

1. GENERAL OVERVIEW

Year 2002 started with an intensive activity in the external sector of economy expressed in the considerable increase of current income and expenditures. The first quarter of the year recorded the highest volume of current transactions (USD 873 million) among the first quarters in recent 10 years. Additionally to the foreign trade transactions in goods that play the main role in this growth, service transactions, and current transfers (mainly those from emigrants) have also contributed in this growth.

Current deficit at the end of the quarter is estimated at about USD 47 million. Compared to 2001 onset, this deficit has increased by about 3 times.

The positive balance of capital and financial account has totally financed the deficit. Foreign exchange inflows in the form of financial equity reflected an increase of monetary authority net international reserves by USD 7 million.

TABLE 1. BALANCE OF PAYMENTS OVER YEARS (in millions of USD)

	1994	1995	1996	1997	1998	1999	2000	2001	3MH '01	3MH '02
Current Account, nie.	31.4	36.6	-62.3	-253.7	-65.0	-132.9	-163.1	-217.9	-14.8	-47.2
Merchandise: Exports, fob	141.4	204.8	243.7	158.6	208.0	275.1	255.4	304.6	78.5	76.0
Merchandise: Imports, fob	-601.0	-679.8	-922.0	-693.5	-811.7	-937.9	-1,076.4	-1,331.6	-285.4	-315.8
Trade Balance	-459.6	-475.0	-678.3	-534.9	-603.6	-662.8	-821.0	-1,027.0	-206.9	-239.8
Services: Credit	83.1	98.2	127.3	67.9	86.6	266.7	448.1	533.5	121.6	108.2
Services: Debit	-97.5	-106.3	-142.3	-101.1	-129.3	-165.4	-430.0	-444.2	-83.4	-111.3
Income: Credit	55.6	70.8	83.5	61.6	86.1	85.6	115.9	162.5	29.7	31.1
Income: Debit	-41.4	-28.5	-12.0	-11.9	-8.7	-10.3	-9.1	-13.4	-2.5	-2.3
Private Unrequied Transfers	374.1	348.9	476.0	235.7	421.3	188.4	438.6	542.6	120.5	156.4
Official Unrequied Trans., nie	117.1	128.5	83.4	29.0	82.6	165.0	94.4	28.1	6.3	10.6
Capital Account	21.6	389.5	4.9	2.1	31.1	67.5	78.2	117.8	21.9	16.8
Financial Account	24.2	-414.5	49.6	140.7	16.0	36.8	182.5	115.2	35.4	62.4
Direct Investment, nie	53.0	70.0	90.1	47.5	45.0	41.2	143.0	207.3	66.6	21.0
Portfolio Investment, nie	0.0	0.0	0.0	0.0	0.0	0.0	-25.0	-23.4	-1.8	-16.6
Other Capital, nie	-28.7	-484.5	-40.5	93.2	-29.0	-4.4	64.5	-80.6	-35.5	58.0
Net Errors and Omissions	-44.5	7.9	54.8	142.5	69.4	131.3	15.0	129.9	13.8	-24.8
Overall Balance	54.9	30.6	47.0	43.8	59.4	123.5	131.9	145.0	56.3	7.3
Reserve and Related Items										
Reserve Assets	-54.9	-30.6	-47.0	-43.8	-59.9	-123.6	-131.9	-145.0	-56.3	-7.3
Use of Fund Credit and Loans	22.2	11.1	0.0	12.2	7.9	20.9	19.3	12.0	6.1	0.0
Liab. Const. Fng Auth. Reserves	...	...	...	...	...	...	...	...	...	...
Exceptional Financing										
Memorandum Items										
Total Change in Reserve Assets	-54.8	-30.6	-39.5	-28.3	-75.9	-97.4	-130.5	-116.2	-26.7	-0.9
of which: Revaluation	7.3	5.1	-7.3	-15.5	12.6	-26.2	-3.5	1.5	1.9	-5.1

Data source: Bank of Albania

The overall volume of foreign trade¹ is estimated at USD 392 million, representing the volume of current transactions at 45 percent. At 8 percent higher compared to 2001 onset, trade in goods recorded the highest level attained during the 10 recent year onsets. Commodity imports accounted USD 316 million, having a share of 81 percent of the overall volume of foreign trade transactions. At 11 percent higher compared to the corresponding term, previous year, imports represented the only factor that led to a higher foreign trade volume meantime exports recorded decline.

Export performance has deteriorated, marking 3 percent decline. Export volume descended to USD 76 million from 78.5 million in January -March 2001. The declining trends of exports from domestic production had a negative impact on incomes deriving from exports meantime that exports from good for processing industry maintained the same rates with the preceding quarter and the corresponding quarter at 2001 onset.

The coverage rate of imports from exports is estimated at 24 percent from 28 percent in the corresponding quarter, previous year.

The above noted trends in the behavior of foreign trade components caused extension of foreign trade deficit. The foreign trade debt, this quarter, is valued at USD 240 million, or 16 percent higher than the corresponding period, previous year.

After the consecutive surpluses recorded in the last three quarters of 2001, the balance of services turned to its negative figures again. Thus, the balance of services deficit for the first quarter is estimated at about USD 3 million. At USD 108,2 million and compared to the first quarter, previous year, the total of exported services suffered about 11 percent decline whereas imported services recorded USD 111,3 million or about 33,4 percent higher.

Tourism activity holds the main share in the balance of services. Therefore, incomes deriving from tourism activity represent 82 percent of exported services and tourism expenditures about 60 percent of imported services.

¹ Estimated according to BOP methodology, imports priced in F.O.B value.

Another factor to affect the total of services expenditures has been imported goods causing increase of transported goods services.

Thus, these services occupy 20 percent of the total of service expenditures.

The positive balance of income transactions at the end of the first quarter this year is estimated at 6 percent higher, than the same quarter, previous year.

The whole growth is dedicated to the higher income from the compensation of seasonal or borderline employees and cumulative interests from the investment of banking system foreign exchange reserves in non-resident financial institutions, and the portfolio investments.

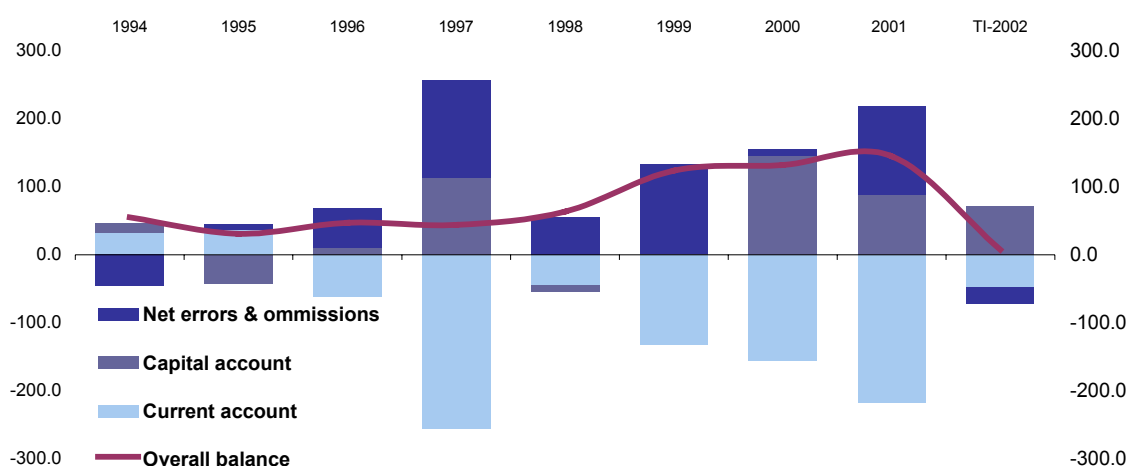


Chart 1. BALANCE OF PAYMENTS ACCOUNTS

At the end of the quarter, the positive balance of current transfers is estimated at USD 167 million or nearly 32 percent higher than in the first quarter 2001. Emigrant remittances at about USD 168 million or 25.4 percent higher than the first quarter, previous year, had main role in this growth. The increase of these transfers is mainly due to the previous quarter surge of Euro component currencies from emigrants converted in the banking system. These inflows remained an important indicator of the current account and managed to finance nearly 70 percent of the foreign trade deficit. In addition to the increase of emigrant remittances, the rising surplus by this category is also

dedicated to the inflow of official transfers, estimated at about 55 percent higher than the same period previous year.

