

PRESS STATEMENT

**EXTERNAL SECTOR DEVELOPMENTS IN THE ALBANIAN ECONOMY
 FOR 2008**

March 2009

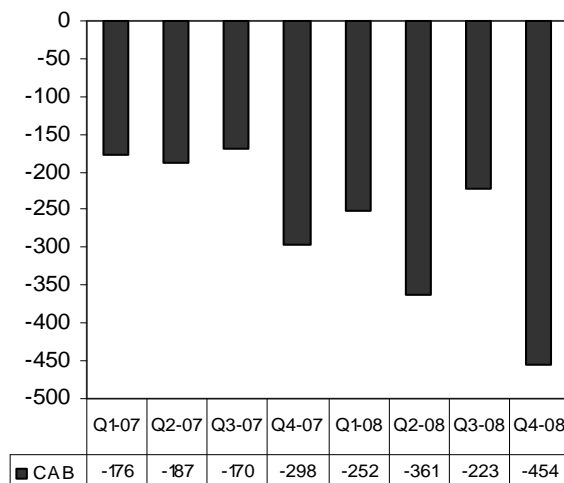
The overall balance of payments for 2008 recorded a growth of foreign assets of Eur 192 million. The year ended with a current account deficit of Eur 1.291 million, reaching about -14.9 per cent of GDP. Compared to 2007, the deficit rose by about Eur 460 million, from Eur 831 million. Merchandise trade deficit deepened by Eur 310 million during 2008, amounting to Eur 2,415 million from Eur 2,104 million. Capital inflows accounted for 1.556, totally financing the current deficit.

I. CURRENT ACCOUNT

Current transactions for 2008 amounted to about Eur 9 billion, 12 per cent higher than in the previous year. *Current account* for 2008 recorded a deficit of Eur 1.291 million, compared to Eur 831 million it was in the previous year. Current deficit to GDP¹ for 2008 was 14.9 per cent, recording a considerable growth versus 10.4 per cent for 2007. Deficit deepening was due to high deficit in goods (from Eur 2.104 million to Eur 2.415 million), decline of *current transfer* surplus (from Eur 1.043 million to Eur 830 million) and a shifting in services category from surplus (Eur 13 million) to deficit (Eur 15 million). In the meantime, *income* surplus increased from Eur 217 million to Eur 309 million. About 63 per cent of current expenses went for financing the *merchandise import*, while foreign currency inflows were provided from *exports of goods and services* (62 per cent) and from one-sided *current transfers* (26 per cent). The fourth quarter recorded a higher level of current deficit over the year, by Eur -454 million.

Current balance

Million
Euro



¹ The value published by the INSTAT: Lek 982,736 million is taken as nominal GDP for 2007. Calculations for 2008 are made by using the IMF estimation for the nominal GDP: Lek 1,064,000 million.

II. MERCHANDISE TRADE

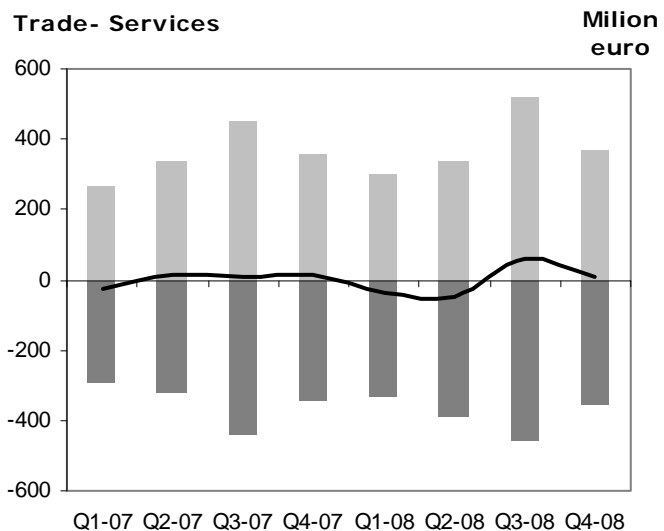
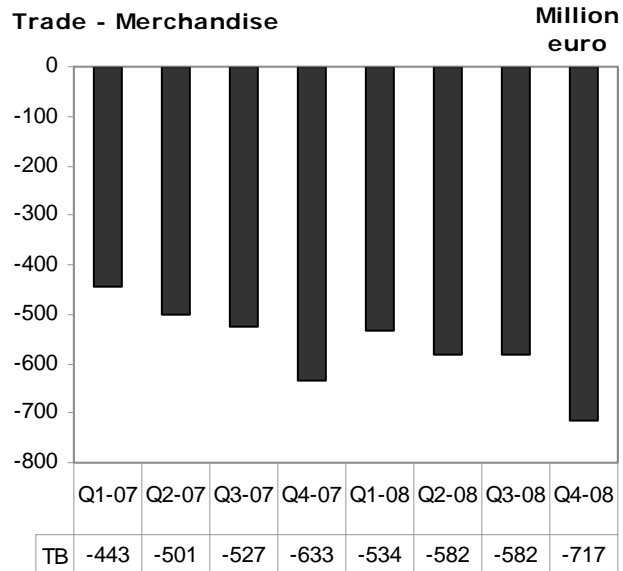
The overall volume of trade exchanges over 2008 recorded Eur 4.24 billion, with an annual growth of 17 per cent. *Trade deficit* was deepened by about Eur 300 million, reaching Eur 2,4 billion. Relative indicator of trade deficit to GDP for 2008 is estimated at about 27.9 per cent, from 26.3 per cent in 2007. Merchandise sales and purchases represented about 46 per cent of current transactions. *Exports* recorded an annual growth of 17 per cent, accounting for Eur 916 million, while Eur 3.3 billion or 16 per cent more than in the previous year was paid for *imports*. The degree of

