

## 1. A SHORT OVERVIEW

Balance of payments indicators in the third quarter 2002 reflect an intensive activity in the external sector expressed in the considerable growth of current income and expenditures and net capital flows.

Current account deficit as at the end of the quarter recorded USD 109,1 million mainly caused from the extension of the external trade deficit in goods.

The deficit of current transactions mainly financed from capital inflows is at about 65 percent which positive balance as at the end of the period recorded about USD 71,5 million. The residual of current account deficit is financed from other unidentified transactions reflected in "net errors and omissions"<sup>1</sup>.

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

|                                 | 1994        | 1995          | 1996         | 1997          | 1998         | 1999          | 2000          | 2001          | Q-III '01    | Q-III '02     |
|---------------------------------|-------------|---------------|--------------|---------------|--------------|---------------|---------------|---------------|--------------|---------------|
| <b>Current Account, nie.</b>    | <b>31.4</b> | <b>36.6</b>   | <b>-62.3</b> | <b>-253.7</b> | <b>-65.0</b> | <b>-132.9</b> | <b>-163.1</b> | <b>-217.9</b> | <b>-82.7</b> | <b>-109.0</b> |
| Merchandise: Exports, fob       | 141.4       | 204.8         | 243.7        | 158.6         | 208.0        | 275.1         | 255.4         | 304.6         | 58.5         | 86.1          |
| Merchandise: Imports, fob       | -601.0      | -679.8        | -922.0       | -693.5        | -811.7       | -937.9        | -1,076.4      | -1,331.6      | -317.7       | -383.1        |
| Trade Balance                   | -459.6      | -475.0        | -678.3       | -534.9        | -603.6       | -662.8        | -821.0        | -1,027.0      | -259.2       | -297.0        |
| Services: Credit                | 83.1        | 98.2          | 127.3        | 67.9          | 86.6         | 266.7         | 448.1         | 533.5         | 134.9        | 208.6         |
| Services: Debit                 | -97.5       | -106.3        | -142.3       | -101.1        | -129.3       | -165.4        | -430.0        | -444.2        | -117.2       | -209.0        |
| Income: Credit                  | 55.6        | 70.8          | 83.5         | 61.6          | 86.1         | 85.6          | 115.9         | 162.5         | 44.1         | 43.9          |
| Income: Debit                   | -41.4       | -28.5         | -12.0        | -11.9         | -8.7         | -10.3         | -9.1          | -13.4         | -4.1         | -3.6          |
| Private Unrequired Transfers    | 374.1       | 348.9         | 476.0        | 235.7         | 421.3        | 188.4         | 438.6         | 542.6         | 113.1        | 138.9         |
| Official Unrequired Trans., nie | 117.1       | 128.5         | 83.4         | 29.0          | 82.6         | 165.0         | 94.4          | 28.1          | 5.7          | 9.1           |
| <b>Capital Account</b>          | <b>21.6</b> | <b>389.5</b>  | <b>4.9</b>   | <b>2.1</b>    | <b>31.1</b>  | <b>67.5</b>   | <b>78.2</b>   | <b>117.8</b>  | <b>27.0</b>  | <b>32.3</b>   |
| <b>Financial Account</b>        | <b>24.2</b> | <b>-414.5</b> | <b>49.6</b>  | <b>140.7</b>  | <b>16.0</b>  | <b>36.8</b>   | <b>182.5</b>  | <b>109.0</b>  | <b>26.6</b>  | <b>39.2</b>   |
| Direct Investment, nie          | 53.0        | 70.0          | 90.1         | 47.5          | 45.0         | 41.2          | 143.0         | 207.3         | 54.9         | 45.0          |
| Portfolio Investment, nie       | 0.0         | 0.0           | 0.0          | 0.0           | 0.0          | 0.0           | -25.0         | -23.4         | -13.0        | -6.1          |
| Other Capital, nie              | -28.7       | -484.5        | -40.5        | 93.2          | -29.0        | -4.4          | 64.5          | -86.9         | -21.2        | 0.3           |
| Net Errors and Omissions        | -44.5       | 7.9           | 54.8         | 142.5         | 69.4         | 131.3         | 15.0          | 136.1         | 58.3         | 66.0          |
| <b>Overall Balance</b>          | <b>54.9</b> | <b>30.6</b>   | <b>47.0</b>  | <b>43.8</b>   | <b>59.4</b>  | <b>123.5</b>  | <b>131.9</b>  | <b>145.0</b>  | <b>29.2</b>  | <b>28.5</b>   |
| Reserve and Related Items       |             |               |              |               |              |               |               |               |              |               |
| Reserve Assets                  | -54.9       | -30.6         | -47.0        | -43.8         | -59.9        | -123.6        | -131.9        | -145.0        | -29.2        | -28.5         |
| Use of Fund Credit and Loans    | 22.2        | 11.1          | 0.0          | 12.2          | 7.9          | 20.9          | 19.3          | 12.0          | 5.9          | 0.0           |
| Liab. Const. Fng Auth. Reserves | ...         | ...           | ...          | ...           | ...          | ...           | ...           | ...           | ...          | ...           |
| Exceptional Financing           | ...         | ...           | ...          | ...           | ...          | ...           | ...           | ...           | ...          | ...           |
| <b>Memorandum Items</b>         |             |               |              |               |              |               |               |               |              |               |
| Total Change in Reserve Assets  | -54.8       | -30.6         | -39.5        | -28.3         | -75.9        | -97.4         | -130.5        | -116.2        | -42.1        | -32.9         |
| of which: Revaluation           | 7.3         | 5.1           | -7.3         | -15.5         | 12.6         | -26.2         | -3.5          | 1.5           | 23.3         | -3.0          |

Data source: Bank of Albania

*Foreign trade transactions*<sup>2</sup> valued at about USD 469 million represent the volume of current transactions at 42 percent. Trade transactions in goods

<sup>1</sup> At the lack of statistics from official resources, balance of payment statistics contain the Bank of Albania estimates in some figures and accordingly, the Bank of Albania reserves the right to revise these statistics when these data become available.

<sup>2</sup> Calculated according to BOP methodology, imports are priced by F.O.B.

estimate growth either compared to the preceding quarter or the corresponding quarter previous year, at 9 and 25 percent, respectively. This quarter growing trend was evidenced by both trade components, reaching the highest volumes for the first nine-month term of the year.

Imports' growth in absolute value is higher than exports' leading to the extension of the external trade deficit. External debt is estimated at USD 297 million or 15 percent higher than the corresponding period previous year.

As in the previous quarters even this quarter, the considerable weight of foreign trade transactions in goods is represented from imports (about 82 percent) confirming a domestic market and economy mainly oriented from imports.

The *balance of services*, this quarter recorded a deficit of USD 0,5 million, meantime it registered positive figures, the same period, previous year. Service exports estimated at about USD 208,6 million are mostly enabled from tourism which occupy 87 percent of this amount and the rest is represented from telecommunication and official services of government. Service imports are estimated at about USD 209,1 million. Under the expenditures for imported services, tourism and telecommunication pose the main share of 73 and 15 percent, respectively. These latter recorded 18.7 percent higher compared to the same period previous year mainly due to higher imports.

