



REPUBLIC OF ALBANIA
BANK OF ALBANIA



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PRESS STATEMENT

EXTERNAL SECTOR DEVELOPMENTS OF THE ALBANIAN ECONOMY OVER THE FIRST QUARTER 2006

The overall balance of payments resulted in a surplus of EUR 15.6 million over the first quarter of 2006. Capital inflows have covered about 56 per cent of the current deficit and have led to the increase of the monetary authority reserve.

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 current revenues and expenditures.
- Substantial deepening of trade and current deficit.
- Considerable growth of workers' remittances.
- Marked increase of financial assets in the form of deposits abroad.
- Increase in the assets of the monetary authority reserve.

I. Current account

The volume of current transactions has grown by 26.8 per cent compared to the first quarter of 2005, accounting for EUR 1.6 billion. More than 95 per cent of current expenditures were used for the import of goods and services, while the export of goods and services has provided about 60 per cent of total revenues.

Net factorial revenues have grown by about 52 per cent compared to the first quarter of 2005, however, not being able to moderate the high trade deficit. The latter was partly moderated by the

current transfers, mainly by the contribution of workers' remittances, which accounted for about 54 per cent.

As a result of these developments, the current account recorded a deficit of EUR 164 million at the end of the first quarter, which is estimated to be 1.8 times as high as the previous year.

I. 1. Foreign trade

The beginning of year 2006 recorded high volumes of import and export, leading as a consequence to the further deepening of trade deficit. In absolute terms, the overall trade volume at the end of the first quarter 2006 reached to EUR 630 million, which is 27 per cent higher than the same period the previous year. Worth observing is the substantial aggravation of the negative balance by 34 per cent, due to the increase of import by 29 per cent and of export by 19 per cent.

The significant orientation toward imports has caused them to exceed exports by nearly four times. The upward tendency of goods prices, such as oil, machinery and appliances, transportation means and pharmaceutical products has caused the increase of import expenditures. At the end of this quarter, import accounted for about EUR 535 million or nearly EUR 121 million more than over 2005. Export of goods revenues grew by EUR 23 million, amounting to EUR 144 million.

Obviously, such a growth indicates the fluctuations the European currency has gone through over the corresponding periods, that is, its depreciation of 3 per cent.

According to a disaggregation in harmony with the national accounts system, intermediate goods share almost half of imports (47 per cent), while capital consumer goods have slightly decreased contributing to total import by 11 per cent and 30 per cent, respectively.

Processing industry in the country continues to share the most significant part as far as trade relations with the rest of the world are concerned. The import of raw materials shared 15 per cent of its total, while 70 per cent of export revenues was a contribution of re-exports. Textiles and footwear, which share almost 80 per cent of total exports, slightly decreased by 2 per cent over this quarter. Such a decrease came as a result of the slowdown in the rates provided by this industry, due to the Chinese goods competition. However, their considerable permeation in the Albanian market seems to have slowed the growing rates down, compared to their boom over the previous year.

EU, our main partner, maintains the same share levels to total trade transactions (65 per cent). Italy and Greece remain Albania's main trade partners by sharing 83 per cent of total export and 46 per cent of total import. Moreover, there is an upward tendency of imports from the regional countries, which over this quarter grew by 50 per cent. Meanwhile, the growth of export toward regional markets has experienced a considerable slowdown, by 6.6 per cent.

I. 2. Developments in other items of current account

Service trade balance ended with a negative balance of EUR 37 million, growing considerably compared to the EUR 24 million deficit recorded in the first quarter of 2005. This deficit was mainly due to the import increase of transportation and business services.

It is now acknowledged that transportation and insurance services follow the developments in the trade activity of goods. The growth in the volume of import has caused the increase of services import of these categories. At the end of this period, the import of transportation and insurance of goods services accounted for 28.1 and 30 per cent, respectively, higher than the same period the previous year.

The volume of transactions in the travelling services shares 68 per cent of total volume in the service trade. According to the Bank of Albania estimates, at the end of this quarter, tourism ended with a surplus of EUR 12 million, compared to EUR 5 million over the same period the previous year. The increase of Albanian travellers' expenditures abroad is distinctly lower than the growth in revenues, leading to the increase of the positive balance of this category.

Over the first quarter of 2006, tourism export generated about EUR 199 million of revenues or 38 per cent of revenues more than the export of goods.

