" is 107 million US dollars, or 42% higher than that of previous year. This increase result from the contribution of high income received from seasonal workers and accrued interests from investments of foreign reserves of banking system in the non-resident financial institutions.

C. TRANSFERS

Emigrants' remittances for year 2000 are 46% higher than in 1999. The sudden increase in the volume of transfers is mainly due to the low volume of similar transactions in 1999.¹ The large volume of entries has been sufficient to cover the

¹ During 1999, large entries of foreign currency injected in the economy by Kosovars who stayed in Albania reduced the need for payments from emigrants and at the same time played the role of the substitute for the latter. Also, these entries were associated by large transfers for Albanian Government. Kosovo crisis affected the country only during 1999, so statistics for 2000, despite the relatively great differences with 1999, do not reflect any specific event. They fluctuate within the limits of average figures before the crisis. Thus, although the payments from emigrants hit a record of 531 million US dollars, they are comparable with payments from emigrants recorded in 1998. Government entries volume is about the same as the average level of government entries in 1994-1998.

decrease of accounts related to government transfers, which make for 58% of the transfers in the previous year.

Obviously, this fall reflects mainly the Kosovo crisis effect in 1999. Unlike previous year when government transfers consisted mainly of assistance in goods, in year 2000 the structure of government transfers consists mainly of foreign currency transfers which account for 59% of the total. By the end of the year, the positive balance of current transfers was 533 million US dollars, or 51% higher than that of 1999. Apart from the payments from emigrants and government entries, a cause for this surplus is also the decline of outgoing transfers. The increase in current transfers is coupled by an increase in capital transfers.

D. CAPITAL AND FINANCIAL ACCOUNTS

Current deficit was financed through capital entries and this led to an increase in liabilities and reduction in foreign currency deposits of second-level banks in non-resident financial institutions. At the end of the year, financial account recorded a positive balance of 240.7 million US dollars. Capital imports are enabled through direct foreign investments and disbursement of foreign loans. The financial liabilities have increased to 45.5% higher than the previous year.

Direct foreign investments for year 2000 amount to 143 million US dollars. Since 1992 (the first year when direct foreign investments were allowed) these investments have become a dominant event to increase financial liabilities and to affect capital and financial transactions. In light of the statistics till 1999, the highest rate of entries, around 90 million US dollars, has been recorded in 1996. In the following years the level of direct foreign investments declined to 45 million US dollars, because of the unstable situation in the country and in the region. The increase in the flow of capital in year 2000 by 3.3 times or 100 million US dollars compared to 1999, reflects the effects of privatization of large state enterprises.

Investments categorized as direct foreign investments were added the disbursement of foreign loans. The latter amounts to 100 million US dollars (20% less than a year ago) and is entered in favor of "general government" representing a liability to this

sector. As before, the World Bank remains the main source of finance for the government.

Claims, at the end of the year, have risen only by 31.1 million US dollars. This slight increase by 24% of the total financial means in 1999, represents the increase in foreign currency the public owns. In contrast with that, deposits of banking system are reduced by 19 million US dollars as compared with the increase by 89 million US dollars last year.

Entries of foreign currency as financial capital (mainly disbursement of foreign loans and employment of IMF loans) and current transfers in cash in 2000 were reflected in the increase of foreign currency reserves of the monetary authority by 141.5 million US dollars (about 18 million US dollars more than in 1999). This jump is recorded mainly in foreign currency. The level of foreign currency reserves at the end of year 2000 was sufficient to pay for 6.8-month imports, as compared to last year when this level was sufficient for 6.1-month imports.