

BANK OF ALBANIA

PRESS STATEMENT

EXTERNAL SECTOR
DEVELOPMENTS OF THE
ALBANIAN ECONOMY FOR
THE FIRST SEMESTER OF 2007

AUGUST 2007

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The overall balance of payments for the first semester of 2007 resulted in a surplus of EUR 37.6 million. Capital inflows financed about 88.6 per cent of current deficit.

The main developments in the external sector of the Albanian economy may be summarized in:

- Intensive activity in the external sector, expressed in the increase of income and current expenses.
- Trade and current deficit deepening.
- Decrease of public and private sector borrowing compared with the previous year.
- Increase of Albania's financial liabilities to non-residents, mainly expressed in the form of deposits of foreign financial institutions held with our banking system.
- Increase of the monetary authority foreign reserve.

I. CURRENT ACCOUNT

Current transactions carried out during the first semester of 2007 are assessed to have totalled about EUR 3.8 billion or 16.9 per cent higher than the previous year. Trade exchanges in goods and services lead the volume of Albania's current transactions with the world. More than 95 per cent of current expenses were used for the purchase of goods and services, while about 35 per cent of current income was in the form of transfers. Exports of goods and services provided 22 per cent and 36 per cent of current income, respectively.

Current deficit for this semester was estimated to total EUR 365.8 million, increasing by about 28.5 per cent compared with the same period the previous year.

The high trade deficit reduced the positive effect of the narrowing of services account deficit and of the growth of positive flows in net factorial income, remaining the main cause for the current deficit deepening over this period.

I. 1. FOREIGN TRADE

The exchange of goods, which amounted to about EUR 1.7 billion, has been assessed 24 per cent higher than the same period the previous year.

The growth rate of exports (EUR 391 million) continued to be more rapid

than the growth rate of imports (EUR 1.4 billion), growing by 26 per cent and 23 per cent, respectively. However, the ratio of imports' coverage by exports remains low (28 per cent) providing evidence for the considerable orientation of foreign trade to imports. Trade deficit is assessed to have totalled about EUR 366 million, growing annually by 28.5 per cent.

Intermediate goods dominate our imports, sharing about 53 per cent of total imports. Meanwhile, capital and consumer goods share 13 and 31 per cent, respectively.

Processing industry with orderer's raw material continues to determine our trade relations with the rest of the world. Imports of raw material, mainly concentrated in textiles, footwear and metals, shared 14 per cent of total imports, while 69 per cent of income from export was a contribution of re-exports.

The aggravated energy situation in the country resulted in considerable expenses for the import of energy and in the higher demand for fuels as substitutes for energy. Fuels and lubricants recorded the highest growth during this period, growing by 66 per cent. As of end the first semester, it resulted that we have spent for the import of energy 5 times more than the same period the previous year.

The structure of exports continues to maintain the same share levels. Textiles and footwear shared 50 per cent of total exports, dropping by 5 per cent compared with the same period the previous year.

Mineral products (fuels) and metals have been quite aggressive in the global markets. These commodity groups doubled the exports volume compared with the same period the previous year. Crude oil exported to Italy shares about 50 per cent of fuels. Cast-iron, steel, copper and miscellaneous share most of the export of base metals.

In terms of geographical structure, it continues to be considerably dominated by the European Union countries; however, this semester was characterized by high trade expansion rates with the regional partners.

I. 2. DEVELOPMENTS IN OTHER ITEMS OF CURRENT ACCOUNT

Trade transactions in services amounted to EUR 1.3 billion, growing annually by 9 per cent.

Services account ended in a positive balance of EUR 22 million, reducing by about twice as much from the same period the previous year, owing to the more rapid growth of imports than exports in the international services market.

The performance of services account is considerably affected by the developments in "tourism" (travel), which contribute significantly to this item's

inflows and outflows, which for this semester were estimated at 63 and 59 per cent, respectively.

According to the Bank of Albania estimates, income from the export in tourism services amounted to EUR 394 million. Although the increase in daily expenses was considerable (by 13.4 per cent), the dropping of estimating coefficients of the duration of stay by about 7 per cent kept the flow of income unchanged. Meanwhile, there have not been any significant changes in the number of non-residents visiting Albania.

Import in travel amounted to EUR 384 million, growing annually by about 5 per cent. Despite the dropping by 26 per cent of the duration of stay of Albanian residents abroad, the increase in tourist expenses is attributed to the increase in daily expenses (by 19 per cent) and in the number of travellers (by 24 per cent).