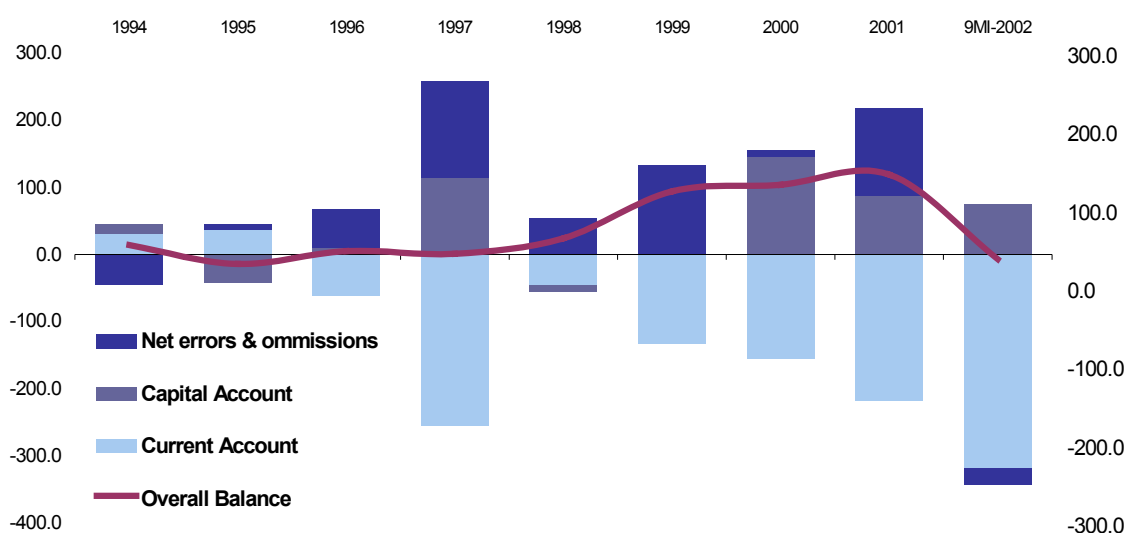
The *balance of income* recorded the same rates with the third quarter previous year (about USD 40 million). Those incomes are mostly comprised from investments in the form of accumulated interests from investment of net international reserves of the banking system in non-resident financial institutions and compensations from the work of seasonal workers.

*Current transfers* recorded a positive balance of USD 148 million. With main role in this surplus, remittances from expatriates this quarter are estimated at about USD 155 million, recoding deficit financing at 52 percent.

Net capital flows recorded USD 71,5 million and financed 66 percent of current deficit. Capital transfers are estimated at about USD 32 million and the financial account recorded a positive balance of almost USD 39,2 million. Capital imports mostly attained through the absorption of foreign direct investments, disbursement of long -and soft- term credits from abroad and foreign asset investments in foreign banks.

*Foreign asset* inflows in the form of financial equity reflected growth of monetary authority net international reserves with USD 28,5 million.

**CHART 1. BALANCE OF PAYMENTS ACCOUNTS**

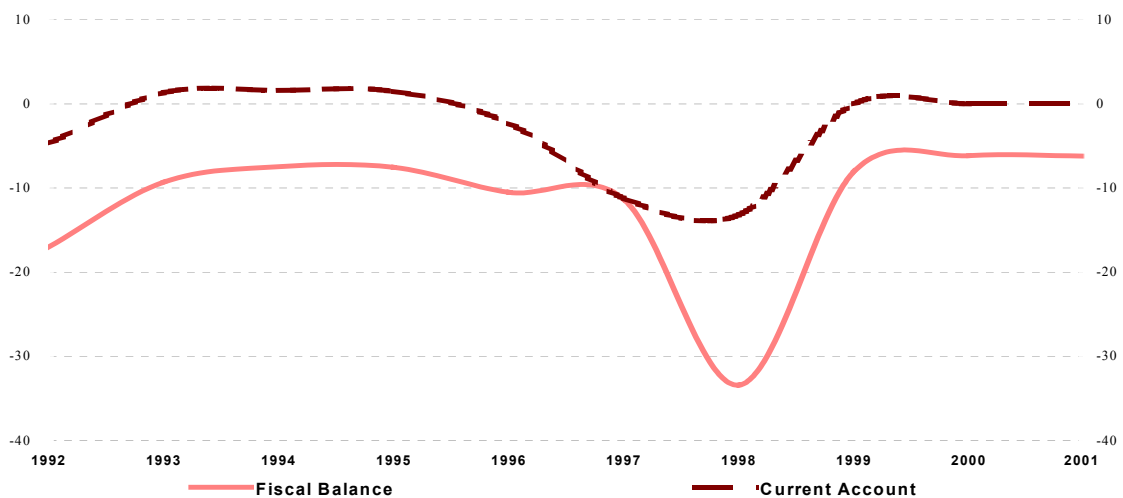


## 2. CURRENT ACCOUNT

The third quarter recorded the highest volume of current transactions for the first nine months, 2002 (USD 1,1 billion), presenting the previous year rates. Either compared to the preceding or the corresponding quarter previous year this volume is estimated as increased with 25.8 or 33 percent, respectively. Such a growth is encountered from both the current incomes and expenditures.

Current incomes recorded USD 503 million or 39 percent higher than previous quarter or 33 percent against the corresponding quarter, previous year. The increased export of services and current transfers this quarter occupy about 74 percent of the current incomes and represent main growth factors.

**Graph 2. FISCAL BALANCE AND CURRENT ACCOUNT**

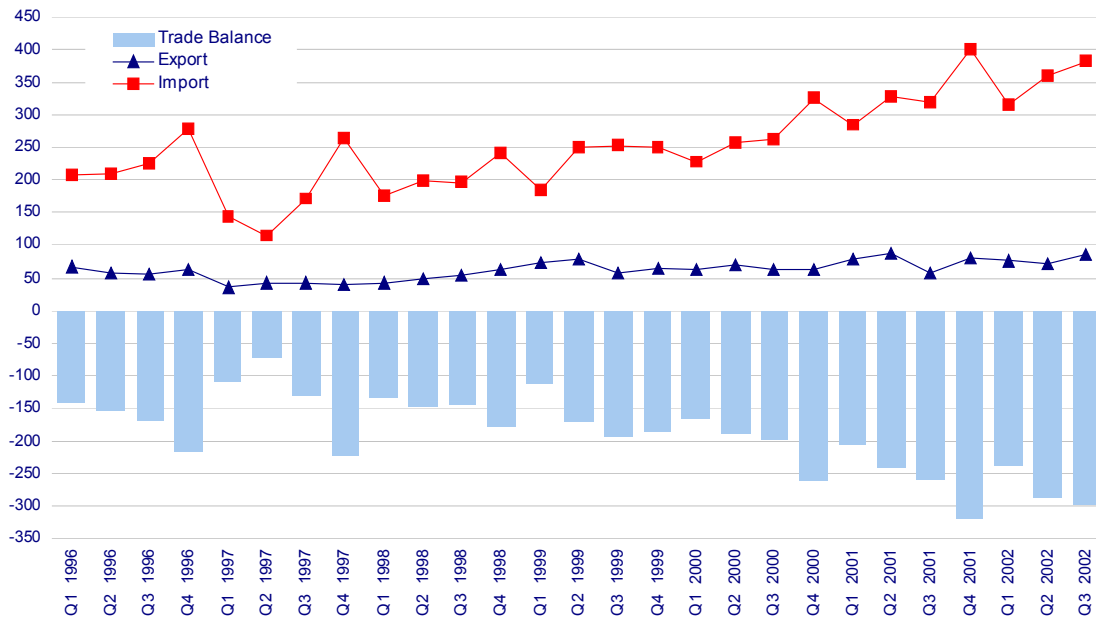


Current expenditures recorded about USD 612 million or respectively 17 and 33 percent higher compared to the previous quarter or the corresponding quarter previous year. High imports in goods and services leading to a current deficit of USD 109,1 million have mainly caused the addition of these expenditures. This deficit presents a 33 percent decrease against the previous quarter or 31.8 percent increase compared to the same quarter, previous year.

