

Albania: Selected Issues and Statistical Appendix

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ALBANIA

Selected Issues and Statistical Appendix

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Approved by European Department

February 10, 2005

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I. MONETARY POLICY AND DOLLARIZATION IN ALBANIA¹

A. Introduction

1. **Dollarization in Albania began with the transition process as a market response to mitigate risk and was instrumental in expanding the supply of scarce foreign currency.** As legal restrictions were removed, agents switched into foreign currency assets in order to safeguard wealth in the absence of acceptable domestic currency-denominated vehicles.

2. **This condition has persisted in the financial system alongside the considerable transformation that has taken place since 1998, where legal, regulatory, and technological reforms have resulted in significant modernization of the banking system.** The recent privatization of the Savings Bank has catalyzed competition and technological innovation, both of which are increasing rapidly, as is credit provision, albeit from a low base. With an already functioning real time gross settlements system, and the completion of a bulk settlement system anticipated for the second half of 2005, the banking system is well positioned to expand its role in economic development.

3. **The technical expertise and effectiveness of the central bank has also improved considerably.** Since gaining independence in 1998, the Bank of Albania's (BoA) conduct of monetary policy—supported by fiscal consolidation—has been instrumental in maintaining price stability; while policy instruments and technical expertise have evolved steadily. Direct credit and administered interest rates were replaced by indirect instruments of monetary control in 2000; and it is indicative of the progress made to date that the BoA is currently working towards the formal adoption of inflation targeting. Looking ahead, monetary policy may need to take on an increasing share of the burden of stabilization—as the high social and infrastructure needs of Albania could place limits on the future contribution from fiscal policy; while the demand effects of the rapidly expanding stock of bank credit will be increasingly felt over time.

4. **This chapter will examine the issue of dollarization in Albania against the background of rapidly-evolving banking, policy and prudential systems, and of the growing importance of monetary policy as a tool for demand management.** The period covered is 1998—the immediate aftermath of the pyramid scheme collapse—to the present, which is a period of impressive, though gradual, transformation rather than of abrupt structural changes, a banking system stress episode in early 2002 notwithstanding. The main questions and conclusions are as follows:

- **What is the extent and type of dollarization in Albania?** Albania is a moderately dollarized economy, characterized by a limited degree of financial, payments, and real dollarization.
- **What factors are affecting the type and evolution of dollarization?** The portfolio choice between domestic and foreign assets hinges on factors such as preferences and

¹ Prepared by Geoffrey B. Oestreicher.

confidence that are not easily quantifiable. Nonetheless, the available evidence indicates that the pace and direction of dollarization has stabilized through a credible and appropriate policy stance and by a corresponding increase in confidence in the currency, and the banking system.

- **How does the degree and type of dollarization in Albania influence the effectiveness of monetary policy?** The chapter identifies four channels through which financial dollarization can theoretically affect monetary policy; and investigates, to the extent allowed by the available data, their relevance in the case of Albania. The chapter concludes that at this stage in the development of the banking system, dollarization does not pose a significant threat to banking sector soundness. There is evidence that dollarization has weakened the monetary transmission mechanism in its capacity to affect activity. However, the increased sensitivity of the exchange rate to changes in domestic interest rates brought about by dollarization has likely improved the response of the price level to policy actions, although at a cost of increased exchange rate volatility.
- **What overall conclusions emerge from this examination?** The main implications drawn from the analysis arise from the premise that dollarization increases the responsiveness of the exchange rate and currency portfolio choice to interest rate signals and to changes in market sentiment. The exchange rate would be expected to be subject to greater volatility and markets to be less forgiving of policies they perceive to be poorly designed—with the implication that dollarization implies a heightened need to pursue sound financial and prudential policies and to maintain adequate reserve cover.

B. Dollarization in Albania

5. **This section will explore the extent and nature of dollarization in Albania.** The economic literature generally distinguishes three types of dollarization. **Financial dollarization** (also referred to as asset dollarization or asset substitution) is where a portion of financial assets held by the private sector (both at home and abroad) as a store of value are denominated in foreign currency. **Payments dollarization** (currency substitution) is where a portion of financial assets held and used by the private sector for transactions purposes is denominated in foreign currency. **Real dollarization** is where key prices such as wages, but also those of goods, are indexed to a foreign currency, although actual payment may take place in local currency.

6. **In Albania, the distinction between these latter two definitions of dollarization is somewhat blurred.** While the lek is the preferred means of payment for smaller purchases, foreign currency is widely accepted for most transactions and currencies are freely convertible. Foreign currencies—initially the US dollar but increasingly the euro—denominate the prices of high-value purchases such as real estate, cars and consumer durables, and there is some evidence that some tradables prices are informally indexed to the exchange rate. However, the low transactions costs associated with currency conversion renders buyers and sellers relatively indifferent as to which currency effects final payment. A strict separation of payments dollarization from real dollarization is therefore difficult and—

under such circumstances—not particularly meaningful. For the purposes of this chapter, the term payments dollarization will therefore be used to include both conditions.²

Financial dollarization

7. **The extent of financial dollarization is generally estimated by the ratio of foreign currency deposits in the domestic banking system to broad money, total deposits, and domestic currency deposits (Table 1).** Although more accurate estimators would include in

Table 1. Foreign Currency Deposits in Transition Economies, 1998-2004

	1998	1999	2000	2001	2002	2003	2004 Q1	Average 1999-2002
(As a percent of total deposits)								
Croatia	73.8	73.6	71.1	73.6	67.7	64.3	64.2	70.1
Tajikistan	62.8	65.5	68.0	61.5	57.2	75.3	64.1	65.5
Kyrgyz Republic	55.9	60.9	65.0	62.4	64.3	66.8	64.7	63.9
Kazakhstan	38.3	47.5	51.0	60.5	59.9	47.1	...	53.2
Bulgaria	51.1	50.3	54.0	52.8	49.6	48.3	49.1	51.0
Average	43.5	46.5	48.5	50.8	46.0	47.9	50.7	47.9
Macedonia	27.5	24.1	28.1	56.3	49.6	71.8	52.5	46.0
Romania	37.3	43.2	47.0	49.3	44.7	42.5	44.4	45.4
Latvia	45.4	48.2	46.8	45.0	40.8	37.5	36.4	43.7
Mongolia	...	45.4	43.8	39.4	38.8	...	...	41.8
Lithuania	36.3	43.7	45.6	42.8	32.6	...	...	41.2
Slovenia	26.8	30.1	33.5	33.8	45.5	29.4	...	34.4
Albania	23.5	25.2	27.8	32.3	32.2	30.6	30.4	29.6
Hungary	...	...	...	...	15.4	13.6	...	14.5
(As a percent of domestic currency deposits)								
Average	95.4	104.5	111.1	118.0	95.6	109.8	116.2	107.8
Albania	30.7	33.6	38.5	47.8	47.4	44.1	43.7	42.3
(As a percent of broad money)								
Average	29.8	32.0	34.6	38.3	34.1	33.9	33.9	34.6
Albania	16.8	18.2	19.4	22.6	22.1	22.1	22.6	20.9

Source: IMF country reports

² Wage contracts are not in general indexed to the exchange rate or to foreign currency.

the numerator foreign currency cash in circulation as well as foreign assets held abroad by residents, these data are not available for most countries—including for Albania—and this study will confine itself to estimates obtained from banking sector data.³ **Measured in this way,⁴ the degree of financial dollarization in Albania can be seen to be well below the average for transition countries.** Albania is, in fact, one of the least dollarized economies in the sample.

8. **In comparison with non-transition economies, Albania is dollarized to about the same degree as the Asian and Central American average, but well below the average for South America, the Middle East and Africa (Table 2).**

Table 2. Regional Comparison of Dollarization, 1998-2001
(Foreign currency deposits in percent of total deposits)

	Number of countries	1998	1999	2000	2001	Average 1998-2001
South America	8	49.4	53.2	54.0	55.9	53.1
Transition economies	13	48.5	50.8	46.0	47.9	48.3
Middle East	7	37.7	37.5	38.2	41.9	38.8
Africa	14	27.8	28.9	32.7	33.2	30.7
Asia	13	26.8	28.8	28.7	28.2	28.1
Central America and Mexico	7	22.0	22.1	22.5	24.7	22.8
Caribbean	10	6.8	6.7	6.1	6.2	6.5
Industrial countries	14	7.5	6.7	7.0	6.6	7.0
Albania	1	23.5	25.2	27.8	32.3	27.2

Source: IMF Occasional Paper No. 230; and IMF country reports

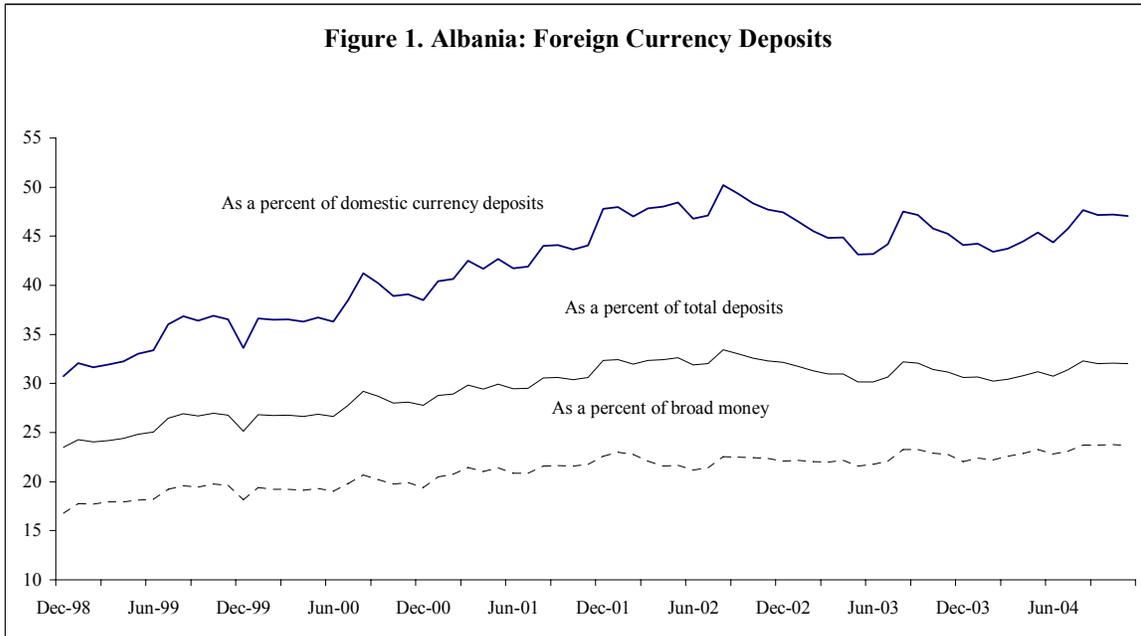
Evolution of financial dollarization

9. **The level of financial dollarization in Albania peaked in August 2002.** The peak corresponded to the aftermath of a banking stress episode earlier in the same year when the flight to foreign currency and cash had reached its maximum extent. Since that time, the level appears to have stabilized, although by some measures (notably when measured against total

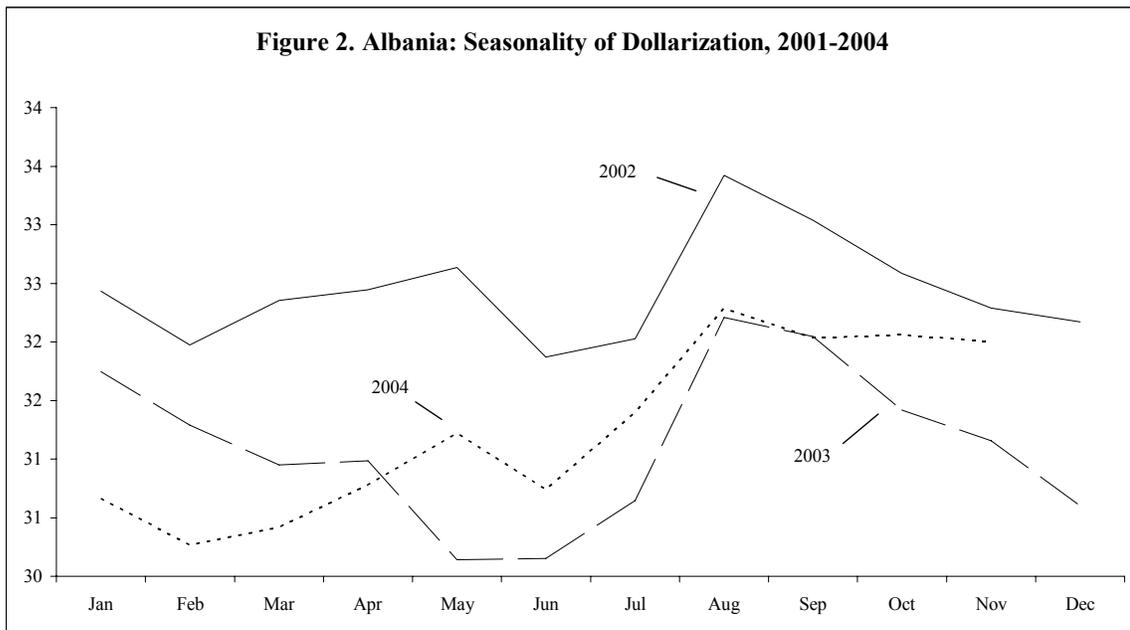
³ Attempts have been made in the literature to estimate these additional variables. See for example Baliño, Bennett, and Borensztein (1999) and Oomes (2003).

⁴ The Bank of Albania adopted a new reporting standard in December 2002, in which the definitions of various aggregates, including foreign currency deposits were changed. This study uses the old data standard, for which consistent series are available from August 1993 to the present, implying slight differences with monetary numbers reported in the staff report.

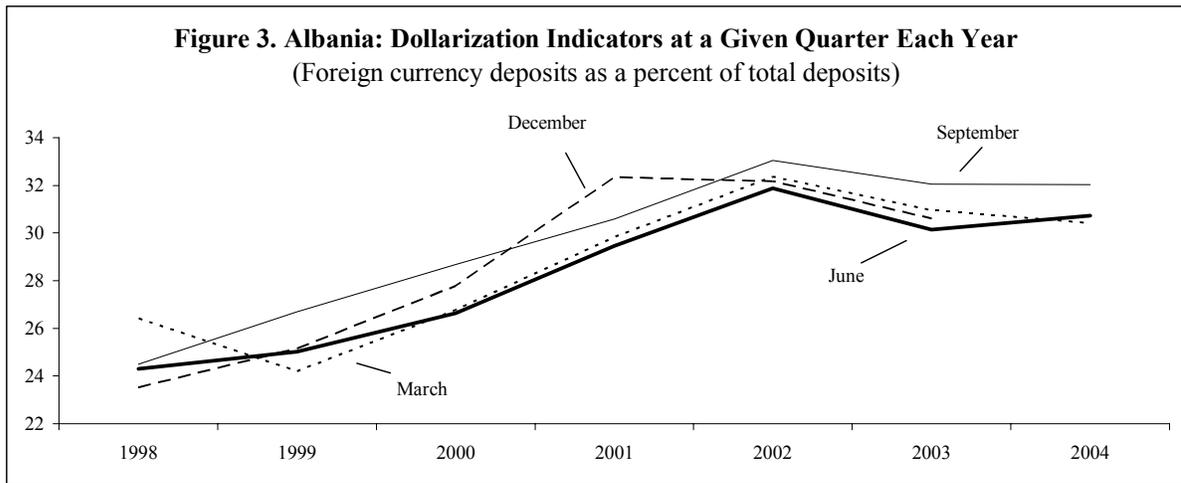
deposits or domestic deposits) there is evidence of a slight decline, particularly when adjusted for seasonality (see below).



The degree of dollarization can be seen to be cyclical within each year, rising in the third quarter with the influx of migrants' remittances, export earnings and tourist spending; and declining with the expansion of import expenditure at the end of the year.



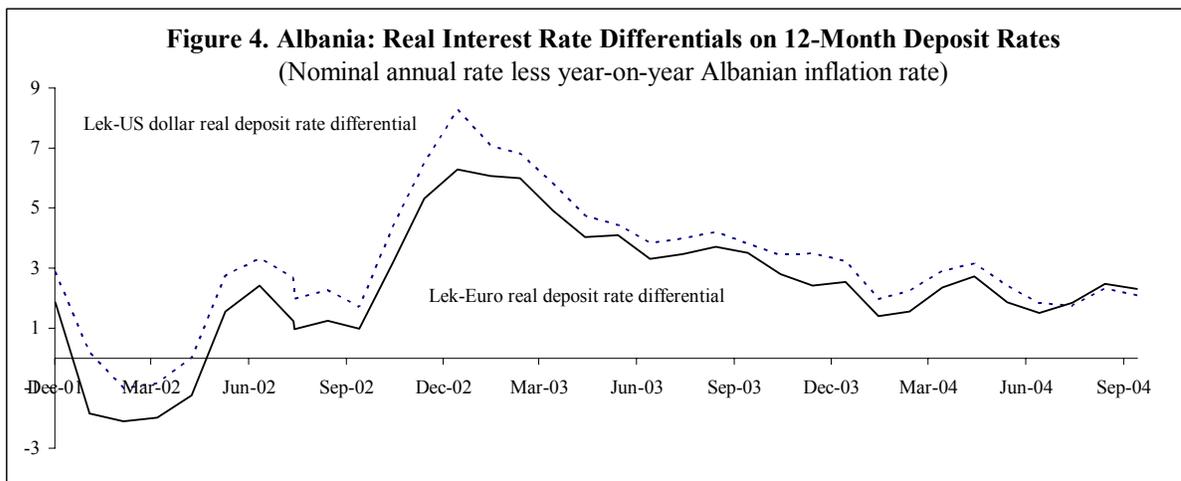
Abstracting from the cyclical pattern by measuring year-on-year illustrates more clearly the stabilization—and possible slight decline—in the level of dollarization over the last three years.



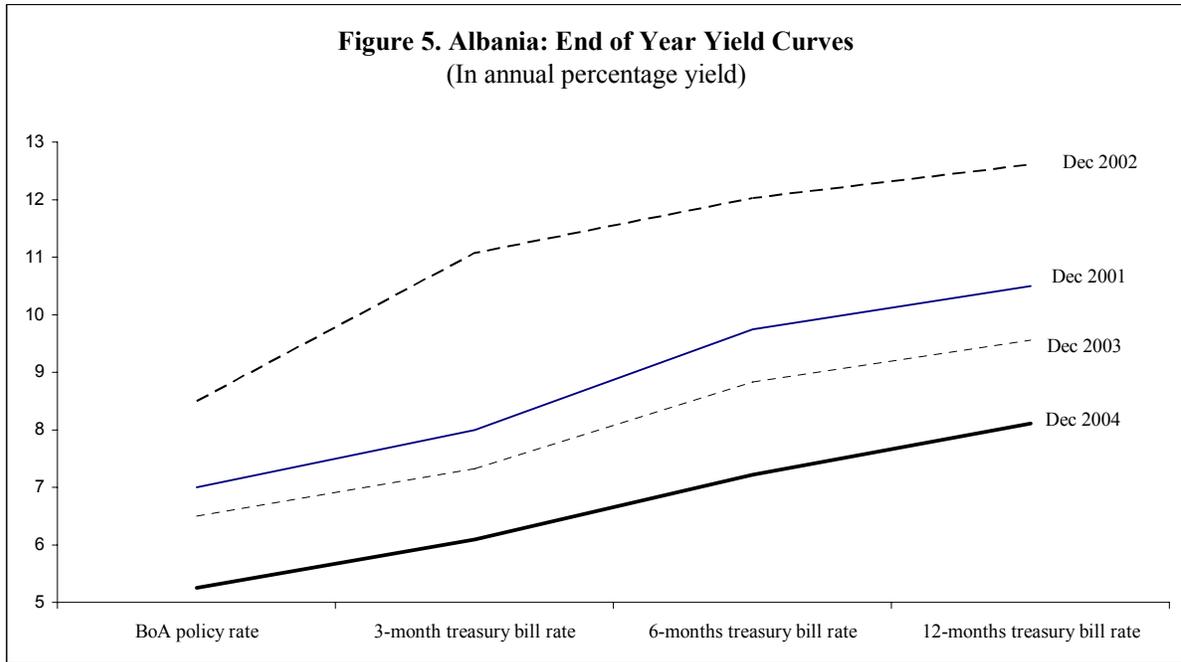
10. **The process of dollarization is theoretically symmetrical, in that dollarization is generally held to be reversible if the conditions that initially gave rise to it are themselves reversed.** This would require, inter alia, the development of greater confidence in the domestic policy environment; and the existence of domestic assets capable of fulfilling the role of store of wealth function and delivering a positive real rate of return competitive on a risk-adjusted basis with foreign assets.

11. **By late 2002 to early 2003, all of these conditions appear to have been satisfied.** The evolution of monetary indicators since late August 2002 would support the premise that the subsequent stabilization in dollarization was a result of policy initiated by the central bank in response to the banking stress episode; and that this policy was perceived as credible by the markets and accompanied by a general increase in confidence in both the currency and the banking sector.

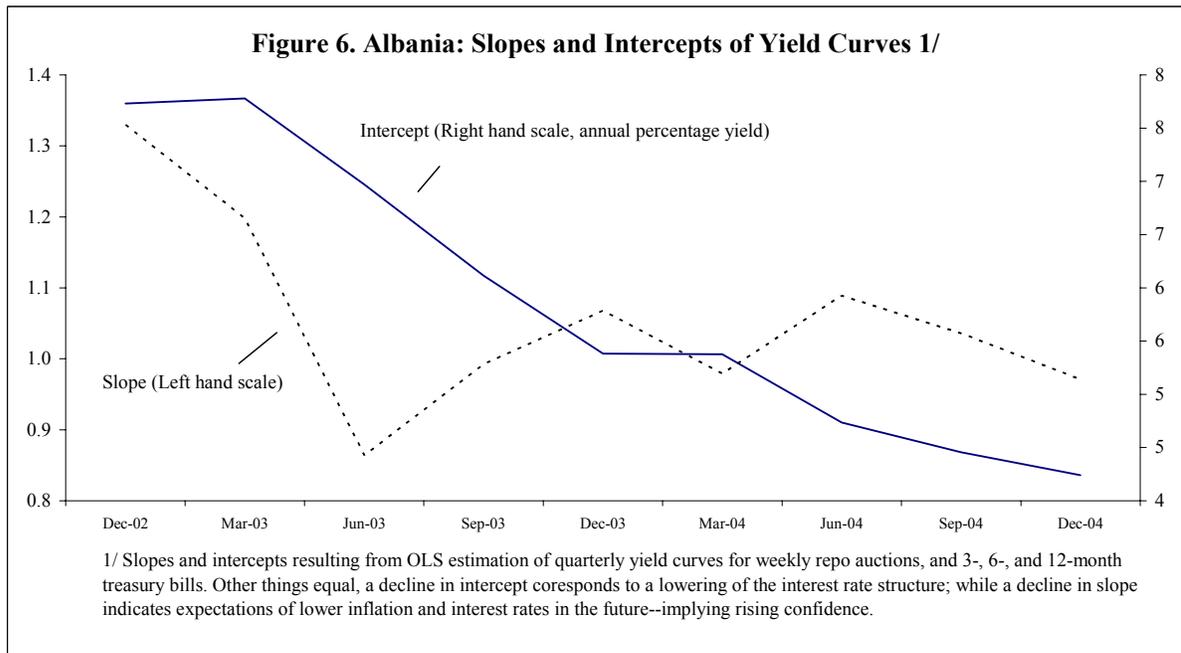
- Interest rates were increased in early 2002 and remained high for most of the next year—despite the early return of inflation to its target band—leading to a widening of the real interest rate differential between lek and foreign currency assets.