The high positive balances attained by income and transfer categories were not sufficient to afford the current deficit. Therefore, capital imports of USD 79 million have totally financed this deficit. Such capital imports, is mainly realized from inflows that have led to the extension of liabilities and the decrease of outflows declining our financial assets abroad.

2. CURRENT ACCOUNT

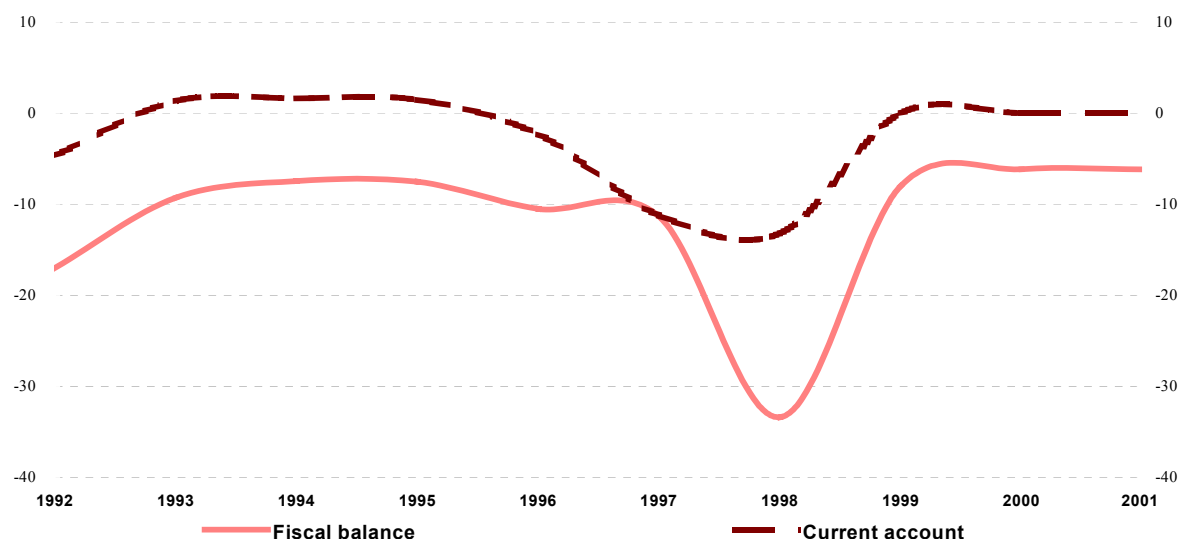
Current transactions at the end of the first quarter are estimated 11 percent higher than the same period, 2001, and occupy 75 percent of the last quarter, previous year.

Current incomes recorded USD 395, with a share of 73 percent of the preceding quarter. Compared to the first quarter 2001, these are increased by about 6.4 percent. Current transfers mainly those from emigrants have mostly caused this growth. Current expenditures (about USD 442 million) represent 78 percent of those in the previous period and estimate 14.5 percent increase against the corresponding period, previous year. High imports in goods and services have mostly caused these rising expenditures.

Thus, the current deficit recorded USD 47.2 million. This deficit is increased against either the preceding quarter or the corresponding quarter, previous year by 1.8 and 3 times, respectively.

This quarter, the current account deficit omitted official transfers is estimated at 2.6 and 1.6 times higher than the first and the last quarter, previous year, recording the figure of USD 58,5 million.

CHART 2. CURRENT ACCOUNT AND FISCAL BALANCE

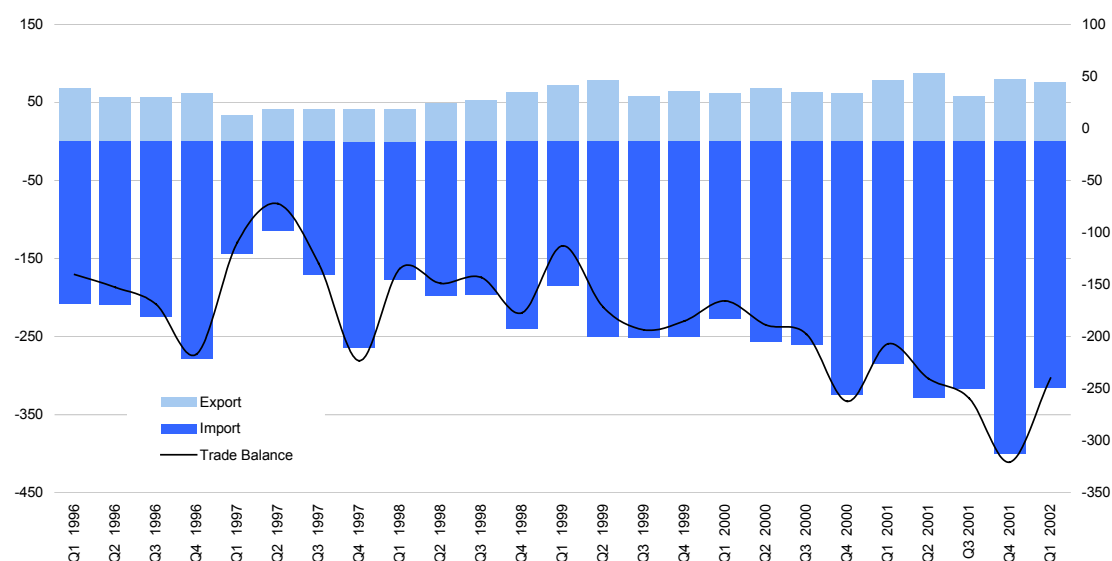


2.1 FOREIGN TRADE

The data on the foreign trade transactions during the first quarter 2002 state an intensification of Albania's trade with the rest of the world. Although in decline compared to the previous quarter, the overall volume of foreign trade was estimated at USD 392 million or 8 percent higher compared to the first quarter 2001, representing the highest range reached at year onsets. The intensification of foreign trade transactions with the rest of the world was one-sided; imports expenditures increased by about 11 percent meantime that incomes from exports estimated about 3 percent decline.

Rising imports has been due to the extension of domestic market demand for imported goods. This was expressed in the rising volume of imports for consumption, investments and imports of raw material for the active processing industry compared to the same period, previous year.