## 2.1 FOREIGN TRADE

The third quarter records the highest volume of foreign trade transactions with the rest of the world developed throughout the first nine-month term of the year. Trade transactions estimated at about USD 469 million or 25 percent higher, compared to the corresponding quarter previous year, recorded growth by both foreign trade components.

**Graph 3. EXTERNAL TRADE BALANCE (USD million)**



The extension of the domestic demand was expressed by added imports of products for domestic consumption and imports of raw material for the active processing industry, estimating a considerable growth compared to the corresponding quarter, previous year.

Aid imports estimated approximately 10 percent growth, compared to the third quarter, 2001. This quarter aids in goods have been mainly in textiles and food products, machinery and equipment with Italy and Greece, as main donors.

Under these trends, expenditures for imported goods reached the figure USD 383 million. Import flows estimated growth either compared to the previous quarter (6 percent) or the corresponding quarter, previous year (21 percent), was also the highest of the first nine- month period.

This quarter incomes from commodity exports were estimated at about USD 86 million; represent the highest level attained over the first nine- month period. Export performance avoided seasonal trends. Reverse from what expected, the quarterly income from commodity exports recorded growth (about 19 percent) compared to the second quarter of the year, or were higher

compared to the corresponding quarter, previous year (about 49 percent). Domestic exports or re-exports (ordered goods product) or exports from domestic production recorded growth exercising positive effect in the income performance from commodity exports, this quarter.

**TABLE 2. FOREIGN TRADE BY QUARTERS FOR THE PERIOD '94-'01 (IN MILLIONS OF USD)**

| Period  | Exports | Change compared to the previous period (%) | Imports | 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                                      |
| Q2 2002 | 72.1    | -5.1                                       | -360.1  | 14.0                                       |
| Q3 2002 | 86.1    | 19.4                                       | -383.1  | 6.4  |

Imports considerable growth led to the extension of external trade deficit. At about USD 297 million external trade debt was 3 or 15 percent higher either

Compared to the previous quarter or the third quarter previous year. Trade deficit observed throughout all groups of merchandise with the exemption of footwear where the added value in re-exports enables this merchandise group record continuous surplus.

High imports in machinery and equipment, foodstuffs, vehicles of transport qualified as factors mostly causing of extension of trade deficit compared to the corresponding period, previous year.

### 2.1.1. Import and export structure by active processing

Trade activity in the area of active processing represents an important part in the trade transactions with the rest of the world. At a volume of USD 117 million, trade transactions from the active processing industry in the country represented nearly 27 percent of developed transactions with the rest of the world over this quarter. Active processing industry (ordered products) generally presented with foreign person activities are organized in small- and medium-size companies. This industry is mainly concentrated in processing textiles, footwear and leather articles, which altogether comprise about 82 percent of foreign trade transactions developed from it. Italy represents the main investor in the active processing area followed by Greece.

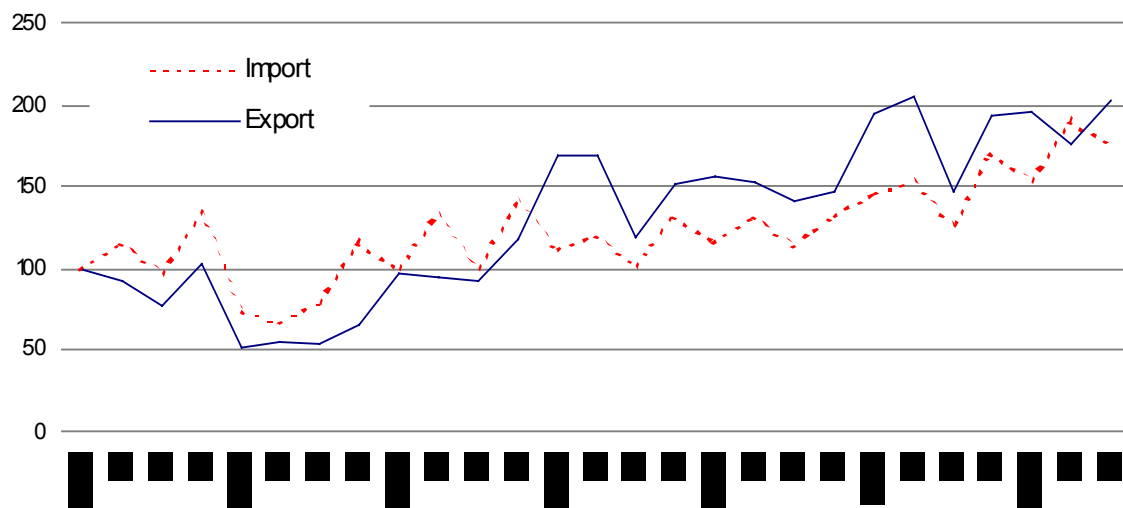
| TRADE                          | Volume (in millions of USD) |              |              | Share (%)    |              |              | Change (%)      |                 |
|--------------------------------|-----------------------------|--------------|--------------|--------------|--------------|--------------|-----------------|-----------------|
|                                | Q3 2001                     | Q2 2002      | Q3 2002      | Q3 2001      | Q2 2002      | Q3 2002      | Q3 2002/Q2 2002 | Q3 2002/Q3 2001 |
| <b>Export total</b>            | <b>58.5</b>                 | <b>72.1</b>  | <b>86.1</b>  | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>19.4</b>     | <b>47.3</b>     |
| <i>of which:</i>               |                             |              |              |              |              |              |                 |                 |
| Direct export                  | 14.3                        | 19.4         | 25.1         | 24.4         | 26.9         | 29.1         | 29.3            | 75.4            |
| Export of processed goods      | 44.2                        | 52.7         | 61.1         | 75.6         | 73.1         | 70.9         | 15.8            | 38.2            |
| <b>Import total</b>            | <b>319.9</b>                | <b>364.1</b> | <b>387.2</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>6.4</b>      | <b>21.0</b>     |
| <i>of which:</i>               |                             |              |              |              |              |              |                 |                 |
| Import of goods for processing | 42.5                        | 64.0         | 59.2         | 13.3         | 17.6         | 15.3         | -7.5            | 39.1            |
| Import of aids                 | 2.0                         | 3.8          | 2.2          | 0.6          | 1.0          | 0.6          | -41.8           | 10.5            |

Imports as raw material for the active processing industry represent 15 percent of expenditures for imported goods, this quarter. Imports of this category resting under seasonal trends, recorded decrease against the

preceding quarter but were estimated as considerably growing compared to the corresponding quarter previous year, (see the table below). Textiles, footwear, leather and metals had growing volumes and head our imports for raw material for the active processing industry in the country, sharing respectively 44,17,13,4 percent of the imported volume.

Re-exports from active processing ensured 71 percent of the foreign inflows from the external trade in goods. The period under analysis avoided seasonality, characterizing the trend of the foreign trade activity from this industry. Re-exports expected decrease from the active processing industry, this quarter increased the recorded volume in the second quarter of the year with almost 16 percent, estimating a significant growth, compared to corresponding quarter previous year as well. Re-exported recorded growth in textiles, footwear and metal articles, representing export flows from this industry at 94 percent.