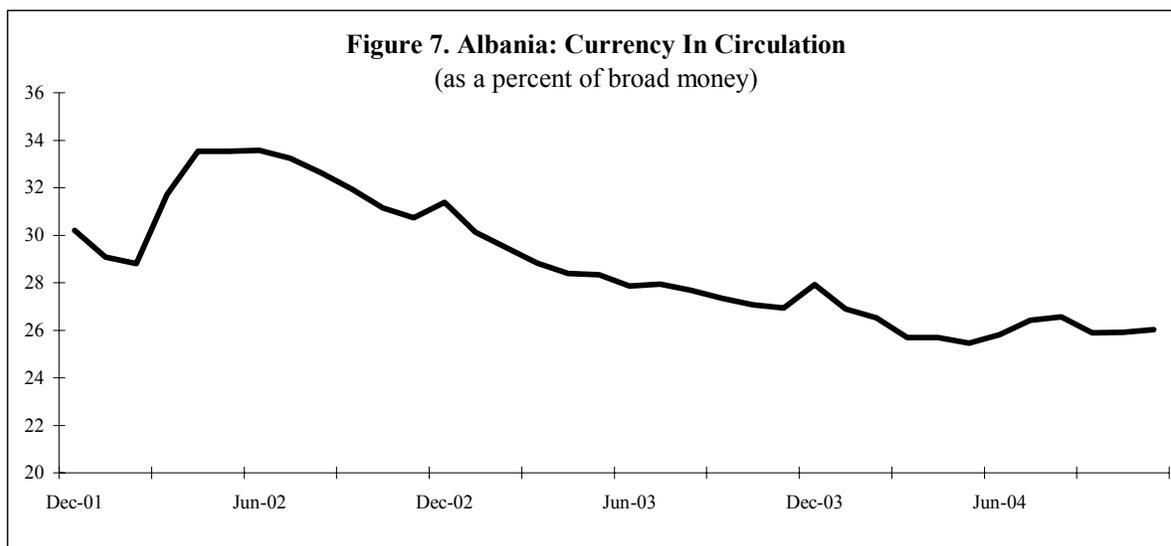
- The credibility of this policy is evidenced by a downward shift of the yield curve at all maturities from end-2002 onward.



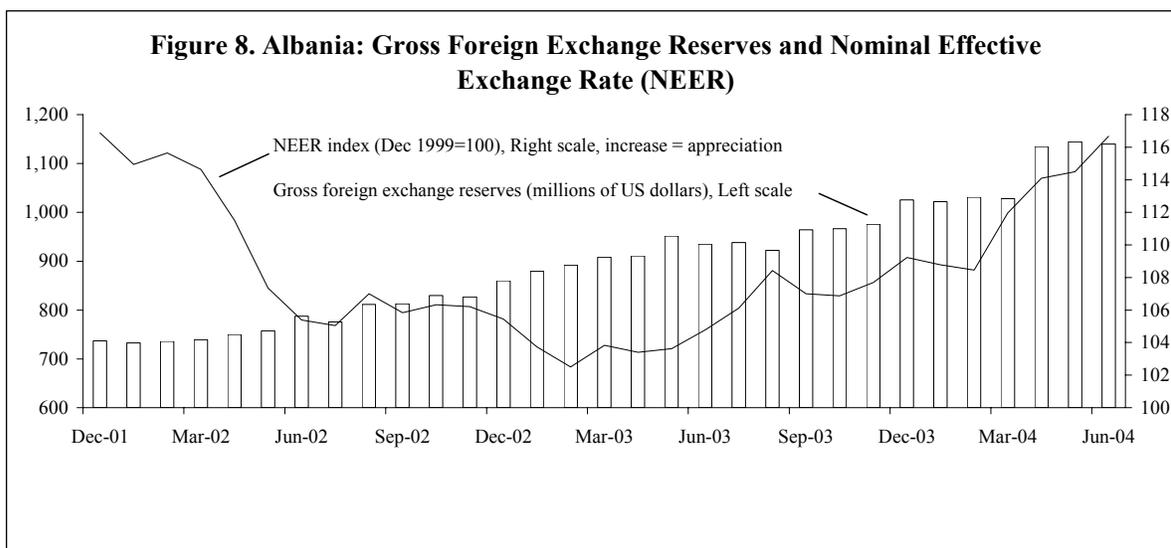
- Indications of an accompanying upward shift in confidence is provided by a mild flattening of the yield curve...



- ...by the subsequent migration of currency in circulation to the banking system ...

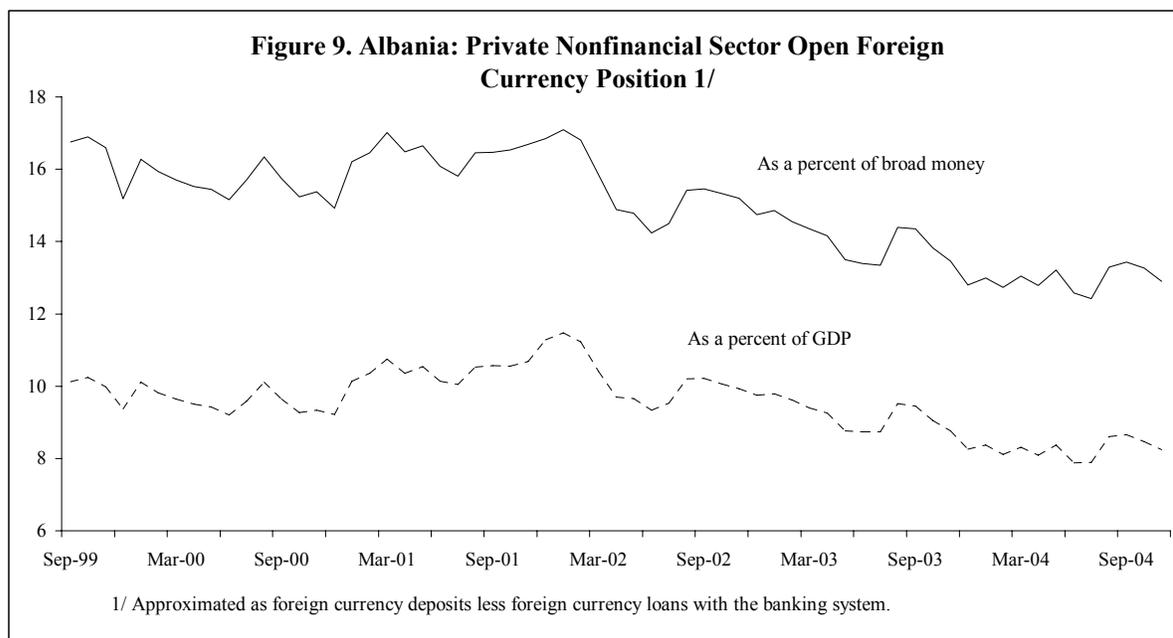


- ...by the considerable appreciation of the lek in 2003-04, which occurred despite substantial purchases of foreign currency by the BoA...



- ...and by the ongoing decline in the private nonfinancial sector open foreign currency position.⁵

⁵ Albanian banks consistently maintain a near balanced open foreign currency position. In such circumstances, the private nonfinancial sector open foreign currency position is closely approximated by the level of commercial bank's net foreign assets.



12. **While it is still too early to postulate on the future evolution of dollarization in Albania, the experience since August 2002 would indicate that hysteresis⁶ has not developed to the point where it would preclude a reversal.** At this point, it is possible that further reductions in the level of dollarization could take place. However, this would presumably be contingent on the maintenance of confidence-inducing policies and appropriate interest rate incentives; and would be expected to be limited to the point where the incentives for de-dollarization are balanced by the corresponding benefits dollarization confers—such as facilitating an optimal risk-adjusted portfolio balance, greater access to world capital markets, and enhanced integration into the world economy.

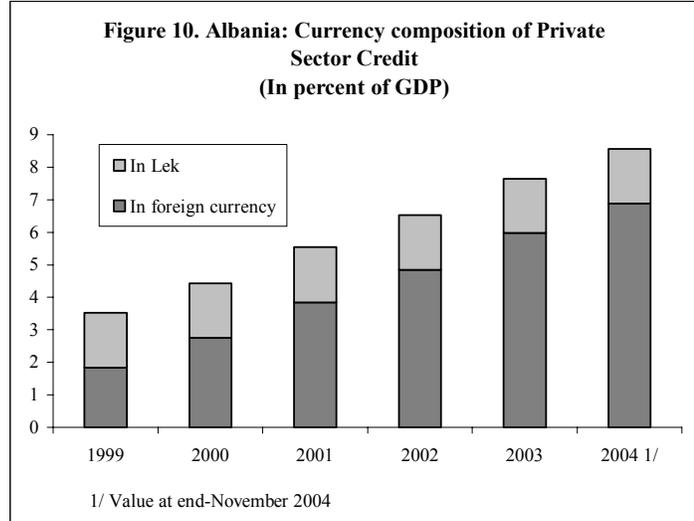
Payments dollarization

13. **Evidence for payments dollarization is more difficult to quantify, although its presence in Albania is readily observable.** Nonetheless, some empirical evidence for its existence is provided through the use of a methodology detailed by Berg, Borensztein, and Chen (1997). Underlying this methodology is the premise that payments dollarization implies a foreign currency component in the monetary aggregate used for transactions purposes. Payments dollarization would then be implied if the monetary aggregate that best predicts inflation contained such a foreign currency component. A series of vector auto regressions carried out for this paper found support for the presence of payments dollarization, as the aggregate M1 plus foreign currency demand deposits was shown to be the best predictor of inflation in Albania—with its statistical significance outperforming that of M1 alone by an order of magnitude.

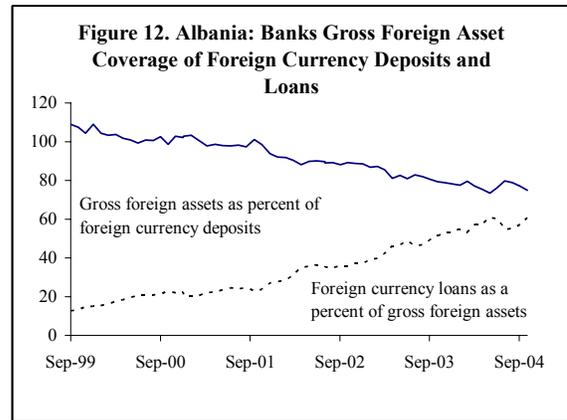
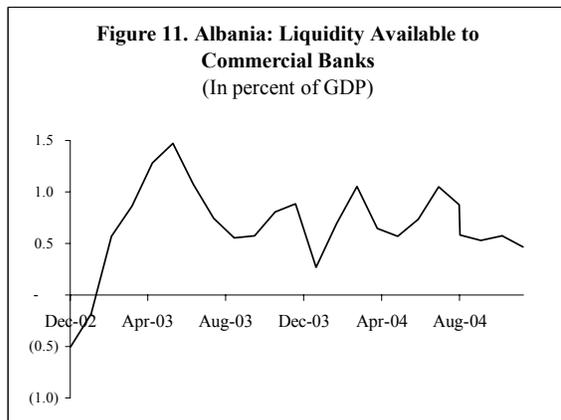
⁶ A term used in the literature for the persistence of dollarization despite significant improvement of the policy stance and outlook.

C. The Albanian Banking System

14. **Despite significant progress over the last 2–3 years—including the privatization in 2004 of the large Savings Bank—the Albanian banking system remains relatively underdeveloped.** Intermediation rates—though rising rapidly—are still low. Of the 46½ percent of GDP held by banks as deposits at end-2004, the equivalent of 27½ percent of GDP were invested in government debt, 9½ percent invested abroad, and only 8½ percent extended as credit to the resident private sector.⁷ Credit in foreign currency accounted for 82 percent of total credit at end-November 2004. The low level of lending is related to the difficulty associated with identifying creditworthy customers combined with risk-averse behavior of commercial banks, and to the existence of a profitable alternative investment for banks’ lek resources in the form of treasury bills.



15. **Banking system liquidity is high, and lending has not been constrained by shortages of loanable funds.** Following recovery from the 2002 banking stress episode, excess lek liquidity of the banking system has averaged about ¾ of a percent of GDP.⁸ In lek terms, the end-November 2004 liquidity position was about equivalent to the total quantity of lek credit extended throughout the year. **Banks’ liquid position in foreign currency is also**



⁷ The privatized Savings Bank accounted for about 54 percent of deposits and 70 percent of government debt held by the banking system at end-November 2004.

⁸ Measured as excess reserves of the commercial banks held at the BoA plus banks’ claims on the BoA through reverse repo operations.

high, but is primarily invested outside the country. The coverage of foreign currency deposits provided by banks' stock of gross foreign assets has been declining over time, but is still very significant—roughly equivalent to 80 percent of deposits.

16. **With the majority of assets invested either abroad or in treasury bills, the Albanian banking system is profitable and well capitalized (Table 3).** As indicated above, coverage of foreign liabilities is high. Commercial banks maintain relatively small open foreign currency positions.⁹ However, the low exchange rate risk borne by the banks is to some extent counterbalanced by a higher level of credit risk, as local borrowers in foreign currency may not be hedged.

Table 3. Albania: Indicators of Banking Sector Soundness, 2002-04

	2002	2003	2004 1/
Regulatory capital as a percent of risk weighted assets	31.6	28.5	25.1
Non performing loans as a percent of total loans	5.6	4.6	4.7
Non performing loans net of provisions as a percent of capital	4.8	3.9	3.4
Non performing loans as a percent of total assets	0.3	0.2	0.2
Return on assets (on an annual basis)	1.2	1.2	1.4
Return on equity (on an annual basis)	19.1	19.5	23.7
Liquid assets to total assets (liquid asset ratio)	77.8	73.6	73.5
Open foreign currency position as a percent of regulatory capital	2.7	7.3	15.0
Open foreign currency position as a percent of foreign currency deposits	5.2	1.3	2.6

Source: Data provided by Bank of Albania.

1/ As at September 2004.

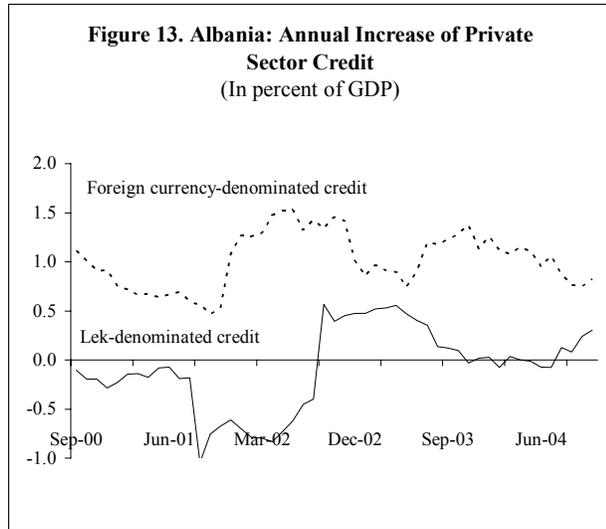
D. Monetary Policy Framework and Dollarization in Albania

17. Given the structure and nature of dollarization described above, it can be argued that dollarization has impaired the efficiency of the monetary transmission mechanism. Although the pace of credit creation is becoming substantial—reaching 1.1 percent of GDP in 2004—it does not yet form the basis for a demand-based transmission mechanism.

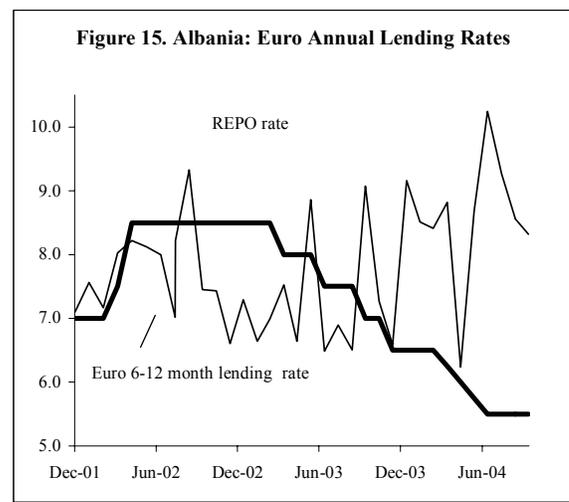
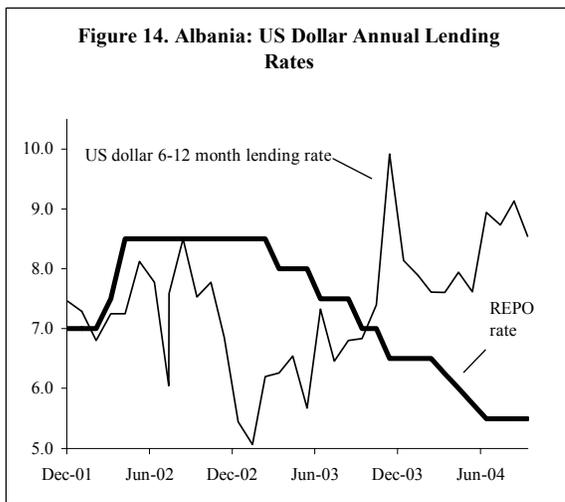
- The dollarized state of the Albanian economy means that only a small amount—0.3

⁹ Prudential guidelines limit the total open foreign currency position to 30 percent of capital and 20 percent for a single currency, but in practice banks hold near balanced positions. This neutrality means that banks' stock of net foreign assets broadly increases with any increase of their foreign currency deposits, and decreases as they extend foreign currency loans or augment their required reserve position in foreign currency at the BoA. The required reserve ratio is 10 percent and must be satisfied in the currency of deposit denomination.

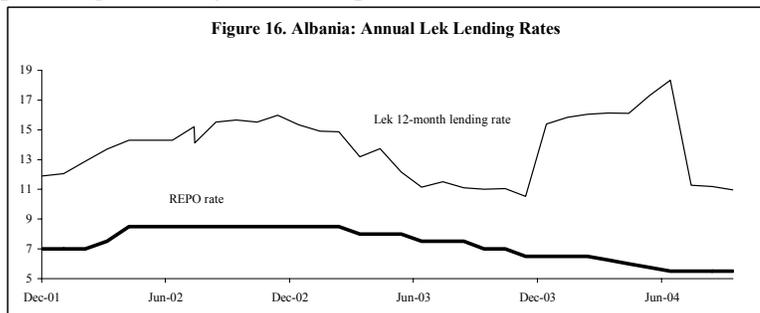
percentage points of GDP—of the expansion of bank credit is from lek lending. For the transmission mechanism to function effectively, therefore, it would be necessary that foreign currency lending as well as lek-denominated lending respond to BoA policy action.



- However, foreign currency lending rates show no correlation with the BoA policy rate.



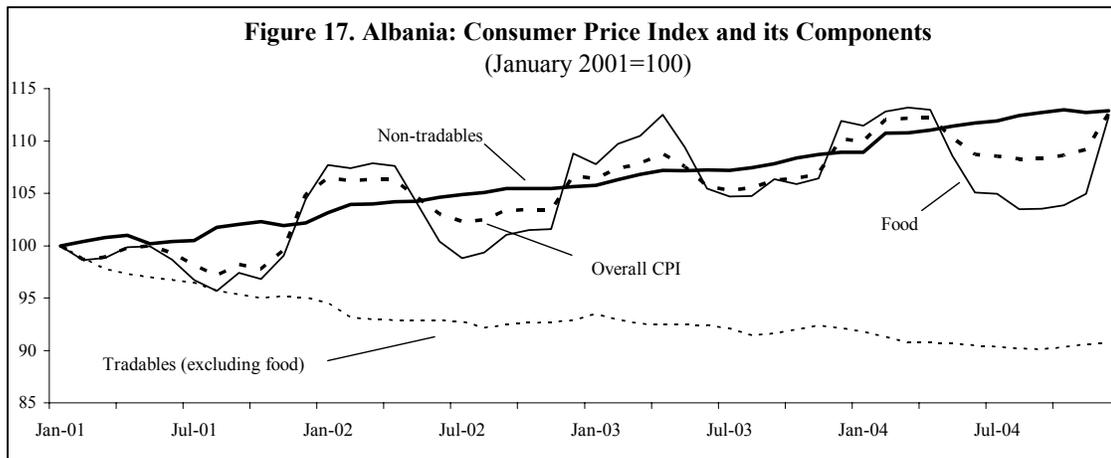
- Even the lek lending rate departs significantly from the path of the REPO rate for most of 2004. While there are institutional reasons for the large increase in lending rates in 2004—mostly related to a structural shift in the type of lending being undertaken—the observed path clearly raises doubt as to the ability of the BoA to influence lending rates, and thereby its ability to affect overall demand in the economy.



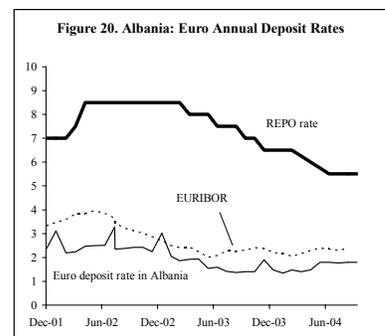
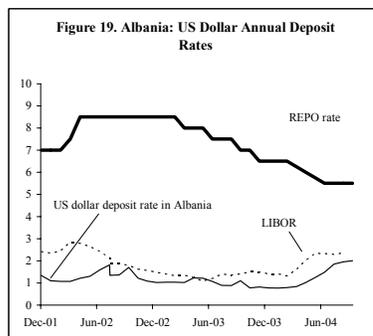
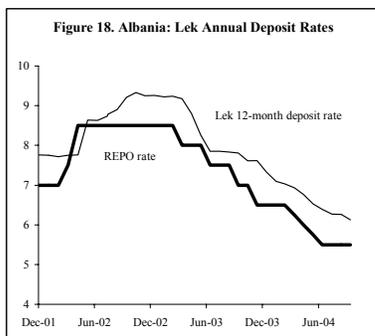
- Moreover, the level of credit is not primarily determined by the interest rate, but more by the availability of creditworthy customers and the level of financial sector development. In particular, consumer credit is still in its nascent stage. Consequently, even if policy actions did affect lending rates, the marginal impact on loan volumes could still be quite small.

18. **In the absence of a real demand driven monetary transmission mechanism, there is evidence that monetary policy affects prices mainly through its influence on the exchange rate¹⁰.** Domestic residents' holdings of foreign currency deposits would increase the sensitivity of the exchange rate to interest rate changes—inasmuch as dollarization lowers residents' transactions costs and increases their familiarity and participation in the foreign exchange market. Some support for such an exchange rate-based mechanism is provided by the following relationships:

- The aggregate price level over the past few years has been contained largely due to the effect of imported goods prices.



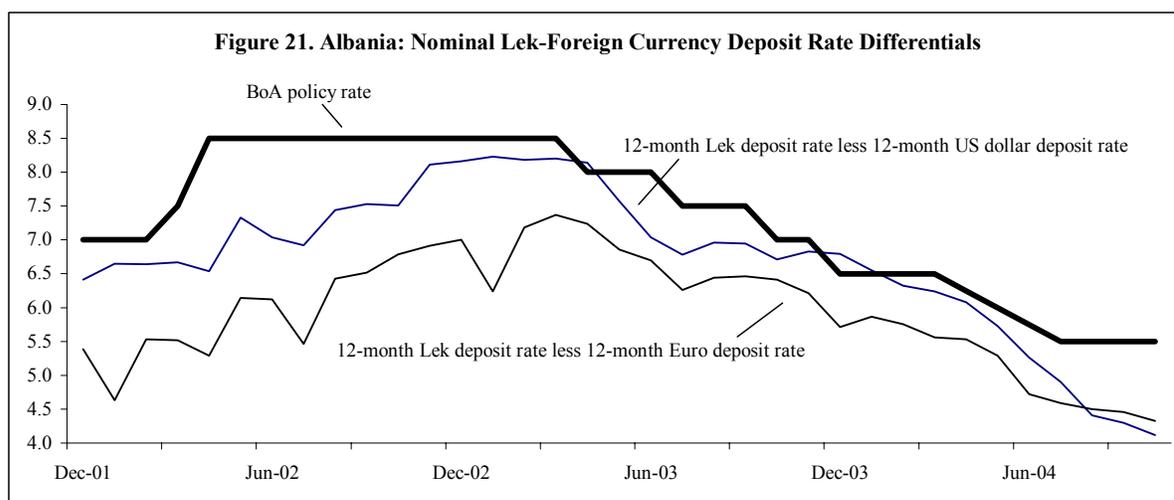
- The BoA appears to have considerable influence over the lek deposit rate. There is, however, no discernable relationship between the policy rate and foreign currency



¹⁰ It is also possible that changes in interest rates affect prices by altering the consumption-savings decision, but limitations on national accounts data currently preclude such an investigation.

deposit rates—which instead follow LIBOR rates.

- The policy stance of BoA following the bank stress episode can therefore be seen to have created a significant interest rate differential in favor of the lek. Although this differential declined in nominal terms over time, the reduction occurred during a period of rising confidence. It can therefore be argued that the nominal declines were compensated by an offsetting fall in the risk premium associated with investment in lek assets—and that the policy stance has in fact remained quite tight over the whole period, fully capable of explaining the observed exchange rate appreciation.