Chart 3. FOREIGN TRADE BALANCE (in USD mln)



Aids imports are estimated at 3 times higher compared to the first quarter 2001. Aids were mainly in foodstuffs and machinery & equipment arriving from Greece, United States, and Italy.

Under these trends, imported goods recorded a volume of USD 316 million, with 11 percent increase compared to the first quarter 2001 representing 81 percent of the foreign trade volume throughout the quarter.

Commodity exports at USD 76 million recorded decline compared to either the preceding period or the corresponding quarter, previous year by 5 and 3 percent, respectively. Export structure is mainly characterized by inward processing industry (mainly ordered footwear and textiles), that represented 78 percent of income deriving from commodity exports meantime that domestic products contributed with only 22 percent of it.

Table 2. FOREIGN TRADE BY QUARTERS FOR THE PERIOD "94-'02**(IN MILLIONS OF USD)**

Period	Export	Change compared to the previous period (%)	Import	Change compared to the previous period (%)
Q1 1994	28.0	-19.7	-98.6	-29.7
Q2 1994	31.2	10.0	-136.9	22.1
Q3 1994	30.9	0.6	-148.2	4.0
Q4 1994	51.8	67.5	-171.6	12.8
Q1 1995	42.0	-19.0	-163.5	-6.5
Q2 1995	51.1	21.8	-177.0	8.2
Q3 1995	57.3	12.0	-150.4	-15.0
Q4 1995	54.5	-4.8	-188.8	25.5
Q1 1996	68.0	24.8	-208.4	10.3
Q2 1996	57.1	-16.0	-209.6	0.6
Q3 1996	56.5	-1.1	-225.2	7.4
Q4 1996	62.1	9.9	-278.8	23.8
Q1 1997	34.2	-44.8	-143.9	-48.4
Q2 1997	42.2	23.2	-114.5	-20.4
Q3 1997	41.3	-2.1	-171.1	49.3
Q4 1997	40.9	-0.9	-264.0	54.3
Q1 1998	42.2	3.2	-176.8	-33.0
Q2 1998	49.3	16.8	-198.1	12.1
Q3 1998	53.0	7.5	-196.1	-1.0
Q4 1998	63.4	19.6	-240.6	22.7
Q1 1999	72.9	15.0	-185.6	-22.9
Q2 1999	78.4	7.5	-250.1	34.8
Q3 1999	58.6	-25.2	-252.1	0.8
Q4 1999	65.1	11.1	-250.1	-0.8
Q1 2000	61.7	-5.4	-227.3	-9.1
Q2 2000	68.5	11.2	-257.3	13.2
Q3 2000	63.5	-7.3	-261.1	1.5
Q4 2000	62.2	-2.1	-324.3	24.2
Q1 2001	78.5	26.2	-285.4	-12.0
Q2 2001	87.8	11.9	-328.1	15.0
Q3 2001	58.5	-33.4	-317.7	-3.2
Q4 2001	79.8	36.5	-400.3	26.0
Q1 2002	76.0	-4.8	-315.8	-21.1

The negative performance of exports from domestic production had a negative impact on incomes from commodity exports, this quarter.

Increased imports led to the extension of foreign trade deficit, which was at 16 percent higher than the corresponding period, previous year. Trade deficit that has been present over all groups of merchandise, excluding footwear, which value added of re-exports enable this merchandise group to record constant surplus.

High imports in foodstuffs, machinery, and equipment are qualified as factors that mostly cause the extension of trade deficit.

Exports and imports' structure by good for processing

Trade transactions in the area of active processing maintained the positive tendencies observed throughout the previous year where imports and exports from this industry recorded the highest volumes. Although in decrease to previous quarter, the volume of trade transactions in goods for further processing estimated increase compared to the first quarter by about 3 percent. The rising imports of raw material for the active processing industry in the country as well as exports from this industry confirms a continuation of the positive trends of the active processing industry, although the negative impacts brought by the power crisis in the country.

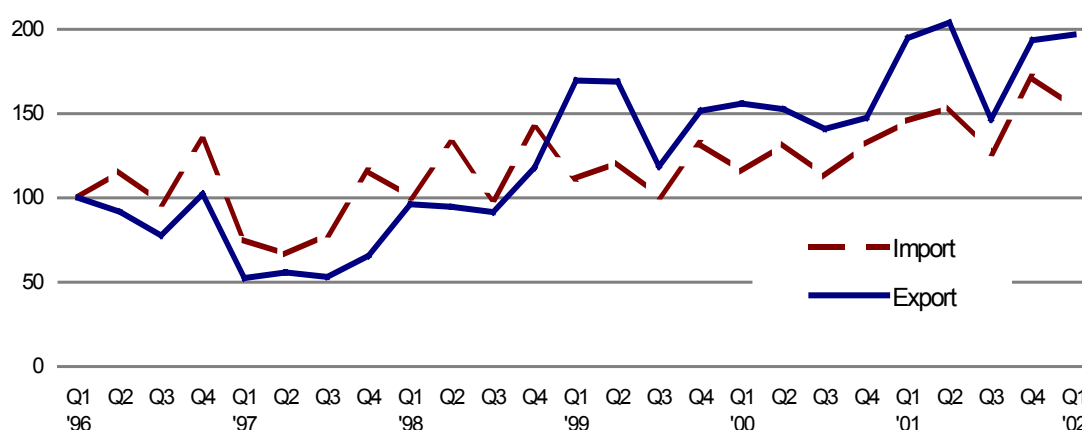
TRADE	Volume (in millions of USD)			Share (%)			Change (%)	
	3MI-'01	3MI-'01	3MI-'02	3MI-'01	3MI-'01	3MI-'02	3MI-'02/3MI-'01	3MI-'02/3MI-'01
Export total	78.5	79.8	76.0	100.0	100.0	100.0	-4.8	-3.1
of which								
Direct export	19.8	21.5	16.7	25.2	27.0	22.0	-22.2	-15.5
Re-export of processed	58.7	58.3	59.3	74.8	73.0	78.0	1.7	1.0
Import total	288.5	399.6	319.7	100.0	100.0	100.0	-20.0	10.8
of which								
Import of merchandise for processing	49.0	42.6	51.7	17.0	14.4	16.2	-10.4	5.5
import of aids	2.3	5.2	7.0	0.8	1.3	2.2	35.8	210.4

The active processing industry in the country, generally representing foreign persons' activity organized in small and mid-size companies occupies an important place in the trade transactions with the rest of the world. These represented 28 percent of the overall volume of foreign trade transactions during the first quarter of 2001.

This industry is mainly concentrated in processing articles of textile and footwear, which totally represent 80 percent of the foreign trade transactions performed by it. Italy represents the main investor in the area of active processing industry followed by Greece.

Exports from inward processing, ensuring 78 percent of income from Albanian exports estimated a slight increase, compared to either the preceding period or the first quarter of 2001. With an increase by only 1 percent against the preceding term, exports from inward processing volume this year represents the highest volume attained by exports of this industry over years. Nevertheless, the expectancy on exports from inward processing behavior was more optimistic but the power crisis of the country is considered to have had negative impacts on exports of this category.

Chart 5. PERFORMANCE TENDENCIES OF GOOD FOR PROCESSING TRADE AREA
(Index: Q1 1996 = 100).