**CHART 4. TRADE IN GOODS FOR PROCESSING**



( INDEX: Q1 1996=100)

The rising trend characterizing trade flows in the active processing industry of the country confirms its positive constancy. However, as nine-month period, exports from this industry estimated only 5 percent higher compared to the



previous year. This is also for the negative impacts resulted from the complexity of power supply problems in the country. Imports of raw material for the active processing industry over the nine-month period estimated 22 percent higher against the nine – month period, previous year.

### 2.1.2. Imports and exports by groups of merchandise

Imports<sup>3</sup> at USD 385 million volume estimated growth either compared to the preceding quarter or the corresponding period previous year, at respectively 7 and 21 percent.

The rising trend observed in the previous quarters confirms an addition of the domestic demand for commodity imports. Compared to the previous year, imports recorded growth along the main groups of merchandise, with the exemption of the vegetal products; the domestic market has been mainly supplied from Albanian farmers/producers.

**TABLE 3. IMPORTS BY 21 GROUPS OF MERCHANDISE**

| CODE DESCRIPTION   | Volume (in millions of USD) |              |              | Share (%)    |              |              | Change (%)      |                 |
|--|-----------------------------|--------------|--------------|--------------|--------------|--------------|-----------------|-----------------|
|  | Q3 2001                     | Q3 2002      | Q3 2003      | Q3 2001      | Q3 2002      | Q3 2003      | Q3 2002/Q2 2002 | Q3 2002/Q3 2001 |
| I Live animals, animals products                                 | 6.5                         | 10.4         | 9.9          | 2.0          | 2.9          | 2.6          | -4.6            | 53.3            |
| II Vegetable products  | 20.3                        | 23.2         | 19.1         | 6.4          | 6.4          | 5.0          | -17.8           | -6.1            |
| III Animal or vegetable fats and oils                            | 3.8                         | 6.4          | 4.3          | 1.2          | 1.8          | 1.1          | -33.2           | 13.0            |
| IV Prepared foodstuffs, beverages, tobacco etc.                  | 28.9                        | 31.6         | 36.1         | 9.1          | 8.8          | 9.4          | 14.3            | 25.0            |
| V Mineral products   | 42.5                        | 50.1         | 49.6         | 13.4         | 13.9         | 12.9         | -1.1            | 16.5            |
| VI Products of the chemical                                      | 18.5                        | 20.6         | 21.9         | 5.8          | 5.7          | 5.7          | 6.4             | 18.2            |
| VII Plastics and their products                                  | 10.0                        | 9.7          | 13.6         | 3.1          | 2.7          | 3.5          | 39.6            | 36.1            |
| VIII Raw hides and skins, leather, travel goods etc.             | 6.8                         | 9.0          | 8.4          | 2.1          | 2.5          | 2.2          | -6.2            | 24.4            |
| IX Wood and articles of wood                                     | 3.2                         | 4.0          | 4.3          | 1.0          | 1.1          | 1.1          | 6.8             | 37.1            |
| X Pulp of wood, paper or paperboard                              | 5.2                         | 8.0          | 7.4          | 1.6          | 2.2          | 1.9          | -7.8            | 41.6            |
| XI Textiles and textile articles                                 | 30.1                        | 38.6         | 38.6         | 9.5          | 10.7         | 10.0         | -0.1            | 28.2            |
| XII Footswear, headgear, umbrellas                               | 9.4                         | 13.8         | 12.6         | 3.0          | 3.8          | 3.3          | -8.5            | 34.0            |
| XIII Articles of stone, plaster, cement, ceramic products, glass | 13.0                        | 14.5         | 16.1         | 4.1          | 4.0          | 4.2          | 10.6            | 23.5            |
| XIV Natural or cultured pearls, coin                             | 0.1                         | 0.1          | 0.1          | 0.0          | 0.0          | 0.0          | -42.2           | 45.0            |
| XV Base metals and articles of base metals                       | 29.8                        | 34.0         | 37.2         | 9.4          | 9.4          | 9.7          | 9.5             | 25.1            |
| XVI Machinery and mechanical appliance, electrical equipment     | 60.9                        | 56.4         | 72.2         | 19.2         | 15.7         | 18.8         | 27.9            | 18.5            |
| XVII Vehicles, aircraft  | 16.0                        | 17.8         | 22.1         | 5.0          | 4.9          | 5.7          | 24.3            | 38.4            |
| XVIII Optical, photographic, measuring, medical instruments      | 6.3                         | 2.6          | 2.9          | 2.0          | 0.7          | 0.8          | 13.8            | -53.6           |
| XIX Arms and ammunitions   | 0.1                         | 0.1          | 0.1          | 0.0          | 0.0          | 0.0          | -1.6            | 7.5             |
| XX Miscellaneous manufactured articles                           | 6.6                         | 8.8          | 8.5          | 2.1          | 2.4          | 2.2          | -2.9            | 28.7            |
| XXI Works of art   | 0.0                         | 0.5          | 0.0          | 0.0          | 0.1          | 0.0          | ...             | ...             |
| <b>TOTAL</b>   | <b>317.9</b>                | <b>360.3</b> | <b>385.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>6.9</b>      | <b>21.1</b>     |

The positive performance of agricultural sector along the first half of the year created favorable conditions for the addition of agricultural production. This

3. In the following analysis, imports do not contain BOP estimates. Imports are stated in CIF, excluding aids.

quarter as in the previous the domestic market supply with fresh vegetables and fruits has been mainly from Albanian farmers<sup>4</sup>, causing decrease of imports in vegetal products. Food-processing industry represents products with significant weight as to the total of imported foodstuffs yet presented with a deficit as to the quantity of the domestic market supply. Subsequently import demand for food beverages and tobacco remained high. Import expenditures for these products (here are included groups from I to IV of HS classification) had nearly 17 percent increase compared to the third quarter, 2001. The hard power situation in the country held electricity and fuel imports to be used as alternative resources at high rates. This quarter, electricity imports represented 25 percent of expenditures for mineral products and estimated decrease against the previous quarter (about 37 percent) leading decrease to imports of mineral products against this period. However, compared to the corresponding quarter previous year, electricity imports are kWh 118 million more leading to 47 percent rise of expenditures for these imports. Fuels estimated at 50 percent higher compared to the previous quarter, almost remain at the same rates with the third quarter 2001. The positive rates, characterizing construction sector performance brought about a higher demand for cement. These imports represented about 29 percent of mineral products and valued growth either compared to the preceding quarter or the same quarter previous year at respectively 8 and 22 percent.

Machinery and equipments represented 19 percent of the monthly expenditures for these group imports, remaining considerably a decisive factor for expenditures behavior in these imports. The geographical coverage of Albania with cellular waves from both operators (AMC and Panafon Vodafone), the geographical stretch of electronic and visual medias as well as the necessity to replace the amortized power network have added the import demand for machinery and equipment estimating growth either compared to the preceding quarter or the third quarter, previous year.

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<sup>4</sup> From the performed inspections from the Ministry of Agriculture and Food.

Export performance, this quarter, is estimated as positive. Net incomes from commodity exports reached the figure, USD 86 million, from almost 58 million in July-August 2001.

Exports structure is dominated from exports of ordered material, (footwear and textiles mainly) representing about 71 percent of net incomes from commodity exports meantime that exports of domestic products contributed with 29 percent of it. Both components estimated growth compared to the previous year: exports from domestic products about 75 percent and exports from the active processing industry mainly ordered products about 38 percent.