19. Two additional channels exist through which dollarization could potentially impact monetary policy effectiveness.

- The first of these is through the impact of dollarization on banking sector soundness. This is the well-known “fear of floating” argument, whereby foreign currency loans extended to customers without foreign currency income introduce solvency concerns and limit the authorities’ freedom of action in allowing free exchange rate movements.
- The second channel is through wealth effects, whereby exchange rate movements impact the balance sheets of firms and households.¹¹

Regarding the first effect, Section C has discussed the substantial cover of both foreign currency loans and deposits provided by banks’ liquid foreign assets; and the high ratio of capital to risk weighted assets. At the present stage of development, this is probably enough

¹¹ For example, an exchange rate appreciation induced by tighter monetary policy could reduce the domestic currency value of firms’ foreign currency loans and debt service, with the resulting wealth effect and improvement in cash flow potentially offsetting the additional, interest rate-induced cost of borrowing in local currency.

insulation to prevent concerns of banking sector soundness from interfering with monetary policy decisions. All indications are that the BoA has not, in the recent past, needed to take this factor into account in their monetary policy decisions. Regarding the possibility of wealth effects, there is insufficient data to provide evidence for the operation of this channel, and they will not be discussed further in this paper.

E. Conclusions

20. **First, there is no evidence that the hysteresis observed in some countries has taken hold in Albania.** The degree of dollarization appears to be so far responding rationally to economic incentives and to changes in confidence.

21. **Second, dollarization weakens the monetary transmission mechanism by reducing the share of private sector lending denominated in lek and the ability of the BoA to affect demand and activity.** However, given the low level of total credit, and the uncertainty surrounding the interest sensitivity of demand for credit, it is not clear if the transmission mechanism would have been appreciably stronger had the economy not been dollarized. Dollarization could continue to constrain monetary policy implementation even if the volume of credit rises, if the share of lek-denominated credit does not increase over time.

22. **Third, while not fully quantifiable, financial dollarization has increased the responsiveness of the exchange rate to changes in the interest rate, to confidence and to nominal shocks.** This increased sensitivity could potentially increase the efficiency with which monetary policy affects prices directly through the exchange rate. However, at the same time, markets in Albania would be less forgiving of what they perceive as non-optimal macroeconomic policies. The fact of dollarization therefore implies an additional imperative to conduct macroeconomic policy in a transparent and credible manner; and to maintain a relatively high level of reserve cover.

23. **Finally, this chapter has found no indication that banking sector risk has increase with dollarization.** Albanian banks have been significantly substituting net foreign assets held abroad for domestic foreign-currency denominated loans. However, the banking sector's continued application of strict standards for collateral and loan approvals, maintenance of prudential standards for open foreign currency position, combined with their still very high stock of foreign asset cover of foreign currency loans and deposits implies that maturity and liquidity mismatches do not, at present, pose an immediate threat to financial stability. Nor do financial stability concerns at present appear to limit the scope for monetary policy implementation.

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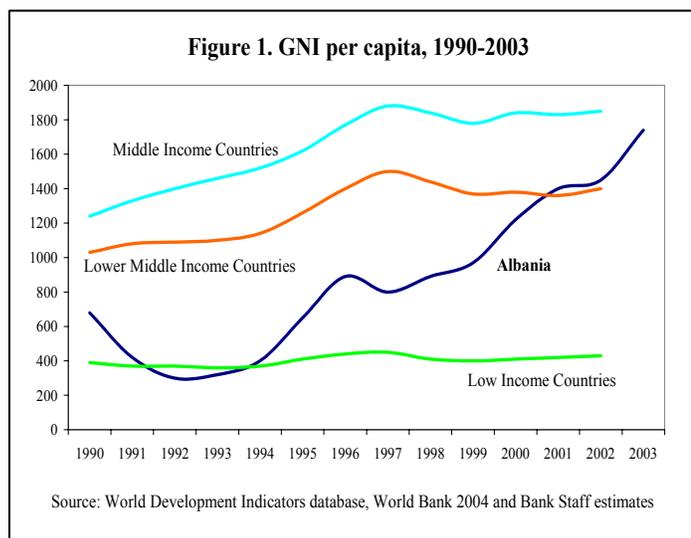
II. A PRIMER ON THE POVERTY SITUATION IN ALBANIA¹

Despite substantial economic progress, living standards in Albania remain among the lowest in Europe—with GDP per capita of \$1,740, a poverty rate of 25 percent and poor conditions of basic services and public infrastructure. A successful poverty reduction strategy, which could also reduce Albania's dependence on external aid and migrants' remittances, should focus on promotion of sustainable growth and reforms in basic infrastructure sectors. A simple analysis suggests that if the fast growth of the last five years were sustained, Albania could cut its poverty rate by half in seven years. Nevertheless, in the short-run and to mitigate the most severe aspects of poverty, particularly among vulnerable groups, some mechanisms are proving effective in lifting income, including targeted social programs and access to micro-credits. Along these lines, efforts to improve targeting of assistance programs and to enhance access to health and education should be a priority. Donor's continued support is as important, including to micro-finance institutions on their potential role of channeling remittances towards productive investment.

A. Introduction

1. **Albania's economic progress in the last decade has been notable.** In the early 1990s, Albania's GNI per capita was comparable to the average for the world's low income countries. Currently, with a GNI per capita of \$1,740, Albania is outperforming the so-called group of lower middle income countries and rapidly becoming a middle income economy (Figure 1).

2. **Despite being the fastest growing country in the region—with average output growth about 7 percent during 1999-2003—Albania continues to have one of the lowest levels of per capita income in Europe and continues to be largely dependent on flows of external assistance.** The average



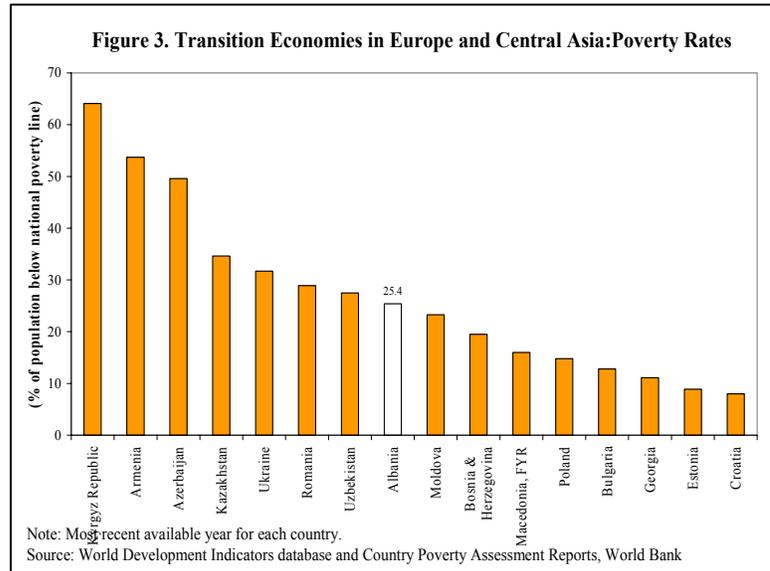
income per capita for other Southeastern European countries—Bosnia and Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Romania, and Serbia and Montenegro—was \$2,100 in 2002, compared with \$1,450 in Albania in the same year. The average for the transition economies in Central Europe and the Baltics—Czech Republic, Estonia, Hungary, Latvia,

¹ Prepared by Marta Ruiz-Arranz.

Lithuania, Poland, Slovakia, and Slovenia—is over three times larger than in Albania (Figure 2).

3. **About one quarter of the Albanian population falls below the national absolute poverty line and 5 percent of the population cannot meet the minimum calorie requirements.**

The incidence of poverty in Albania is large compared with countries in the region, including Bosnia and Herzegovina (with poverty rate of 19 percent), FYR of Macedonia (16 percent), Bulgaria (13 percent), and Croatia (8 percent). Various recent studies put Albania in line with some countries of the Commonwealth of Independent States, such as Uzbekistan and Moldova.² Figures 3–5 and Table 1 provide a regional comparison using different definitions of poverty.



4. **Albania also ranks low in comparison with other transition countries in terms of human development and living standard indicators.** The 2004 UNDP human development index places Albania 65th out of 177 countries. While significantly above the ranking in 2003 that placed Albania 95th, this position is low relative to most of its neighbors, including FYR of Macedonia (60th), Bulgaria (56th) and Croatia (46th) (Table 2). Similarly, UNICEF’s report on the State of the World’s Children for the year 2004 ranks Albania 98th out of 195 countries with respect to under-five mortality rate, 38 and 32 positions worse than Bosnia-Herzegovina and Serbia and Montenegro respectively. On the Millennium Development Goals front, Albania is less likely to meet all the targets by 2015 than its neighbors in Southeastern Europe. According to a recent World Bank study,³ Albania will probably fail at least four of the eight millennium goals (Figure 6). UNDP, however, states that achieving these goals is within Albania’s reach if good policies and additional resources continue to be put in place. Differences in assessments are largely due to the lack of good and reliable indicators, which makes it difficult to measure and track progress properly.

5. **Furthermore, Albania performs poorly in other non-monetary measures that compound poverty.** Lack of access to basic services, such as healthcare, sanitation, sewage,

² World Bank, *Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia, 2004.*

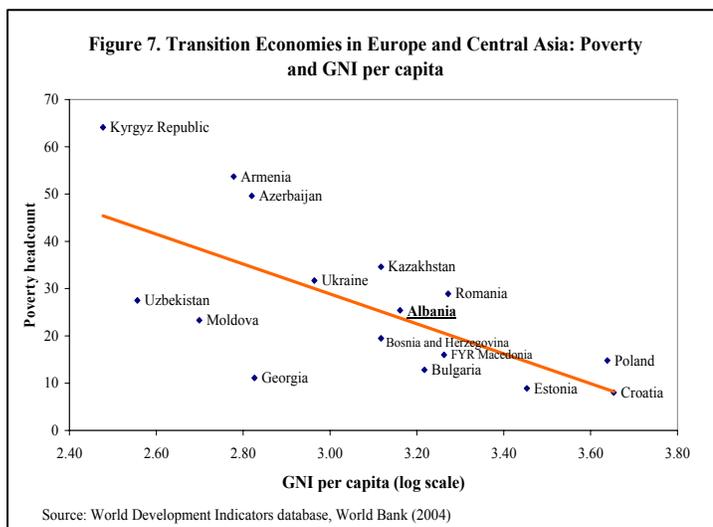
³ World Bank, *The Millennium Development Goals in Europe and Central Asia, 2004.*

electric supply and transportation, is pervasive, especially in rural areas, where less than one in four households have access to running water inside the dwelling and over 80 percent report daily electricity interruptions.

6. **Migration and the resulting remittances constitute important informal safety nets.** With one fifth of the Albanian population currently living abroad, the inflow of remittances has not only contributed to alleviate poverty but also to fuel aggregate domestic consumption and construction activities. Social protection programs, in particular *Ndihme Ekonomike*, also function relatively well to assist those that do not have access to a migration network, although many poor households are not covered. Notwithstanding the relevance of private and public transfers as a source of income for poor households, a more sustainable mechanism for poverty alleviation is warranted. Along these lines, micro-credits which provide poor households and small entrepreneurs with small loans, have the potential to generate employment and income-generating opportunities for those excluded from the formal banking sector in poor rural and peri-urban areas.

7. **Albania's ability to meet the MDG's that relate to poverty depends significantly on the economic growth performance of the country.** Evidence for transition economies in

Europe and Central Asia suggests that there exists a strong association between economic growth and poverty reduction (Figure 7). The analysis of a sample of sixteen transition countries indicates that the average elasticity of the poverty headcount with respect to income per capita is 1.3, implying that if Albania were to maintain an annual growth rate equivalent to its average during 1998–2003, it could reduce poverty by half in seven years. Therefore, a poverty reduction strategy in Albania should, therefore, focus on promotion of sustainable growth.



8. **Because growth enhancing policies and other necessary structural reforms are not likely to benefit everybody in the short run and might increase inequality, special attention should be given to those groups which are affected by the most severe forms of poverty.** Reforms aimed at promoting labor market policies, vocational and general secondary education, as well as improving the provision of public services and the targeting of social assistance programs, among others, could help improve the standards of living of vulnerable groups, including children, elderly, individuals with disabilities, Roma population, and rural poor.

9. **The remainder of the chapter is organized as follows.** Section B analyses the dimensions of poverty in Albania. Poverty alleviation mechanisms that have worked are discussed in Section C and the final section offers concluding remarks and policy implications.

B. Dimensions of Poverty

10. **Poverty in Albania was not officially recognized until the early 1990s.** The unraveling of the communist regime and the resulting social unrest and economic downturn, the collapse of the pyramid schemes in 1997, and more recently the slowdown caused by electric shortages in 2002 have had adverse effects on poverty for many citizens.

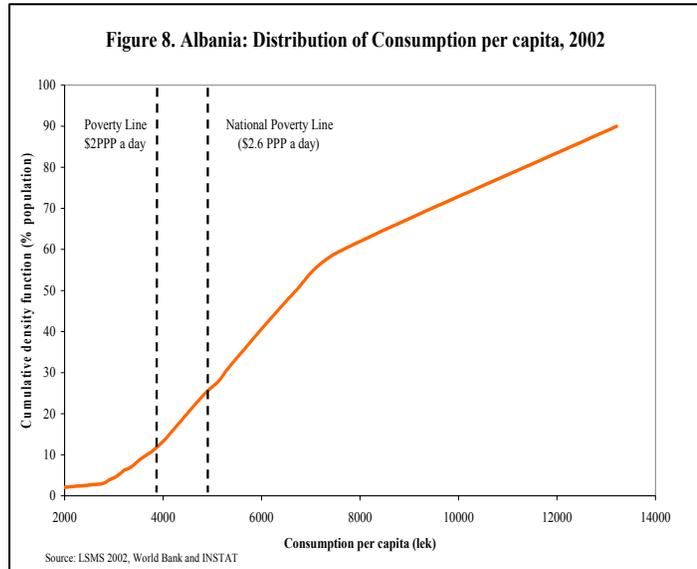
11. **It is difficult to form a consistent assessment on the poverty situation and its trends in the country over the past ten years due to the paucity of relevant statistical data and problems of data reliability.** In addition, different methodologies and geographical coverage preclude comparability of different studies over time. According to the results of a 1993–94 Family Budget Survey, which used an absolute poverty line of 1 USD a day per person, the poverty rate for the Tirana district was 26.2 percent. A Living Condition Survey conducted in 1998, showed that 46.6 percent of Albanians were below the poverty line of 2 USD per capita a day, while 17.4 percent were below the poverty line of 1 USD per capita a day (Table 3).

	TFBS 1993	EWS 1996	LCS 1998	LSMS 2002
Percentage of population with...				
Consumption below basic requirements	25.4
Consumption below minimum calorie requirements	4.7
Income/consumption below 60 percent of median	29.6	13.5
Income/consumption below 40 percent of median	16.2	<2.5
Per capita income/consumption below 2 USD a day	...	64.4	46.6	10.8
Per capita income/consumption below 1 USD a day	26.2	12.3	17.4	< 2
Gini Coefficient 2/	0.43	0.28

1/ The Family Budget Survey (TFBS) was conducted in the Tirana district by INSTAT in 1993-94. EWS 1996 is the Albanian Employment and Welfare Surveys dataset. The Living Condition Survey (LCS) was conducted in 1998 by INSTAT. The Living Standards Measurement Survey (LSMS) was carried out in 2002 by the World Bank. Due to different methodologies, data are not necessarily comparable. 2/ A lower value indicates a more equal distribution of income

12. As the first nationally representative survey, the 2002 Living Standards Measurement Survey (LSMS) provided the first reliable estimate of poverty in Albania.

In 2002, 25.4 percent of the population was below the national poverty line, with a consumption of less than 4891 lek per month (or \$2.6 PPP per day). The poverty line was defined in two steps: First, the absolute poverty line was defined, on the basis of a minimum food basket and minimum calorie intake (2288 calories based on FAO recommendations). There were about 150,000 individuals (4.7 percent of the population) below this line. The national poverty line was then computed including, besides food expenses, basic expenses for clothes, hygiene, transport, health and education. Figure 8 shows the distribution of consumption per capita in Albania.



13. The highest rates of poverty are found in rural areas, particularly in the Mountain districts where almost 45 percent are poor. Poverty in Albania has a very important regional component suggesting that the rapid growth of the last years has benefited Tirana and other urban areas more than the rest of the country. Rural areas lag behind in terms of consumption per capita, education attainment, health outcomes, access to basic public services—that is, in basically all dimensions of welfare. Rural areas depend largely on own-production to meet basic food consumption needs. Therefore, subsistence agriculture is considered as one of the most important safety nets for rural poor.

Basic needs

14. While consumption inequality is moderate and in line with many other countries in the region, disparities in the access to basic services are much more pronounced.

Poverty in Albania is a multidimensional economic and social phenomenon, which crucially depends on employment opportunities and access to health, education, and basic infrastructure. The lack of water, sanitation, reliable electricity and good roads are important determinants of poverty. Table 4 reports some indicators of dwelling conditions and access to services across urban, rural, poor and non-poor households. Inequality along some of these dimensions is large. For instance, while 77 percent of poor rural household do not have access to adequate sanitary facilities, this is the case for only 8 percent of the households in cities. Non-poor households (in terms of income) also face significant deficiencies in terms of access to basic services, albeit much smaller than poor households.

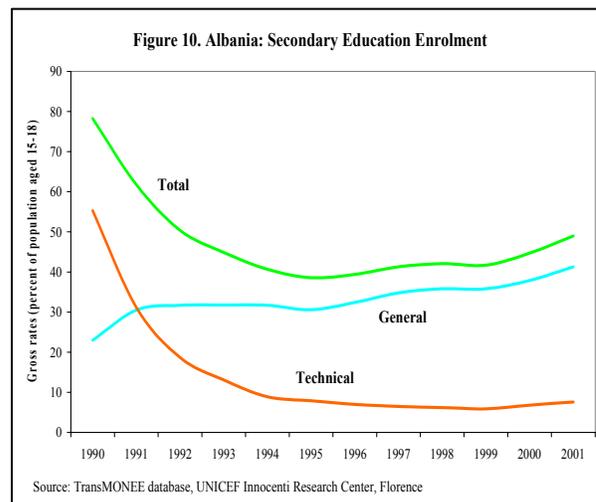
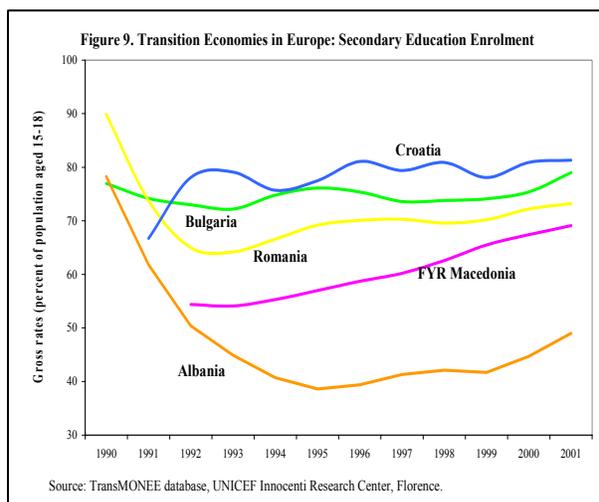
	Non-poor			Poor			Total
	Urban	Rural	Total	Urban	Rural	Total	
No running water	5	52	30	15	56	43	34
Sanitation (without sanitation in dwelling)	8	52	32	19	77	58	39
Electricity (> 6 blackout hours/day)	45	74	61	34	75	62	61
Crowding (3 or more person/room)	16	24	20	48	49	49	28
No access to telephone	23	54	40	57	89	79	47
Distance from health center (> 1 hour)	1	12	7	1	21	15	9

Source: Poverty Assessment for Albania, World Bank, 2003

Education

15. Albania’s education attainment is lower than in most transition economies.

While primary education is nearly universal, secondary school enrolment has declined sharply from 79 percent in 1990 to 40 percent in 2002, owing entirely to falling enrolment rates in technical and vocational training (see Figures 9 and 10). Similarly, attendance to pre-primary education centers dropped significantly during the transition period and has not recovered pre-transition levels. Higher education enrolment rate, at 15 percent, is low in relation to regional comparators, although it has been growing consistently since 1990 (Figure 11). As a result, Albania’s school expectancy is seven years below the OECD average. Against this background, literacy rates have been increasing and reached 99 percent among 15–24 year-olds and roughly 90 percent for the adult population in 2002.



16. **The quality of education appears to have deteriorated amid a relative decline of public expenditures in education.** Public resources for education amounted to 5 percent of GDP in 1991 compared with 2.9 percent in 2003. Simultaneously, quality indicators seem to have worsened. Whether this relation is causal is hard to assess. Particularly, since there are

other factors, such as high internal and external migration, influencing quality measures as well. However, a quite informative indicator of the low value added of education is the fact that secondary education neither reduces the risk of unemployment⁴ nor increases the expected earnings in the job market, relative to primary education. Low returns to secondary education may explain the declining enrolment rates over the last decade. On the other hand, tertiary education does pay off in terms of higher earnings and lower unemployment risk.

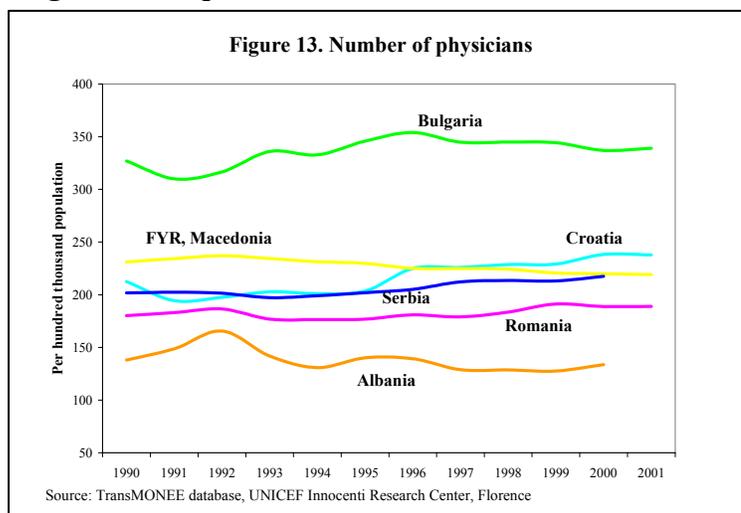
Unemployment

17. **Poverty is clearly correlated with unemployment and low levels of education.** Unemployment in Albania is high, although difficult to measure precisely. According to official statistics, the unemployment rate was 14.9 percent in July 2004, and it is higher for females and among the young. According to the LSMS, the jobless rate is double among the poor. Similarly, the gap in educational attainment between poor and non-poor is substantial, in particular in Tirana. In Tirana more than two thirds of the non-poor adult population hold a post-primary school degree (and 25 percent have a university degree) whereas this is the case for one third among the poor (and only 3.5 percent are university graduates)

Health

18. **While the downward trends in infant and maternal mortality rates are encouraging, attaining the MDG targets will require sustained and substantive investments.** According to official statistics, infant and maternal mortality rates were 16.8 per 1000 births and 21 per 100000 births respectively in 2003. These rate are still high compared with countries in the region but they have declined steadily since 1990 (Figure 12).

In contrast with these figures, life expectancy is among the highest in the area. Regarding health care services, a decline in the number of physicians and hospital beds per hundred thousand population is apparent (see Figure 13), contributing to deteriorate the provision of healthcare. Again, regional variation is substantial, with rural areas seeing most of this deterioration, as opposed to Tirana. Marked improvements have been seen, though, in the

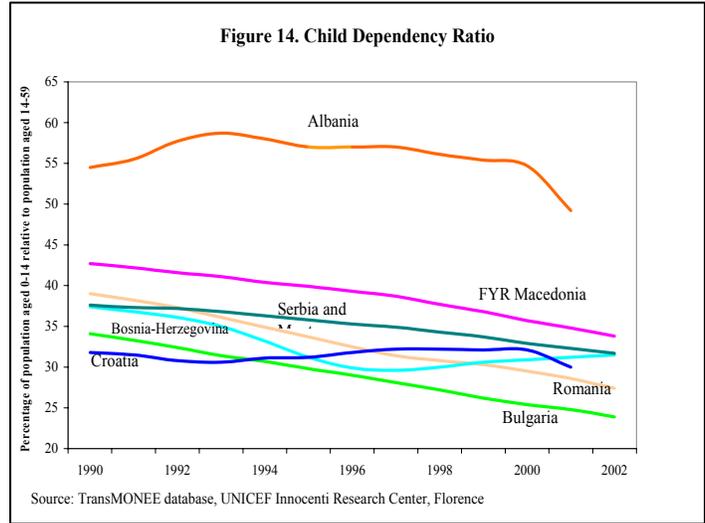


⁴ According to the LSMS, the unemployment rate among those with secondary education is 5 percentage points larger than the rate among those with primary education only.

rate of children immunization and in the incidence of some diseases, such as hepatitis and tuberculosis.