Exports in textile and footwear articles recorded increase and provided more than 92 percent of the active processing industry income in the country. Meantime re-exports in metal articles and exports from food industry recorded a significant decrease. This quarter, exports from these industries occupied only 4 percent in the total of re-exports from 8 percent in the previous quarter.

Imports for inward processing represent 16 percent of the total of imports and are estimated at 6 percent higher compared to the first quarter 2001. With rising volumes, imported textiles, footwear and leather leading our imports for inward processing industry occupy 45, 21 and 14 percent of imported volume

respectively. Meantime, imports of raw material for the further processing of base metals recorded decreased.

Import and Export Structure by Groups of Merchandise

Imports² attained volume recorded USD 313 million or 9 percent higher compared to the first quarter of the year. Compared to the previous term where import expenditures recorded the highest level attained over years, imported goods estimated decline. The considerable increase in imported machinery and equipment and fuels is estimated as main factor to cause declining imports versus this period.

Meantime the insufficiency of agricultural production to meet the domestic market demand in the country led to rising imports by vegetal products (a considerable increase in imported vegetable and cereals).

The market access of telephone operators, AMC and Panaphone-Vodafone, which continued the geographic coverage of Albania with telephone waves, remained the main factor for tendencies of import in machinery and equipment, and considerably for the behavior of import expenditures.

TABLE 3. IMPORTS BY 21 GROUPS OF MERCHANDISE

CODE	DESCRIPTION	Volume			Share (%)			Change (%)	
		3M I-'01	3M IV-'01	3M I-'02	3M I-'01	3M IV-'01	3M I-'02	3M I-'02/3M IV-'01	3M I-'02/3M I-'01
I	Live animals, animals products	6.0	9.4	9.1	2.1	2.4	2.9	-3.0	51.7
II	Vegetable products	25.5	28.5	28.7	8.9	7.2	9.2	0.7	12.6
III	Animal or vegetable fats and oils	4.0	7.6	3.6	1.4	1.9	1.1	-52.7	-9.2
IV	Prepared foodstuffs, beverages, tobacco etc.	23.3	29.0	26.9	8.1	7.3	8.6	-7.2	15.5
V	Mineral products	47.6	53.4	43.2	16.6	13.5	13.8	-19.1	-9.2
VI	Products of the chemical	16.1	17.7	19.6	5.6	4.5	6.3	11.0	22.1
VII	Plastics and their products	8.1	10.3	8.1	2.8	2.6	2.6	-21.7	0.3
VIII	Raw hides and skins, leather, travel goods etc.	6.7	8.1	7.5	2.3	2.0	2.4	-6.9	11.6
IX	Wood and articles of wood	2.4	3.4	2.6	0.9	0.9	0.8	-24.6	5.4
X	Pulp of wood, paper or paperboard	3.7	5.5	6.1	1.3	1.4	2.0	10.7	64.8
XI	Textiles and textile articles	30.3	41.7	33.2	10.6	10.6	10.6	-20.4	9.3
XII	Footwear, headgear, umbrellas	11.6	14.2	12.9	4.0	3.6	4.1	-9.2	11.2
XIII	Article of stone;plaster;cement;ceramic ;glass	8.7	14.6	10.6	3.1	3.7	3.4	-27.3	21.5
XIV	Natural or cultured pearls, coin	0.1	0.1	0.1	0.0	0.0	0.0	-40.2	-15.1
XV	Base metals and articles of base metals	21.2	39.1	24.0	7.4	9.9	7.7	-38.6	13.3
XVI	Machinery and mech. appliance, electrical equip.	43.3	77.8	48.6	15.1	19.7	15.5	-37.5	12.3
XVII	Vehicles, aircraft	18.0	18.1	17.6	6.3	4.6	5.6	-2.5	-2.0
XVIII	Optical;photographic;measuring;medical instr.	4.6	4.9	3.7	1.6	1.3	1.2	-24.7	-18.9
XIX	Arms and ammunitions	0.2	0.2	0.2	0.1	0.1	0.1	-11.6	-8.9
XX	Miscellaneous manufactured articles	4.9	11.0	6.4	1.7	2.8	2.0	-41.6	30.4
XXI	Works of art	0.0	0.0	0.0	0.0	0.0	0.0	...	...
TOTALI		286.2	394.5	312.7	100.0	100.0	100.0	-20.7	9.2

² In the following analysis, imports do not contain performed estimations by BOP. Imports are expressed in C.I.F.

The reduction of oil prices internationally caused decrease of import expenditures by mineral products although the imported quantity has been approximately at the same degree with the first quarter, 2001. In addition, the imported electricity within this group of merchandise is estimated at 5 percent lower.

The slow rates in agricultural production throughout the previous year affected increase in the imports of vegetal products. Import performance this quarter confirms an increase of domestic demand for foodstuffs, leading to an extension of import expenditures for these products by about 16 percent compared to the first quarter of 2001 (here including groups from I-IV of Harmonization System).

High imports in fertilizers caused increase of import expenditures of chemical industry also giving positive signals in expectancies of domestic production in the country.

Commodity exports had declining tendencies, estimating decrease either compared to the preceding quarter or the first quarter 2001. The slow rate of agricultural production in the country had a negative impact on exports from domestic production; medical plants and tobacco exports also recorded decline.

Likewise compared to the first quarter previous year fuels estimated decline which for the term under comparison these were favored by the increase of oil prices internationally.

The declining exports in Ferro-chromium comprise another influencing factor for declining exports from domestic production.

Under these trends, exports from domestic production, this quarter, contributed only 22 percent of exports income down from 27 percent in the preceding quarter and 25 percent in the first quarter previous year, causing a decline to the overall volume of exports.

Export performance is dependent on the developments in inward processing industry in the country which exports represent more than 78 percent of the overall volume.

TABLE 4. EXPORTS BY 21 GROUPS OF MERCHANDISE.

CODE	DESCRIPTION	Volume			Share (%)			Change (%)	
		3M I-'01	3M IV-'01	3M I-'02	3M I-'01	3M IV-'01	3M I-'02	3M I-'02/3M IV-'01	3M I-'02/3M I-'01
I	Live animals, animals products	0.2	0.5	0.2	0.3	0.6	0.3	-46.3	3.0
II	Vegetable products	2.8	3.6	2.7	3.6	4.5	3.6	-24.6	-4.2
III	Animal or vegetable fats and oils	0.0	0.0	0.0	0.0	0.0	0.0	...	...
IV	Prepared foodstuffs, beverages, tobacco etc.	2.5	5.2	0.7	3.2	6.6	0.9	-86.9	-72.6
V	Mineral products	2.9	0.9	1.4	3.7	1.1	1.8	53.2	-51.9
VI	Products of the chemical	0.3	1.2	0.3	0.4	1.5	0.4	-75.7	-8.8
VII	Plastics and their products	0.2	0.4	0.2	0.3	0.6	0.3	-49.6	3.1
VIII	Raw hides and skins, leather, travel goods etc.	3.3	2.3	3.1	4.2	2.8	4.1	36.7	-5.7
IX	Wood and articles of wood	2.2	2.5	2.2	2.8	3.1	2.9	-12.1	-0.4
X	Pulp of wood, paper or paperboard	0.4	0.5	0.5	0.5	0.6	0.6	-2.0	14.9
XI	Textiles and textile articles	30.7	30.3	32.2	39.2	37.9	42.3	6.2	4.6
XII	Footwear, headgear, umbrellas	23.1	22.5	22.6	29.4	28.2	29.7	0.2	-2.2
XIII	Article of stone;plaster;cement;ceramic ;glass	0.2	0.9	0.7	0.2	1.1	0.9	-24.3	...
XIV	Natural or cultured pearls, coin	0.1	0.1	0.1	0.1	0.1	0.1	28.1	-20.7
XV	Base metals and articles of base metals	7.0	5.6	6.7	9.0	7.0	8.8	19.1	-4.8
XVI	Machinery and mech. appliance, electrical equip.	1.0	1.7	1.1	1.3	2.1	1.4	-37.6	2.1
XVII	Vehicles, aircraft	0.2	0.1	0.3	0.2	0.1	0.4	...	...
XVIII	Optical;photographic;measuring;medical instr.	0.0	0.2	0.0	0.0	0.2	0.0	-95.4	...
XIX	Arms and ammunitions	0.0	0.0	0.1	0.0	0.0	0.1	...	...
XX	Miscellaneous manufactured articles	1.2	1.4	1.1	1.5	1.8	1.4	-23.3	-9.4
XXI	Works of art	0.0	0.0	0.0	0.0	0.0	0.0	...	...
TOTALI		78.5	79.8	76.0	100.0	100.0	100.0	-4.8	-3.1