import coverage from exports remained unchanged, at 27 per cent. Exports recorded high annual growth rates in particular over the second and the third quarter (above 20 per cent), while the annual growth of imports declined gradually from 18 per cent in the first quarter to 11 per cent in the fourth quarter. The fourth quarter recorded the highest deficit in the year (Eur -717 million euro), mainly due to a decline in exports, which recorded a quarterly fall of 14 per cent.

Payments for imports increased for almost all merchandise items, but particularly for *machinery and equipment* (24 per cent), *manufactured goods* (12 per cent) and *fuels* (26 per cent). The imports value of these three categories recorded about 60 per cent of the overall imports value. Exports from *textile and footwear industry* underwent a slight reduction, but continued to be ranked the first, providing 43 per cent of the overall revenues from exports. Export from the domestic output of *mineral and metal products* recorded positive developments.

III. OTHER CURRENT ACCOUNT ITEMS

Services account increased over the year, both on the side of revenues and expenditures. Trade exchanges in *services* was about Eur 3.1 billion, with an annual growth of 9 per cent. Expenditures increased faster than



revenues compared to 2007. Net transactions result was a deficit of Eur 15 million versus the surplus of Eur 13 million in 2007.

Travel services account for the largest share in services revenues and expenditures, respectively by 78 per cent and 68 per cent. Net balance of travel services recorded a surplus of about Eur 140 million. According to Bank of Albania estimates, travel services export has provided the domestic economy with about Eur 1.19 billion or by 20 per cent more than in 2007. Increased revenues during 2008 is mainly attributed to a higher number of foreign visitors and emigrants. Albanian residents spent in their travels abroad about Eur 1.050 million or about 14 per cent more than in the previous year. A 20 per cent increase in the number of travellers and a slight increase in average daily expenses led to this growth.

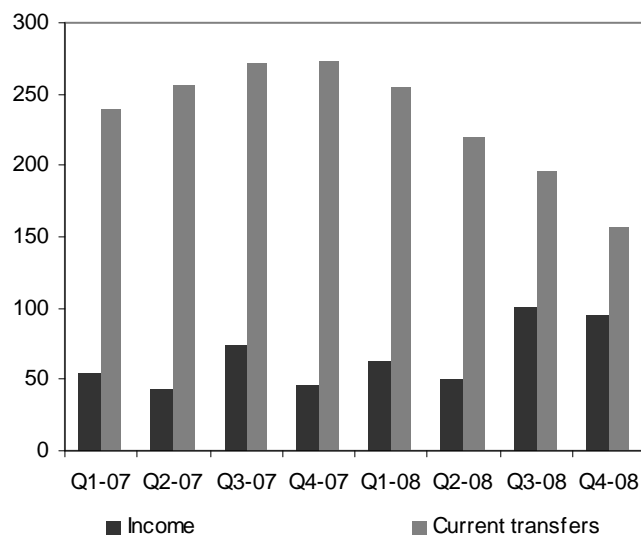
Income account was closed with a positive balance of Eur 309 million, about 40 per cent higher than in 2007. The labour of seasonal and border workers and income from portfolio investments were two main sources of revenues. Albania paid Eur 28 million over 2008 to settle interests on its external debt.

Net current transfers were estimated to about Eur 830 million, of which about Eur 800 million entered in the form of remittances. The latter recorded an annual decline of about 16 per cent, from Eur 950 million in the previous year, down to 9.2 per cent of GDP, from 12 per cent.