Not using the capacity of domestic economy remains one of the main factors for non-developing exports from respectively high potential sectors. Exports from the domestic production are mainly represented from metals (ferrochromium and aluminum) medicinal plants tobacco, unprocessed leather, wood and mineral products. Exports in the abovementioned merchandise groups estimate growth against the previous year. However the greatest effect in rising net income from domestic exports was given from exports in ferrochromium.

**TABLE 4. EXPORTS BY 21 GROUPS OF MERCHANDISE.**

| CODE DESCRIPTION   | Volume (in millions of USD) |             |             | Share (%)    |              |              | Change (%)      |                 |
|--|-----------------------------|-------------|-------------|--------------|--------------|--------------|-----------------|-----------------|
|  | Q3 2001                     | Q3 2002     | Q3 2003     | Q3 2001      | Q3 2002      | Q3 2003      | Q3 2002/Q2 2002 | Q3 2002/Q3 2001 |
| I Live animals, animals products                                 | 0.7                         | 0.9         | 0.7         | 1.2          | 1.2          | 0.8          | -19.5           | -5.8            |
| II Vegetable products  | 3.1                         | 2.3         | 3.8         | 5.2          | 3.2          | 4.5          | 64.6            | 25.6            |
| 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.                  | 3.5                         | 1.9         | 3.6         | 6.1          | 2.7          | 4.2          | 90.0            | 2.6             |
| V Mineral products   | 0.5                         | 2.1         | 2.1         | 0.9          | 3.0          | 2.4          | -1.9            | 292.7           |
| VI Products of the chemical                                      | 0.6                         | 0.4         | 0.4         | 1.1          | 0.6          | 0.5          | 2.0             | -33.8           |
| VII Plastics and their products                                  | 0.1                         | 0.1         | 0.2         | 0.2          | 0.1          | 0.2          | 56.0            | 38.6            |
| VIII Raw hides and skins, leather, travel goods etc.             | 2.1                         | 3.2         | 2.2         | 3.6          | 4.4          | 2.6          | -30.8           | 5.9             |
| IX Wood and articles of wood                                     | 2.1                         | 2.2         | 2.1         | 3.7          | 3.0          | 2.4          | -3.0            | -2.2            |
| X Pulp of wood, paper or paperboard                              | 0.3                         | 0.3         | 0.7         | 0.6          | 0.5          | 0.8          | 114.0           | 113.1           |
| XI Textiles and textile articles                                 | 24.4                        | 26.0        | 33.3        | 41.8         | 36.1         | 38.6         | 27.8            | 36.1            |
| XII Footswear, headgear, umbrellas                               | 15.0                        | 20.7        | 22.4        | 25.6         | 28.7         | 26.0         | 8.3             | 49.6            |
| XIII Articles of stone, plaster, cement, ceramic products, glass | 0.3                         | 0.3         | 0.5         | 0.4          | 0.5          | 0.5          | 34.1            | 84.5            |
| XIV Natural or cultured pearls, coin                             | 0.1                         | 0.1         | 0.1         | 0.1          | 0.1          | 0.1          | 27.6            | 100.6           |
| XV Base metals and articles of base metals                       | 3.5                         | 6.7         | 8.7         | 6.0          | 9.3          | 10.2         | 31.1            | 151.2           |
| XVI Machinery and mechanical appliance, electrical equipment     | 0.7                         | 3.3         | 2.9         | 1.1          | 4.5          | 3.3          | -12.6           | 328.3           |
| XVII Vehicles, aircraft  | 0.1                         | 0.2         | 0.2         | 0.1          | 0.3          | 0.3          | 18.5            | 318.8           |
| XVIII Optical, photographic, measuring, medical instruments      | 0.0                         | 0.0         | 0.2         | 0.0          | 0.0          | 0.2          | ...             | ...             |
| XIX Arms and ammunitions   | 0.4                         | 0.0         | 0.1         | 0.7          | 0.0          | 0.1          | 823.6           | -69.0           |
| XX Miscellaneous manufactured articles                           | 0.8                         | 1.4         | 1.8         | 1.4          | 1.9          | 2.1          | 35.4            | 116.8           |
| XXI Works of art   | 0.1                         | 0.0         | 0.0         | 0.2          | 0.0          | 0.0          | ...             | ...             |
| <b>TOTAL</b>   | <b>58.5</b>                 | <b>72.1</b> | <b>86.1</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>19.4</b>     | <b>47.3</b>     |

The export performance in tobacco followed seasonal trends within the year. The third quarter represents the highest term for exports within the year. Unless at a considerable growth compared to the corresponding quarter, previous year<sup>5</sup>, tobacco exports this quarter remained under the recorded quotas over years.

Exports in medical plants estimated 37 percent increase compared to the third quarter 2001.

### **2.1.3. Trading partners**

Trade with EU countries represents Albania's trade transactions with the rest of the world in the bulk of it. More than 77 percent of Albania's trade transactions with the rest of the world are developed with EU countries and are estimated at 19 percent higher compared to the corresponding quarter previous year. Both trade components estimated growth; imports with 13 percent and exports with 47 percent respectively.

The period under analysis brought about changes with respect to the external trade geography. Albania's trade transactions with the rest of the world remain concentrated in goods transactions with both countries, Italy and Greece. This quarter, more than 64 percent of the overall volume of Albania's trade transactions with the rest of the world developed with both countries at respectively 39 percent with Italy and 25 percent with Greece.

About 50 percent of Albania's trade transactions with EU countries are carried with Italy, this quarter. Albania's trade transactions with Italy recorded growth by both components and estimated as 27 percent higher compared to the corresponding period 2001. The addition of the domestic demand for imported goods led to the extension of goods supplied from Italy (about 20 percent) against the previous year. Foodstuffs, machinery and equipment as well as textiles and footwear had significant increase in imports. These latter are not only used as raw material for active processing but also have the domestic market as destination. The demand for goods supplied from this country was