Trading partners

Trade with EU countries remains the main orientation of Albania's trade transactions with the rest of the world. More than 78 percent of foreign trade transactions in the first quarter 2002 were developed with EU countries registering an increase in the trade volume of goods compared to the first quarter, previous year.

The intensification of trade transactions with this grouping noticed on imports side, estimated at 6 percent higher compared to the corresponding period previous year, meantime incomes deriving from exports declined by about 4 percent.

The period under analysis did not bring any changes as to the geography of the foreign trade. Our foreign trade activity remained concentrated in transacted commodities with two European countries, Italy, and Greece. More than 66 percent of the overall volume of foreign trade transactions of the country during this quarter were developed with these two countries, Italy 41 percent and Greece 25 percent respectively.

The volume of developed trade transactions with Italy was valued at 6 percent higher than in the first quarter, previous year. Trade with Italy recognized increase in imports (14 percent). The domestic demand for imports from this country was mainly concentrated in machinery and electrical appliances, footwear dressing articles, leather, vehicles of transport, cement, fruit, and cast-iron and steel articles.

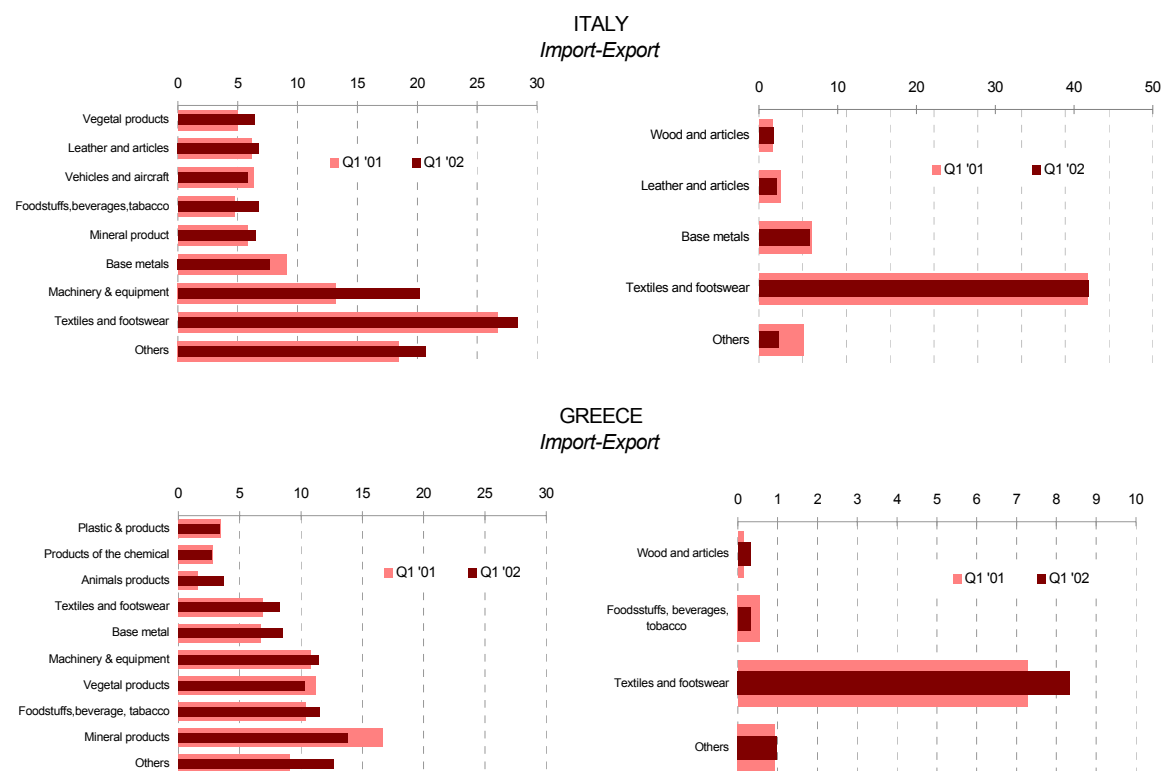
Italy represents the first market for Albanian exports. Exports to this country met 72 percent of foreign exchange inflows from trade activity and estimated 6 percent decline. In the role of the main investor in the light processing industry in the country, main exports with Italy were mostly re-exports in ordered stuff (textiles, footwear, and metal articles).

Trade activity with Greece is estimated at 9 percent higher. Trade with this country recorded increase by both components. Thus, imported commodities increased with 9 percent while net earnings from exports were estimated at 12 percent higher compared to the corresponding period, previous year. Export expenditures with Greece represent 27 percent of total expenditures for imports and are mainly used in fuels, machinery & equipment, products of milling industry, articles of wear, cast-iron steel, cement, plastic articles and fruits.

Main products that have found market in our neighbor country were mainly textile articles (ordered) wood and wood articles, tobacco, medical plants, periodical publications, and fuels contributing at 13 percent of incomes from commodity exports.

Trade with countries of the Region³ shares nearly 13 percent of Albania's total trade transactions with the rest of the World. This quarter trade in the region is introduced with 15 percent of imported volume and 4 percent of exported volume. In imports trade transactions are mostly developed with Turkey, Bulgaria, and Slovenia.

Chart 6. TRADE TRANSACTIONS OF ALBANIA WITH ITS MAIN PARTNERS (IN MILLIONS OF USD).



In exports, trade transactions are mostly carried with the Yugoslav Republic (including Montenegro and Kosova) and FYROM. In the future, it is expected intensification of Albania's trade transactions with rest of the countries in the region. Albania already has a free trade agreement with FYROM (see. Box 1) and is having negotiations to sign a similar agreement with Croatia. Road and railway relations with Montenegro are also reactivated.

Turkey is already consolidated as the third partner in Albania's trade transactions with the rest of the world. Trade transactions with Turkey represented 5 percent of the overall volume estimated at 37 percent higher compared to the corresponding quarter, previous year. With a growing tendency along all the quarters, previous year, the developed trade

³This grouping is comprised from Bulgaria, Bosnia and Herzegovina, Croatia, Yugoslavia, (including Montenegro and Kosova), FYROM, Rumania, Slovenia and Turkey.

transactions with this country are broadly on imports, meantime Albanian exports have not found a market in this country. Turkey is an investor in the metallurgy of processing metals in the country (Kurum, Elbasan). Thus, raw material, half-made products of cast-iron and steel are imported stuff at a considerable amount.