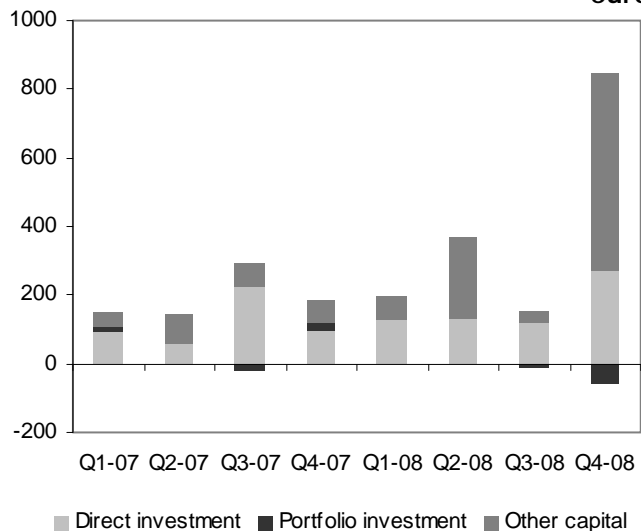
IV. CAPITAL AND FINANCIAL ACCOUNT

Year 2008 was characterised by large movements in the *financial account*, which resulted to a net inflow of Eur 1.556 million. About Eur 78 million entered the country in the form of capital investment grants, whereas Eur 1.478 million entered in the form of net financial inflows. Capital inflows have totally financed the current deficit by Eur 1.291 million, ensuring an increase of foreign reserve assets by Eur 192 million. Financial

Income and current transfers Million euro



Capital account Million euro



account recorded a significant growth of financial liabilities of Albania with the rest of the world and a reduction of resident assets abroad. Larger movements in the financial account were recorded in *foreign direct investments, in government borrowing and in resident assets abroad*. Inflows in the form of foreign direct investments in the Albanian economy (Eur 682 million) were the main factor for the increase of financial liabilities at home. Over this year these investments entered mainly as investments in the financial sector and as capital from privatization.

Granting of long-term and soft loans from abroad for 2008 was Eur 456 million, 74 per cent of which was used for the public sector. *Private borrowing* increased significantly compared to the previous year, to Eur 119 million from Eur 10 million.

The increase of these liabilities led to increased liabilities for future external debt payments. *External debt service* for 2008 decreased resident liabilities by about Eur 62 million.

Foreign assets invested outside the Albanian economy recorded a net reduction of Eur 94 million. This reduction was noted mainly in investments in the form of banking system *deposits* with non-resident financial institutions (Eur 225 million). There was noted a change in investment assets ratio over 2008. The banking system preferred shifting of assets from *deposits to portfolio investments*. Financial assets in the form of *portfolio investments* recorded an annual growth of Eur 69 million.

Foreign asset inflows in the form of financial capital were reflected in the growth of foreign reserves of the monetary authority. Reserve assets increased by Eur 192 million. *Foreign reserve stock* as at end 2008 was estimated at Eur 1,695 million, sufficient to cover 4.2 months of imports of goods and services.

Balance of payments (in Eur million)

	YEAR 2007	Q1'08	Q2'08	Q3'08	Q4'08	YEAR 2008
Current account	(831.0)	(252.1)	(361.2)	(223.1)	(454.3)	(1,290.6)
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Merchandise export	786.3	205.2	260.3	242.0	208.3	915.9
Merchandise import	(2,890.4)	(739.3)	(842.3)	(824.4)	(925.3)	(3,331.4)
Trade balance	(2,104.0)	(534.1)	(582.0)	(582.4)	(717.0)	(2,415.5)
Services: Credit	1,415.2	296.6	340.9	519.2	367.3	1,524.0
Services: Debit	(1,402.3)	(332.8)	(391.0)	(457.0)	(357.8)	(1,538.6)
Income: Credit	278.6	112.2	106.7	130.6	118.9	468.4
Income: Debit	(61.3)	(49.5)	(56.5)	(29.9)	(23.1)	(159.0)
Private unrequired transfers	982.8	249.6	216.5	186.6	150.1	802.9
Official unrequired transfers	60.1	6.0	4.2	9.8	7.3	27.2
Capital account	90.1	12.9	17.7	27.2	20.3	78.2
Financial account	758.3	180.6	341.2	163.7	792.0	1,477.6
Direct investments	470.1	107.7	98.5	140.2	272.8	619.2
Portfolio investments	18.5	1.0	0.6	(11.7)	(59.1)	(69.2)
Other capital*	264.2	74.8	241.8	35.9	580.1	932.7
Net errors and omissions	131.2	31.6	12.1	150.6	(267.5)	(73.2)

Overall balance	148.6	(27.0)	9.9	118.5	90.5	191.9
Reserve assets	(148.6)	27.0	(9.9)	(118.5)	(90.5)	(191.9)
Use of IMF credit and loans	5.5	(2.9)	0.3	(0.7)	(1.8)	(5.2)
Total change in reserve assets	99.0	(66.2)	6.8	180.8	97.1	218.4
of which: change due to exchange rate	(49.5)	(39.3)	(3.0)	62.3	6.6	26.5

* not including use of IMF credit and loans.

Source: Bank of Albania.

Notes:

Data revision

The Bank of Albania reserves the right to revise the published statistics. Pursuant to revision policies for the statistical information of the Bank of Albania, the balance of payments statistics have been subject to revisions for the period of January-September 2008.

Additional information on the balance of payments statistics

Complete and updated data on the balance of payments are quarterly released at Bank of Albania's official website, in the directory "Statistics"/Time series/External Sector Statistics/Balance of Payments.

A detailed material on the methodology used for the compilation of balance of payments statistics is found in the directory "Statistics", "Publication on Statistics", under the title: *Balance of Payments Methodology*.