

PRESS STATEMENT

**EXTERNAL SECTOR DEVELOPMENTS IN THE ALBANIAN ECONOMY
DURING THE PERIOD JANUARY – SEPTEMBER 2008**

___ November 2008

The overall balance of payments for the period January – September 2008 resulted with an increase of foreign assets amounting to EUR 101, 4 million. Current account incurred a deficit amounting to EUR 840 million. Capital inflows recorded the value of EUR 767 million, covering up to 91 percent of the current deficit.

The main developments in the external sector of the Albanian economy can be summarised as follows:

- Considerable increase of current expenses and incomes.
- Further deepening of the trade and current deficits.
- Expansion of incoming capital flows in the form of FDIs and of public sector borrowing.
- Increase of foreign reserve of the monetary authority.

I. CURRENT ACCOUNT

Current transactions carried out for the period January – September 2008, amounts to EUR 6, 7 billion, resulting 10 percent higher compared to the transactions carried out during the same period last year. Current account balance for the 9–month period of the year recorded a deficit amounting to EUR 840 million or a yearly increase by 60 percent. The increase of trade deficit and the narrowing of the positive balance of the current accounts and transfers led to the deepening of the current deficit. Commercial exchanges in goods and services represent the highest part of the current transactions of Albania with the world. About 95 percent of current expenses for this period were used for the purchase of goods and services, while 27 percent of current incomes have occurred as transfers. The exports of goods and services covered 24 percent and 40 percent respectively of current incomes.

I.1. FOREIGN TRADE

The trade of goods¹ of Albania with the world for the period January – September 2008 amounted to EUR 3.3 billion, 18 percent higher compared to the same period 2007. Import of goods expenses amounted to EUR 2,547 million, while goods export incomes equated to EUR 708 million. Trade deficit of goods amounted to EUR 1.8 billion, 16 percent higher relative to year 2007. The incomes from goods export covered approximately 28 percent of imports, a ratio comparable with the one of previous year.

¹ The values calculated for the goods trade refer to c.i.f. for imports and to f.o.b for exports.

The yearly increase of goods imports' value resulted 17 percent, comparable to the ratio of last year. The rise of oil price throughout the international markets has impacted the increase of imports value. The import for the active manufacturing is increased annually by 7 percent during the 9-month period of 2007, while the weight of this imports' category against the overall value of imports resulted 12 percent.

Table 1: External trade by goods by Standard International Trade Classification

IMPORTS				EXPORTS		
In million EUR	Value January-September 2008	Value January-September 2007	Yearly change (in %)	January-September 2008	January-September 2007	Yearly change (in %)
Food and live animal	316.3	259.4	22	21.8	19.3	13
Beverages and tobacco	82.0	68.4	20	2.3	10.0	-77
Crude materials	53.6	52.3	2	87.8	57.6	52
Mineral fuels	425.0	314.5	35	71.0	49.0	45
Animal and vegetable oils and fats	39.2	23.1	70	0.2	0.5	-66
Chemicals and related products	248.7	212.4	17	7.8	6.5	20
Manufactured goods	603.5	559.8	8	177.0	126.2	40
Machinery and equipment	526.8	448.1	18	28.6	22.9	25
Miscellaneous manufactured articles	251.4	231.9	8	311.0	297.7	4
Goods not classified elsewhere	--	--	--	--	--	--
Total	2,546.6	2,169.9	17	707.5	589.4	20

The growth of imports in: fuels, machinery and equipments, food and live animal and manufactured goods, played the main contribution on the increase of expenses for imports: The imports value of these categories against the total value of imports is approximately 73 percent. Imports of mineral products, where mineral fuels imports cover the major part, rose considerably of 35 percent while imports of "machinery and equipment" are increased by 18 percent.

The rise of fuels prices caused the value of their imports, recorded a considerable annual growth, during 2008, approximately of 50 percent. Expenses for fuels for the 9-month period amounted to EUR 210 million relative to EUR 140 million for the 9-month period of 2007. The growth of fuels imports values was completely due to the rise of price, while the physical volume of fuels imports is increased by solely 2 percent compared to last year.

Imports share for the purposes of use has not showed vulnerable changes relative to the previous year. The intermediately goods cover the highest weight of the overall value of imports by 55 percent of total imports and a yearly increase of 23 percent. Imports value of consumer goods increased slightly of 6 percent, while the weight of these imports relative against to total imports has dropped to 31 percent from 34 percent in 2007. Imports value of capital goods, notwithstanding the yearly increase approximately of 20 percent, represents only 14 percent of the general imports value.