Box 1. Free trade agreement between Albania and FYROM

The free trade agreement between Albanian and FYROM, signed on March 29, 2002¹ is one of 21 bilateral agreements of this kind that will be signed between seven countries of Southeast Europe (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYROM, Romania, and the Federal Republic of Yugoslavia). The end of 2002 will gradually conclude it.

The free trade agreement between two countries is in accordance with principles and rules of World Trade Organization, European Union, and the Memorandum of Understanding and Liberalization of trade between the countries of Southeast Europe signed in July 2001 in the framework of the Pact of Stability.

Free trade bilateral agreements with the Balkans countries are amongst the main priorities of our country. These agreements involve the liberalization of reciprocal trade throughout a 6-year period of transition. **During this period, about 90 percent of the entire trade will be liberalized.**

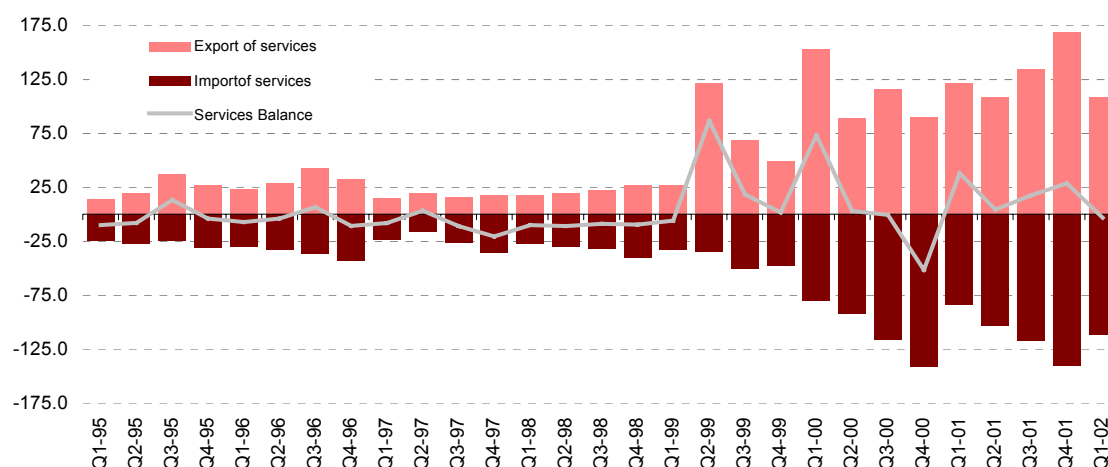
The underwriting of these agreements will intensify the foreign trade transactions in the region. In addition, the creation of a free trade area with a population of 55 million will bring the incitement of foreign investments in Albania.

¹The free trade agreement between Albania and FYROM is ratified by the Albanian Parliament on May 14, 2002 and is expected to enter in effect two weeks after its publication in the Official Bulletin.

2.2 SERVICES

Service transactions recorded a volume of USD 220 million, occupying 71 percent of that in the previous quarter that is estimated at about 7 percent higher than that in the first quarter 2001. Such growth is only due to imported services, which are at about 33.5 percent higher, reaching the value of USD 111,3 million, meantime exported services are described with 11 percent decline approximately. Thus, 2002 onset recorded a deficit of services account of USD 3,1 million meantime the preceding quarters recorded surplus.

Chart 5. BALANCE OF SERVICES.



The main indicator of balance of services, tourism activity, this quarter compared to 2001 onset (referring to the Bank of Albania estimations) recorded decreased income and raised expenditures.

Thus, exported services of tourism activity are estimated as USD 89,4 million, or 11.9 percent lower than that of the first quarter, previous year. Meantime, Albanians have spent about USD 68 million in their travels abroad (imported services) or nearly 1.6 percent more than in the corresponding quarter, previous year.

Therefore, the positive balance of tourism services recorded USD 23 million or about 2.7 times lower at the end of the first quarter.

Incomes from non-residents visiting Albania for business purposes occupy nearly 53 percent of the total tourism income meantime expenditures of Albanians abroad, for the same purposes, occupy 40 percent of travel expenditures. Incomes from non-residents visiting Albania for personal purposes occupy 47 percent, while Albanians expenditures abroad for personal purposes occupy 60 percent of travel expenditures.

As expected, imports' rising volume has caused the extension of imports services for freight and insurance. The import of freight services accounts for about USD 25 million or nearly 3.5 percent higher than that of the first quarter 2001 meantime the import of insurance services (approximately USD 10 million) is at 14 percent higher. Those service categories have dominated over other service transactions.

"Other services" category recorded a surplus of USD 3.5 million and estimated a decrease of about 1.7 times against the same quarter, previous year. That decline is mainly evidenced in the balance of services of communication and government services. Nevertheless their role in the developments of trading services continues to remain modest and without any noticeable effect.

2.3 INCOMES

The positive balance of income during the first quarter recorded USD 29 million. That surplus represents about 65 percent of the preceding quarter and is estimated as increased by about 25.5 percent against the first quarter 2001. Incomes from the compensation of work from seasonal employees, this quarter (USD 18,7 million) recorded an increase of 26 percent compared to that of the corresponding quarter, previous year. Net incomes from the foreign exchange investments of the banking system recorded about USD 12,4

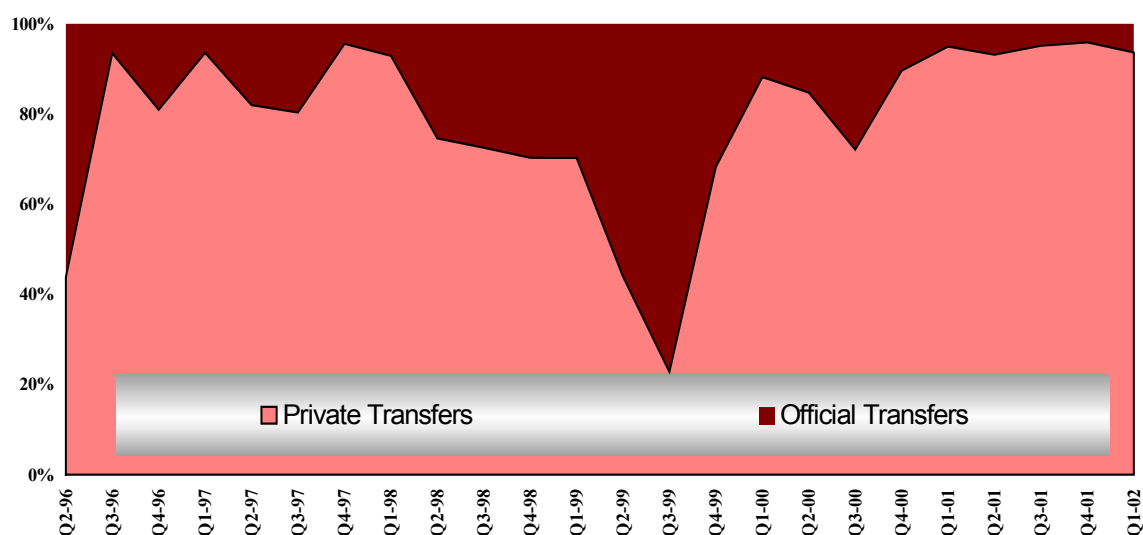
million and had a decline of 15.8 percent because of our deposit decrease by non-resident foreign banks and institutions.