This quarter was mainly characterized by tourism for personal purposes rather than for business purposes. This is also observed in the number of citizens entering and leaving the country and in the expenditures carried out by them. Over the first quarter of 2006, the number of foreign citizens visiting Albania increased by 18 per cent, compared to the same period the previous year. According to the estimates for this quarter, a foreign tourist has spent 30 per cent more than the previous year. Meanwhile, tourism expenditures continue to be estimated as growing (by 30 per cent). Albanian residents have spent in their travels abroad about EUR 187 million or as much as 94 per cent of total workers' remittances. Such a growth of expenditures came as a consequence of the increase by 14 per cent in the number of Albanians travelling abroad, while daily expenditures have maintained the same level as in the first quarter the previous year.

Net revenues are estimated as positive, growing by 52 per cent compared to the same period over 2005. The Albanian economy has continued to benefit from foreign currency resources from

the work abroad, and the investment of the banking system foreign reserve in non-resident financial institutions, paying at the same time the interests for the foreign debt. Labour revenues share about 47 per cent of incoming revenues, which are estimated to have grown by 34 per cent compared to the same quarter the previous year. Moreover, revenues in the form of the rate of return on our investment abroad have experienced an increase of 50 per cent.

Meanwhile, about 86 per cent of outgoing revenues are mainly represented by the interest of foreign debt and the investment of non-resident banks' reserves in our banking system.

Like in the previous years, current transfers were in the form of workers' remittances. The latter represent a crucial supporting source to the Albanian economy, providing a continuous flow of financing the current deficit. Total workers' remittances, over the first quarter 2006, were estimated at about EUR 199.6 million, accounting for 10.9 per cent of the GDP.

II. Capital and financial account

Capital flows over this quarter resulted in a net flow of about EUR 92 million, making the financing of the current deficit possible by about 56 per cent. Capital transfers accounted for EUR 36 million, while the financial account ended with a positive balance of about EUR 56 million.

The financial account position over this quarter is defined in the increase of Albania's financial liabilities with the rest of the world (by about EUR 92 million) and the increase of our assets abroad (about EUR 36 million). Compared to the first quarter the previous year, financial liabilities net flow was estimated to be 46 per cent higher. Meanwhile, Albania's financial claims on the rest of the world have maintained the same level as in the previous year.

Albania's financial liabilities to the rest of the world grew by about EUR 92 million and were estimated to be 46 per cent higher than the same period the previous year. Such an increase has been due to foreign direct investment and foreign debt inflows.

Foreign direct investment flow amounted to EUR 56.7 million compared to EUR 45 million the previous year. Worth mentioning is the fact that capital inflows in the processing and manufacturing industry have played a key role in these investments. The borrowing of long-term and soft loans from abroad, which remain another important factor in the increase of Albania's financial liabilities with the rest of the world, over this quarter were estimated at EUR 36 million. This increase has mainly financed investment and consumption, being also reflected in the increase of import for consumption and the companies' need for capital and capital goods. Foreign debt services in the form of the principal and interest payments were estimated at about EUR 15.5 million, accounting for 11 per cent of the export of goods.

Albania's financial claims on the rest of the world grew to EUR 36 million. The increase of these financial assets comes mainly as a consequence of the banking system reserve investments in the international market. These assets were in the form of deposits, which increased by EUR 57 million, unlike their decrease by EUR 7 million over the previous year. Such an increase owes to the shift of our banking system investments from domestic to foreign financial markets. Meanwhile, portfolio investments have decreased by EUR 4.6 million, as compared to the increase of EUR 43 million the same period the previous year.

Foreign assets inflows in the form of financial capital were reflected in the increase of the monetary authority foreign reserve by about EUR 15.6 million. At the end of the first quarter 2006, the foreign reserve accounted for EUR 1.214 billion, fully sufficient to cover about 4.5 months of the import of goods and services.

Balance of Payments

In million of EUR

	Q1-2005	Q1-2006
Current Account	-90.2	-164.3
	0.0	0.0
Export of Goods	121.5	144.4
Import of Goods	-398.1	-515.2
Trade Balance	-276.6	-370.8
Services: Credit	203.8	267.3
Services: Debit	-227.9	-303.8
Revenues: Credit	36.9	52.4
Revenues: Debit	-9.1	-10.1
Private Unrequired Transfers	170.9	184.6
Official Unrequired Transfers	11.8	16.2
Capital Account	35.5	36.0
Financial Account	29.7	55.9
Direct Investment	43.3	56.7
Portfolio Investment	-42.8	4.6
Other Capital*	24.6	-8.4
Net Errors and Omissions	34.6	88.1
Overall Balance	9.7	15.6
Reserve and Related Items		
Reserve Assets	-9.7	-15.6
Use of IMF Credit and Loans	4.6	2.9
Memorandum Items		
Total Change in Reserves	7.8	10.4
of which: Change due to Exchange Rate	0.4	-5.2

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

Source of data: Bank of Albania