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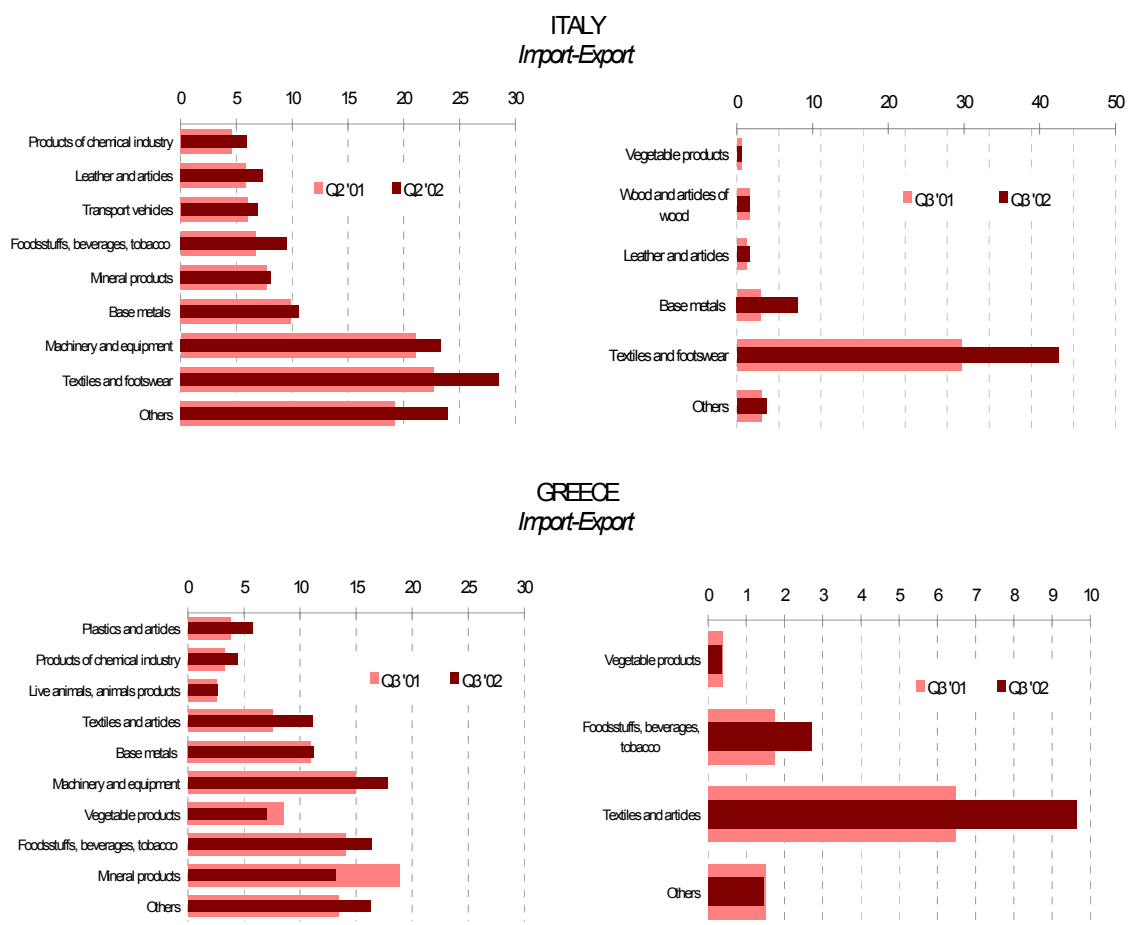
<sup>5</sup> Tobacco imports during 2001 reduced significantly due to the falling production and natural factors.

mainly concentrated in machinery and electrical appliances footwear clothing articles, foodstuffs, cement cast iron and steel articles (see graph 6).

Italy represents the first market for Albanian exports. Exports to this country accomplished 68 percent of the net incomes from Albania's trade transactions with the rest of the world and recorded about 47 percent growth. In the role of the main investor in the active processing industry of the country main exports to Italy were mainly re-exports from ordered products (textiles and footwear) and metals as well.

Albania's trade transactions with Greece were estimated as 11 percent higher against the previous year. Goods supplied from this country had 8 percent increase and exports to this country about 41 percent. Import expenditures from Greece represented 27 percent of total expenditures and were mainly for machinery and equipment, tobacco, fuels; wear articles, cast iron, steel, cement, plastic articles and fruits.

**GRAPH 5. TRADE IN GOODS WITH THE MAIN PARTNERS**



Main products finding market in the neighbor country were mostly textile articles (ordered products) tobacco; medical plants periodicals (publications) and fuels contributing in 16 percent of income from commodity exports.

Trade with regional countries<sup>6</sup> shared 15 percent of Albania's trade transactions with the rest of the world and were estimated at 45 percent higher compared to the corresponding quarter previous year. This quarter trade with the regional countries disclosed 19 percent of the imported volume and 4 percent of exported volume. Import transactions are mainly developed with Turkey, Croatia, Bulgaria and FYROM.

In exports, trade transactions are mainly developed with Yugoslav Republic (including Montenegro and Kosova) and FYROM.

In the framework of the underwriting the free trade agreement between European southeast countries<sup>7</sup> (see box1) in the future it is expected an intensification of Albania's trade transactions with countries in the region. In the current stage, Albania's trade transactions with countries in the region included in the process of establishing free trade area are very limited.

Albania's trade transactions with Turkey occupied 5 percent of the overall volume of the trade transactions throughout the quarter. Trade transactions are widely developed on imports side meantime that Albanian exports did not find market in this country. Imports from Turkey encountered a slight decline of nearly 2 percent, as compared to the third quarter 2001, which year imports from this country mainly stimulated from the crisis in financial system and the devaluation of the Turkish Lire raised significantly. Turkey as the main investor in the metal processing industry of the country (Kurum Elbasan) imports considerably raw material in half-prepared products of cast iron and steel. There are also imported wear articles and foodstuffs.

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<sup>6</sup> This group includes Bulgaria, Bosnia-Herzegovina, Croatia, Yugoslavia, (with Montenegro and Kosova) FYROM, Romania, Slovenia and Turkey.

<sup>7</sup> In the framework of the Stability Pact, signing bilateral free trade agreements between Albania, Bosnia- Herzegovina, Bulgaria, Croatia, FYROM Romania Moldavia and the Federal Republic of Yugoslavia will be gradually completed to the end of the year.

### **Box 1. Albania's Free Trade Agreements with countries in the Region**

Albania as the rest of the countries of Southeast Europe with signing the Memorandum of Understanding on the Liberalization and the Facility of Trade in Brussels, on June 26, 2001 instituted its commitment to become a part of the free trade area in the region, which means a free movement of goods and services accompanied with a better use of comparative advantages of the countries.

The main target of agreement is the gradual establishing of a free trade area over a transitory period of six-year maximum from the participating parties, which means that the latter will not apply customs tariffs on goods transactions after year 2008.

Specific targets of agreement consist in:

(i) The expansion and extension of economic coordination between the parties and the improvement of living standard per country population (ii) the gradual ousting of restrictions in goods transactions, (iii) setting equal competitive conditions on goods transactions (iv) contributing in removing trade barriers, harmonized development and the expansion of world trade (v) providing terms and conditions as to the further incitement of investments especially with the advancement of joint or common investments in these countries / region , (vi) the incitement of trade and coordination between the parties with third countries. Establishing a free trade area between the countries in the region is mainly effective for the industrial sector whereas the rural or food processing industry sectors in the most of the cases anticipate gradual and partial opening or maintenance of the current trade regime.

Underwriting these agreements shall intensify trade transactions in the region. Also creating a free trade area with a population of 55 million is interesting for local and foreign investors.

Albania has already signed a free trade agreement with FYROM (applicable from August 1, 2002) with Croatia (ratified from the Republic of Albania Parliament) and is in the process of developing negotiations with Bosnia-Herzegovina, Yugoslavia, Montenegro, Bulgaria, Romania and Moldavia.

## 2.2 SERVICES

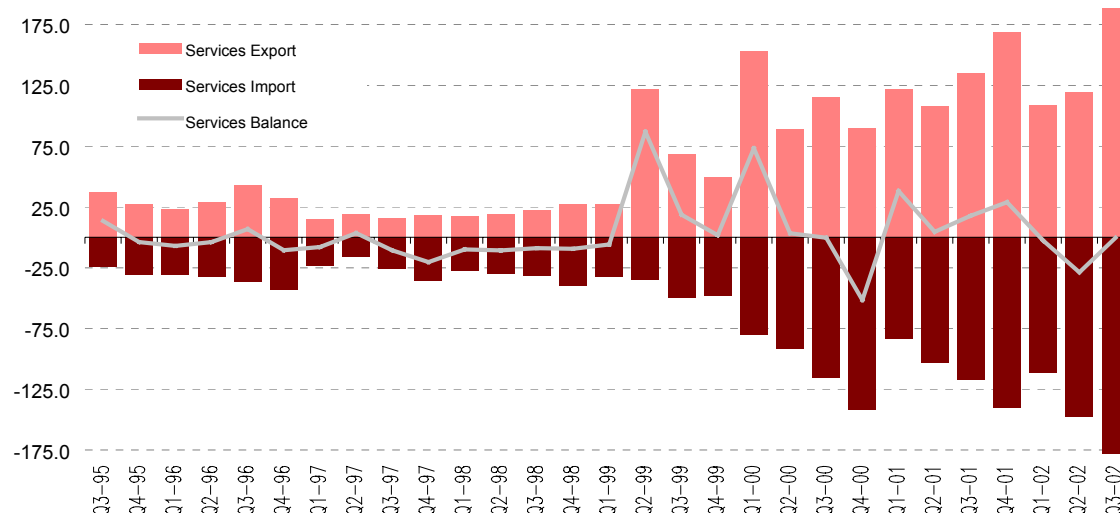
Service transactions this quarter recorded a volume of about USD 417,6 million, representing nearly 37 percent of current transactions. This volume is estimated some 50 or 60 percent higher than the second quarter, current year or the corresponding quarter previous year. This growth is enabled from both components, either from service imports or exports. Service exports (USD 208,6 million) present 1.4 or 1.7 times higher than the second quarter current year or the corresponding quarter previous year.