Meantime, income outflows in the form of paid interests from non-resident deposits placed with our banking system and foreign debt interests record USD 0,1 million, which is an irrelevant figure.

2.4 TRANSFERS

The balance of current transfers during the first quarter 2002 recorded USD 167 million and estimated about 32 percent increase against the first quarter, 2001. These transfers have covered about 69.6 percent of the foreign trade deficit. This increase was as an consequence of the rising inflow of transfers from the emigrant remittances which this quarter recorded about USD 168 million and estimated at about 25 percent higher than those in the first quarter, previous year.

Chart 6. STRUCTURE OF TRANSFERS



Official transfers (USD 10,6 million) increased compared to the previous either quarter or the corresponding quarter previous year by about 1.2 and 1.7 times respectively. These transfers consist of mainly aids in goods (61 percent) and aids of technical assistance (38.7 percent). In addition to the

increase emigrant remittances and inflows of official transfers, the increase of balance surplus under this category is also due to the declining outflow of other current transfers.

The rise in the current transfers was also followed by the increase of capital transfers.

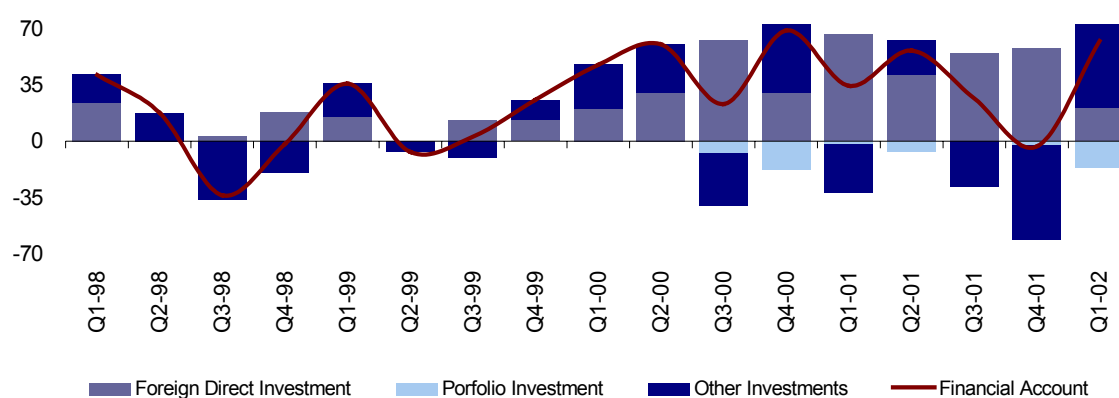
3. CAPITAL AND FINANCIAL ACCOUNT

The first quarter of the year recorded a net capital inflow of USD 79 million. Capital transfers recorded about USD 17 million and estimated at 23 percent lower than in the first quarter 2001. Meanwhile the capital account presents net capital inflows of USD 62,4 million or 1.7 times higher approximately. This increase is as the consequence of the extension of liabilities and the decrease of our assets abroad.

3.1 FINANCIAL LIABILITIES

Financial liabilities are increased by about USD 26 million. Such increase represents nearly 27.8 percent of that in the first quarter, 2001.

Chart 7. FINANCIAL FLOWS (USD MILLION)

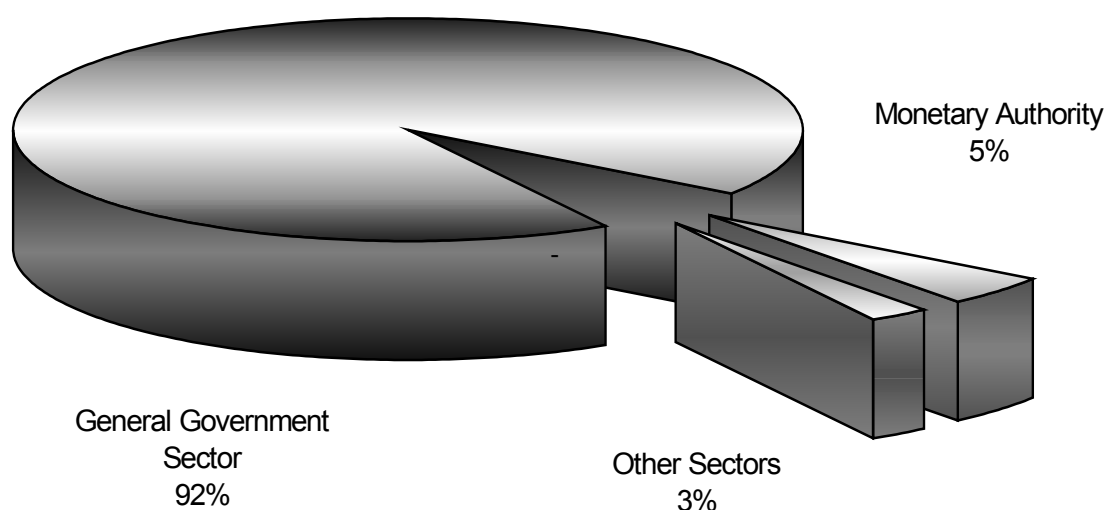


The rise of financial liabilities is mainly represented in the form of direct foreign investments and borrowing lines of foreign credits and deposits of the banking system by nonresident banks and institutions.

Direct foreign investments during the first quarter are estimated at about USD 21 million or nearly 3 times lower than in the first quarter 2001. Such a big change between two-year onsets has to do with the effect of privatization of large public enterprises, which took place in the previous year. However, these capital inflows remain a dominant factor under the extension of financial liabilities and developments of capital and financial transactions.

Borrowing. Capitals invested in the form of direct investments are also added foreign credit disbursements. The first quarter recorded USD 15.2 million disbursements, which are nearly as much as 63 percent of those of the corresponding period, previous year.

Chart 8. DEBT OUTSTANDING DISBURSED



Almost 90 percent of disbursement was in favor of "General Government" sector representing an increase of this sector liability; about 5 percent of the total disbursements were about "Monetary Authority" sector. Such disbursements are mainly represented by World Bank loans through IDA. Besides, it is worth mentioning the rise of disbursement of household credits by about USD 1 million, which is a phenomenon evidenced recently. Foreign debt services in the form of principal payments during the first quarter recorded USD 6.4 million.

Financial liabilities in the form of *non-resident deposits* in the banking system this quarter increased by USD 1,4 million. Deposits are mainly in Euro and USD, sharing respectively 71 and 25 percent of the total deposits. This means that the deposit ratio is constantly changing in favor of those denominated in Euro.

3.2 FINANCIAL ASSETS

Our financial assets recorded a decline by USD 36 million. Such a decline is mainly due to the decrease of the foreign exchange assets in *cash* by about USD 59 million. Reverse from the fourth quarter, previous year, conversions in Euro component currencies in the banking system have not increased the foreign exchange assets in cash, despite banks have changed them in deposits abroad the country. This has caused a decline of USD 56 million of cash assets in January, also reflected at the end of the quarter.

