



**REPUBLIKA E SHQIPËRISË**  
**BANKA E SHQIPERISË**



Sheshi "Skënderbej", No. 1, Tirana - Albania • **Tel:** ++355 4 222230; 222750; 235568  
• **Fax:** ++355 4 223558 • **Website** www.bankofalbania.org • **E-mail:** public@bankofalbania.org

March 19, 2004

## **BANK OF ALBANIA STATEMENTS**

### **EXTERNAL SECTOR DEVELOPMENTS OF THE ALBANIAN ECONOMY DURING 2003**

The Overall balance – sheet for 2003 resulted of an outstanding of USD 99.6 million. Capital inflows have not been sufficient to fully complete the level of current deficit.

Following there are listed in general the main developments of the foreign sector of the Albanian economy:

- **Current deficit** during 2003, in comparison with the previous year, is decreased in both absolute value and percentage as well against the Gross Domestic Production (GDP).
- **Goods import** is increased at 20 per cent while **export** with 35 per cent compared with 2002. The covering of imports by exports was 25 per cent that means a light improvement in comparison with the previous year.
- Current deficit is financed at the degree 88 per cent by the net flows of the capital which are estimated to be 359 million USD.
- The negative balance in the trade of goods and services of current deficit (USD 1 billion and 420 million), of current account, was partially balanced by the positive balance of current incomes and transfers (USD 1 milliard and 12 million). **Emigrants' remittances** cover the major part of these last ones, while this year they are estimated to be **USD 780 million**.
- The degree of the Albania opening is assessed at the level of 61 per cent or 1 point percentage lower than in 2002, and it leaves much to be desired in comparison with the other countries of the region.

- The increase of the financial liabilities against non residents is mainly caused by the **direct foreign investments, which are assessed to be USD 178 million** and from the borrowings from abroad, which amounted the level of 144 million USD.
- The increase of the country claims against non – residents (USD 126 million) resulted by the increase of the deposits, the portfolio investments, foreign currency possession of residents and of other investments as well.
- **Foreign exchange reserves** at the end of the year reached the level **USD 1 billion and 25 million**. This level is sufficient to cover 4. 7 months of goods and services import.
- During 2003, American dollar is rather depreciated against both the European currency and of Lek as well. The effect of dollar depreciation should be considered, particularly regarding the transactions performed in other currencies (euro). **The trade deficit, measured in Euro, during 2003, results at 3.4 per cent lower than the one of the previous year and not 16 per cent higher, as it results from the figures in American dollars.**

## I. Current account

**Current transactions** are assessed at USD 5 million or 28 per cent higher than the previous year. Apart of foreign trade in goods and services, current transfers have contributed on this increase. Current deficit is assessed at USD 407 million or 6.7 per cent of GDP. Current deficit is assessed for 2003 ( annual decrease at 2 points percentage compared with 2002). The improvement of the position of current deficit resulted by the increase of transfers without compensation and net incomes from the reserve investments and the fluctuations observed in the exchange of dollar against both euro and Lek. Meanwhile that, trade deficit in goods and services has been increased.

### I.1. Foreign trade

**The volume of foreign trade**, imports plus exports, for 2003 was **USD 2.2 billion**, representing about 45 per cent of the total of current transactions. Imports recorded approximately the value of **USD 1.8 million**. They were mainly composed of goods to be used in investments, raw materials for active elaboration, and the consume goods as well. Exports increased at 35 per cent compared with the previous year reaching the level **USD 447 million**.

Trade deficit for 2003 was about **USD 1.3 million** and is assessed to be **16 per cent higher than the previous year**. The increase of imports, in absolute value, year in year out, is followed by a modest increase of exports. Although during 2003, the increase of exports was more promising than the one of the previous

years (USD 117 million), the total volume of exports is rather low as the degree of imports being covered by exports is not higher than 25 per cent. The unpleasant development of exports, during the last years is related with some reasons. The main reason is the low degree of competitiveness of the domestic production throughout international markets. The foreign demand, and particularly, of the European Union countries for Albanian exports, at least has preserved the same levels of the two – three previous years, thanks to the slow development of the world economy.

## **1.2. Developments of other items of current accounts**

Year 2003 was characterized by a high deficit in the service trade. Net exports of services for 2003, was assessed at **USD -82.7 million**, being rather higher than the one of USD -5.2 million, being recorded by the end of 2002. The deficit of 2003, represents a bend of the account of services which during 1999 – 2001 has recorded continuing suffices.

Export of services continues to be dominated from the **tourism activity**. Pursuant to the assesses of the Bank of Albania, **tourism has generated about USD 522 million income flows in services or about 17 per cent higher than the goods export**, as a result of the increase of both the number of tourists and of their daily expenses.

Meanwhile, **Albanians have spend about USD 489 million during their travels abroad, or 63 per cent** of the total of emigrants' remittances. Tourism expenses have been much quickly increased than the incomes in comparison with the previous year. The positive balance of this category, by the end of the year, was assessed USD 33 million of 121,4 during 2002.

Transport services and those of security follow the developments of trade activity of goods. The increase of imports volume has caused the increase of these services import for these categories. The high participation of resident companies of transportation, at the same time, that offer services of foreign trade, has considerably increased the income of this category. Deficit of transport services and security, by the end of the year, are assessed to be decreased compared with the last year, respectively 20 and 63 per cent.

“Other services” category has recorded a deficit of USD 10 million, being far of the suffice of USD of USD 30 million, being recorded at the yearend 2002. The deficit of this year is mainly caused of the increase of the expenses for the technical assistance that our country has continuously ensured from abroad. These expenses, for 2003, result to be USD 44 million.