Other services ended in a surplus of USD 23 million, compared with the previous year's deficit of 26 million. This surplus mainly attributes to the increase of income in almost all services sectors, while expenses maintained the previous year's levels.

The Albanian economy continues to receive foreign currency income from the labour of seasonal workers and the investment of the banking system foreign reserves in non-resident financial institutions. At the same time, it continued to settle the interests on its external debt. The net result of income transactions remained positive for this semester and it was estimated at about EUR 106 million, increasing annually by 19 per cent. Compared with the same period the previous year, income from labour grew by about 9 per cent and it was estimated to total EUR 61 million. Income from the interest of our foreign reserve investment in non-resident institutions and income from the interest of resident institutions' portfolio abroad have also increased.

As of end the first semester 2007, the balance of current transfers amounted to about EUR 511 million. Workers' remittances continue to share the main weight in this item's income, by about 82 per cent. During the first semester, these transfers amounted to EUR 493 million, being 10.7 per cent higher than the transfers of the same period the previous year. They represent the main source of trade deficit financing (more than 51.2 per cent).

II. CAPITAL AND FINANCIAL ACCOUNT

Net capital flows amounted to about EUR 327 million during the first semester of 2007, financing 89 per cent of current deficit. Behind this positive figure are the inward capital transfers of EUR 44 million and the positive balance of financial account of about EUR 283 million.

With regard to the position of financial account, there has been a considerable increase in Albania's financial liabilities to the world (by about EUR 281

million), while Albania's financial claims on the rest of the world remain around the same level (increasing by EUR 2 million).

The increase of financial liabilities to the world is mainly attributed to the capital inflows in the form of direct investments, to borrowing from abroad and to the deposits of foreign financial institutions held with our banking system.

Foreign direct investments amounted to EUR 145.6 million, which is 16 per cent higher than the previous year. These capital flows have become a dominant factor in the increase of financial liabilities and in the developments of Albania's capital and financial transactions.

The borrowing of long-term and soft loans from abroad is another important factor which influenced the increase of financial liabilities. They increased Albania's liabilities from borrowing by EUR 62.8 million. They are assessed to be 29 per cent lower than the previous year, as a result of the decrease of borrowing from abroad both from the public sector (17 per cent) and the private sector (66 per cent).

External debt services in the form of principal and interest payments totalled about EUR 27 million, which is equal to 7 per cent of the export of goods.

In terms of financial assets, the international position of the Albanian economy is almost the same, increasing slightly by EUR 2 million; however, there have been a few structural changes. There has been a change in the ratio of investment assets. Portfolio investment assets and short-term foreign assets shifted to the investment of the banking system's reserves in the international market in the form of deposits. Hence, the dropping of portfolio investments and of short-term foreign assets investments by EUR 18.4 and 15 million was offset by the increase of deposits by about EUR 35 million.

Foreign assets inflows in the form of financial capital were reflected in the increase of the monetary authority's foreign reserve by about EUR 38 million. As of end period, foreign reserve totalled EUR 1.4 billion, fully sufficient to cover about 4.1 months of import.

Table 1 Balance of Payments (In millions of EUR)

	S I 2006	S I 2007
Current Account	-284.7	-365.8
Merchandise: Exports	310.1	391.3
Merchandise: Imports	-1094.7	-1353.2
Trade Balance	-784.6	-961.9
Services: Credit	559.5	621.2
Services: Debit	-604.2	-642.9
Income: Credit	109.2	128.9
Income: Debit	-19.5	-22.4
Private Unrequired Transfers	426.0	489.1

Official Unrequired Transfers	29.0	22.2
Capital Account	80.6	43.5
Financial Account	166.2	283.2
Direct Investment	122.3	137.2
Portfolio Investment	1.6	18.5
Other Capital*	39.5	124.8
Net Errors and Omissions	83.0	76.8
Overall Balance	45.1	37.6
Reserves and Related Items		
Reserve Assets	-45.1	-37.6
Use of Fund Credit and Loans	2.9	2.8
Memorandum Items		
Total Change in Reserve Assets	16.6	26.7
Of Which: Change Due To Exchange Rate	-28.5	-10.8

**/ Not Included Use of Fund Credit and Loans.
Source: Bank of Albania*