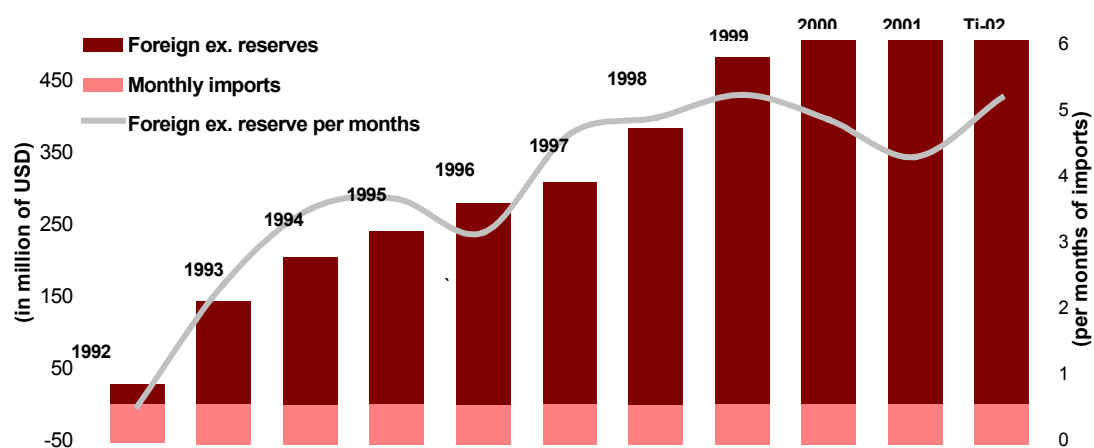
Meantime, banking system deposits abroad had a considerable growth in January (by approximately USD 46 million). However, in March, the high individual demand to withdraw deposits from the banking system made these latter withdraw their deposits abroad in order to meet their liquidity needs. Thus, these deposits declined by USD 40 million in this month ending the first quarter with a slight increase of USD 2,6 million.

Portfolio investments this quarter increased by USD 16, 6 million. Such increase is nearly 7 and 9 times higher than the previous quarter and the corresponding quarter previous year.

4. RESERVES

Monetary authority reserves in the first quarter, current year increased by about USD 7 million. Such growth is mostly recorded under foreign assets.

Chart 9. MONETARY AUTHORITY RESERVES



Foreign reserves at the end of first quarter at USD 739 million were sufficient to afford 5.2 months of imports (imported goods and services).

METHODOLOGICAL NOTES

Foreign trade

Goods according to the balance of payments

Include (with some exceptions) all goods crossing boarder lines that change ownership from residents to non-residents. On credit side are recorded exports that represent statistics according performed declarations at customs offices. On debit side are recorded imports that represent the value of customs declaration forms excluding transport and insurance fees. The value of transports and insurance of goods are included under respective items, "transport of goods" and "insurance".

Terms used in foreign trade

The coverage rate of imports from exports is the ratio between imports and exports expressed in percent.

Foreign exchange reserve per months of imports is calculated as ratio of the gross official reserves to the total of imports for the period.

Gross official reserves include balances of government denominated in foreign currency; banks required reserves, grants from different international institutions and the Bank of Albania own funds.

F.O.B. (Free on board) **value** of the merchandise includes the purchasing price plus transportation and freight expenses to the customs border of the exporting economy.

C.I.F. (Cost, Insurance, Freight) **value** of the merchandise includes the purchasing price plus insurance, transportation and freight expenses to the agreed port of destination.

Calculating the import value according to the BOP approach. To calculate the FOB value, it is deemed that 10 percent of the CIF import value represents the transportation and insurance expenses for the merchandise. As a result, the total of FOB imports represents 90 percent of the CIF value. The latter amount is increased by 10 percent implying underinvoicing (and/or smuggling). The final amount obtained represents figures recorded under the item "Goods according to the Balance of Payments".

SERVICES

Transport of goods

Represents an estimation of the Bank of Albania. This estimation is based on the value of goods reported on customs declarations.

Passenger and other transport services

Statistics on these items represent supplied information from the banking system on passenger transports and portal company transactions.

Travel

Represent a combination of provided information from the Bank of Albania's surveys in cooperation with the Institute of Statistics and received information from the Ministry of Order. The methodology for the estimation of tourism expenditures is based on the number of non-resident visitors leaving Albania and the number of Albanian tourists coming back home, their average duration of stay and daily average expenditures per tourist.

Insurance

On credit side are recorded insurance payments provided to nonresidents from INSIG. On debit side are recorded the estimation of insurance cost on CIF value of imports and reinsurance services according to information contained by customs declaration forms. The value of incomes deriving from reinsurance transfers is recorded under "other transfers". All statistics (excluding the Bank of Albania estimations) represent statistical information reported by INSIG.

Communication services

Include telecommunication and mail services.

Technical assistance

Technical assistance services financed by grants in the form of assistance and technical assistance projects through credit lines also including the technical assistance in the framework of direct foreign investments.

INCOME

Compensation of employees

Credit data are an estimation of incomes from seasonal migrants that do not classify as residents of neighbor countries for duration of stay.

Interests on reserves

On credit side, this item records interest earnings from resident deposits held in non-residents institutions. On debit side are recorded interest payments for nonresident deposits in our banking system. The data on this item are provided from the commercial banks' and the Bank of Albania balances.

Other interest income

Cover data on the foreign debt services provided by the Bank of Albania, the Ministry of Finance and the Banking System.

Interest on equity

Debit records represent the direct foreign investments repatriated incomes through the banking system. The data sources are the foreign exchange transactions recorded from the banking system.

CURRENT & CAPITAL TRANSFERS

Official transfers

Either debit or credit of this item record food, aids and technical assistance reported by the General Customs Directorate and the Ministry for Economic Coordination and Trade. Transfers in cash represent statistical records of transactions on the banking system and the Bank of Albania. Investment grants or other assets which scope is capital investments are recorded under the item of "capital transfers". On debit side are recorded membership quota deriving from participation in international organizations.

Remittances from expatriates

Credit records cover the inflows of emigrant transfers entering in Albania in the form of foreign exchange assets either as personal imports or other kinds of transfers.

Other transfers

Both credit and debit of this item show other private transfers recorded from the banking system and transfers deriving from insurance service transactions (redemption and retrocession).

CAPITAL & FINANCIAL ACCOUNT

Direct investments

Considered as such are all the investments where foreign partners own 10 percent or more of the invested equity. Bank of Albania uses IMF estimates for direct foreign investments. As no similar estimate is available for the quarter, the figure of the corresponding quarter previous year is taken as basis.

Equity investments

Refer to the changing value of the capital invested in direct foreign investments.

Other capitals

Represent credits granted by direct investors to direct investment enterprises in Albania.

Official and other borrowing

Include all the financial liabilities provided from the foreign creditors' direct borrowings. These statistics reflect debt transactions recorded from the Bank of Albania, the Ministry of Finance and the banking system.

Use of Fund Credit & Loan

Include the IMF loan data provided from the Bank of Albania.

Trade credit

Represents the net value of claims and liabilities deriving from financing transactions (from the supplier and buyer) of goods and services, including also prepayments for work under process and/or associated with these transactions.

RESERVES

Represent net changes on the gross official reserves of Bank of Albania according to its balance sheet (excluding valuation changes). Sign (-) indicates an increase of reserves.

