



REPUBLIC OF ALBANIA
BANK OF ALBANIA



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EXTERNAL SECTOR DEVELOPMENTS DURING THE NINE-MONTH PERIOD OF 2004

The overall payment balance, during the nine-month period of 2004, resulted in a surplus of USD 228 million. The capital inflows have been completely adequate to cover the level of the current deficit.

Main highlights of the external sector of the Albanian economy may be generalized as follows:

- Reduction of the current deficit, relative¹ to the previous year, either in absolute value or in percentage of GDP.
- Stable exports growth irrespective of the competitiveness aggravation (exchange rate developments).
- Improvement in the ratio of coverage of imports by exports.
- Inflows as foreign direct investments doubled.
- Growth of financial liabilities to non-residents, mainly due to the growth of foreign direct investment inflows, and of private borrowings.
- Growth of the country's claims to non-residents, mainly expressed in the growth of deposits from the resident units abroad.
- Growth in the stock of the monetary authority foreign reserve and of the foreign reserve adequacy coefficient for imports of goods and services.
- USD depreciation versus the European currency (Euro) and Lek persists. The USD depreciation effect should be taken into account especially for the transactions performed in other currencies (Euro).

¹ All comparisons are made with the nine-month period of 2003.

I. Current account

Current transactions are estimated at about USD 4.3 billion or 21 percent higher than the preceding year. In addition to external trade in goods and services, current transfers have also contributed to this growth. The current deficit is estimated at about USD 212 million or 19 percent lower than the previous year (in absolute value reduction of current deficit is estimated at USD 49 million). The improvement of the current deficit position was due to the growth of unrequired transfers, to the surplus in services and to the fluctuations observed in the exchange rate of USD versus Euro and Lek. While the trade deficit in goods was deepened, net income from investments declined.

I. 1. External trade

External trade volume, imports plus exports, for the nine-month period of 2004, was estimated at about USD 1.97 billion, representing nearly 45 percent of the total current transactions. Expenditures for imports of goods amounted to USD 1.5 billion or USD 242 million more than the same period of the previous year. Income from exports of goods increased by 36 percent, reaching the value of USD 442 million.

The analysis of the structural dynamics of imports highlights the continuous growth of imports in capital goods as well as imports of raw material for the active processing industry in the country. Also, the demand for foodstuffs remains high.

Exports structure suffers from the low degree of diversification. Thus, in this nine-month period nearly 76 percent of the exports volume is made up by exports of the above-mentioned subgroups of goods.

In absolute value, the imports growth, on a yearly basis, is accompanied with a modest growth of exports. However, during the last two years the exports growth has been more promising. The degree of coverage of imports by exports reached 29 percent during this period, from 25 percent it was during 2003.

I. 2. Performance of the other items of current account

Following the successive deficits, recorded during the last two years, the balance of services in this nine-month period returned to positive figures (USD 22 million).

Exports of services continue to be submerged by tourism activity. According to the Bank of Albania estimations, tourism has generated nearly USD 492 million as a flow of income in services or about 11 percent more than the exports of goods, as a consequence of increase either in the number of tourists or in their daily expenses.

Meanwhile, the Albanians have spent in their trips abroad nearly USD 395 million or 58 percent of the total remittances from emigrants. Tourism income increased faster than the expenditures in comparison with the previous year. At the end of the nine-month period, the positive balance of this category was estimated USD 98 million, from 35 million it was in 2003.

Services of transport and those of insurance follow the developments in the trade activity of goods. The growth of imports volume has led to the growth of service imports in these categories. Simultaneously, the increasing participation of the resident trans-expedition companies, which offer services to the external trade, grew as well the income of this category. However, at the end of the nine-month period, the deficits in transport services and insurance are estimated to be higher than the previous year, by 13 percent and 33 percent, respectively.

“Other services” category has recorded a surplus of USD 13 million. Exports of this category are estimated at USD 126 million, from which 39 percent represent communication services, mainly the telephony.

Positive income balance, at the end of the nine-month period, is estimated at about USD 128 million. Nearly 63 percent of income or USD 92 million are labor incomes, which are estimated as a part of emigrants' remittances, presuming that a part of general number of emigrants belongs to the category of seasonal or frontier workers. Incomes of this category are estimated at 7 percent higher than the previous year, due to the rising demand for labor force in Greece, a neighboring country, during the organization of 2004 Olympic games. The other part of incomes that come from investments recorded a decline, making that the surplus of the "income" category reduces by 4 percent relative to the previous year.

