



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



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## **PRESS RELEASE**

### **EXTERNAL SECTOR DEVELOPMENTS OF THE ALBANIAN ECONOMY DURING THE FIRST QUARTER 2004**

July 13<sup>th</sup>, 2004

The main highlights of the balance of payments in Albania during the first quarter of 2004 were as follows:

- A bigger current transactions volume;
- A deeper current deficit than the trade deficit;
- Quicker growth rate of exports than imports;
- Fewer capital transfers and foreign investments;
- The simultaneous rise of foreign assets and liabilities and increase of foreign reserves of the monetary authority.

In the first quarter of 2004, the current deficit was usd –74.6 billion or 2.3 times higher than the deficit of usd –32 billion as at the first quarter of 2003. However, compared to the previous quarter, this quarter marked positive developments regarding the size of the current deficit and trade deficit. At the end of the first quarter of 2004, the foreign trade deficit in goods and services was usd 320 million. About 80 per cent of this deficit was covered by the common positive balance of usd 246 million from "labor incomes" and "current transfers" categories. The current deficit of usd –74.6 million was partly financed by net capital and financial inflows, which mounted to usd 59 million. From these, usd 34 million were capital transfer inflows (grants, soft loans, etc) and usd 25 million net inflows in the financial account. Net financial liabilities of Albania totaled up by usd 88 million, whereas residents' foreign assets increased by usd 62.5 million.

#### **I. Current account**

The current transactions of Albania with the rest of the world mounted to usd 1.28 billion, which is about 22.6 per cent higher than last year. This growth is attributed to higher trade transactions in goods and services; meanwhile, incomes and current transfers have remained the same compared to the first quarter of 2003.

#### **a) Trade balance**

The overall trade volume of this first quarter was estimated to be usd 588 million or usd 85 million more than the same period of 2003. Trade transactions stand for 46 per cent of current

transactions. Imports of about usd 451 million surpassed those of the previous year<sup>1</sup> by about 14 per cent; exports (usd 136 million) despite their rise of 26 per cent, did not narrow down the trade deficit. However, export of goods in this quarter reached the highest level of quarterly exports over the years. By the end of the quarter, the trade deficit was usd 315 million or 10 per cent higher than the respective period of the previous year. The analysis of the import's structural dynamics brings forth the on-going rise of imports in capital goods and raw materials. Also, the demand for food products is still high. The biggest contribution in the growth of Albanian exports was given by reexports, which have the upper wheel in Albanian export by 81 per cent of their overall volume. Incomes from this category of exports are estimated to be 32 per cent higher versus the first quarter of the pervious year. Nevertheless, this category can be identified by a limited number of raw materials. Domestic product export has presented a poor performance, by 19 per cent in the total exports.

## **b) Services**

The services account was closed by a negative balance of usd 6 million. Compared to the first quarter of the previous year, which closed in a surplus of usd 4 million, this quarter marked a soaring deficit in transport services and a narrowing of surplus in tourism.

Services exports reached the level of usd 97 million; imports usd 203 million. In revenues as in services expenditures, the biggest role is played by tourism. In the first quarter, residents have spent usd 123 million in tourism overseas. Incomes from foreign tourists were usd 136 million. Both incomes and expenses in this field were higher than last year. However, these figures are clearly lower than the figures registered in the fourth quarter of 2003. Residents' payments in transport services were higher than incomes insures from these services. In all the other services there is an increase of incomes from communication services.

## **c) Revenues**

Revenues and payments emerging from seasonal workers, as well as inflows and outflows for interests on various investments are presented in the revenues account. The Albanian economy benefits incomes in foreign currency from seasonal workers and investments of the banking system foreign reserves in non-resident financial institutions, and at the same time it pays off the foreign debt interests. The revenues balance for this quarter remains positive of usd 36 million.

Labor incomes (usd 22 million) remained the same compared to the first quarter of 2003. Portfolio investment incomes (usd 8 million) and those of reserve (Usd 10.5 million) registered a slight rise compared to the first quarter of the previous year.

## **d) Current transfers**

Current transfers account was closed in a positive balance of usd 210 million. This is the same balance as the one of the first quarter of 2003; however, 12 per cent lower than the current transfers balance of the last quarter of 2003. The main part is occupied by remittances with about 85 per cent. During this period, these transfers mounted to usd 194 million. The positive balance of current transfers covered 72 per cent of the deficit in goods and services.

## **II. Capital and financial account**

Net capital flows were usd 59 million. Behind this positive figure, we find the capital transfer inflows of usd 34 million and the positive balance of the financial account of about usd 25 million. The financial account balance was usd 25 million, which implies that Albania registered net capital inflows in this period. The financial account registered a net rise of liabilities of usd 88

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<sup>1</sup> Always referring to the first quarter

million. The rise of liabilities was due to: direct investment inflows (usd 34 million), increase of the official foreign debt (usd 27.5 million), and increase of non-residents' deposits (usd 10 million). On the other side, residents' claims versus non-residents totaled up by usd 62.5 million. The increase of assets was mainly determined by shifts in deposits of foreign resident units (an increase of usd 41 million) as well as by the net increase in other assets. An increase of the same extent in foreign residents' deposits was also registered in the third quarter of 2003, while the other quarters reflected slight increases or falls.

Foreign reserves of the monetary authority soared by usd 15 million. This was partly due to the rise in foreign assets and partly from the rise in SDRs. The reserve stock is estimated to be usd 1 billion and 28 million, and it covers 4.7-month imports of goods and services.

### Balance of Payments

In usd

	3m-I 2003	3m-I 2004
Current account	-32.3	-74.6
Export of goods	108.5	136.5
Import of goods	-394.0	-451.3
Trade balance	-285.5	-314.8
Services: Credit	129.0	196.6
Services: Debit	-125.0	-202.6
Revenues: Credit	44.0	41.6
Revenues: Debit	-5.1	-5.3
Private transfers	198.1	196.8
State transfers	12.1	13.0
Capital account	31.0	34.0
Financial account	50.0	19.1
Direct investments	38.0	35.0
Portfolio investments	-12.1	-1.3
Other *	18.6	-20.5
Net errors and omissions	2.8	30.3
 Total balance	 57.0	 14.9
 Reserves and related items		
Reserve assets	-57.0	-14.9
Loans and credits from the IMF	5.5	6.0
 Special mention		
Total difference in reserves	-67.7	-2.6
From which: foreign exchange difference	10.7	-12.3

\*/ Loans and credits from the IMF are not included

Source: The Bank of Albania