Dependency ratio

19. **In most countries, including Albania, household size—and more specifically the number of children in the household—is a strong indicator of poverty.** Albania has the highest child dependency ratio in Southeastern Europe, with almost twice as much the rate in Croatia. Children are one of the most vulnerable groups in Albania and those at risk of social exclusion and poverty, including orphans, abandoned children and homeless children, account for almost 6 percent of all children.

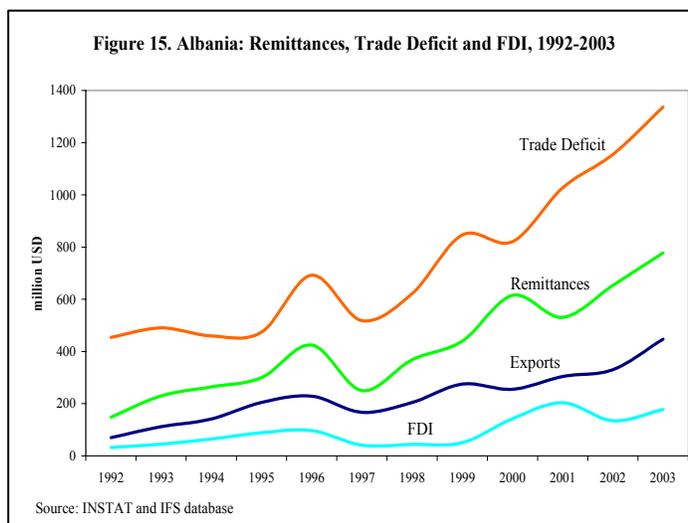


C. Strategies to Cope with Poverty

Migration and remittances

20. **De facto, migration is probably the most important device to cope with poverty and unemployment in Albania.** Since 1990, approximately one fifth of the population, or about 700,000 people, have left the country, mainly to Greece and Italy, and many thousand others have moved from rural to urban areas within Albania. Albania's migration flow has been five times higher than the average migration flow in developing countries. A combination of push and pull factors are responsible for the Albanian diaspora, but poverty, unemployment and political instability are, by far, the most important ones. Some social and economic implications of this phenomenon are: i) remittances, ii) illegal migration, iii) brain drain, and iv) social dislocation and deterioration in the provision of social services in urban areas.

21. **Remittances derived from migration are among the most stable, abundant and secure sources of income for many Albanians.** On average, remittances sent by Albanian migrants abroad represented 14 percent of GDP over the period 1992–2003. They have increased rapidly from \$150 million in 1992 to \$778 million in 2003, and currently constitute the largest source of foreign exchange, greater than the combined value of exports and foreign direct investment. Remittances have traditionally contributed to finance the large trade deficit and in 2003 they were nearly 3½ times larger than total external aid and about 4½ larger than total FDI (Table 5 and Figure 15). Remittances are mainly sent to the country through informal channels. Money transfers through the banking system and other financial service providers have increased only in the recent years.



22. **While migration, and the resulting remittances, has greatly contributed to increase household’s income and to keep many families out of poverty, it is not likely to be a sustainable mechanism for socio-economic development and long-term growth.** Evidence from household surveys suggests that access to a migration network and family exposure to migration is seen by many as the only viable means to escape poverty. Remittances are indeed playing a key role in alleviating poverty. However, remittances are primarily used to meet basic consumption needs of the migrants’ families, and secondarily to improve or build the household dwelling. Only a small part of remittances are used for non-residential investment. Consequently, the use of remittances has not led to the creation of a self-sustained mechanism, which would prevent new migration waves.

Remittances	1996	1997	1998	1999	2000	2001	2002	2003
Million USD	425	250	440	368	615	531	653	778
In % of GDP	14	11	16	11	17	13	15	14
In % of Exports	186	150	215	134	241	174	198	174
In % of Trade Deficit	61	48	71	44	75	52	57	58
In % of FDI	438	603	989	725	431	261	484	438
In % of Foreign Aid	204	174	213	111	285	235	235	339

Note: Foreign Aid consists of all multilateral and bilateral loans and grants, including project-related, technical assistance, BOP support, and food/humanitarian aid.
Source: IMF and Bank of Albania

23. **Furthermore, migration is increasingly imposing heavy social costs.** These include the following. First, the deterioration in the provision of social services in urban areas due to agglomeration in the cities. The share of the total population living in urban areas increased from 36 percent in 1991 to 47 percent in 2001. Second, the deterioration of health and education services in rural areas as the most qualified teachers and doctors migrate to urban centers. Third, brain drain as a growing number of students enroll in universities abroad, and high-skill workers leave the country. In the period 1990-2003, approximately 45 percent of the professors and researchers in universities and other institutions migrated. Finally, illegal migration also fuels organized crime and trafficking of people.

Box 1. Remittances: Highlights from the LSMS 2002

- Averaged across all households, foreign remittances represent 13 percent of total household income (14 percent for non-poor, 8 percent for poor), domestic remittances accounted for an additional 1 percent.
- For households receiving remittances, they represent 47 percent of household income.
- Non-poor households are more likely to receive foreign remittances (23.5 percent) than poor households (16.8 percent) or extremely poor households (10.1 percent).
- Poor households are more likely to receive domestic remittances (5.7 percent) than non-poor households (4.6 percent).
- Average size of monthly remittances are Lek 13,600 for foreign and Lek 5,100 for domestic.

Public transfers

24. **Public transfers are for many poor households the most important source of income and a key mechanism to cope with poverty.** According to the LSMS 2002, public transfers represented, on average, 21.3 percent of household's income. Private transfers represented a further 14 percent. Together, therefore, transfers constitute the most important source of household income, above either earnings from employment (31.5 percent) or agriculture (25 percent).

25. **Nearly three out of five households receive assistance from the public transfer system in Albania.** The system consists of three elements: i) social insurance system, ii) social safety net and iii) labor market policies (see Box 2). Social insurance outlays, mostly old-age pensions, represent the largest component of the public transfer system, amounting to \$330 million (5.4 percent of GDP) in 2003. The second most commonly received public transfer is *Ndihme Ekonomike*, the poverty assistance program, which benefited 129,000 families (18 percent of the population) with an annual budget of \$33 million in 2003. Other social protection programs include disability benefits, which reached \$20 million in 2003, and unemployment insurance, which covered 12,000 unemployed (7.4 percent of all registered unemployed) with monthly payments of Lek 3,780 (\$31 per month using the average exchange rate in 2003). (See Table 6.)

Box 2. Public Transfers in Albania

Social Insurance System. Albania enacted a new Law on Social Insurance in 1993, which created a mandatory, publicly managed contributory system with universal coverage. The Law provides for comprehensive protection against income loss due to old age, disability, loss of primary earner, death, unemployment, general sickness, occupational injury, childbirth and maternity.

Social Safety Net. Consists of three cash social assistance programs and a program of social care services for orphaned, disabled, and elderly people. The social assistance programs are:

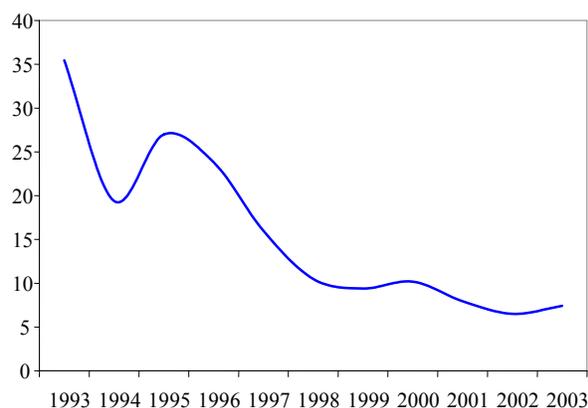
- *Ndihme Ekonomike*: a targeted poverty benefit in cash, initiated in 1993. The base benefit is 95 percent of the individual unemployment benefit.
- Regular monthly allowance for those disabled since childhood. It is a flat rate amounting to 70 percent of the minimum wage.
- Compensation to pensioners and their families for electricity and food price increases. Eligible pensioners are those with dependents, who are unemployed, children and students up to 25.

Labor Market Policies. They include employment promotion programs and professional training among others.

26. **While the annual budget for *Ndihme Ekonomike* has increased 25 percent over the past nine years, its weight in GDP has declined from 1.7 percent in 1994 to 0.5 percent in 2003.** Since the number of recipients has been rather stable, around 18–19 percent of the population, these benefits have been eroded. Another aspect of the current social protection system regards its efficiency to reach the poor people. According to LSMS 2002, three out of four recipient families are poor. However, the program misses more than half of all poor. Currently, the NSSD envisages medium-term reforms in order to increase the efficiency of the scheme and refine eligibility criteria to better target all dimensions of poverty, while preserving incentives and program affordability at the same time.

27. **While the registered jobless rate still remains slightly above the pre-1997 crisis level, the share of unemployed covered by unemployment benefits has declined sharply since 1995.** Unemployment is high, although difficult to measure precisely. According to official statistics, the unemployment rate was 14.6 percent in the third quarter of 2004, and it is higher for female and among the young. About 7.4 percent of unemployed (or 12,000 individuals) receive benefits at present, compared with 27 percent (or 46,100 individuals) in 1995.

Figure 16. Albania: Share of unemployed with benefits, 1993-2003



Source: INSTAT

	Average monthly transfer in lek								
	1995	1996	1997	1998	1999	2000	2001	2002	2003
Unemployment benefits 1/	2200	2500	2500	2500	2500	2500	3100	3600	3780
Old-age urban pension	2840	3380	3514	4212	4653	5197	5921	6446	7055
Old-age rural pension	700	875	818	984	1058	1022	1276	1575	1940
Family social assistance	1981	1413	1803	2728	2513	2495	2420	2659	2596
Disability benefits	1350	2530	3328	4378	4104	4939	5035	5681	6138
	Number of recipients								
	1995	1996	1997	1998	1999	2000	2001	2002	2003
Unemployment benefits	46132	37654	30937	24625	22486	21894	14322	11184	12038
Urban pensions 2/	321218	331160	336782	340983	349602	353278	362811	370550	374061
Rural pensions 2/	161118	165950	169394	174249	177205	180376	182380	184885	185128
Family social assistance	134872	144376	145956	139850	149220	147497	143433	131813	129,172
Disability benefits	16739	19159	18703	25647	30692	37632	40282	43262	45488

Notes: 1/ Monthly unemployment benefits were Lek 3600 during the first half of 2003 and Lek 3960 during the second half.
2/ Urban and rural pensions include old-age pensions, invalidity and survivors pensions.
Source: INSTAT, Institute of Social Insurance

28. **Notwithstanding deficiencies on the targeting front and shrinking coverage of unemployment insurance, the impact of public transfers on poverty alleviation is sizable.** The World Bank analysis of the LSMS suggests that the overall poverty rate of 25.4 percent in 2002 would have been 11.8 percentage points higher—that is, 37.2 percent—if there had been no public programs.¹⁶ In other words, the public safety net contributed to keep out of poverty one third of the poor households before public transfers. Similarly, the extreme poverty rate would have been 6.5 percentage points higher than its actual rate of 4.7 percent.

Micro-credits

29. **Micro-credits have played an important role in both income generating and economic development in Albania since 1992.** By providing small loans to people that are excluded from regular banking credit, microfinance institutions have proven an effective tool in reducing poverty and developing the small private sector, especially in rural and semi-urban areas. In this context, the strengthening of the microfinance sector has become one of the priority measures of the government's strategy for poverty alleviation foreseen in the National Strategy for Socio Economic Development (NSSED).

¹⁶ World Bank, *Albania Poverty Assessment, Report No. 26213-AL, 2003.*

30. **At present there are seven micro lending institutions operational in Albania.** Microfinance services are provided by non-bank financial institutions that operate as non-profit organizations (Besa Foundation, Mountain Areas Financing Foundation, Albania Partner in Micro-Credit, For the Future Foundation and World Vision Lezhe), as well as by a network of Savings and Credit Associations and Village Credit Funds (associated with Rural

Number of MFIs	4 NGO MFIs (124 branches)	94 SCAs and 114 VCFs	1 Microfinance bank
Active loan portfolio (million USD)	17.5	5.6	29.8
Number of active loan clients	10,200	6,500	5,400
Average outstanding loan size (USD)	1,710	856	5,479
Total deposits (million USD)	...	0.21	56.3
Number of depositors	...	2,900	18,700

Source: MFC Mapping Study Data, as of December 2002

Finance Fund and Jehona-SCA). Furthermore, ProCredit Bank (FEDAD until 2002) is the only commercial bank that grants micro-loans. The development of these MFIs has been supported by international donors, NGOs and the Albanian government.

31. **As of December 2002, the total outstanding loan portfolio of all these MFIs amounted to \$53 million, with a number of active loan clients of 22,100.** The average outstanding loan size was \$856 for savings and credit associations and \$1,710 for the other non-bank microfinance institutions (Table 7). Credit default rates have been low, around 2 percent, including during the 1997 crisis, showing a high degree of ownership and commitment. Some of these MFIs are increasingly moving their loan portfolio to higher SME credit, strengthening micro-business development.

32. **Even though the microfinance sector is still small and not completely self-sustainable, it has proven to be effective in reaching districts where commercial banks are not present and in serving clients that are too small or without sufficient collateral for commercial banks, especially in poor rural areas (Table 8).** The existing market is estimated to cover around 10 or 15 percent of all households and micro-enterprises potentially needing micro-credit services. Therefore, the potential for generating employment opportunities and contributing to poverty reduction remains significant.

33. **In addition, policies aimed at channeling remittances towards the Albanian micro-finance system—for example, through agreements with financial associations in Italy and Greece—can have a large development impact.** Micro-finance institutions are well suited for providing money transfer services because they are operating in areas where commercial banks are not present, usually areas of origin of many migrant workers. They can also have an important role in channeling remittances towards productive investments enhancing their social impact in depressed rural areas.

Box 3. Microfinance Institutions in Albania

Rural Finance Fund (RFF)

RFF is one of the most important institutions that provides microfinance services in rural villages of Albania. It originates from a World Bank project started in 1992. RFF manages a network of savings and credit associations (SCA) spread over eight districts, covering 328 villages, and serving 8161 members, with a portfolio of \$7.7 million. Over the last decade has approved over 30,000 credits. Almost half of these loans are used to buy livestock, a quarter for agricultural activities, and a little less than a quarter for trade.

Besa Foundation

Besa Foundation was established in 1999, inheriting the urban component of the World Bank Albanian Development Fund project. Besa Foundation is present in 80 percent of Albanian urban areas and it is operationally and financially sustainable. The typical loan ranges from \$300 to \$10,000. At the end of March 2004, the active loan portfolio amounted to \$14.9 million with 5,080 outstanding clients. The quality of the portfolio is good with a PAR (portfolio at risk) of 2.1 percent. Their key operational medium-term objectives include the provision of around \$59 million in credits through 2006, reach a portfolio of around \$23.7 million at end 2006 and maintain a PAR below 3 percent.

Mountain Areas Financing Fund (MAFF)

MAFF was established by the Government of Albania in 1999 with IFAD and UK DFID financial support. MAFF has been the only financial institution involved in retail lending in the mountain districts of Albania. Its objectives include poverty alleviation in the mountain areas, and increasing welfare by promoting employment and providing income-earning opportunities. MAFF lends to groups (Village Credit Funds), individuals and SMEs. The average loan size is about \$1,100.

For the Future Foundation (FFF)

FFF was founded in 1997 and is financed by a Dutch NGO. FFF offers an effective combination of financial support, capacity building, and agro-technical assistance, focusing on vine growing. FFF's clients are small farmers, who have little or no access to credit.

Albanian Partner in Micro-Credit (PSHM)

PSHM is a member of the Opportunity International network, which includes more than 60 lending institutions in 30 countries around the world. It began operations in Albania in 1999 through a grant from USAID. PSHM's goal is to provide individual and group loans, as well as basic business consulting, to micro-entrepreneurs and SMEs in urban and rural areas that cannot access credit from traditional lending sources. Loans are up to \$7,000 for individuals and up to \$25,000 for SME. PSHM uses the "graduation principle", where after repayment of a first loan, the client may ask for a higher credit. PSHM has a repayment rate of over 99 percent.

World Vision Micro-Credit Program

The program contributes to poverty alleviation by providing loans as well as access to training and technical assistance for micro and small businesses. The program began lending in May 2001 and is now financing operations with grants by the Canadian and Swedish Development Agencies.

Box 3. Microfinance Institutions in Albania (continued)

Jehona National Union of Saving and Credit Association

Jehona is the second SCAs network operating in Albania after RFF, with 41 SCAs in 14 towns, mostly in the South. It has 5500 members, 500 of which have outstanding loans (as of September 2004). The total savings are about EUR 700,000 and the total outstanding loans are about EUR 500,000. Average outstanding loan size is EUR 1,000. The interest rate on loans ranges from 12 percent to 18 percent. In 2003, the interest rate on savings varied across SCAs, from 4 to 7.2 percent.

ProCredit Bank

The Foundation for Enterprise and Development (FEDAD), now ProCredit Bank was established in 1995 jointly by Germany's KfW and the Albanian Ministry of Finance with the purpose of targeting micro and SME sector clients. The foundation applied for a banking license in 1999. The current shareholders are KfW, Commerzbank (privately-owned German bank), EBRD, IFC and IMI (Internationae Micro Investitionene). On December 2004, Procredit received an international credit rating from Fitch of B (foreign currency, long term)/B+ (local currency, long term).

D. Conclusions

34. **A successful poverty reduction strategy, which could also reduce Albania's dependence on external aid and remittances, should focus on growth promotion and reforms in basic infrastructure sectors.** The most important source of poverty alleviation is strong and sustainable growth over a long enough period of time. A simple regression analysis suggests that Albania could reduce its poverty rate by half in seven years if the growth rate of the last five years were maintained.

35. **Nevertheless, a strategy to insure that this growth benefits all sectors of the population, particularly in the short-run, is warranted.** Reforms aimed at promoting labor market policies, vocational and general secondary education, as well as improving the provision of public services and the targeting of social assistance programs, among others, could help improve the standards of living of vulnerable groups, including children, the elderly, individuals with disabilities, Roma population, and rural poor.

36. **The authorities and donors' continued efforts to mitigate the most severe aspects of poverty are therefore decisive.** Some strategies are proving effective in lifting income of poor families. *Ndihme Ekonomike*, for instance, constitutes a very important source of income for many poor families. However, the program's targeting could be further improved to reach a greater number of low-income households. It is important, thus, to preserve the existing public social programs and secure their funding and appropriate targeting. Beyond the public sector, other arrangements have been successful. It is noteworthy the financial involvement and support to micro-finance institutions by the donor community. Micro-credit institutions are making credit available to many small entrepreneurs in rural areas and they

could have a significant potential role in channeling remittances from neighboring countries. Donors' experience in other countries could prove very helpful for Albania.

37. **On other fronts, the programs to restructure the electricity and water sectors, with assistance by the World Bank, are encouraging.** The energy and water supplies as well as the sewage system and the transport network are still inappropriate and they do not fulfill the basic needs of the population. On top of their major impact on the poor, these problems put at risk macroeconomic stability and growth sustainability. With foreign assistance, the Government of Albania is undertaking major project on these sectors, tackling this way some of the most important dimensions of poverty in Albania.

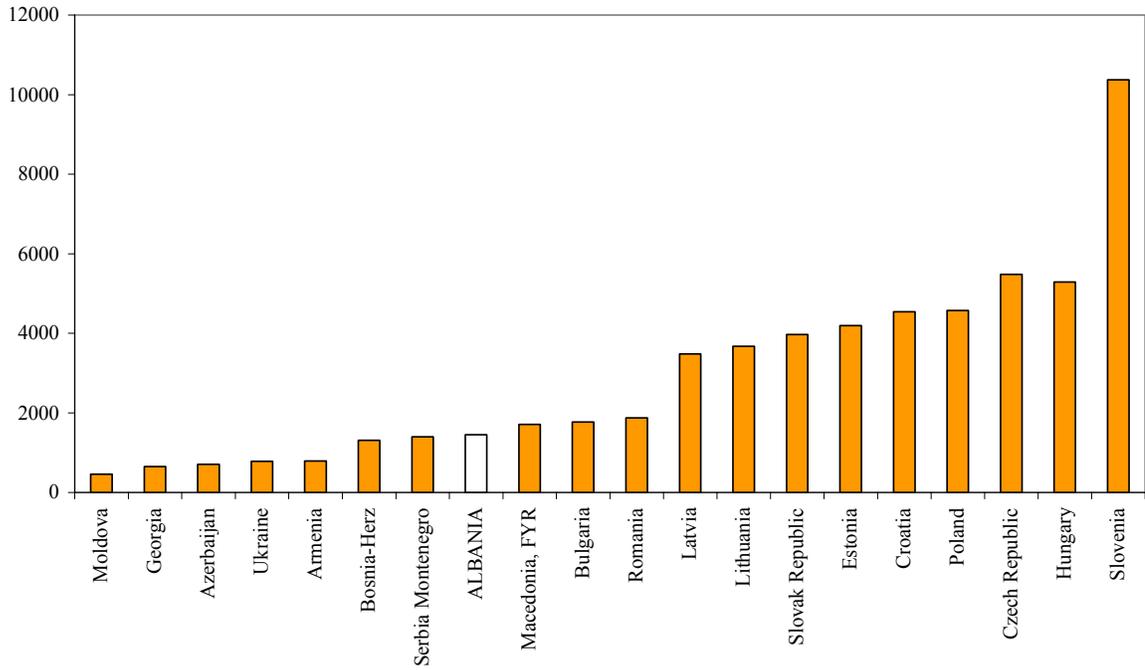
38. **Improvement in the business climate could have a large impact on growth and poverty reduction as well.** As reported in the World Development Report 2005, heavy regulation and weak property rights exclude the poor from doing business. In the case of Albania, the major constraints to investment are related to regulation and tax administration, court procedures, corruption, and difficulties to get access to credit. The payoffs from reform appear, therefore, large. Along these lines, micro-credits are proving successful in providing credit to small entrepreneurs excluded from the regular banking system in rural areas.

39. **Migrants' remittances are one of the most important sources of income in Albania.** Remittances have contributed to improve the standards of living of many Albanians. Because the most important migration waves are a relatively recent phenomenon and the degree of altruism and attachment to the homeland is high among Albanians, remittance inflows are likely to continue in the foreseeable future. There exist, however, concerns about their long run stability and levels. In this sense, policies to help channel workers' remittances into investment opportunities could increase both their current and long term impact in the Albanian society.

40. **The adoption of the Law on Restitution and Compensation of Property in September 2004 is a major accomplishment as agriculture continues to represent a considerable share of GDP and provides employment and food security for a large fraction of the poor population.** The absence of land titles has hindered the development of a proper land market and, thus, prevented productive investments from taking place in agriculture. Successful land restitution is likely to foster economic growth and reduce poverty in Albania by fueling much needed domestic and foreign investments. In order for the law, which entered into force on September 15, 2004, to be implemented properly, it is necessary that the process of first registration of property be fully completed.

