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PRESS RELEASE

ON EXTERNAL SECTOR DEVELOPMENTS OF ALBANIAN ECONOMY IN JANUARY – SEPTEMBER 2003

Among main Balance of Payments developments during the first nine months of 2003, we highlight:

- ❑ ***Obvious increase of Albanian exports*** by about ***38 per cent***, reaching to ***324.3 million dollars*** from 234.2 million dollars they were during the same previous year period.
- ❑ ***Income on emigrant remittances*** has marked an increase by 29 per cent compared to the same previous year period, reaching to about 651 million dollars.
- ❑ ***Nine first months of 2003 have marked a slight increase of foreign direct investments***, which reached to 98.3 million dollars.
- ❑ ***Positive developments were noticed in tourism activity***, which ensured an income of ***378 million dollars*** from 518 million dollars of the income on overall services.
- ❑ ***During the nine first months of 2003 the monetary authority reserves (BoA) are also increased by USD 79 million***. This increase was almost twice higher than the increase of the previous year. Foreign reserves at end of September reached the level of ***964.3 million dollars***, sufficient to cover 4.7 import months.

The nine-month period is featured by an appreciation of European currency against American dollar. This development has led to the transmitting of an emphasized exchange rate effect to balance of payments calculations.

SUMMARY OF THE BALANCE OF PAYMENTS

Current account deficit in January-February 2003 was 258 million USD or 14 per cent lower than the deficit of the same previous year period. **Higher current expenditure and income feature this period.** Total current transactions were USD 3.5 billion, from which USD 1.9 billion was expenditure and USD 1.6 billion was income. Approximately 67 per cent of current expenditure were import payments, which reached the figure of USD 1.3 billion, while two biggest groups of income were current services and transfers, which marked respectively USD 518 million and USD 651 million. **About 75 per cent of current account deficit were financed by inflows of net capital and financial account, which were estimated at USD 193 million.**

Current account

Foreign trade volume, imports plus exports, was USD 1.6 billion for the nine-month period, or approximately 45 per cent of total current transactions. Trade deficit was at the level of USD 958 million. **Imports marked the value of USD 1.3 billion.** Mainly consumption goods, articles used in investments and raw material for active processing, comprised imports. **Exports were increased by 38 per cent compared to the same previous year period.** Growth in exports was due to increase of re-exports (textiles and leather products), which constitute 74 per cent of overall exports. **Exports from domestic products, mainly metals, also marked an increase by 37 per cent compared to the previous year.** The balance of services was negative for the first nine-month period, with a value of USD 29 million. Travel services are the main source of income on services (USD 378 million from the total of USD 518 million whereas travel and transport represent two biggest groups of expenditure (occupying respectively 63 and 21 per cent of the total). Expenses on tourism are increased faster than income in comparison with the previous year. Category of income recorded inflows that surpassed outflows by USD 133 million. The largest part of inflows is derived from compensation of resident employees abroad. The other part is derived from interests on portfolio investments or on reserves of residents abroad. **Current transfers, mainly comprised by emigrant transfers, were positive and 29 per cent higher than the previous year. They mark USD 651 million for this period.**

Capital and financial account

Net capital and financial flows were USD 193 million and have financed about 75 per cent of current account deficit. **Capital transfers marked USD 113 million whereas the difference between foreign financial assets and liabilities was USD 80 million. About 50 per cent of liabilities are due to foreign direct investments, which marked USD 98 million in this period.** Foreign credit disbursements, which are USD 82 million, also contributed to increasing country's foreign liabilities. On the other hand of financial account, Albania's foreign assets, mainly deposits with non-residents, are increased significantly. **Foreign assets were increased by USD 37 million, whereas the investment portfolio was increased by USD 18 million, reaching the value of USD 140 million at end of September.**

Monetary Authority Reserves

Monetary authority reserves (Bank of Albania) were increased by USD 79 million or about twice higher than in the same previous year period. At end of September, foreign reserve stock was **USD 964 million or sufficient to cover 4.7 import months of goods and services.**

Terminology

1. Current account is called so because it includes current transactions in goods and services, as well as current transfers and income.

1.1 'Foreign trade' is part of current account and presents sales (exports) and purchases (imports) of goods that cross the borders, whose ownership passes from residents to nonresidents and vice versa. For information, customs declarations are made use of.

1.2 'Services' category encompasses services of transporting goods and passengers, travel expenses (tourism), insurance, communication and other services provided by non-residents to residents and vice-versa. Banks' reports are used for some information, while surveys are used for others, mainly for travel and transport.

1.3 'Income' category includes income (inflows and outflows) on the work of seasonal workers or cross-border workers, income from interests on reserves, other income on investments and income on capital.

1.4 'Current transfers' or remittances represent inflows from Albanian emigrants, which enter Albania in form of foreign assets as personal imports or in other forms. The item is Bank of Albania estimate.

2. Capital and financial account encompasses: capital transfers, which are aids in investment or in other assets related to capital investments; direct investments, which are investments where foreign partners own 10 per cent or more of invested capital; state borrowings, which are financial assets or liabilities created through direct lending of funds from creditors; IMF loans and credit uses, which represent extension of credit by IMF according to Bank of Albania balance sheet; commercial credits, which record net value ((liabilities minus claims) of financing the transactions in goods and services; and currencies and deposits, which represent banking system foreign transactions. Here are recorded changes in assets and liabilities of commercial banks to nonresident institutions.

3. 'Reserves' item presents the change of Bank of Albania gross reserves, excluding changes from exchange rate. Growth of reserves is presented with "minus" sign.

Balance of Payments

In million dollars

	9m-I 2002	3m-I 2003	3m-II 2003	3m-III 2003	9m-I 2003
Current account	-299.7	-31.6	-119.4	-106.6	-257.6
Export of goods	234.2	108.6	113.7	102.0	324.3
Import of goods	-1059.1	-394.1	-453.8	-434.0	-1281.9
Trade balance	-824.8	-285.5	-340.1	-332.0	-957.6
Services: Credit	408.8	128.1	177.8	212.0	517.9
Services: Debit	-443.0	-119.1	-185.4	-242.2	-546.7
Income: Credit	113.2	44.0	49.2	56.8	150.0
Income: Debit	-16.5	-5.1	-6.8	-4.9	-16.8
Private transfers	433.1	198.2	177.8	189.8	565.8
State transfers	29.5	7.9	8.1	14.0	29.9
Capital account	87.1	31.0	36.5	45.7	113.1
Financial account	174.8	40.7	30.3	8.5	79.6
Direct investments	94.1	27.0	36.9	34.4	98.3
Portfolio investments	-32.8	-11.4	6.8	-14.0	-18.5
Net mistakes and omissions	108.3	19.6	-13.4	-17.5	-11.3
Other capitals	74.5	16.9	56.8	69.7	143.3
Overall balance	36.7	57.0	4.2	17.2	78.5
Reserves and related items					
Reserve asset	-36.7	-57.0	-4.2	-17.2	-78.5
IMF loans and credit uses	5.3	5.5	0.0	5.6	11.1
Special mention					
Total change in reserves	-76.5	-61.0	-32.7	-19.7	-113.4
From which: change from exchange rate	39.2	12.5	22.1	12.3	46.9

*/ IMF loans and credit uses are not included