The positive balance of incomes, at the end of the year, **is assessed at USD 170 million**. This suffice results from the work of both seasonal workers and of those who live throughout the border of the country, and the interest being accumulated from investments of foreign reserves of banking system in the non resident financial

institutions and those being gathered from the investments of our banking system as portfolio investments.

Current transfers, likely the previous years, have taken the shape from **emigrants' remittances**. These last ones represent the main source of financing the goods and services trade deficit, and throughout 2003 are assessed to be at the level of USD 778 million being 23 per cent higher than those of the previous year. However, considering the currencies through which are performed these transfers, we can say, that the impact of exchange rate is considerably sensitive on this item as well.

## **II. Capital and financial account**

Net inflows of capitals, throughout 2003, recorded about **USD 359 million** and are estimated to be 9, 4 per cent higher than those of 2002. Suffice of capital and financial account reflects a low level of domestic savings compared with the value of investments and Albania is a net importer. Net inflows of capital financed the current deficit at the degree of 88 per cent. **Capital transfers record USD 157 million, or 29 per cent higher than those of the previous year, and the financial account was closed of a positive balance of USD 202 million.** This import of capitals, being mainly performed, thorough the drawing of direct foreign investments and from the granting of both long – term and soft loans from abroad, has caused the increase of the financial liabilities of Albania against the other part of the world at USD 328 million. **This increase is assessed 22 per cent higher than the one of the previous year.**

**Direct foreign investments for 2003 are assessed at the level of USD 178 million or 32 per cent higher than those of 2002.** This capital flows are becoming a dominant factor on the increase of the financial liabilities and in the development of capital and financial transactions covering about 54 per cent of the positive balance of the financial account.

An other important factor on the increase of the financial liabilities during 2003 has been the granting of long – term loans and those softened from abroad, **which have increased the foreign debt of Albania at USD 155,5 million.** The use of borrowings and loans in the Fund of USD 11 million is included in this debt. The major part of these loans is used from the Albanian Government. The main financier of the Government, similarly it happens previously, remains the World Bank through the International Development Agency (IDA). The services of foreign debt as payments of principal, during the year recorded USD 37 million.

Liabilities as deposits of non – residents in our banking system for 2003 are increased at USD 19 million, an increase of almost 2.2 time higher than the one of the previous year. This increase is also a result of an emphasized impact of the exchange rate (USD 12 million) considering that 80 per cent of these deposits is in Euro, 15 per cent in USD and 5 per cent in other currencies. Liabilities as trade loan during 2003 increased ta USD 11 million or 64 per cent higher than the previous year. This increase is reflected on the increase of goods import for this period.

Financial claims of Albania against the other part of the world, during 2003, are increased at USD 126 million, or about twice more than during 2002. The highest weight of this increase is covered by the increase of both foreign instruments and cash. Differently of the previous year when they decreased, the foreign assets of the public are increased at USD 35 million this year.

At this point, there should be mentioned the impact of the exchange rate, as it is known the fact that from the exchange assets possessed by banking system in the country, only 28 per cent of them are in USD, while the other part is in Euro (66 per cent), British pound (4 per cent) and Swiss franc (2 per cent).

There are increased the deposits of banking system abroad, at the same degree as cash foreign asset, throughout the year. American dollar deposits cover 52 per cent and those in Euro 46 per cent, in the composing at the end of 2003. Financial assets stock as portfolio investments amounted USD 142 million, recording an annual increase of USD 26 billion.

Inflows in foreign assets as financial capitals (mainly the disbursements of foreign loans and the use of loans) was reflected on the increase of foreign reserves of the monetary authority at USD 99 million for 2003. The level of gross foreign reserves, at the end of the year was assessed at USD 1 billion and 25.6 million, sufficient to complete 4.7 months of goods and services imports.

## Balance of Payments

In million American dollar

	Year20 02	Ist quarter. 03	IIInd quart.03	IIIrd. Quart. 03	IVrth quart.03	Year 2003
Current account	-420.8	-32.3	-120.6	-108.4	-145.5	-406.7
Merchandise: Export, fob	330.2	108.5	113.7	102.0	122.9	447.2
Merchandise ; Imports, Fob	-1485.4	-394.0	-453.8	-434.0	-501.6	-1783.5
Trade Balance	-1155.1	-285.5	-340.1	-332.0	-378.7	-1336.3
Services: Credit	585.0	129.0	179.1	213.5	198.0	719.7
Services: Debit	-590.3	-125.0	-194.3	-246.5	-236.6	-802.4
Income: Credit	146.9	44.0	49.2	56.8	44.8	194.8
Income: Debit	-20.6	-5.1	-6.9	-4.9	-7.6	-24.4
Private Unrequied transfers	575.0	198.1	177.0	189.7	216.9	781.7
Official unrequired	38.2	12.1	15.4	15.0	17.8	60.3
	121.2	31.0	36.5	45.7	43.8	157.0
	206.9	55.5	56.0	24.4	66.1	202.0
	135.0	38.0	48.3	42.0	49.8	178.8

transfers	-36.8	-12.1	5.4	-14.2	-1.6	-22.5
Capital Account	103.4	24.1	2.3	-9.0	17.9	35.3
Financial Account	121.3	2.8	32.3	55.6	56.7	147.4
Direct Investment, nie						
Portfolio Investment, nie	28.6	57.0	4.2	17.2	21.2	99.6
Other Capital, nie						
Net Errors and Omissions	-28.6	-57.0	-4.2	-17.2	-21.2	-99.6
	5.3	5.5	0.0	5.6	0.0	11.1
Overall Balance						
Reserve and Related Items	-109.9	-61.0	-32.7	-19.7	-62.2	-175.6
Reserve Assets	65.0	12.5	22.1	12.3	40.1	87.0
Use of Fund Credit and Loans						
Memorandum Items						
Total Change in Reserve Assets of which: Revaluation						