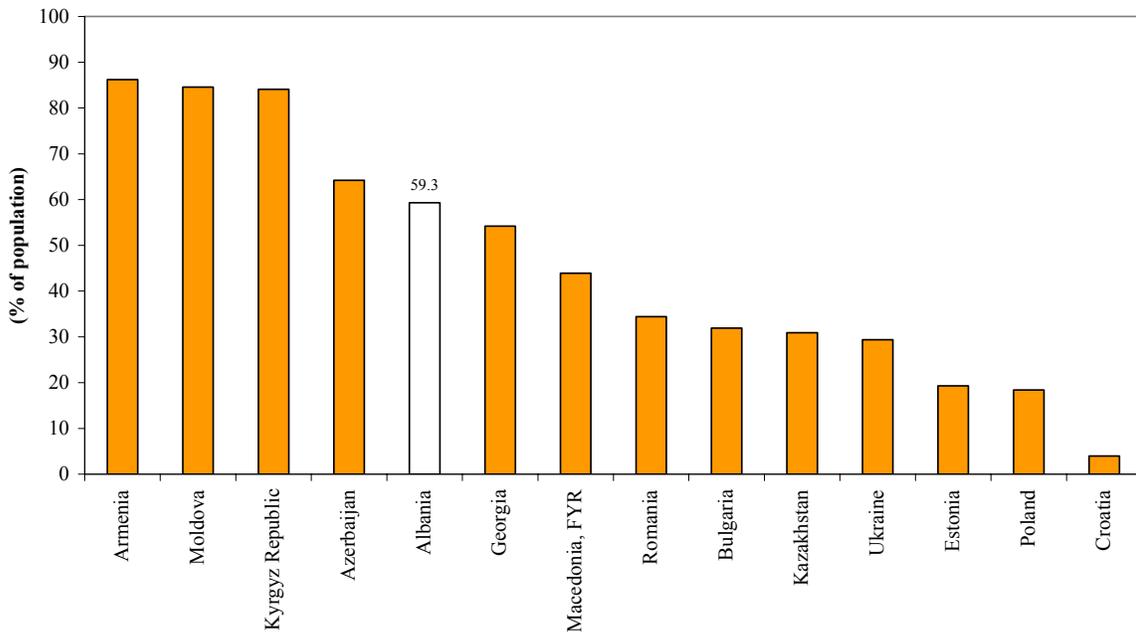
41. **Finally, improving statistical information of social indicators as well as the standards of reporting should be a priority within the poverty alleviation strategy.** The lack of reliable data prevents a thorough assessment of the poverty situation.

Figure 2. Transition Economies in Europe and Central Asia: GNI per capita, 2002



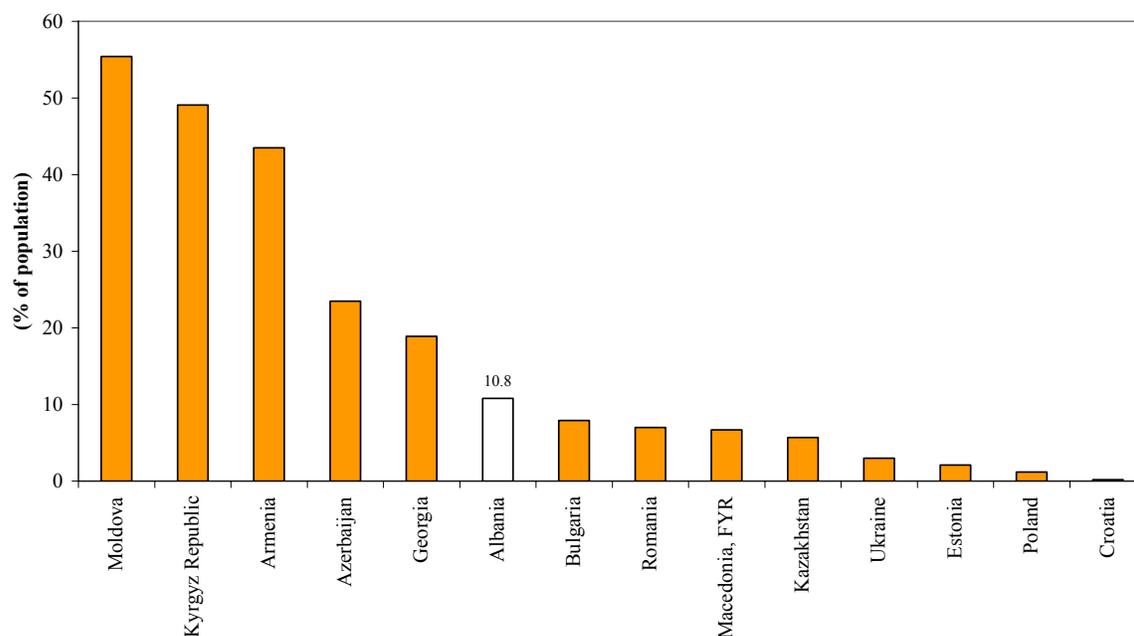
Source: World Development Indicators database, World Bank, 2004

Figure 4. Transition Economies: Headcount index at \$4.30 PPP a day



Source: World Development Indicators database, World Bank; Country Poverty Assessment Reports, World Bank; "Making Transition Work for Everyone," World Bank 2000.

Figure 5. Transition Economies: Headcount index at \$2.15 PPP a day



Source: World Development Indicators database, World Bank; Country Poverty Assessment Reports, World Bank; "Making Transition Work for Everyone," World Bank 2000.

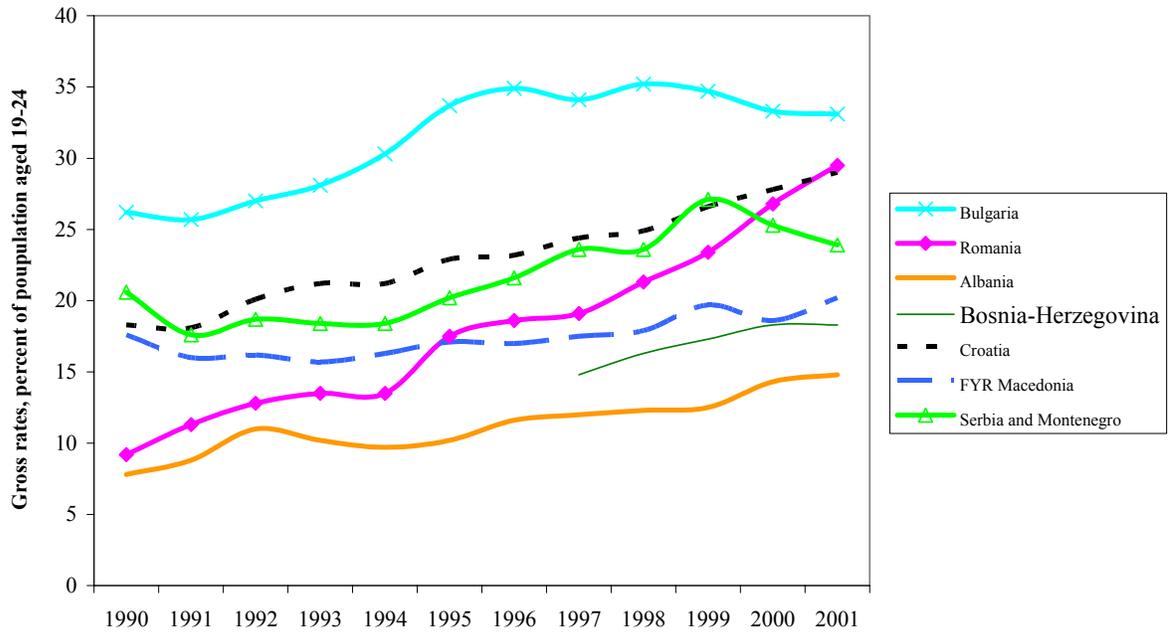
Figure 6. Prospects of Albania and Countries in the Region Meeting the MDG

	MDG1 Poverty	MDG2 School enrolment	MDG3 Equality in school	MDG4 Child mortality	MDG5 Maternal mortality	MDG6 HIV/AIDS and TB	MDG7 Water access
Albania	MDG target unlikely to be achieved	MDG target unlikely to be achieved	MDG target likely to be achieved	MDG target unlikely to be achieved	MDG target likely to be achieved	MDG target unlikely to be achieved	MDG target likely to be achieved
Bosnia and Herzegovina	Inadequate data to predict whether MDG target will be met	MDG target likely to be achieved	Inadequate data to predict whether MDG target will be met	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	Inadequate data to predict whether MDG target will be met
Bulgaria	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target unlikely to be achieved	MDG target likely to be achieved
Croatia	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved
Macedonia, FYR	Inadequate data to predict whether MDG target will be met	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	Inadequate data to predict whether MDG target will be met
Moldova	MDG target unlikely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target unlikely to be achieved	MDG target likely to be achieved	MDG target unlikely to be achieved	MDG target likely to be achieved
Romania	MDG target unlikely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	MDG target unlikely to be achieved	MDG target unlikely to be achieved
Serbia and Montenegro	Inadequate data to predict whether MDG target will be met	MDG target likely to be achieved	Inadequate data to predict whether MDG target will be met	MDG target likely to be achieved	MDG target likely to be achieved	MDG target likely to be achieved	Inadequate data to predict whether MDG target will be met

v MDG target likely to be achieved
 Made some progress, but too hard to tell whether target will be met
 MDG target unlikely to be achieved
 Inadequate data to predict whether MDG target will be met

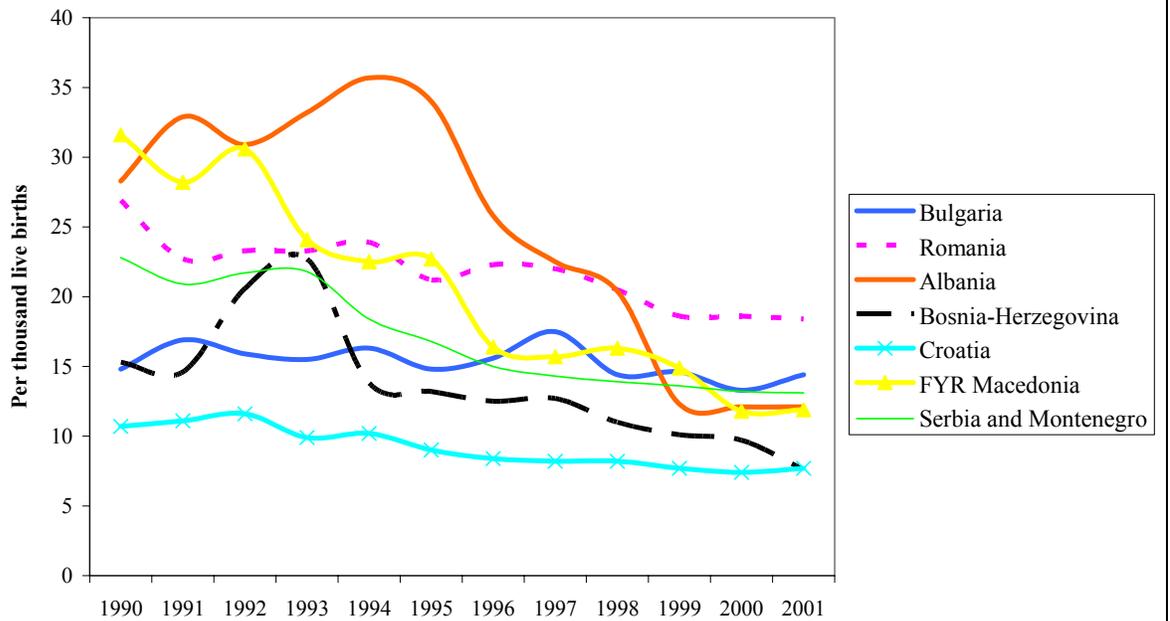
Source: The Millennium Development Goals in Europe and Central Asia, World Bank, 2004

Figure 11. Higher Education Enrolment Rates



Source: TransMONEE database, UNICEF Innocenti Research Center, Florence

Figure 12. Infant Mortality Rate



Source: TransMONEE database, UNICEF Innocenti Research Center, Florence

	Year	Absolute Poverty Rates			Inequality Measures	
		Percentage of population below			Gini Index	90/10 percentile ratio
		National Poverty Line	\$2.15/ day	\$4.30/day		
Albania	2002	25.4	10.8	59.3	28.2	3.6
Bosnia & Herzegovina	2001	19.5	...	...	26.2	3.3
Bulgaria	2001	12.8	7.9	31.9	29.6	3.9
Croatia	1999, 1998	8.0	0.2	4.0	29.0	4.3
Macedonia, FYR	1999, 1996	16.0	6.7	43.9	28.2	3.8
Poland	2001, 1998	14.8	1.2	18.4	28.0	...
Romania	2002, 1998	28.9	6.8	44.5	29.0	...
Serbia and Montenegro	2002	11.0	...	...	...	...

Sources: World Development Indicators database and World bank country reports

	2003 1/	2004 2/
Slovenia	29	27
Estonia	41	36
Poland	35	37
Slovakia	39	42
Croatia	47	48
Bulgaria	57	56
Macedonia. FYR	60	60
Albania	95	65
Bosnia and Herzegovina	66	66
Romania	72	69
Ukraine	75	70
Armenia	100	82
Turkmenistan	87	86
Azerbaijan	89	91
Uzbekistan	101	107
Moldova	108	113

Notes: 1/ Out of 175 countries; 2/ Out of 177 countries
Source: Human Development Reports 2003 and 2004, UNDP

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Table 1. Albania: Basic Macroeconomic Indicators , 1996–2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004 Est.
	(Growth rate in percent)								
Real GDP 1/	9.1	-10.2	12.7	10.1	7.3	7.2	3.4	6.0	5.9
Retail prices (avg.)	12.7	33.2	20.6	0.4	0.0	3.1	5.2	2.4	2.9
Retail prices (end-period)	17.4	42.1	8.7	-1.0	4.2	3.5	1.7	3.3	2.2
Saving-investment balance 2/	(In percent of GDP)								
Foreign savings 3/	6.3	8.9	3.9	3.9	4.4	3.3	7.0	5.6	5.0
Domestic savings	14.7	7.9	12.4	16.1	20.3	25.9	19.2	19.4	20.4
Public 4/	-6.8	-8.8	-4.6	-1.6	-1.6	-0.6	0.0	-0.1	0.3
Private	21.5	16.8	17.0	17.7	21.9	26.5	19.2	19.5	20.1
Investment	21.0	16.8	16.3	20.0	24.7	29.2	26.2	25.0	25.4
Public	4.7	4.3	5.8	7.8	6.6	7.3	6.7	4.5	5.2
Private	16.3	12.6	10.5	12.2	18.1	21.9	19.5	20.5	20.2
Fiscal sector									
Revenues and grants	16.3	18.3	24.2	25.5	23.8	23.6	24.5	24.0	23.7
Tax revenue	13.6	14.2	17.5	17.6	19.6	19.7	20.5	20.9	21.3
Of which: social security contributions	4.0	4.1	3.8	3.8	3.8	3.8	4.1	4.1	4.2
Expenditures	27.1	31.4	34.5	34.9	31.9	31.6	31.1	28.5	28.5
Primary	24.4	25.5	25.8	27.5	26.1	27.2	27.2	24.2	24.8
Interest	2.8	5.8	8.8	7.5	5.8	4.3	3.9	4.3	3.7
Overall balance (including grants)	-10.8	-13.1	-10.3	-9.4	-8.2	-7.9	-6.6	-4.4	-4.9
Primary balance (excluding grants)	-8.0	-7.9	-3.2	-4.8	-3.4	-4.2	-3.3	-0.5	-1.5
Net domestic borrowing	9.6	10.9	7.2	5.6	3.2	3.1	3.2	2.9	2.0
Privatization receipts	0.2	0.3	0.0	0.2	1.7	2.2	0.1	0.1	2.0
Foreign financing	1.0	1.9	3.2	3.6	3.3	2.6	3.3	1.4	0.8
Public Debt	51.6	84.6	75.9	72.7	71.3	66.8	64.8	60.7	55.3
Domestic	25.3	46.5	43.5	43.4	41.9	41.0	41.4	40.4	38.0
External (including publicly guaranteed) 5/6/	26.3	38.1	32.4	29.3	29.4	25.8	23.4	20.3	17.3
Monetary indicators	(Growth rate in percent, unless otherwise indicated)								
Broad money growth	43.8	28.5	20.6	22.3	12.0	20.2	5.7	8.7	12.6
Private credit growth	30.5	19.0	14.7	13.3	31.8	23.4	41.0	31.1	32.9
Velocity	2.0	1.7	1.7	1.6	1.6	1.5	1.5	1.6	1.6
Interest rate (3-mth T-bills, end-period)	21.1	26.0	20.4	14.8	7.8	8.0	11.2	7.3	6.1
External sector	(In percent of GDP, unless otherwise indicated)								
Trade balance (goods and services)	-23.0	-23.6	-22.8	-24.6	-22.1	-23.2	-25.8	-24.8	-22.9
Current account balance (excluding official transfers)	-8.9	-12.2	-7.1	-7.9	-7.4	-6.4	-9.7	-8.2	-7.0
Current account balance (including official transfers)	-6.3	-8.7	-3.9	-3.9	-4.4	-3.3	-7.0	-5.6	-5.0
Official transfers	2.6	3.5	3.3	4.1	3.0	3.1	2.7	2.6	2.0
Gross international reserves (in millions of U.S. dollars)	275	306	388	485	608	737	860	1026	1374
(in months of imports of goods and services)	3.1	3.8	3.7	3.8	4.1	4.3	4.0	3.7	4.1
(relative to external debt service)	10.7	11.7	16.4	21.6	23.6	21.2	13.8	17.5	18.2
(in percent of broad money)	19.0	23.1	22.8	22.4	26.4	25.5	28.2	24.6	25.5
Change in real effective exchange rate (e.o.p., in percent) 7/	2.5	3.3	11.2	14.7	3.9	9.8	-10.9	4.0	2.7
Memorandum item:									
Nominal GDP (in billions of lek)	314.9	322.2	412.3	474.3	530.9	588.7	630.0	695.1	780.1
Population and social indicators									
Population (in million):	3.3	3.3	3.3	3.4	3.2	3.1	3.1	3.1	...
Urban population (% of total population)	44.0	46.0	46.0	46.0	47.0	42.0	43.0	44.0	44
Total fertility rate (births per woman)	2.5	2.2	2.2	2.1	1.8	2.3	1.9	2.3	...
GNI per capita (US dollars. Atlas method)	890	790	880	970	1150	1320	1420	1740	...
Life expectancy at birth	72	72	...	74	74	...	74	...	...

Sources: Albanian authorities; and Fund staff estimates.

1/ Data for 1997-2002 is from the public official national accounts and includes estimates of the non-observed economy. Real GDP growth rates are based on the observed economy only.

2/ Fund staff estimates. The statistical discrepancy contained in the national accounts was allocated to private consumption and investment according to the ratio observed in the national accounts excluding the discrepancy. Unexplained oscillations in this discrepancy introduced additional statistical uncertainty into the historical data. uncertainty into the historical data.

3/ Negative of current account including official transfers.

4/ Revenue including grants less current expenditure and net lending.

5/ Includes arrears, with the exception of pre-1978 arrears to China.

6/ Excludes IMF repurchase obligations.

7/ In 2004, October 2004 to December 2003.

Table 2. Albania: GDP by Sector of Origin, 1996–2004 1/

	1996	1997	1998	1999	2000	2001	2002	2003	2004
							Prelim.	Est.	Est.
	(In millions of leks)								
Gross domestic product	314,881	322,185	412,326	474,291	530,907	588,663	630,000	695,068	780,100
Industry	45,509	42,235	43,341	50,144	58,089	59,272	59,196	....	....
Agriculture	96,876	99,378	119,532	125,938	137,448	143,068	146,361	....	....
Construction	13,645	12,988	15,421	21,456	31,603	45,288	43,929	....	....
Trade, hotels and restaurants	71,305	63,608	80,303	102,334	102,915	105,739	122,664	....	....
Transportation	17,123	18,789	35,339	41,715	40,479	49,161	45,549	....	....
Post and communication	3,067	4,862	5,440	8,897	9,762	16,240	18,698	....	....
Other services	53,872	64,863	87,987	97,719	110,046	128,065	145,272	....	....
FISIM	8,058	11,148	20,731	21,424	18,508	17,926	19,328	....	....
GDP at basic prices	293,339	295,575	366,632	426,779	471,834	528,907	562,341	....	....
Taxes on products	23,164	28,020	48,059	49,578	63,936	67,166	73,711	....	....
Subsidies on products	1,622	1,410	2,365	2,066	4,863	7,410	6,052	....	....
	(In percentage change)								
Gross domestic product (real growth)	...	-10.2	12.7	10.1	7.3	7.2	3.4	6.0	5.9
Industry	...	-25.8	26.1	34.2	0.5	7.1	-7.9	2.7	3.1
Agriculture	...	-9.7	4.8	0.4	4.5	2.2	2.1	3.0	3.8
Construction	...	-10.5	18.0	17.8	37.2	49.3	1.0	11.3	6.0
Trade, hotels and restaurant	...	-5.0	11.2	7.7	5.8	1.9	14.6	7.1	8.6
Transportation	...	-27.3	28.4	26.9	6.3	8.3	10.6	10.6	10.6
Post and communication	...	12.2	28.7	43.4	29.1	46.9	5.5	6.4	6.8
Other services	...	4.5	6.9	10.5	1.5	7.0	2.2	6.4	5.6
Imputed financial services	...	-0.7	19.4	25.0	-27.4	6.1	10.5	6.8	10.2
Gross value added at basic prices	...	-8.7	10.0	8.7	7.5	7.2	3.2	6.0	5.9
Taxes on products	...	-24	35.3	15.3	12.0	7.0	4.2	....	....
Subsidies on products	...	-4.3	52.8	-35.3	145.2	4.7	-2.1	....	....

Sources: INSTAT, Ministry of Finance and Fund staff estimates.

1/ Based on observed economy only. Real growth is derived by estimated GDP in year in previous year's price.

Table 3. Albania: GDP by Expenditure in Current Prices 1996–2004
(In millions of leks)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
							Prelim.	Est.	Est.
GDP by expenditure at market prices	314,878	322,186	412,326	474,291	530,906	588,664	630,000	695,068	780,100
Final consumption 1/	320,768	352,589	442,496	456,728	505,164	536,666	607,509	693,562	760,650
<i>Of which:</i>									
Households	211,984	287,801	346,775	334,801	350,038	359,016	363,864	625,931	685,806
General government	30,539	34,871	40,222	43,703	47,020	56,050	63,666	67,632	74,844
Gross fixed capital formation 1/	66,262	54,222	67,192	94,883	131,324	171,980	176,528	173,922	198,383
Domestic absorption	387,030	406,811	509,688	551,611	636,488	708,646	784,037	867,484	959,033
Exports of goods and services	38,782	33,739	44,376	74,588	93,453	107,524	122,044	141,831	169,171
Imports of goods and services	110,934	118,365	141,738	151,910	199,036	227,507	276,081	314,247	348,105
Memorandum item:									
Statistical discrepancy 2/	91,343	34,287	64,167	91,067	125,983	141,553	209,787	0	0

Source: INSTAT, Ministry of Finance and IMF staff estimates.

1/ The statistical discrepancy contained in the national accounts was allocated to final consumption and investment according to the ratio observed in the national accounts excluding the discrepancy. Unexplained oscillations in this discrepancy introduced additional statistical uncertainty into the historical data.

2/ Original statistical discrepancy before apportioning between private consumption and fixed capital formation. Includes changes in inventories.

Table 4. Albania: Breakdown of Value Added Between Observed and Non -Observed Economy in 2002
(In millions of leks)

	Observed Economy	Non-observed Economy	Total	Non-observed Economy as % of Total
Agriculture, hunting and forestry	129,880	16,480	146,361	11.3
Industry	35,008	24,188	59,196	40.9
Extracting industry	4,135	0	4,135	0.0
Manufacturing industry	30,872	24,188	55,060	43.9
Construction	18,581	25,348	43,929	57.7
Trade and hotels	61,346	61,318	122,664	50.0
Transport	19,358	26,192	45,549	57.5
Post and communications	18,698	0	18,698	0.0
Other services	125,349	19,923	145,272	13.7
Total	408,219	173,449	581,668	29.8
Imputed financial services	-19,328	0	-19,328	0.0
Gross value added at basic prices	388,892	173,449	562,341	30.8
Taxes	73,711	0	73,711	0.0
Subsidies	-6,052	0	-6,052	0.0
GDP	456,551	173,449	630,000	27.5

Source: INSTAT.

