



**REPUBLIC OF ALBANIA**  
**BANK OF ALBANIA**



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

## **PRESS RELEASE**

### **EXTERNAL SECTOR DEVELOPMENTS DURING THE SECOND QUARTER OF 2004**

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The expansion of trade exchange activity, the high current account deficit, the simultaneous increase of both financial liabilities and assets to the world, associated with the increase of monetary authority reserve, reflect in general terms the foreign developments of the Albanian economy during the second quarter of 2004.

At the end of the quarter the current deficit was evaluated at about USD 134 million, which was attributed to the negative balance of savings-investments from government, shows that Albania continue to be financed by the savings provided from the rest of the world. This deficit represents 6.6 percent of GDP, from 7.6 percent it was in 2003.

High capital imports, mainly in the form of foreign direct investment and borrowing, have completely covered the current deficit and led to the increase of foreign reserves.

The general trade volume was estimated at USD 680 million, or USD 93 million higher than a year ago. Imports of this period, amounting to USD 527 million, exceeded those of the second quarter of the previous year by about 16 percent, while exports, though increased by 35 percent, failed to narrow the trade deficit. The latter was estimated at USD 374 million in the second quarter of the year. The trade activity was intense during the second quarter, especially in terms of imports, a phenomena which has been noticed during the last years too.

The demand for imports in goods and investments remains high. The greater effect in the increase of imports, compared to the second quarter of the last year, has been given by imports in machineries and equipment, vehicles as well as imports in vegetal products.

The exports increase during this quarter was mainly due to the growth of re-exports (textile and shoes industries), which are the first-ranked in the revenues from exports of goods, at about 75 percent of the general volume. Also, exports from the domestic production represents a positive performance. Revenues from exports in this category are evaluated at about 67 percent higher than the same period of the previous year, which was mainly attributed to the increase of exports in metals (ferrochromium), as well as mineral products.

After successive deficits recorded since the second quarter of 2003, the balance of services marked again positive figures (USD 0.1 million) during this quarter. This surplus was due to the increase of export of services, mainly to the high increase of revenues from tourism and communication services.

Export of services is about 1.6 times higher than the one of goods and this was enabled mainly through tourism services. According to the Bank of Albania estimations, this activity has generated revenues estimated at about USD 167 million, a figure being about 9 percent higher than exports of goods. We may say that there was a high increase of the number of visitors who entered the territory of Albania, by about 35 percent, compared to the same period of the previous year, and this may be considered as a sufficient indicator giving evidence to the intensity of these services. This fact highlights again the competitive advantage of Albania in the field of tourism service trade.

Meanwhile, Albanians have expended on their trips abroad about USD 141 million, or about 70 percent of the total emigrants' remittances. Transportation services represent a considerable weight in the expenditures for service imports, due to the increase of imports and communication services which represent 20 and 18 percent, respectively.

At the end of the quarter the positive balance of income is estimated at about USD 124 million. This surplus is attributed to the revenues from the seasonal and frontier workers and interests earned from foreign reserve investments of the banking system in the non-resident financial institutions and to those earned from investments of our banking system in the form of portfolio investments. Although the revenues from portfolio investments increased by 22 million, compared to the previous period and to the same period of the previous year, this surplus declined by 11 and 24 percent, respectively. The decline of this surplus relates to the decrease of revenues from investments in the form of deposits of the banking system abroad, and to the increase of outgoing revenues in the form of settlement of the external debt (payment of matured interests), which amounted to USD 6.6 million.

Emigrants' transfers have recorded the total amount of USD 201 million. Referring to the statistics, it is estimated that about 50 percent of these foreign assets inflows entered into the banking system and financial institutions in the form of transfers made by them, while the other part has entered in the form of cash, thus leading mainly to the increase of imports of goods. These inflows have financed by about 54 percent the trade deficit. These sources play an essential role in the partly financing of high trade deficits and record a growth of 16 percent compared to the same period of the previous year.

Meanwhile, public transfers recorded a total amount of USD 16.5 million and are represented in the form of technical assistance and aid in goods. The positive balance of current transfers, including the net private transfers, was estimated at about USD 208 million at the end of the quarter.

Net capital inflows amounted to USD 207.6 million, thus rendering possible the full financing of the current deficit as well as the increase of foreign reserve of the monetary authority, by about USD 117 million. These inflows are in the form of capital transfers, which are evaluated at USD 25.7 million, and net capital inflows are in the form of investments, at about USD 182 million.

The capital inflows which are evaluated at about USD 202.6 million (or 2.4 times higher than the second quarter of 2003) reflect the increase of financial liabilities of the Albanian economy to the world. The main source of the increase of these liabilities are the foreign direct investments in the form of privatisation of the banking system and in the form of other investments.

Another important factor in adding up capitals in the form of foreign direct investments relates to the extension of long-term credits and soft credits from abroad, which have contributed to increase the external debt of Albania by USD 52.6 million, from which Government borrowing occupies 43 percent.

Liabilities as deposits of non-residents in our banking system have declined by USD 18.6 million. These deposits are mainly in EUR and in USD, estimated at about 75 and 21 percent, respectively.

Albania's financial assets to the rest of the world increased by USD 20.7 million. The major contribution to this increase has come from the direct investments of the banking system abroad by about USD 11 million and other financial assets by USD 10.4 million, while portfolio investments declined by USD 4 million.

Foreign assets inflows in the form of foreign direct investments from the privatisation process were reflected in the increase of foreign reserve of the monetary authority by about USD 117.4 million. The foreign reserve level was estimated, at the end of the first semester of 2004, at about USD 1.1 billion, sufficient to afford 4.8 months of imports of goods and services.

## Balance of Payments

in millions of USD

	Q2-2003	Q1-2004	Q2-2004
Current account	-120.56	-74.59	-133.85
Export of goods	113.72	136.45	153.17
Import of goods	-453.80	-451.28	-527.26
Trade balance	-340.08	-314.83	-374.09
Services: Credits	179.13	196.65	238.12
Services: Debits	-194.35	-202.61	-238.07
Revenues: Credits	49.17	41.60	40.39
Revenues: Debits	-6.86	-5.25	-8.23
Private transfers free of compensation	176.98	196.84	191.57
Public transfers free of compensation	15.44	13.02	16.47
Capital account	36.46	34.04	25.72
Financial account	56.04	19.15	181.90
Direct investments	48.26	35.00	176.70
Portfolio investments	5.45	-1.30	4.00
Other capitals*	2.33	-14.56	1.20
Net errors and omissions	32.28	30.30	43.63
General Balance	4.21	14.88	117.41
Reserves and other related items			
Reserve assets	-4.21	-14.88	-117.41
Use of IMF credits and loans	0.00	5.99	0.00
To receive attention:			
Total reserves change	-24.41	-2.58	-113.86
from which: Change due to exchange rate movement.	20.20	-12.30	-3.55

\* / The use of IMF credits and loans is not included.

Source: Bank of Albania.