Table 2: Imports value by the Classification by Broad Economic Categories

In million euro	Value January –September 2008	Allocation in % (2008)	January – September 2007	Allocation in % (2007)	Annual change in %
Capital goods	344.4	14	285.2	13	21
Intermediary goods	1,412.2	55	1,143.7	53	23
Consumer goods	774.7	30	730.8	34	6
Goods not classified elsewhere	15.4	1	10.2	0	51
Total	2,546.6	100	2,169.9	100	17

Geographical allocation of imports shows up that the European Union countries were the origin places of 60 percent of the overall imports during this period. Trades with Italy and Greece cover the main weight representing 43 percent and 25 percent respectively each against imports with European Union countries. While, it is observed imports from the region countries have been decreased by approximately 6 percent, mainly due to the considerable fall of imports from Serbia. However, the expenses for goods originated from Macedonia and Kosovo rose by 27 and 10 percent respectively, thus increasing the weight both countries cover relevant to the trade carried out with the rest of the region.

Exports from Albania to the rest of the world during the 9-month period resulted by 20 percent higher compared to the same period of previous year. Exports from active manufacturing industry, which from years now has built up the profile and composition of the exports at home, rose by 6 percent while net revenues from this category of exports against the overall exports recorded the rate of 60 percent.

Value of exports at home amounted to EUR 290 million and has incurred a considerable annual growth of 47 percent. The demand of foreign market for mineral products and basic metals has been increasing, reflected by the higher rhythms of the annual growth of these goods exports value. Value of mineral products exports at home, covering about ½ of domestic exports is raised by 50 percent during this 9-month period. The increase of mineral fuels and ores exports has given the main contribution to this growth. The exports of basic metals as well have recorded a considerable growth, during this period, being doubled and represent about 30 percent of the domestic export. The growth in this goods category is mainly due to the increase of steel and pig-iron exports increase, resulting about 7 times higher relevant to the same period of the previous year.

Export from Albania, similarly to imports are directed to the countries of European Union, providing about 80 percent of the overall revenues from the goods exports for the period January – September. Italy and Greece remains the traditional partners also related to the domestic exports, attracting 61 and 9 percent respectively of the overall exports. Exports directed to the region countries have recorded a yearly increase of 30 percent. Exports with Kosovo recorded a growth by 46 percent, listing Kosovo as the biggest partner in the region related to exports by 6 percent of the overall value of exports and 45 percent of exports in the region countries.

I.2. DEVELOPMENTS IN THE OTHER ITEMS OF CURRENT ACCOUNT

Transactions in the services category for the period January – September 2008 amounted to EUR 2.3 billion, with a yearly growth by 10 percent. The balance of services account for the 9-month period recorded a deficit amounting to EUR 10 million, while the yearly growth of exports and imports of services resulted within the rates 9-10 percent.

Travel expenses covered the major weight in both service exports and imports, contributing by 78 percent and 72 percent respectively to the overall values of services. Net balance of travel services during the 9-month period is estimated with a surplus amounting to EUR 60 million, reflecting a slight improvement compared to the same period of the year earlier, which recorded a surplus amounting to EUR 54 million. Export of these services, during this 9-month period originated about EUR 900 million revenues and a yearly growth of 19 percent. These revenues in foreign currency resulted 27 percent higher than the revenues from goods exports.

Increase of travel services revenues supplied within the Territory of Albania is mainly due to the increase of non-residents visiting the country, a rise by 36 percent. The survey data for the travel services carried out by the Bank of Albania appears that 47 percent of non - resident travellers adhere to emigrants' categories, or persons of Albanian nationality, that live in other countries. The presence of emigrants in the group of non-resident visitors is specifically high during the third quarter, when a considerable number of emigrants visit Albania for personal purposes.

The value of imported travelling services, or residents consume abroad is estimated to EUR 840 million euro. This volume results 20 percent higher than the period January-September of previous year. Travellers' number, increasing by 24 percent appeared the principal determinant of this growth. The overall rise of prices in the Euro zone countries, which are the main destinations of resident travellers, has impacted as well the increase of average expenses per traveller, and consequently the general value of travelling imports and services. The deficit of transport services is deepened approximately 2.7 times reflecting the insufficiency of goods trading. "Other services" was closed with a surplus of EUR 62 million, thus being significantly improved during the time frame of a year. Positive signals are surveyed within this category in the services of telecommunication.