Table 5. Albania: Nominal Sales Index, 2001–04 1/
(Q1 2001=100)

	2001				2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total Industry	100.0	110.9	100.0	109.8	102.4	117.8	130.5	145.4	130.8	137.7	147.9	146.7	122.7	143.4	147.8	147.8
Extracting industry	100.0	99.5	98.4	90.7	93.8	103.5	90.0	115.8	144.7	181.3	182.0	211.4	127.7	202.8	211.8	211.8
Extracting of energy products	100.0	91.8	83.6	73.9	84.6	92.4	75.0	96.3	145.3	176.1	165.1	192.0	119.9	196.3	197.7	197.7
Extracting of non-energy products	100.0	155.4	205.3	212.3	160.9	184.0	199.6	239.6	140.6	214.2	289.1	334.4	177.5	244.5	301.0	301.0
Processing industry	100.0	137.7	125.0	134.6	109.3	130.0	154.7	169.7	130.4	159.6	162.3	156.2	134.2	171.9	175.5	175.5
Food industry	100.0	195.0	155.7	164.4	103.7	152.7	207.6	157.3	146.4	191.3	172.8	171.2	163.6	174.2	211.7	211.7
Textile and clothing industry	100.0	127.8	97.2	102.3	111.0	111.2	102.9	136.2	136.1	136.4	118.1	122.0	130.7	118.8	106.7	106.7
Leather and shoes industry	100.0	100.8	89.0	97.9	103.0	114.1	89.3	121.1	142.9	130.9	115.0	122.6	97.4	120.8	109.5	109.5
Wood industry	100.0	104.7	114.6	124.1	97.0	111.3	124.9	145.1	59.8	90.0	103.3	99.2	67.1	117.8	101.8	101.8
Paper and publishing industry	100.0	126.7	256.0	176.5	109.3	131.5	364.2	229.3	171.5	201.7	364.3	227.5	166.0	205.7	294.0	294.0
Coke and refining industry	100.0	185.5	145.1	157.3	134.6	138.4	173.2	159.1	102.6	111.5	129.7	123.7	103.5	175.3	140.4	140.4
Chemical industry	100.0	108.9	107.7	147.7	89.0	93.2	112.9	143.2	60.0	61.8	75.3	88.2	75.5	70.1	103.2	103.2
Plastics industry	100.0	101.8	97.1	148.7	99.0	111.5	152.6	203.7	194.0	260.2	302.7	329.9	200.7	291.7	525.3	525.3
Non-metallic mineral products	100.0	134.8	156.5	165.0	129.3	156.5	189.5	286.9	150.0	218.4	231.8	229.0	190.6	280.5	267.3	267.3
Basic metal and metal products	100.0	108.4	99.8	115.9	106.4	139.7	162.2	176.9	118.2	174.1	184.8	157.2	111.9	216.7	182.0	182.0
Machinery and equipment manufacturing	100.0	257.2	546.3	560.9	381.6	408.5	521.1	985.7	513.0	710.3	982.6	881.2	556.7	668.0	835.1	835.1
Electric & electronic equipment manufacturing	100.0	70.9	62.4	98.3	56.1	61.7	55.9	105.7	83.9	130.3	124.4	131.1	114.0	130.3	154.5	154.5
Means of transport manufacturing	100.0	190.0	110.9	118.0	132.4	127.0	121.0	149.0	28.0	27.0	15.6	32.7	45.4	56.3	61.8	61.8
Other processing	100.0	178.0	164.9	174.6	95.6	141.9	189.1	268.1	237.8	416.5	455.1	429.1	354.4	407.5	543.8	543.8
Electricity, water and gas	100.0	73.1	63.3	76.4	93.5	102.2	101.8	114.8	128.7	97.4	120.3	120.9	104.8	90.4	95.1	95.1
Construction	100.0	179.1	186.2	229.6	130.4	174.9	179.9	229.4	137.8	177.8	224.0	226.8	137.7	208.8	231.2	231.2
Trade, hotels, and restaurants	100.0	134.8	126.1	147.6	117.5	139.2	163.2	184.5	139.9	165.3	174.2	187.1	137.0	166.1	205.6	205.6
Transportation and communications	100.0	256.7	190.1	247.1	195.4	217.3	245.5	170.7	210.4	244.0	279.2	266.7	244.5	241.3	284.2	284.2
Other processing	100.0	125.7	121.1	136.7	115.6	130.3	143.3	195.0	155.1	143.5	160.3	178.7	165.9	177.6	183.9	183.9
Total Economy (excluding agriculture)	100.0	141.3	129.4	152.1	120.2	142.1	160.2	176.6	143.0	162.9	178.8	184.4	142.4	170.1	195.0	195.0

Source: INSTAT.

1/ Based on value added tax declarations.

Table 6. Albania : Electricity Basic Indicators 2000–04

	2000	2001	2002	2003	2004 1/
			(In GWH)		
Domestic demand	6160	6200	6200	6199	6366
Production	4709	3657	3123	4607	5255
Net imports	1002	1750	2226	915	593
Transmitted energy	5711	5407	5349	5522	5848
Load shedding (unsatisfied demand)	449	793	851	677	518
Losses	2479	2058	2230	2165	1941
In percent of energy transmitted	43.4	38.1	41.7	39.2	33.2
Sales	3232	3348	3119	3358	3342
			(In millions of leks)		
Billed consumption	...	...	19817	23874	24838
Bills collected	...	...	15890	20176	22025
as a percentage of billed consumption	61.6	70.2	80.2	84.5	88.7
Import subsidy	3.5	4.4	3.1	0.6	0.3
Average electricity tariff (Lek/Kwh)	3.41	3.99	5.25	5.95	6.40

Source: INSTAT, KESH and IMF staff estimates

1/ Estimates.

Table 7. Albania: Production of Selected Industrial Products in the State Sector, 1992–2003

Product	Unit	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Energy													
Crude oil	000 tons	585	568	535	521	488	360	365	323	314	329	356	359
Natural gas	mil m ³	102	82	52	28	23	18	17	14	11	10	10	12
Gasoline	000 tons	45	46	39	43	37	15	21	20	24	22	23	21
Diesel	000 tons	116	148	111	106	95	57	91	65	72	74	88	102
Petroleum	000 tons	41	29	29	29	26	11	2	1	2	0	0	0
Copper coks	000 tons	72	94	74	69	63	34	58	48	46	34	49	57
Electric energy	000 kwh	3,357	3,482	3,904	4,414	5,926	5,184	5,068	5,396	4,737	3,684	3,123	4,607
Firewood	mil mst	427	330	35	2	0	...	...	0	...	...	...	...
Mining													
Chromium ore	000 tons	322	281	223	243	236	157	150	79	57	17	0	0
Rich chromium ore	000 tons	56	82	107	129	114	84	82	65	46	12	0	0
Chromium concentrate	000 tons	49	33	11	31	30	22	20	7	3	2	0	0
Carbonic ferrochrome	000 tons	22	35	34	43	32	31	30	28	9	0	0	0
Copper	000 tons	240	239	178	258	188	25	55	34	0	0	0	0
Copper concentrate	000 tons	8	14	9	17	11	0	2	1	0	0	0	0
Blister copper	000 tons	2	2	2	3	1	0	2	0	0	0	0	0
Lignite	000 tons	216	133	120	81	69	39	49	33	21	1	0	0
Coal concentrate	000 tons	37	51	0	0	0	6	6	0	0	0	0	0
Manufacturing													
Mineral processing													
Rolled wrought steel	000 tons	0	9	17	19	21	21	20	20	0	0	...	...
Copper wires and cables	000 tons	0	1	0	0	0	0	0	0	0	0	43	122
Chemical													
Phosphate fertilizer	000 tons	22	9	11	14	0	27	12	9	0	0	0	0
Ammonium nitrate	000 tons	9	5	6	0	0	0	0	0	0	0	0	0
Sulfuric acid	000 tons	11	6	4	0	0	0	0	0	0	0	0	0
Building material													
Cement	000 tons	197	198	240	238	203	100	84	106	180	0	0	0
Bricks	mil pieces	90	69	40	38	30	22	20	26	2	0	0	0
Tiles	mil pieces	3	3	1	0	0	0	0	0	0	0	0	0
Paper	000 tons	1	1	0	0	0	0	0	0	0	0	0	0
Durable consumer goods													
Ceramic kitchen	mil leks	16	9	8	0	0	0	0	0	0	0	0	0
Electric lamps	mil pieces	0	0	0	0	0	0	0	0	0	0	0	0
Furniture	mil leks	21	390	152	26	...	12	11	3	2	0	0	0
Carpet	mil m ²	...	25	0	0	0	0	0	0	0	0	0	0
Wall carpet	mil m ²	...	10	0	0	0	0	0	0	0	0	0	0
Textile													
Total clothes	mil ml	6	9	...	1	...	2	2	1	0	0	0	0
Total tissues	mil ml	2	1	2	0	...	1	2	0	0	0	0	0
Knitwear	mil pieces	3	4	3	0	...	0	0	1	0	0	0	0
Shoes	mil pair	...	5	2	1	3	2	2	1	1	0	0	0
Non durable consumer goods													
Cigarettes	000 tons	1	1	1	1	5	0	0	1	1	0	0	0
Soap	000 tons	2	4	3	2	2	2	...	1	0	0	0	0
Foodstuffs													
Bread	000 tons	263	138	32	20	147	87	...	67	0	0	0	0
Sugar	000 tons	1	0	0	1	0	0	...	0	0	0	0	0
Fish	000 tons	1	0	0	0	...	...	...	0	0	0	0	0
Vegetable oil	000 tons	3	6	6	3	4	1	...	3	0	0	0	0
Cheese	000 tons	1	1	0	0	4	6	...	7	0	0	0	0
Macaroni	000 tons	10	6	4	1	2	2	...	0	0	0	0	0
Beer	000 hl	18	5	72	89	88	20	...	91	0	0	0	0
Wine	000 hl	12	9	5	11	12	17	...	10	0	0	0	0

Source: INSTAT.

Table 8. Albania: Registered Private Enterprises (still active in 2003)
by Activity and Date of First Registration, 1998–2003

	Activity	Legal Status			Total	
		Physical Persons	Private Albanian Company	Joint Venture		Foreign Company
1998						
	Agriculture	605	272	35	13	925
	Industry	2,472	1,798	407	246	4,923
	Construction	134	1,465	116	83	1,798
	Service	8,242	886	132	159	9,419
	Transport	7,180	381	81	60	7,702
	Trade	20,650	5,017	1,283	855	27,805
	Total	39,283	9,819	2,054	1,416	52,572
1999						
	Agriculture	630	288	36	13	967
	Industry	2,668	1,875	426	254	5,223
	Construction	148	1,533	120	90	1,891
	Service	8,827	958	136	166	10,087
	Transport	8,253	415	88	61	8,817
	Trade	22,082	5,325	1,314	883	29,604
	Total	42,608	10,394	2,120	1,467	56,589
2000						
	Agriculture	618	299	38	14	969
	Industry	2,999	2,003	431	266	5,699
	Construction	160	1,627	118	93	1,998
	Service	9,816	1,155	143	173	11,287
	Transport	9,441	500	93	63	10,097
	Trade	25,112	5,752	1,341	900	33,105
	Total	48,146	11,336	2,164	1,509	63,155
2001						
	Agriculture	554	303	26	7	890
	Industry	3,082	1,962	387	223	5,654
	Construction	145	1,640	90	83	1,958
	Service	8,799	487	69	42	9,397
	Transport	24,641	5,568	1,097	608	31,914
	Trade	10,039	1,216	124	159	11,538
	Total	47,260	11,176	1,793	1,122	61,351
2002 1/						
	Agriculture	564	275	23	6	868
	Industry	3,059	1,882	297	150	5,388
	Construction	212	1,513	57	61	1,843
	Service	7,963	384	33	28	8,408
	Transport	23,082	3,614	468	214	27,378
	Trade	10,708	1,242	115	133	12,198
	Total	45,588	8,910	993	592	56,083
2003 1/						
	Agriculture	176	235	32	16	459
	Industry	2,963	2,357	462	321	6,103
	Construction	271	2,123	107	113	2,614
	Service	4,484	539	59	49	5,131
	Transport	18,631	5,876	862	492	25,861
	Trade	8,867	1,551	174	393	10,985
	Total	35,392	12,681	1,696	1,384	51,153

Source: INSTAT.

1/ Data for year 2002 and 2003 based on the statistical business registry.

Table 9. Albania: Agricultural Production, 1996-2003
(In millions of leks at constant 2000 prices)

	1996	1997	1998	1999	2000	2001	2002	2003
Total gross agricultural production	184,664	161,420	169,602	173,459	181,540	182,714	187,365	192,160
Crop production	94,398	78,221	84,445	84,513	88,325	86,224	87,628	86,177
Wheat	8,130	11,652	11,853	8,160	10,230	8,466	8,859	7,797
Maize	6,634	6,039	5,862	6,386	6,405	6,147	6,116	6,414
Potatoes	5,260	5,040	5,800	6,476	6,400	6,548	6,524	6,328
Vegetables	57,305	40,150	44,136	44,559	46,355	47,523	48,801	49,275
Tobacco	2,457	2,262	2,886	2,847	2,457	1,599	1,014	546
Sunflower seeds	105	154	182	189	203	189	182	91
Sugar beets	444	305	334	239	252	-	-	-
Barley	224	259	224	203	161	210	266	203
Soybean	45	30	15	180	90	120	60	75
Dried beans	3,475	2,780	3,155	3,614	3,461	3,072	3,406	2,474
Oats	394	375	388	409	487	474	611	508
Fodder	9,925	9,175	9,610	11,250	11,825	11,875	11,790	12,465
Fruits and olives	12,905	13,943	14,301	14,441	15,822	16,662	16,627	19,184
Apples, pears, peaches, figs	4,532	4,259	4,095	4,235	5,062	4,976	5,912	6,037
Citrus	189	189	126	158	164	176	214	277
Grapes	6,384	7,350	7,025	7,319	8,243	8,936	8,726	11,057
Olives	1,801	2,145	3,055	2,730	2,353	2,574	1,775	1,814
Livestock	77,361	69,256	70,857	74,505	77,393	79,828	83,110	86,799
Meat	31,500	31,200	31,800	33,300	33,600	33,900	35,700	36,900
Wool	300	300	300	350	300	300	300	300
Milk	42,804	34,850	35,301	37,228	38,868	40,344	41,410	43,419
Eggs	2,512	2,696	3,176	3,312	4,240	4,864	5,280	5,760
Honey	245	210	280	315	385	420	420	420

Sources: Ministry of Agriculture and INSTAT.

Table 10. Albania: Area Under Cultivation, Production, and Yields
of Selected Agricultural Crops, 1996–2003

	1996	1997	1998	1999	2000	2001	2002	2003
(In thousands of hectares)								
Area under cultivation								
Wheat	125	136	141	109	112	100	93	91
Maize	66	61	57	55	53	52	50	48
Potatoes	12	12	11	11	11	11	11	11
Vegetables	36	30	31	31	33	34	34	32
Tobacco	7	8	7	7	6	4	2	2
Sunflower seeds	1	2	2	2	2	2	2	0
Sugar beets	2	2	2	1	1	0	0	0
Barley	2	3	2	2	1	1	1	2
Soybean	0	0	0	1	0	0	0	0
Beans	24	22	21	23	23	19	17	17
Oats	11	10	10	10	11	11	12	11
Fodder	147	134	146	158	165	164	171	182
(In thousands of quintals)								
Total production								
Wheat	2,710	3,884	3,951	2,720	3,410	2,822	2,953	2,599
Maize	2,140	1,948	1,891	2,060	2,066	1,983	1,973	2,069
Potatoes	1,315	1,260	1,450	1,619	1,600	1,637	1,631	1,582
Vegetables	7,850	5,500	6,046	6,104	6,350	6,510	6,685	6,750
Tobacco	63	58	74	73	63	41	26	14
Sunflower seeds	15	22	26	27	29	27	26	13
Sugar beets	740	509	557	399	420	0	0	0
Distinct barley	32	37	32	29	23	30	38	29
Soybean	3	2	1	12	6	8	4	5
Beans	250	200	227	260	249	221	245	178
Oats	127	121	125	132	157	153	197	164
Fodder	39,700	36,700	38,440	45,000	4,730	47,500	47,160	49,860
(Quintals per hectare)								
Yields								
Wheat	22	28	28	25	31	28	33	29
Maize	30	29	33	37	36	36	40	39
Rice	0	0	0	0	0	0	0	0
Potatoes	106	110	127	141	140	146	152	147
Vegetables	197	189	197	195	193	194	199	209
Tobacco	9	10	11	11	11	10	12	9
Sunflower seeds	13	15	16	17	15	15	15	9
Sugar beets	349	304	305	303	309	0	0	0
Barley	13	15	19	18	15	25	28	19
Soybean	17	13	14	19	13	18	18	12
Beans	11	8	11	11	9	11	12	8
Oats	12	12	13	13	13	14	16	15
Fodder	235	239	264	285	287	289	276	273

Sources: Ministry of Agriculture; and INSTAT.

Table 11. Albania: Production and Yields of Selected Fruits, 1996–2003

	1996	1997	1998	1999	2000	2001	2002	2003
(In thousands of trees)								
Apples, pears, peaches, figs	4,012	4,107	4,009	3,875	4,179	4,292	4,524	4,875
Citrus	361	296	275	266	305	302	322	363
Grapes								
Pergola	3,370	3,665	3,497	3,706	3,856	3,945	4,060	4,259
Vineyard (in hectares)	4,345	4,121	4,306	4,380	4,613	4,878	5,202	5,741
Olives	3,084	3,209	3,212	3,200	3,256	3,246	3,290	3,359
(In thousands of tons)								
Apples, pears, peaches, figs	58	55	53	54	66	64	76	77
Citrus	3	3	2	3	3	3	3	4
Grapes	59	67	68	70	79	85	83	105
Pergola	40	45	40	41	46	45	42	54
Vineyard	19	22	28	29	33	41	41	52
Olives	28	33	47	42	36	40	27	28
(Yield in kilogram per root)								
Apples, pears, peaches, figs	14	13	13	14	16	15	17	16
Citrus	8	10	8	9	9	9	11	12
Grapes								
Pergola	12	12	11	11	12	11	10	13
Vineyard	49	55	66	66	71	83	79	90
Olives	9	10	15	13	11	12	8	8

Sources: Ministry of Agriculture; and INSTAT.

Table 12. Albania: Production and Yields in Livestock 1996–2003

	1996	1997	1998	1999	2000	2001	2002	2003
(In thousands of units)								
Stock								
Cattle	806	771	705	720	728	708	690	684
Pigs	98	97	83	81	103	106	114	132
Sheep	1,982	1,858	1,872	1,941	1,939	1,906	1,844	1,903
Goats	1,250	1,148	1,051	1,120	1,106	1,027	929	1,015
Poultry	4,108	4,566	4,862	5,023	5,291	5,422	5,826	6,104
Beehives	54	57	56	67	76	82	92	111
(In thousands of units)								
Production								
Meat, total (tons, live yield)	105	104	106	111	112	113	119	123
Cattle	59	59	58	61	63	62	64	65
Pigs	9	10	10	10	10	10	11	12
Sheep and goats	33	31	33	35	35	37	38	38
Poultry	4	4	5	5	4	4	6	8
Wool (tons)	3	3	3	4	3	3	3	3
Milk, total (liters)	1,044	850	861	908	948	984	1,010	1,059
Cow milk	895	708	722	761	807	840	878	904
Sheep milk	70	68	72	74	70	72	69	74
Goat milk	79	74	67	73	71	72	63	81
Eggs (million)	314	337	397	414	530	608	660	720
Honey	1	1	1	1	1	1	1	1
(Yield per unit)								
Average live weight (kg.)								
Slaughtered cattle	156	156.9	158	159.4	160.8	161.5	163.4	165.2
Slaughtered pigs	110	122	96	109	128	93	120	117
Number of calves born per 100 cows	83	83	84	84	84	85	85	86
Number of calves born per sow	9	10	10	10	11	10	11	11
Milk (liter per head)								
Cow	1,868	1,501	1,653	1,765	1,820	1,890	2,020	2,067
Sheep	47	50	51	51	49	48	49	55
Goat	85	89	88	89	89	90	91	106
Wool from sheep (kg.)	2	1	1	1	1	1	1	1
Eggs per chicken	108	102	103	103	129	135	149	155

Sources: Ministry of Agriculture and INSTAT.

Table 13. Albania: Consumer Price Index, 1998–2004
(December 2001 = 100)

	Average		End-of-Period	
	Index	Percent Change from Previous Period	Index	Percent Change from Previous Period
1998	91.5	20.6	93.7	8.7
Q1	90.6	7.5	91.8	6.6
Q2	92.6	2.3	91.5	-0.3
Q3	90.3	-2.5	91.3	-0.2
Q4	92.3	2.2	93.7	2.5
1999	91.8	0.4	92.6	-1.0
Q1	94.1	1.8	93.7	0.0
Q2	92.6	-1.6	90.9	-2.9
Q3	89.6	-3.2	89.6	-1.5
Q4	91.1	1.6	92.6	3.4
2000	91.9	0.0	96.6	4.2
Q1	92.6	1.6	91.7	-1.1
Q2	92.1	-0.5	91.0	-0.7
Q3	89.3	-3.0	90.4	-0.6
Q4	93.5	4.7	96.6	6.8
2001	94.7	3.1	100.0	3.5
Q1	94.6	1.1	94.4	-2.3
Q2	95.0	0.5	94.7	0.3
Q3	93.3	-1.9	93.6	-1.1
Q4	96.1	3.0	100.0	6.8
2002	99.7	5.2	101.7	1.7
Q1	101.4	5.5	101.4	1.4
Q2	99.7	-1.6	98.2	-3.2
Q3	97.9	-1.8	98.6	0.4
Q4	99.6	1.7	101.7	3.1
2003	102.0	2.3	105.0	3.2
Q1	102.2	2.6	102.8	1.1
Q2	102.3	0.1	100.8	-2.0
Q3	100.8	-1.5	101.3	0.5
Q4	102.8	2.0	105.0	3.7
2004	105.0	2.9	107.4	2.2
Q1	106.1	3.2	106.9	1.8
Q2	105.3	-0.8	103.6	-3.1
Q3	103.4	-1.8	103.3	-0.3
Q4	105.0	1.5	107.4	4.0

Sources: INSTAT and IMF staff estimates.

Table 14. Albania: Consumer Price Subsidies, 1996–2002 1/
(In millions of leks)

	1996	1997	1998	1999	2000	2001	2002
Passenger transport	300	167	187	220	210	181	111
Railway transportation of goods	42	413	310	370	360	360	400
Drinking water for rural areas	30	45	129	55	135	69	959
Water for irrigation	120	150	170	180	163	226	243
Medicine	750	0	0	0	0	0	0
School books	280	200	250	263	280	276	252
Funeral expenses	100	135	101	103	160	73	0
Students	...	300	345	370	370	385	420
Imported Energy	...	...	800	500	3,295	5,840	3,610
Homeless	300	670	220	510	0	0	0
Total price subsidies	1,922	2,080	2,512	2,571	4,973	7,410	5,995

Sources: Ministry of Finance; and Fund staff estimates.

1/ The total figures may not match the budget numbers as some subsidies were included under operations and maintenance.

Table 15. Albania: Population, Labor Force, and Employment, 1996-2003
(In thousands, annual averages)

	1996	1997	1998	1999	2000	2001	2002	2003
Total population	3,283	3,324	3,354	3,373	3,401	3,075	3,097	3,126
<i>Of which:</i>								
Male	1,624	1,629	1,650	1,662	1,677	1,532	1,542	1,555
Female	1,659	1,695	1,704	1,711	1,724	1,542	1,554	1,570
<i>Of which:</i>								
Nonworking age population 1/	1,433	1,463	1,467	1,462	1,462	1,301	1,295	1,292
Working age population 1/	1,850	1,861	1,888	1,911	1,940	1,774	1,802	1,834
Male	981	928	945	957	971	906	919	934
Female	869	933	943	954	969	867	883	900
Inactive and dependent population 2/	148	...	568	...	...	...	...	...
Labor force	1,702	1,301	1,320	1,305	1,282	1,244	1,092	1,089
<i>Of which:</i>								
Male	891	794	803	791	779	730	668	665
Female	811	507	517	514	503	514	424	424
<i>Of which:</i>								
Emigrant workers 3/	428	...	...	...	...	...	...	...
Domestic labor force	1,274	1,301	1,320	1,305	1,282	1,244	1,092	1,089
Domestic employment	1,116	1,107	1,085	1,065	1,067	920	920	926
<i>Of which:</i>								
State sector 4/	239	226	213	201	190	189	186	181
Agriculture sector 5/	761	761	761	761	761	526	526	534
Private sector	116	120	111	103	116	206	208	211
Total unemployment	158	194	235	240	215	181	172	163
<i>Of which:</i>								
Receiving benefits	40	31	25	22	22	14	11	11
Unemployment rate (in percent) 6/	12.4	14.9	17.7	18.0	16.8	14.5	15.8	15.0
<i>Of which:</i>								
Receiving benefits (in percent)	3.2	2.4	1.9	9.1	10.2	7.7	6.3	6.7

Sources: INSTAT; and Fund staff estimates.