Current transfers, like in the passed years, have been made up through emigrants' remittances. Emigrants represent the major source of financing the deficit in the trade of goods and services, at 64 percent. During the nine-month period of 2004, inflow of emigrants' remittances was estimated at USD 679 million, being 21 percent higher than the previous year. However, considering the currencies these transfers are made, we can say that even for this item, the exchange rate effect is significant.

Emigrants' remittances (USD 679 million) are accompanied with official transfers, mainly in the form of technical assistance (USD 28 million), which are estimated as being declined (23 percent).

II. Capital and financial account

Capital movement, during the nine-month period of 2004, marked a net inflow of about USD 327 million, thus making possible to fully finance the current deficit, and they have led to the foreign reserve growth. Capital transfers marked USD 93.4 million or USD 20 million less than in the nine-month period of 2003, while the financial account was closed with a positive balance of USD 223.6 million. These capital imports performed for the most part through absorbing the foreign direct investments and through granting long-term credits and loan facilities from abroad, brought about the growth of financial liabilities of Albania to the rest of the world, by nearly USD 441 million. This growth is estimated at 78 percent higher than the one of the previous year.

Foreign direct investments are estimated at USD 284 million during the nine-month period of 2004. These capital inflows became a dominant factor in the growth of financial liabilities and in the capital and financial transactions performance in the country. This year they are reflected mainly in the form of privatization of the banking system, with an inflow 2.2 times higher than the same period of the previous year.

Another important factor in the growth of financial liabilities has been the granting of long-term credits and loan facilities from abroad, which increased Albania's external debt by USD 160 million. This debt includes Use of Fund Credit and Loans of USD 12 million. To a considerable extent (47 percent), the borrowings are used by the private sector and are estimated 5.5 times higher than the same period of the previous year. External debt services in the form of principal payments, during this period, amounted to USD 31 million.

Financial liabilities in the form of non-resident deposits in our banking system dropped about USD 4.4 million during this nine-month period. Liabilities in the form of trade credit increased by USD 16 million, this being reflected even in the growth of imports during this period.

Albania's financial claims to the rest of the world increased by USD 207.4 million or about 86 percent more than the previous year. About 60 percent of this growth is recorded during the third quarter, mainly due to the growth of deposits from the resident units abroad. This large inflow of deposits from inside to outside is mainly attributed to the Raiffeisen Bank's capital conversion and to a displacement in the form of investment – from portfolio investments into deposits. Portfolio investments dropped about USD 122 million during this period.

Foreign assets inflow in the form of financial capital was reflected in the growth of monetary authority foreign reserves, by about USD 228 million. The gross reserves level was estimated at USD 1 billion and 244 million, sufficient to cover 5.1 months imports of goods and services.

Balance of payments

in millions of USDs

	Nine-month period 2003	Q1 2004	Q2 2004	Q3 2004	Nine-month period 2004
Current Account	-261.2	-77.9	-108.4	-25.7	-212.1
Merchandise: Exports, fob	324.3	136.5	156.5	148.7	441.7
Merchandise: Imports, fob	-1281.9	-454.4	-514.6	-554.5	-1523.4
Trade Balance	-957.6	-317.9	-358.0	-405.8	-1081.8
Services: Credit	521.7	196.7	237.9	255.4	690.0
Services: Debit	-565.8	-202.8	-237.2	-228.3	-668.4
Income: Credit	150.0	41.6	40.4	65.2	147.2
Income: Debit	-16.8	-5.3	-8.3	-5.8	-19.5
Private Unrequired Transfers	564.8	196.8	200.5	281.7	679.0
Official Unrequired Transfers	42.5	13.0	16.4	11.9	41.3
Capital Account	113.1	34.0	25.7	33.6	93.4
Financial Account	124.8	22.9	203.2	-4.3	221.7
Direct Investments	128.3	35.0	176.7	71.9	283.6
Portfolio Investments	-20.9	-1.3	4.0	119.8	122.5
Other Capital*	17.4	-10.8	22.5	-196.0	-184.3
Net Errors and Omissions	90.7	29.9	-3.0	85.9	112.8
Overall Balance	78.5	14.9	117.4	95.3	227.6
Reserve and Related Items					
Reserve Assets	-78.5	-14.9	-117.4	-95.3	-227.6
Use of Fund Credit and Loans	11.1	6.0	0.0	5.9	11.9
Memorandum Items					
Total Change in Reserves	-120.9	-2.6	-113.9	-103.2	-219.6
of which: Change due to Exchange Rate	42.4	-12.3	-3.6	7.8	-8.0

*/ Use of Fund Credit and Loans is not included.

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