Tourism activity this quarter remains the main service component. So, incomes from tourism services are estimated at USD 183 million or nearly twice higher than commodity exports, meantime that Albanians have spent USD 153 million in their travels abroad the country. The main cause to bring double incomes from tourism activity much more than the change of the daily expenditures (which let us say that these did not encounter any significant change in average value) has been the double number of foreigners entering Albania on tourism or business purposes. Whereas the main cause for the extension of Albanian expenditures abroad has been travelers' daily expenditures although the number of travelers is presented as increased especially in the case of persons traveling on private purposes. It must be stressed that in this period it has been a decrease in the number of average days, which is adequately compensated from the extension of the daily expenditures. Subsequently, the positive balance of services at the end of the third quarter recorded USD 29,5 million.

As expected imports added volume caused the increase of imported services for freight and insurance services. Freight service imports are estimated at about USD 33 million or about 18.7 percent higher than the third quarter 2001, meantime that insurance services (USD 12,4 million) reflected 18 percent increase. These services' category prevailed over other service transactions.



**Chart 6. BALANCE OF SERVICES**



“Other services” category recorded a surplus of USD 8,4 million or estimated 32 percent less against the same quarter, previous year. Such decrease has been mainly due to the lowering incomes from official services of government. However, their role in developing service transactions remains modest and without any noticeable effect.

### 2.3 INCOMES

The positive balance of income recorded USD 40,3 million in the third quarter. This surplus is estimated as increased by about 25 percent and has been mainly as an aftermath of incoming (inward) incomes and the reduction of outgoing (outward) incomes almost preserving the same rates with the corresponding term, previous year.

The incoming (inward) incomes recorded about USD 44 million and were mainly represented from the compensations of work and net earnings from foreign assets investments abroad. Compensations from the work of the seasonal employees this quarter registered 16 or 25 percent increase either against the corresponding quarter or the preceding quarter. Net earnings from foreign assets investments of the banking system in the form of deposits and

those earned from banking system investments in the form of portfolio investments registered about USD 16.5 million.

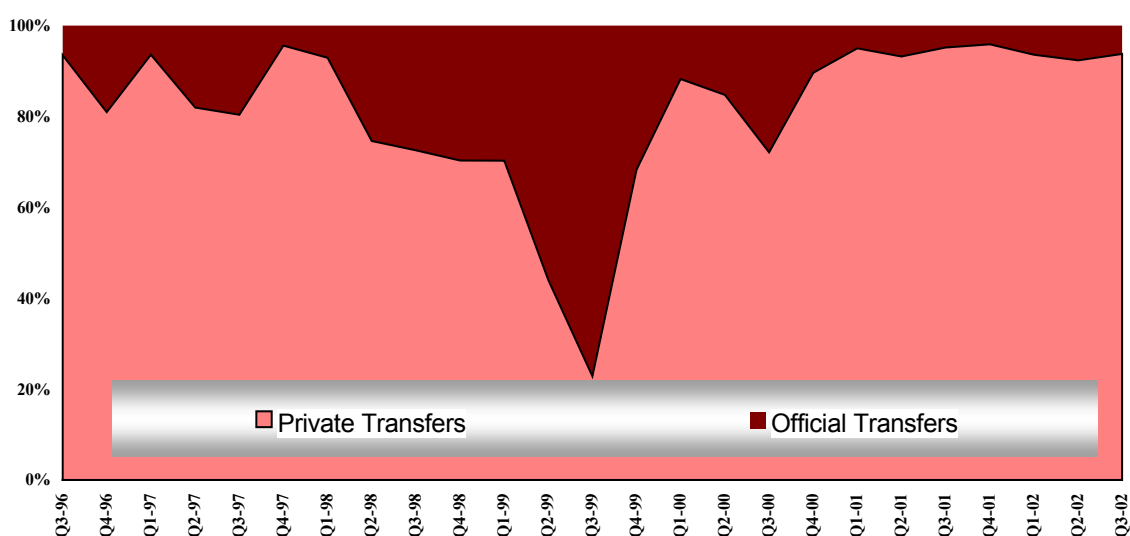
Meantime outgoing incomes record about USD 3.6 million represented from interest paid on non-resident deposits with the banking system and in the form of external debt services.

## 2.4 TRANSFERS

The positive balance of current transfers recorded USD 148 million or estimated as increased by about 25 percent or 15 percent either compared to the corresponding quarter previous year or the preceding quarter current year. This growth has been mainly due to the extension of incoming (inward) transfers mainly from emigrant remittances reaching the figure of USD 153 million or 16 percent higher than the same quarter, previous year or about 25 percent higher against the second quarter of the year, or 8 times higher than the preceding quarter. A similar figure can be considered as a reliable indicator for an optimistic forecast of emigrant remittances, which at normal developments may reach over USD 600 million on the whole period.

Official transfers are estimated at about USD 9 million and are represented from those in technical assistance and those in the form of aids in goods.

**Chart 6. STRUCTURE OF TRANSFERS**



Outgoing transfers (USD 16,4 million) recorded about 2.5 times growth compared to the previous quarter or valued a 32 percent decline compared to the corresponding quarter, previous year.

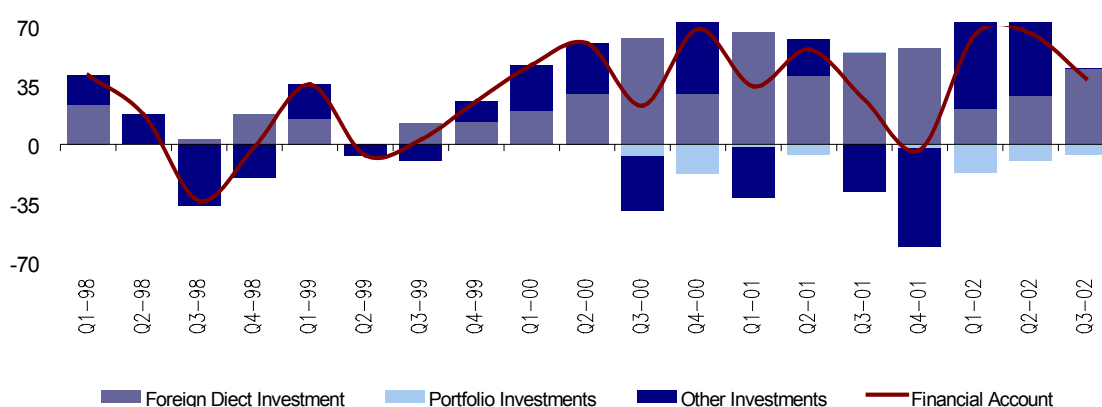
### 3. CAPITAL AND FINANCIAL ACCOUNT

The third quarter of the year recorded a net flow of capitals of USD 71 million. Capital transfers registered about USD 32 million while the financial account presented a net flow of capitals at USD 39 million or estimated growth compared to the corresponding quarter, previous year. Such growth is dedicated to the extension of the financial liabilities.