1/ Working age includes men 15-59 and women 15-54 years old.

2/ Includes disabled, full-time students of over 15 years old, and military.

3/ According to the Institute of Statistics, women comprise about 5 percent of total emigrants.

4/ Includes budgetary and public enterprises' employees and state farms.

5/ All agriculture sector employment is private after 1992.

6/ Percent of domestic labor force.

Table 16. Albania: Employment and Wages in Budgetary Institutions, 1996–2003
(yearly average)

	<u>Employment</u>	<u>Average Monthly Nominal Wage</u>			<u>Real Wage Index 1/</u>	
	In thousands	In leks	Percent change	Index (1995=100)	Index (1995=100)	Percent change
1996	148.5	8,772	30.4	130.4	115.7	15.7
1997	145.8	9,529	8.6	141.7	94.4	-18.5
1998	139.4	11,682	22.6	173.7	95.9	1.6
1999	129.5	13,195	13.0	196.2	107.9	12.6
2000	123.8	15,078	14.3	224.2	123.2	14.1
2001	121.1	17,251	14.4	256.5	136.8	11.0
2002	119.2	19,998	15.9	297.3	150.6	10.1
2003	118.7	22,241	11.2	330.7	163.7	8.7

Sources: Albanian authorities; and Fund staff estimates.

1/ Based on the yearly average nominal wage deflated with yearly average CPI.

Table 17. Albania: Fiscal Operations, 1997–2003
(In millions of leks)

	1997	1998	1999	2000	2001	2002	2003
Total revenue	58,838	99,650	121,028	126,101	139,151	154,595	167,150
Tax revenue	45,670	72,160	83,530	104,098	116,171	128,948	145,314
Turnover tax / VAT	15,655	28,771	29,794	38,107	41,148	46,113	50,625
Income tax	3,592	6,400	10,331	14,346	18,522	20,894	22,505
Personal income tax	814	1,167	3,110	4,590	6,300	6,149	6,414
Small business tax	385	910	1,188	1,641	1,974	2,548	2,944
Profit tax	2,393	4,323	6,033	8,115	10,248	12,198	13,147
Social security contributions	13,143	15,828	18,157	20,053	22,506	25,637	28,613
Local and property taxes	...	304	885	1,315	2,036	2,677	4,455
Customs duties	8,960	12,615	11,450	13,548	12,794	13,387	13,854
Excise tax	2,168	4,910	6,961	9,153	9,544	9,324	12,258
Other taxes	2,152	3,332	5,952	7,576	9,621	10,918	13,005
Nontax revenue	11,040	20,806	24,124	16,490	19,310	21,528	19,219
Profit transfer from Bank of Albania	8,067	16,400	17,591	10,225	10,912	10,291	8,852
Income from budgetary institutions	1,834	3,326	5,352	4,841	4,383	6,302	6,095
Other	1,139	1,080	1,181	1,424	4,015	4,934	4,272
Grants	2,128	6,683	13,374	5,513	3,670	4,119	2,617
Current expenditure	87,255	118,515	128,411	134,361	142,656	154,582	167,730
Personnel	25,544	28,336	30,737	35,140	41,210	41,942	44,737
Wages	20,377	22,048	23,800	27,720	32,942	33,438	35,741
Social security contributions	5,167	6,288	6,937	7,420	8,268	8,504	8,997
Interest	18,779	35,892	34,938	29,572	25,505	24,762	29,824
Operations and maintenance	13,535	18,540	20,072	19,299	15,784	20,524	22,156
Subsidies	1,551	2,308	2,583	5,247	7,811	6,243	5,112
Social security	20,133	24,329	27,587	31,375	36,073	40,168	44,785
Unemployment insurance	2,204	1,621	1,450	1,919	1,881	1,115	999
Social assistance	4,274	6,168	6,360	6,661	6,939	7,598	7,824
Local government expenditure	...	...	6,285	6,013	7,386	12,288	14,244
Other 1/	1,235	1,321	-1,601	-864	67	-58	-1,951
Capital expenditure 2/	13,751	23,789	37,204	35,062	43,095	41,411	30,324
Of which: Foreign financed	7,231	13,199	17,158	16,327	19,140	22,954	13,167
Total expenditure	101,006	142,304	165,616	169,424	185,751	195,993	198,054
Fiscal balance, cash	-42,169	-42,654	-44,588	-43,323	-46,600	-41,398	-30,904
Financing requirement	-42,169	-42,654	-44,588	-43,323	-46,600	-41,398	-30,904
Domestic financing	36,026	29,666	27,389	25,986	31,102	20,838	20,899
Privatization revenues	910	133	906	8,975	12,683	485	899
Net domestic borrowing	35,116	29,533	26,483	17,012	18,419	20,353	20,000
External financing	6,143	12,988	17,199	17,336	15,498	20,560	10,005
Foreign loans and grants	7,231	14,399	18,199	18,335	16,316	23,192	12,406
Budget support and others	0	6,424	3,973	5,316	846	4,032	2,096
Development (gross)	7,231	7,975	14,226	13,019	15,470	19,160	10,309
minus: amortization	1,088	1,411	1,000	999	818	2,632	2,401

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes the statistical discrepancy.

2/ Includes net lending.

Table 18. Albania: General Government Expenditure Shares, 1997–2003

	1997	1998	1999	2000	2001	2002	2003
(In percent of total expenditure)							
Current expenditure	86.3	83.2	82.8	80.6	76.8	78.9	84.7
Personnel	25.4	20.0	19.8	21.1	22.2	21.4	22.6
Wages	20.3	15.6	15.3	16.6	17.7	17.1	18.0
Social security contributions	5.1	4.4	4.5	4.5	4.5	4.3	4.5
Interest	18.7	25.5	22.5	17.7	13.7	12.6	15.1
Operational and maintenance	13.5	13.1	12.9	11.6	8.5	10.5	11.2
Subsidies	1.5	1.6	1.7	3.1	4.2	3.2	2.6
Social security	20.0	17.2	17.8	18.8	19.4	20.5	22.6
Unemployment insurance	2.2	1.1	0.9	1.2	1.0	0.6	0.5
Social assistance	4.2	4.4	4.1	4.0	3.7	3.9	4.0
Local government expenditure	...	...	3.8	3.5	4.0	6.3	7.2
Capital expenditure ^{2/}	13.7	16.8	24.0	21.0	23.2	21.1	15.3
<i>Of which:</i> Foreign financed	7.2	9.3	11.1	9.8	10.3	10.6	6.6
(In percent of GDP)							
Current expenditure	27.1	28.7	27.1	25.3	24.2	24.5	24.1
Personnel	7.9	6.9	6.5	6.6	7.0	6.7	6.4
Wages	6.3	5.3	5.0	5.2	5.6	5.3	5.1
Social security contributions	1.6	1.5	1.5	1.4	1.4	1.3	1.3
Interest	5.8	8.7	7.4	5.6	4.3	3.9	4.3
Operational and maintenance	4.2	4.5	4.2	3.6	2.7	3.3	3.2
Subsidies	0.5	0.6	0.5	1.0	1.3	1.0	0.7
Social security	6.2	5.9	5.8	5.9	6.1	6.4	6.4
Unemployment insurance	0.7	0.4	0.3	0.4	0.3	0.2	0.1
Social assistance	1.3	1.5	1.3	1.3	1.2	1.2	1.1
Local government expenditure	...	...	1.3	1.1	1.3	2.0	2.0
Other ^{1/}	0.4	0.3	-0.3	-0.2	0.0	0.0	-0.3
Capital expenditure ^{2/}	4.3	5.8	7.8	6.6	7.3	6.6	4.4
<i>Of which:</i> Foreign financed	2.2	3.2	3.6	3.1	3.3	3.3	1.9
Total expenditure	31.4	34.5	34.9	31.9	31.6	31.1	28.5

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes the statistical discrepancy.

2/ Includes net lending.

Table 19. Albania: Tax Revenue Shares, 1997–2003

	1997	1998	1999	2000	2001	2002	2003
(In percent of total expenditure)							
Tax revenue	<u>100.0</u>	100.0	100.0	100.0	100.0	100.0	100.0
Turnover tax / VAT	33.8	39.6	35.5	36.6	35.4	35.8	34.8
Income tax	7.8	8.8	12.0	13.8	15.9	16.2	15.5
Personal income tax	1.8	1.6	3.6	4.4	5.4	4.8	4.4
Small business tax	0.8	1.3	1.2	1.6	1.7	2.0	2.0
Enterprise profits tax	5.2	6.0	7.2	7.8	8.8	9.5	9.0
Social security contributions	28.4	21.8	21.7	19.3	19.4	19.9	19.7
Property tax	0.6	0.4	0.0	1.3	1.8	2.1	3.1
Customs duties	19.4	17.4	13.9	13.0	11.0	10.4	9.5
Excise tax	4.7	6.8	8.4	8.8	8.2	7.2	8.4
Other taxes	5.4	5.2	8.4	7.3	8.3	8.5	8.9
(In percent of GDP)							
Tax Revenue	13.5	15.8	16.6	19.6	19.7	20.5	20.9
Turnover tax / VAT	4.6	6.2	5.9	7.2	7.0	7.3	7.3
Income tax	1.1	1.4	2.0	2.7	3.1	3.3	3.2
Personal income tax	0.2	0.3	0.6	0.9	1.1	1.0	0.9
Small business tax	0.1	0.2	0.2	0.3	0.3	0.4	0.4
Enterprise profits tax	0.7	0.9	1.2	1.5	1.7	1.9	1.9
Social security contributions	3.8	3.4	3.6	3.8	3.8	4.1	4.1
Property tax	0.1	0.1	0.0	0.2	0.3	0.4	0.6
Customs duties	2.6	2.7	2.3	2.6	2.2	2.1	2.0
Excise tax	0.6	1.1	1.4	1.7	1.6	1.5	1.8
Other taxes	0.7	0.8	1.4	1.4	1.6	1.7	1.9

Sources: Ministry of Finance; and Fund staff estimates.

Table 20. Albania: Balance Sheet of the Bank of Albania, 1996–2004
(In billions of leks)

	1996	1997	1998	1999	2000	2001	2002				2003				2004			
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Reserve money	61.4	90.9	89.9	109.3	128.8	152.1	163.9	157.9	151.7	157.2	160.6	154.4	157.0	166.5	176.1			
Currency	50.2	74.1	69.4	83.0	101.4	121.3	133.1	124.8	122.3	124.5	127.8	120.3	121.5	130.1	139.8			
Currency outside banks	47.8	72.7	68.3	81.3	99.2	119.1	130.8	121.3	118.9	121.3	125.2	117.2	118.2	126.2	135.8			
Com. bank cash in vaults	2.4	1.4	1.1	1.6	2.2	2.3	2.4	3.5	3.4	3.2	2.6	3.1	3.3	3.9	4.0			
Deposit money banks deposits	11.2	16.8	20.5	26.4	27.4	30.8	30.7	32.9	29.4	32.7	32.8	34.1	35.4	36.3	36.4			
Lek reserves	2.0	4.8	3.5	20.6	20.7	22.8	20.8	23.2	20.7	23.2	23.6	24.6	25.7	25.4	25.4			
Required lek reserves	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Foreign currency reserves	9.2	12.0	17.0	5.8	6.7	8.0	9.9	9.7	8.6	9.5	9.2	9.6	9.8	10.9	11.0			
Net foreign assets	20.2	31.4	35.9	46.9	71.8	86.0	96.9	99.0	93.7	96.5	99.8	99.1	107.1	116.5	117.9			
Foreign assets	57.0	85.2	91.0	71.1	92.3	104.9	124.9	127.2	120.6	124.0	119.1	118.9	124.9	134.8	134.6			
Foreign liabilities	36.8	53.9	55.1	24.1	20.5	18.9	28.0	28.2	26.9	27.5	19.3	19.8	17.8	18.3	16.7			
Net domestic assets	41.2	59.6	54.0	62.4	56.9	66.2	67.0	58.9	58.0	60.7	60.7	55.3	49.9	50.0	58.2			
Net credit to government	47.7	70.4	67.5	65.9	72.4	67.6	71.0	69.1	65.3	65.0	64.6	60.5	51.9	51.2	62.6			
Credit	51.0	76.0	72.9	71.8	80.1	71.8	77.0	77.0	73.7	73.3	73.4	69.0	69.0	65.7	...			
Deposits	3.2	5.6	5.4	5.8	7.6	4.2	6.0	7.9	8.4	8.3	8.8	8.5	17.1	14.5	...			
Claims on deposit money banks 1/	3.4	7.4	4.6	5.9	1.3	6.7	10.8	4.4	0.6	4.9	-0.7	-3.4	-4.9	-3.0	-3.0			
Other credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Other items net	-9.9	-18.3	-18.1	-9.5	-16.8	-8.1	-14.9	-14.6	-7.9	-9.2	-3.1	-1.8	2.9	1.8	-1.4			
Contribution to annual growth of reserve money																		
Reserve money	14.0	48.1	-1.1	21.6	17.8	18.1	7.7	-1.1	-6.8	-2.3	-2.0	-2.2	3.5	5.9	13.1			
NFA	13.2	18.1	5.0	12.2	22.8	11.0	7.2	4.3	-0.5	-0.2	1.8	0.1	8.8	12.7	12.4			
NDA	0.8	30.0	-6.2	9.4	-5.0	7.2	0.5	-5.3	-6.4	-2.2	-3.8	-2.3	-5.3	-6.8	0.7			
Net credit to government	16.2	36.9	-3.2	-1.7	5.9	-3.8	2.3	-0.1	-3.3	-2.1	-3.9	-5.4	-8.8	-8.8	-2.0			
Claims of deposit money banks	0.1	6.6	-3.2	1.5	-4.2	4.2	2.7	-3.8	-7.8	-4.0	-7.0	-4.9	-3.6	-5.0	2.3			
Other items net	-15.6	-13.6	0.2	9.6	-6.7	6.7	-4.4	-1.4	4.8	3.9	7.2	8.1	7.1	7.0	0.3			

Sources: Data provided by Bank of Albania; and IMF estimates.

Table 21. Albania: Deposit Money Bank Survey, 2002–2004
(In millions of leks)

	2002	2003				2004			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 Est.
Net foreign assets	67,458	66,003	62,749	69,873	62,019	66,683	63,096	77,274	76,460
Claims on nonresidents	81,738	80,776	76,643	84,600	77,941	82,087	76,803	91,262	90,513
Liabilities to non-residents	14,279	14,773	13,894	14,727	15,922	15,404	13,707	13,988	14,053
Net domestic assets	209,791	223,776	240,260	245,864	256,239	266,259	271,149	279,438	287,049
Claims on Bank of Albania	32,172	39,283	39,894	38,164	36,447	40,891	44,516	43,686	42,581
Net claims on government	174,283	176,775	183,983	190,673	195,539	203,892	201,172	206,820	207,113
Claims on government	176,920	180,571	186,683	194,063	198,160	206,586	204,225	209,183	...
Minus: Liabilities to governments	2,637	3,795	2,700	3,390	2,621	2,695	3,053	2,363	...
<i>Of which: Deposits of government</i>	1,822	1,817	1,310	1,851	1,757	1,619	1,333	1,104	...
Other claims 1/	38,884	40,526	44,698	48,297	50,908	53,684	57,063	61,214	70,303
Other items, net	-35,549	-32,808	-28,315	-31,270	-26,654	-32,208	-31,602	-32,282	-32,947
Deposits included in broad money	277,249	289,780	303,009	315,737	318,258	332,942	334,244	356,711	363,509
Transferable deposits	35,824	34,788	36,176	38,965	35,878	41,347	41,724	48,595	45,645
In national currency	13,145	13,613	14,765	15,130	14,640	17,774	16,581	21,364	19,214
In foreign currency	22,679	21,175	21,411	23,834	21,238	23,573	25,143	27,231	24,958
Other deposits	241,425	254,991	266,834	276,772	282,380	291,595	292,520	308,117	317,864
In national currency	177,597	189,853	201,387	205,087	211,382	218,760	220,263	225,538	234,369
In foreign currency	63,828	65,138	65,447	71,686	70,998	72,835	72,257	82,579	84,968
Memorandum items:									
Domestic currency deposits	190,742	203,466	216,152	220,217	226,022	236,534	236,845	246,901	253,583
Foreign currency deposits	86,507	86,313	86,858	95,520	92,236	96,408	97,400	109,810	109,926
As a percent of total deposits	31.2	29.8	28.7	30.3	29.0	29.0	29.1	30.8	30.2

Source: Data provided by Bank of Albania.

1/ Includes claims on other financial institutions, local government and public institutions, claims on public nonfinancial institutions, and claims on the private sector.

Table 22. Albania: Commercial Bank Deposits, 2002–2004
(In millions of leks)

	2002	2003				2004			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Deposits at DMBs included in broad money	277,249	289,780	303,009	315,737	318,258	332,942	334,244	356,711	363,509
Transferable deposits	35,824	34,788	36,176	38,965	35,878	41,347	41,724	48,595	45,645
In national currency	13,145	13,613	14,765	15,130	14,640	17,774	16,581	21,364	19,214
Other financial corporations	91	21	15	4	3	1	1,251	1,185	...
Local government and public administration	615	1,062	974	706	563	1,376	708	928	...
Public nonfinancial units	4,231	5,471	6,062	6,079	6,003	8,040	6,084	5,961	...
Other nonfinancial units	6,623	5,302	5,741	6,495	6,486	6,539	6,521	10,892	...
Other resident sectors	1,586	1,757	1,972	1,847	1,585	1,817	2,018	2,398	...
In foreign currency	22,679	21,175	21,411	23,834	21,238	23,573	25,143	27,231	24,958
Other financial corporations	17	36	35	2	5	5	86	133	...
Local government and public administration	1,001	605	931	694	431	673	519	466	...
Public nonfinancial units	5,657	5,106	4,724	4,452	3,922	4,897	4,188	4,237	...
Other nonfinancial units	10,648	9,999	10,282	12,343	10,955	10,974	12,287	13,071	...
Other resident sectors	5,356	5,429	5,438	6,343	5,925	7,024	8,062	9,324	...
Other deposits	241,425	254,991	266,834	276,772	282,380	291,595	292,520	308,117	317,864
In national currency	177,597	189,853	201,387	205,087	211,382	218,760	220,263	225,538	234,369
Other financial corporations	-	-	-	0	-	-	0	1	...
Local government and public administration	134	28	15	18	6	34	40	156	...
Public nonfinancial units	730	859	4,630	4,565	4,602	5,141	4,867	4,790	...
Other nonfinancial units	1,921	1,791	1,946	1,696	1,829	2,017	1,989	2,219	...
Other resident sectors	174,812	187,175	194,796	198,807	204,945	211,568	213,367	218,372	...
In foreign currency	63,828	65,138	65,447	71,686	70,998	72,835	72,257	82,579	84,968
Other financial corporations	218	220	258	326	438	245	104	193	...
Local government and public administration	0	0	0	0	24	24	62	62	...
Public nonfinancial units	1,470	1,501	1,131	1,148	1,076	1,260	1,200	1,268	...
Other nonfinancial units	3,007	3,610	3,839	3,813	3,941	3,280	2,871	3,879	...
Other resident sectors	59,133	59,807	60,219	66,397	65,519	68,027	68,020	77,177	...
Memorandum items:									
Domestic currency deposits	190,742	203,466	216,152	220,217	226,022	236,534	236,845	246,901	253,583
Other financial corporations	91	21	15	4	3	1	1,251	1,186	...
Local government and public administration	748	1,089	989	724	569	1,410	748	1,083	...
Public nonfinancial units	4,961	6,330	10,692	10,644	10,605	13,181	10,952	10,751	...
Other nonfinancial units	8,544	7,093	7,688	8,191	8,315	8,556	8,509	13,111	...
Other resident sectors	176,397	188,933	196,768	200,654	206,530	213,386	215,384	220,770	...
Foreign currency deposits	86,507	86,313	86,858	95,520	92,236	96,408	97,400	109,810	109,926
Other financial corporations	235	256	292	329	443	249	191	326	...
Local government and public administration	1,001	605	931	695	455	697	581	528	...
Public nonfinancial units	7,127	6,607	5,855	5,600	4,998	6,157	5,387	5,505	...
Other nonfinancial units	13,655	13,609	14,121	16,157	14,896	14,254	15,159	16,951	...
Other resident sectors	64,489	65,236	65,657	72,740	71,444	75,051	76,083	86,500	...
Foreign currency deposits as percent of total deposits	31.2	29.8	28.7	30.3	29.0	29.0	29.1	30.8	30.2
Other financial corporations	72.1	92.6	95.1	98.7	99.4	99.4	13.2	21.6	...
Local government and public administration	57.2	35.7	48.5	49.0	44.4	33.1	43.7	32.8	...
Public nonfinancial units	59.0	51.1	35.4	34.5	32.0	31.8	33.0	33.9	...
Other nonfinancial units	61.5	65.7	64.7	66.4	64.2	62.5	64.0	56.4	...
Other resident sectors	26.8	25.7	25.0	26.6	25.7	26.0	26.1	28.2	...

Source: Data provided by Bank of Albania.

Table 23. Albania: Exchange Rate, 1996–2004
(In leks per U.S. dollar)

	1996		1997		1998		1999		2000		2001		2002		2003		2004	
	Period Average	End of Period	Period Average	End of Period	Period Average	End of Period	Period Average	End of Period	Period Average	End of Period	Period Average	End of Period	Period Average	End of Period	Period Average	End of Period	Period Average	End of Period
Jan.	95.5	97.2	111.2	128.1	152.6	152.9	139.9	140.4	136.6	135.2	142.3	142.4	140.3	142.7	131.6	130.5	106.2	107.2
Feb.	98.6	97.8	129.6	144.1	157.1	158.8	140.5	140.9	139.5	140.0	143.1	143.3	141.5	140.6	129.9	129.8	105.1	105.7
Mar.	99.7	100.5	145.1	148.5	160.2	160.2	142.3	142.9	140.8	140.2	144.4	146.9	141.8	143.8	129.6	129.0	106.3	106.4
Apr.	103.6	104.6	147.9	148.3	159.9	158.2	144.7	145.3	142.4	145.1	145.6	145.0	144.1	144.9	129.1	126.0	106.8	106.8
May	112.3	109.4	160.7	175.1	157.0	160.2	141.4	141.8	147.4	144.3	146.7	149.0	144.9	146.1	121.3	118.4	106.2	104.5
Jun.	110.6	111.7	180.5	178.7	154.1	152.8	137.4	137.0	140.8	141.8	148.6	148.6	142.9	139.8	118.9	118.0	102.8	101.5
Jul.	111.1	111.2	172.2	145.2	150.5	148.2	135.6	135.4	140.6	141.1	147.8	145.4	138.5	138.2	120.2	119.6	101.2	103.7
Aug.	108.8	108.0	159.5	155.7	149.4	152.8	132.9	135.2	143.6	147.2	143.5	143.6	138.1	140.1	119.9	123.8	102.5	103.7
Sep.	108.5	107.8	149.0	147.4	148.6	146.2	135.4	134.7	148.4	147.0	142.9	141.7	139.2	138.9	120.5	118.1	102.3	101.2
Oct.	106.5	104.9	147.4	143.7	142.7	141.1	132.5	134.4	149.0	150.3	141.4	140.9	138.6	138.1	116.8	116.0	100.6	99.2
Nov.	99.7	100.4	143.2	144.6	141.9	141.1	134.4	136.0	149.4	149.5	140.2	138.8	137.0	137.9	115.7	113.7	97.8	96.9
Dec.	102.3	103.1	149.0	149.1	140.8	140.8	135.3	135.2	146.1	142.6	137.1	136.6	135.0	133.9	108.5	106.4	94.5	92.7
Year	104.8	103.1	149.6	149.1	151.2	140.8	138.1	135.2	144.0	142.6	143.6	136.6	140.2	133.9	121.5	106.4	103.8	92.7

Sources: Bank of Albania; and Fund staff calculations.