The Albanian economy continues to acquire income denominated in foreign currencies from the work of seasonal employees and from the foreign reserve investments of banking system in the non-resident financial institutions, and simultaneously to pay the interests on feign debt. The net transactions result of income was positive as well during this 9-month period amounting to EUR 194 million by a yearly increase of 13 percent. This growth derives mainly from the portfolio investments and from the investment of our foreign reserve with non-resident instructions. Simultaneously, outflows as foreign

debt interests are estimated to EUR 16 million with an increase of 23 percent compared to the same period last year. Labour incomes, relative to the 9-month period of previous year, have been drooping by 67 percent and have recorded the figure of EUR 28 million.

Balance of current transfers during the period January – September recorded a surplus amounting to EUR 670 million. Remittances from Albanian emigrants living abroad continue to cover the main weight (about 78 percent) of incomes in this category. These transfers have amounted to EUR 623 million for this period covering about 37 percent of goods trade deficit. These transfers, relative to the same period of 2007, are assessed 13 percent lower. During this period it is observed a shift of these foreign flows from those of current use to various types of investments.

II. CAPITAL AND FINANCIAL ACCOUNT

The capital movements, during the 9-month period 2008, recorded a net flow of EUR 767 million and provided the financing at 91 percent of current deficit. Capital inflow transfers and the positive balance of the financial account, amounting approximately to EUR 58 million and EUR 710 million respectively, are the main components of this flow.

The financial account for the 9-month period resulted in a positive balance, characterised by a higher increase of financial liabilities of Albania against the world (approximately EUR 768 million) than the growth of resident assets abroad (approximately EUR 59 million). The increase of financial liabilities versus the world for this 9-month period was due to the capital inflows as foreign direct investments, borrowing from abroad and short-term liabilities in our banking system against non-resident financial institutions.

Net foreign direct investments during this period are estimated to EUR 380 million, approximately 2.6 percent higher than the same period of pervious year. Foreign Investments at home of EUR 354 million, remains the main factor for the increase of financial liabilities. During this period, the major part of foreign investments inflows (about 64 percent) derives from the investments in the financial sector, mainly with the commercial banks, the increase of foreign investment amounts to EUR 210 million or about 2 times higher than the same period of last year. Investments in hydro-carbons operations in the research blocs and sources cover the second place for the weight against the general foreign investments flows. Investment in telecommunication has been fallen over the 9-month period due to the profit allocation of companies operating in this sector, as dividends.

An other important factor for the increase of financial liabilities are the granting of long-term and soft loans from abroad, which have augmented the liabilities due to borrowing by EUR 254 million. These liabilities are assessed 2.8 times higher relevant to the same period of the year earlier due to the increase of public sector borrowing.

Foreign debt services as payments of principal and interest are estimated to EUR 68 million, equal by 9.7 percent of goods exports.

Financial assets of the Albanian economy are increased amounting to EUR 59 million. The rise was mainly due to the increase of assets as portfolio investments (EUR 10 million), and of the investments of banking system reserves in the international market as deposits (EUR 72 million). On the other hand, direct investments abroad have been decreasing by EUR 26 million.

Reserve assets of Monetary Authority are increased by EUR 101.4 million. At the end of the 9-month period 2008, these reserves recorded a rate of EUR 1.6 billion, sufficiently to cover 4 months of imports and services.

Table 3: Balance of Payments for the period 2007 -2008

In million EUR	9M-2007	9M-2008
Current account	(533.4)	(842.9)
Merchandise: exports	589.5	707.5
Merchandise: Imports	(2,060.2)	(2,406.0)
Trade Balance	(1,470.8)	(1,698.5)
Services: Credit	1,056.9	1,154.6
Services: Debit	(1,059.9)	(1,164.6)
Income: Credit	213.6	255.8
Income Debit	(41.9)	(62.3)
Private Unrequired Transfers	723.4	656.0
Official Unrequired Transfers	45.2	16.0
Capital Account	65.2	57.9
Financial Account	575.8	709.5
Direct Investment	370.5	380.0
Portfolio Investment	(0.7)	(10.0)
Other Capital*	200.5	344.2
Net errors and Omissions	65.1	176.9
Overall Balance	172.7	101.4
Reserves and related items		
Reserves Assets	(172.7)	(101.4)
Use of IMF Credit and Loans	5.5	(4.7)
Memorandum Items		
Total Change in Reserve Assets	146.7	121.4
f which: Change due to Exchange Rate	(25.9)	20.0

* not including use of IMF credit and loans.

Source: Bank of Albania.