#### 3.1 FINANCIAL LIABILITIES

Financial liabilities over the third quarter 2002 were added with USD 106 million. This growth is estimated as 2.4 times higher than that of the third quarter 2001. These capital imports mainly enabled from the long-term credit disbursements and soft-term loans, the attraction of foreign direct investments and the rise of investments in the form of bank deposits and non-resident financial institutions' in our banking system.

**Chart 7. FINANCIAL FLOWS (in millions of USD).**

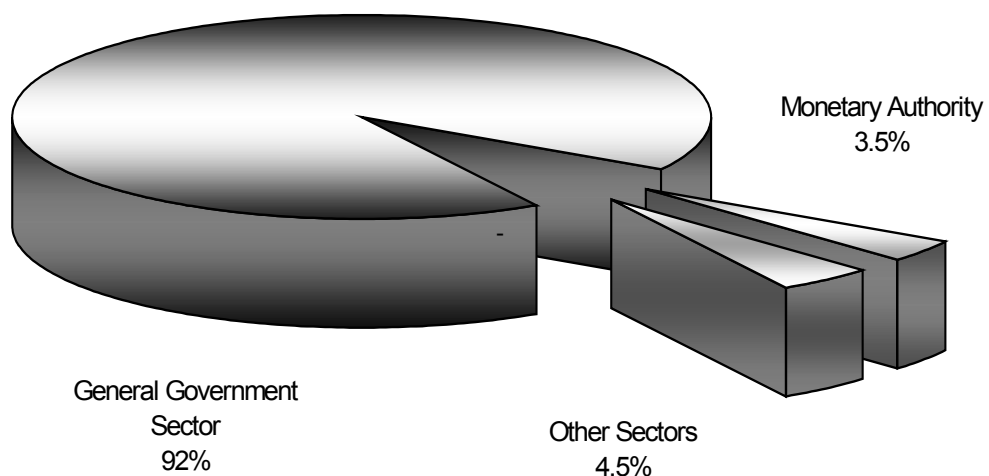


Foreign direct investments during the first quarter registered a flow of USD 45 million or 55 percent higher than the preceding quarter whereas compared to the same quarter previous year these are assessed as about 18 percent less. This is also due to the fact that foreign direct investments have played a dominant role in the previous year privatizations of the public companies, which is missing in the current year.

Net borrowings. Capitals invested in the form of direct investments are added credit disbursements from abroad extending Albania's external debt with USD 60 million which figure is 3 times higher than the corresponding quarter previous year. Disbursements have been at the advantage of the "General Government" at 95 percent and represent the extension of liabilities for this sector. Only 1 percent from the total disbursements has gone at the advantage of the "Monetary Authority" meantime that 4 percent of these disbursements have gone in favor of "Other Sectors".

These disbursements are mainly represented from World Bank credits through International Development Agency (IDA).

**Graph 8. EXTERNAL DEBT**



External debt services in the form of principal payments during the third quarter 2002 recorded about USD 7 million.

Financial liabilities in the form of non-resident deposits in the banking system are added with USD 9,4 million during the third quarter. This growth is about 16 percent higher than that one encountered from these deposits in the third quarter 2001, meantime that the total of non-resident deposits at the end of the this quarter is about 1.7 percent higher than at the end of the third quarter 2001. The deposit stock of this category as at the end of September, recorded the figure of USD 89 million changing the declining trend these deposits had in the second quarter 2002. It is noted a dominance of EUR deposits, 76 percent followed from those in USD with 19 percent.

### **3.2 FINANCIAL ASSETS**

Our financial assets abroad at the end of this quarter are added with USD 67 million. This growth is valued as 12 percent higher than that of the corresponding quarter, previous year and has been mainly as an aftermath of deposit growth by the banking system placed with banks and financial institutions abroad.

Previous quarter noticeable decline in financial assets in the form of resident deposits abroad was followed from a USD 34 million growth reaching the total of USD 440 million in the third quarter 2002. Reverse from the previous quarter, the increase of the public deposits with the banking system has enabled our banks add their deposits abroad. This quarter deposits of this category are comprised from those denominated in USD at 52 percent and those denominated in EUR at 47 percent, which means that the USD/ EUR deposit ratio is still in favor of USD deposits.

Banking system net foreign liquid assets as at the end of the quarter have registered the figure of USD 29 million recognizing a decrease of USD, 3,7 million along the quarter. It must be stressed that to the end of the third quarter 2002 either the growing or the declining trends evidence a similarity

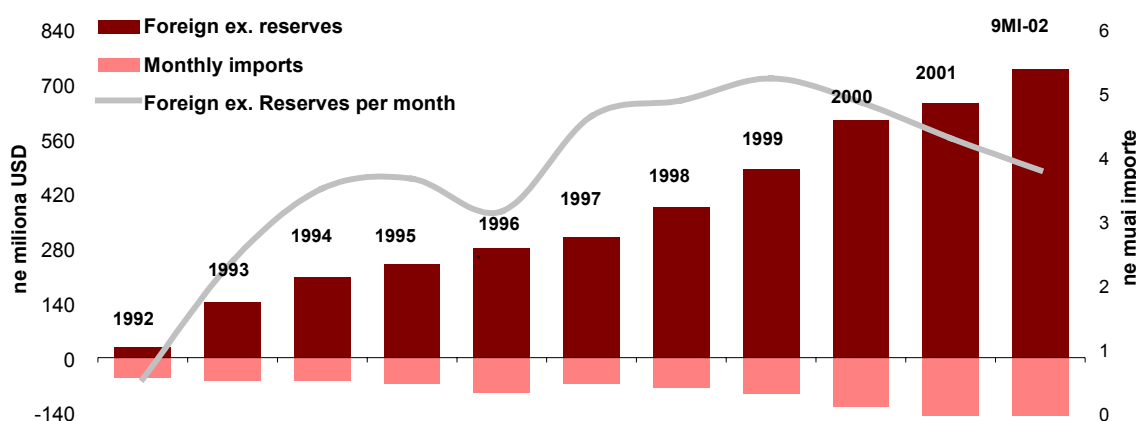
with the current year quarters to those of 2001, indicating for a seasonality effect in financial assets performance and liabilities' of the country.

Financial assets in the form of portfolio investments reached the amount of USD 114,6 million recording a USD 6,1 million increase along the quarter. Portfolio investments in EUR encountered the highest increase over the quarter and at the end of September these comprised 15 percent of portfolio investments at the end of the quarter.

#### 4. RESERVES

Foreign assets inflows in the form of financial equity (mainly foreign credit disbursements) were reflected in the addition of the net international reserves of monetary authority with USD 28,5 million. This growth is mainly recorded under net foreign assets by about USD 33 million accompanied with a decrease of SDR assets by USD 4,5 million.

**CHART 9. MONETARY AUTHORITY RESERVES**



The level of international assets as at the end of the year recorded USD 813 million, which was sufficient for covering 6.3 months of imports (goods imports).