Table 24. Albania: Interest Rate Structure, 1998–2004

	1998	1999	2000	2001	2002			2003			2004							
					Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Oct	Nov	Dec
Bank of Albania rates																		
BoA REPO rate (policy rate)	...	...	...	7.00	7.50	8.50	8.50	8.50	8.50	8.50	8.00	7.50	6.50	5.75	5.50	5.50	5.25	5.25
Discount window	22.90	17.77	10.80	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Overnight credit 1/	...	...	...	9.50	10.00	11.00	11.00	11.00	11.00	10.50	10.00	9.00	9.00	8.25	8.00	8.00	7.75	7.75
Lombard credit 2/	...	...	...	13.00	13.50	14.50	14.50	14.50	14.50	14.00	13.50	12.50	12.50	11.80	11.50	11.50	11.25	11.25
Overnight deposit 3/	...	...	...	4.50	5.00	6.00	6.00	6.00	6.00	5.50	5.00	3.50	3.50	2.75	2.50	2.50	2.25	2.25
Commercial bank rates																		
Lek deposits rates (12-month rate)	16.5	9.1	7.7	7.8	7.8	8.6	8.9	9.3	9.2	8.3	7.8	7.6	7.0	6.5	6.3	6.1	6.1	...
Lek lending rates (12-month rate) 4/	25.0	25.8	23.7	11.9	13.7	14.3	15.5	16.0	14.9	12.2	11.1	10.5	16.0	17.3	...	...	...	...
LeI lending rates (up to 6-months) 4/	30.3	21.7	21.2	15.3	15.3	14.6	14.8	14.6	14.9	14.3	14.5	11.8	10.4	11.9	11.2	11.0	12.0	...
Lek lending rates (all loans) 4/	28.9	25.5	23.6	13.2	15.6	14.6	15.8	16.1	15.3	12.9	11.7	11.3	11.7	14.3	15.1	13.4	14.8	...
US dollar 12-month deposit rates 5/	...	...	...	1.7	1.1	1.4	1.5	1.3	1.0	1.2	0.9	0.9	0.8	1.0	1.8	1.9	2.0	...
Euro 12-month deposit rates 5/	...	...	...	2.6	2.5	2.5	2.7	2.4	2.3	1.8	1.5	1.6	1.4	1.6	1.8	1.8	1.8	...
US dollar lending rates 6 months to 12-month lending rate 6/	...	...	...	8.0	7.1	7.7	7.4	7.4	5.6	6.2	6.9	8.1	7.9	7.7	8.9	8.8	8.8	...
Euro lending rates 6 months to 12-month lending rate 6/	...	...	...	7.8	7.6	8.1	8.2	7.2	7.0	7.7	6.6	7.6	8.7	7.9	9.4	8.7	8.4	...
Rates on government domestic debt																		
Treasury bills																		
3-month	20.44	15.00	7.82	8.00	8.00	9.80	10.30	11.08	10.76	8.23	7.32	7.32	7.07	6.94	6.51	6.47	6.30	6.15
6-month	21.49	15.57	11.29	9.74	9.78	11.21	11.68	12.03	11.64	10.00	9.47	8.83	8.41	8.17	7.56	7.31	7.27	7.24
12-month	23.00	15.85	12.32	10.50	10.50	11.78	12.21	12.61	12.20	10.29	10.09	9.56	9.32	8.97	8.61	8.27	8.14	8.10
Government bonds	...	...	...	...	...	...	...	14.10	12.83	10.59	10.89	10.20	10.20	10.18	9.48	9.75	9.25	9.00

(In percent)

1/ Collateralized overnight credit to DMBs.

2/ Provides credit to domestic money banks of up to 3 months.

3/ Rate at which the BoA will accept overnight deposits from commercial banks.

4/ Before October 1995 the 12-month lending rate shows the guideline rate announced by Bank of Albania. Since October '95 the lending rate shows the weighted average end-month rate for new loans with 12-month maturity.

5/ Weighted average of end-month deposit rate for new loans from the banking system.

6/ Weighted average of end-month lending rates for new loans from the banking system.

Table 25. Albania: Balance of Payments 1996–2004
(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004 Est.
Current account	-267	-269	-195	-272	-274	-262	-435	-469	-528
Trade balance	-692	-519	-621	-846	-821	-1,027	-1,155	-1,336	-1,675
Exports	229	167	205	275	255	305	330	447	608
Imports	921	685	826	1,121	1,076	1,332	1,485	1,783	2,283
Service balance	...	...	-74	3	5	77	-5	-83	-48
<i>Of which: Tourism receipts (net)</i>	...	...	19	74	117	189	121	33	97
Income balance	...	...	60	61	104	146	128	167	147
<i>o/w: Interest due</i>	13	13	15	14	12	14	21	19	27
Private transfers	425	250	440	327	439	543	597	782	1,048
Capital account	167	83	99	219	319	280	406	451	404
Official transfers	77	77	89	139	111	123	125	146	149
Direct investment	97	42	45	51	143	204	135	178	326
Other capital	-120	-81	-88	-43	-6	-130	53	43	-134
Private loans (incl.net trade credits, net)	0	0	0	0	25	-1	11	24	108
Other financial flows	-120	-81	-88	-43	-30	-129	42	18	-242
<i>Of which: Change in NFA of commercial banks (incr=-)</i>	-120	-81	-88	-43	-30	-129	42	28	-242
Official medium- and long-term loans (net)	113	46	53	72	71	83	93	85	63
New borrowing	119	53	62	80	79	90	121	114	102
Multilateral loans	42	16	31	54	60	56	84	85	76
World Bank	29	15	24	28	40	34	50	42	33
EBRD	7	0	1	0	2	4	11	15	15
Other	6	1	6	25	18	18	22	27	28
Bilateral loans	77	37	31	26	19	34	37	30	26
Amortization	-5	-8	-9	-8	-9	-7	-28	-30	-40
Errors and omissions	125	194	111	26	48	109	47	116	390
Net balance	25	9	15	-27	93	127	18	98	266
Financing requirement	-25	-9	-15	27	-93	-127	-18	-98	-266
Financing	-25	-9	-15	27	-93	-127	-18	-98	-266
Change in net reserves (increase = -) 1/	-43	-27	-75	-79	-126	-135	-50	-118	-285
Change in gross reserves, (increase = -) 1/	-35	-31	-82	-97	-123	-146	-58	-78	-288
Use of Fund Resources (net)	-8	4	7	17	12	-1	-9	2	2
Fund (Credit Tranche/EFF)	0	12	0	0	0	0	0	0	0
Fund (PRGF)	0	0	8	21	19	12	5	11	12
Repayments to Fund	-8	-8	-1	-3	-7	-14	-14	-10	-9
Budget support	13	14	54	96	29	4	29	19	18
Changes in arrears (increase = +)	5	4	-139	5	4	-29	-280	1	-17
Overdue debt forgiveness	0	0	0	0	0	10	207	0	0
Rescheduling	0	0	145	5	0	23	76	0	17
Memorandum items:									
Gross usable reserves	275	306	388	485	608	737	860	1,026	1,374
(in months of imports of goods and services)	4.0	3.8	3.7	3.8	4.1	4.3	4.0	3.7	4.1
Trade balance (In percent of GDP)	-23.0	-23.6	-22.8	-24.6	-22.3	-23.2	-25.8	-24.8	-22.9
Current account (In percent of GDP)	-8.9	-12.2	-7.1	-7.9	-7.4	-6.4	-9.7	-8.2	-7.0
Debt service (In percent of exports of goods and services) 2/	7.5	11.6	9.1	4.1	4.0	4.2	6.4	4.7	4.1
Private transfers (In percent of GDP)	14	11	16	10	12	13	13	14	14
External debt stock (In percent of GDP) 3/	28	41	35	32	32	28	25	22	20.0

Sources: Ministry of Finance; Bank of Albania; donors; and Fund staff estimates.

1/ Net of valuation changes.

2/ Public and publicly guaranteed debt only.

3/ Public and private. Includes arrears, with the exception of transferable rible arrears for which the value is subject to reconciliation.

Debt stock converted into lek at the e-o-p exchange rate.

Table 26. Albania: Composition of Exports
Harmonized Classification, 1996–2003

Description	1996	1997	1998	1999	2000	2001	2002	2003
(In millions of U.S. Dollars)								
Live animals, animals products	6.9	4.1	4.1	3.4	1.8	2.3	2.2	2.7
Vegetable products	16.0	15.5	16.2	12.6	12.2	11.4	13.1	14.9
Animal or vegetable fats and oils	4.8	0.0	0.5	0.4	0.0	0.0	0.0	0.4
Prepared foodstuffs, beverages, tobacco etc.	9.2	9.0	12.6	12.7	13.8	14.1	7.3	18.9
Mineral products	23.1	8.4	23.7	17.5	7.4	5.9	9.1	11.7
Chemical products	2.6	1.2	0.7	0.7	1.4	3.0	1.6	2.5
Plastics and their products	1.2	0.5	1.1	1.3	0.9	1.0	0.7	0.6
Raw hides and skins, leather, travel goods etc.	10.2	8.2	6.6	7.0	8.3	10.9	14.7	11.2
Wood and articles of wood	6.2	5.3	5.6	6.4	7.3	8.7	8.6	8.8
Pulp of wood, paper or paperboard	3.1	3.7	2.9	4.6	2.6	1.7	2.9	9.6
Textiles and textile articles	54.7	36.2	82.6	98.3	94.2	113.7	124.2	155.0
Footswear, headgear, umbrellas	52.6	27.4	40.7	67.9	68.9	87.1	95.1	133.2
Articles of stone, plaster, cement, ceramic products, glass	0.4	0.4	1.7	0.6	0.7	1.8	1.9	2.1
Natural or cultured pearls, coins	0.1	0.1	0.2	0.8	0.5	4.5	0.4	0.4
Base metals and articles of base metals	25.4	14.3	9.4	14.6	21.5	24.4	30.8	49.4
Machinery and mechanical appliance, electrical equipment	3.8	7.4	4.3	12.4	4.0	7.1	8.5	14.7
Vehicles, aircraft	0.1	0.5	1.2	5.0	0.1	1.0	0.9	1.2
Optical, photographic, measuring, medical instruments	0.2	0.1	0.8	0.4	0.5	0.2	0.3	0.2
Miscellaneous manufactured articles	3.2	3.4	6.1	7.9	7.8	5.1	6.8	8.5
Other	19.9	0.0	0.0	0.0	1.0	0.6	0.7	0.4
Total	243.7	145.9	221.0	274.4	255.1	304.5	329.4	446.4

Source: INSTAT.

Table 27. Albania: Composition of Imports
Harmonized Classification, 1996–2003

Description	1996	1997	1998	1999	2000	2001	2002	2003
(C.I.F., In millions of U.S. Dollars)								
Live animals, animals products	46.8	27.4	42.1	36.6	29.3	28.6	45.2	63.0
Vegetable products	160.8	82.6	80.6	78.7	86.7	100.3	101.3	119.2
Animal or vegetable fats and oils	24.2	19.7	26.6	17.4	18.1	19.8	20.8	29.0
Prepared foodstuffs, beverages, tobacco etc.	87.0	44.0	70.8	98.6	97.0	107.1	130.5	157.4
Mineral products	48.2	49.1	70.0	81.1	143.5	184.6	192.3	219.7
Chemical products	44.1	34.8	54.1	49.1	58.9	71.5	86.1	114.3
Plastics and their products	21.2	19.6	24.7	25.7	31.8	37.3	44.7	57.2
Raw hides and skins, leather, travel goods etc.	19.8	14.4	19.0	21.1	19.1	27.6	36.8	55.5
Wood and articles of wood	7.0	7.4	10.1	15.4	10.4	12.1	16.3	22.8
Pulp of wood, paper or paperboard	12.0	8.4	12.2	12.4	17.8	20.1	29.4	36.5
Textiles and textile articles	81.4	65.5	97.9	108.8	119.4	136.8	163.0	202.9
Footswear, headgear, umbrellas	58.2	36.9	38.7	34.2	35.6	47.3	55.6	65.0
Articles of stone, plaster, cement, ceramic products, glass	20.8	21.7	28.5	30.0	41.9	49.2	57.9	68.2
Natural or cultured pearls, coins	1.3	0.2	0.4	0.9	2.7	0.4	0.4	0.7
Base metals and articles of base metals	42.9	42.3	54.4	74.5	84.0	117.7	133.7	177.1
Machinery and mechanical appliance, electrical equipment	146.3	100.9	79.3	106.3	148.1	244.1	240.4	283.2
Vehicles, aircraft	54.7	30.9	44.5	67.2	79.5	70.0	80.9	120.2
Optical, photographic, measuring, medical instruments	9.3	7.0	5.8	11.8	16.5	19.3	14.3	21.7
Arms and ammunitions	0.7	0.5	0.1	2.0	0.7	0.6	0.7	0.7
Miscellaneous manufactured articles	16.0	13.8	17.9	19.1	24.5	30.4	36.5	42.8
Works of art	0.0	0.0	1.7	0.0	0.0	0.0	0.5	0.0
Total	902.8	627.0	779.4	891.1	1065.6	1324.8	1487.3	1857.2

Source: INSTAT.

Table 28. Albania: Direction of Trade, Merchandise Exports, 1996–2003

	1996	1997	1998	1999	2000	2001	2002	2003
	(In percent of total exports)							
Industrial Countries	88.2	89.4	94.5	95.3	94.6	93.1	94.0	94.2
Italy	57.8	49.4	60.1	67.3	71.0	71.1	71.7	74.9
Greece	13.0	20.5	19.8	14.3	12.8	12.7	12.8	12.8
Germany	6.9	6.9	5.7	6.4	6.6	5.5	5.5	3.4
Austria	1.1	1.5	1.6	2.1	0.7	0.2	0.2	1.2
France	2.0	1.9	1.2	0.8	0.8	0.7	0.6	0.5
United States	1.2	1.5	1.7	0.5	0.9	0.7	1.6	0.5
Switzerland	0.6	0.4	0.3	1.1	0.3	1.5	0.2	0.3
Other	5.5	7.4	4.2	2.8	1.6	0.7	1.2	0.5
Developing Countries	11.8	10.6	5.5	4.7	5.4	6.9	6.0	5.8
Serbia & Montenegro	0.0	0.0	0.3	1.2	2.7	3.1	2.3	2.3
Turkey	3.1	0.9	0.5	0.4	0.7	1.0	1.0	0.8
Macedonia, FYR	3.1	2.6	1.5	1.5	0.9	2.1	1.5	0.7
Russia	0.0	0.0	0.2	0.2	0.2	0.0	0.0	0.5
China	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Hungary	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.2
Other	5.5	6.8	2.9	1.4	0.9	0.6	1.2	0.8
Memorandum Items:								
European Union	86.0	87.5	92.5	93.6	93.4	91.0	92.1	93.3
Total exports (In millions of U.S. dollars)								
Balance of payments estimates	229	167	205	275	255	305	330	447
Reported by partner countries 1/	211	141	206	275	260	305	330	446

Sources: Albanian Customs Department; Bank of Albania; Institute of Statistics; and Fund staff estimates.

1/ From Direction of Trade Statistics, IMF.

Table 29. Albania: Direction of Trade, Merchandise Imports, 1996–2003

	1996	1997	1998	1999	2000	2001	2002	2003
	(In percent of total imports F.O.B.)							
Industrial Countries	79.3	85.3	84.8	82.2	78.6	77.8	74.1	70.7
Italy	40.5	46.5	44.1	38.0	35.5	32.1	34.5	33.6
Greece	20.6	26.6	29.2	27.7	26.7	26.0	21.7	20.1
Germany	5.8	4.2	3.7	5.6	6.1	5.9	5.6	5.7
United Kingdom	1.3	1.0	0.5	1.0	0.8	3.6	3.1	2.4
Spain	0.1	0.7	0.8	1.3	1.2	1.2	1.4	1.7
Austria	0.9	1.5	1.4	1.8	1.1	0.8	1.3	1.6
France	3.0	1.1	0.9	1.6	1.5	0.9	1.1	1.1
United States	1.2	0.1	0.3	0.5	1.5	1.1	1.7	1.0
Switzerland	1.6	1.2	1.5	1.3	1.2	0.9	0.9	0.8
Other	4.2	2.5	2.4	3.4	3.0	5.3	2.9	2.7
Developing Countries	20.7	14.7	15.2	17.8	21.4	22.2	25.9	29.3
China	0.1	0.1	0.2	0.2	1.4	2.0	2.5	3.5
Bulgaria	3.9	2.7	2.8	3.0	2.4	2.0	1.9	2.2
Croatia	1.5	0.4	0.5	0.9	1.2	1.3	2.1	1.5
Czech Republic	0.0	0.3	0.0	0.0	0.7	0.5	0.4	0.7
Hungary	0.8	1.1	1.1	1.0	1.0	1.1	0.8	0.7
Romania	2.3	0.3	0.4	0.7	0.6	0.9	1.1	0.8
Russia	0.2	0.1	0.9	0.4	1.8	1.3	2.6	2.8
Slovenia	1.2	1.5	1.6	1.8	1.3	1.1	1.2	1.4
Turkey	4.3	4.4	3.3	5.5	5.4	6.1	6.1	6.6
Ukraine	0.4	0.4	0.9	0.7	0.3	1.1	1.2	2.5
Other	3.9	1.4	2.1	1.7	3.2	3.6	4.9	5.5
Memorandum Item:								
European Union	76.3	83.8	82.9	80.2	74.8	74.7	70.7	68.2
Total imports (In millions of U.S. Dollars)								
Balance of payments estimates	921	685	826	1121	1076	1332	1485	1783
Reported by partner countries 1/	909	620	795	899	1084	1321	1502	1846

Sources: Bank of Albania, Direction of Trade Statistics, and Fund staff estimates.

1/ From Direction of Trade Statistics, IMF.

Table 30. Albania: External Debt in Convertible and Nonconvertible Currencies, 1996–2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004 1/
	(In millions of U.S. dollars; end of period)								
Total	845	877	1007	1108	1172	1198	1190	1408	1446
Multilateral	208	221	304	419	491	523	659	824	868
EBRD	10	9	9	8	7	9	14	28	35
EIB	0	0	1	15	27	35	50	72	80
IDA	137	148	220	296	345	366	476	583	604
IDB	0	0	1	1	2	5	10	14	14
IFAD	5	5	8	12	13	15	21	29	30
IMF 2/	54	56	62	80	89	84	77	85	91
OPEC	1	2	4	6	7	8	12	14	15
Bilateral	170	183	218	211	214	259	398	461	472
Paris Club	158	168	191	183	186	206	297	350	348
Pre cut-off	41	32	27	20	18	17	55	52	50
Austria	8	6	4	3	2	1	1	1	1
France	17	13	10	8	5	4	3	2	2
Germany	13	11	10	8	5	7	6	6	5
Italy	2	2	1	1	6	5	5	5	5
Netherlands	1	1	1	0	0	0	0	0	0
Russia	0	0	0	0	0	0	39	38	37
Japan	0	0	0	0	0	0	0	0	0
Post cut-off	118	136	164	163	168	188	241	297	298
Austria	6	5	5	5	4	4	2	2	2
Germany	40	46	58	50	50	53	72	96	99
Italy	56	61	74	71	69	76	110	134	131
Japan	9	17	21	31	29	25	28	37	41
Norway	3	3	3	3	11	26	26	23	22
Sweden	4	4	4	4	4	4	4	4	4
Non-Paris Club	12	15	27	29	28	53	102	111	124
China	0	2	2	2	2	2	41	41	40
FYR Macedonia	0	0	0	0	0	0	0	0	1
Greece	0	0	11	11	11	12	14	17	17
Hungary	0	0	0	0	0	0	0	0	14
Kuwait	12	13	15	16	15	16	23	30	30
Turkey	0	0	0	0	0	23	23	23	23
Arrears	467	474	484	478	467	416	133	124	106
Convertible currency	135	135	134	134	131	91	68	68	60
Budgetary	61	61	60	60	57	21	17	17	17
China	5	5	5	5	4	4	0	0	0
Greece	19	19	19	19	17	17	17	17	17
IDB	0	0	0	0	0	0	0	0	0
Turkey	14	14	14	14	14	0	0	0	0
PTT	15	15	15	15	15	0	0	0	0
Railway	7	7	7	7	7	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
Bilateral clearing account (US\$)	74	74	74	74	74	71	51	51	44
Non-convertible currency 3/	169	169	172	172	161	162	13	13	9
Commercial 4/	52	52	52	39	37	34	33	21	20
Cumulative Overdue Interest 5/	111	118	126	133	137	129	19	22	17
Memorandum items:									
Total debt (percent of GDP)	28	41	35	32	32	28	25	22	17
Total arrears (percent of GDP)	16	22	17	14	13	10	3	2	1

Sources: Ministry of Finance; Bank of Albania; and Fund staff estimates.

1/ As of September 2004.

2/ PRGF (formerly ESAF) and ordinary resources.

3/ Consists of bilateral clearing accounts in rubles. These are converted using official exchange rates.

4/ Includes debt to commercial banks, arrears on spot and money market transactions, financial lines, confirmed and unconfirmed letters of credit.

5/ Amended from previous reports to reflect overdue interests arising from outstanding arrears.

Table 31. Albania: Indicators of Fund Credit, 1996–2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004 Est.
(In millions of SDR, unless otherwise indicated)									
Outstanding credit									
Stand-by arrangement	6.6	9.7	8.8	8.8	8.8	4.4	0.0	0.0	0.0
ESAF/PRGF	31.1	31.1	36.9	49.9	58.6	61.8	59.6	60.8	62.4
Total	37.7	40.7	45.8	58.7	67.5	66.3	59.6	60.8	62.4
In percent of quota	106.8	115.4	129.7	120.5	138.5	136.0	122.4	124.9	128.2
In percent of exports (GNFS)	15.6	15.6	22.0	13.5	12.6	10.0	8.4	7.3	5.7
In percent of total public external debt	6.4	6.4	6.2	7.2	7.6	7.0	6.6	6.0	6.0
Purchases and disbursements									
Stand-by arrangement	0.0	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ESAF/PRGF	0.0	0.0	5.9	15.5	14.3	9.4	4.0	8.0	8.0
Total	0.0	8.8	5.9	15.5	14.3	9.4	4.0	8.0	8.0
In percent of quota	0.0	24.9	16.7	31.8	29.3	19.3	8.2	16.4	16.4
In percent of exports (GNFS)	0.0	3.4	2.8	3.6	2.7	1.4	0.6	1.0	0.7
Debt Service									
Principal	5.7	5.8	0.9	2.5	5.5	10.6	10.6	6.8	6.4
Interest and charges	0.6	0.4	0.6	0.6	0.7	0.7	0.4	0.3	0.3
Total	6.3	6.1	1.4	3.1	6.2	11.3	11.0	7.1	6.7
In percent of exports (GNFS)	2.6	2.3	0.7	0.7	1.2	1.7	1.6	0.9	0.6
In percent of total external debt service	34.9	29.9	7.6	17.3	29.4	41.8	24.5	18.2	15.0
Net Fund Financing	-6.3	2.7	4.4	12.3	8.0	-1.9	-7.0	0.9	1.3
Memorandum items:									
Exchange Rate (US dollars per SDR)	1.44	1.38	1.36	1.37	1.32	1.27	1.30	1.40	1.48
Quota (in millions of SDRs)	35.3	35.3	35.3	48.7	48.7	48.7	48.7	48.7	48.7
Exports of GNFS (in millions of US dollars)	348.9	359.6	281.6	593.7	705.5	839.5	915.2	1167.1	1629.0
Public external debt (millions of US dollars) 1/	844.4	876.6	1006.7	1108.3	1172.6	1198.4	1178.2	1408.6	1547.5
External debt service (millions of US dollars)	26.1	28.2	25.8	24.6	28.0	34.3	58.2	54.6	66.3

Sources: Albanian authorities, International Monetary Fund, Fund staff estimates.

1/ Includes IMF and arrears.

Albania: Summary of Tax System at End–January 2005

Tax	Nature of Tax	Deductions and Exemptions	Rates												
1. Taxes on Income, Profits and Capital Gains															
1.1 Taxes on Individual Income															
1.1.1 Personal Income Tax (PIT)	A schedular tax on employment income and other specified sources of worldwide income of Albanian residents and Albanian income of nonresidents. Physical persons which pay Small Business Tax (SBT), are not subject of PIT.	The first 14,000 lek of monthly wages are exempt. Also exempt are: state unemployment benefits, pensions and other transfers, and self-employment income of farmers. Direct dividends for participations of more than 25 percent are exempted.	<p>Monthly Wages (lek) rate</p> <table border="1"> <tr> <td>14,001–40,000</td> <td>5 percent</td> </tr> <tr> <td>40,001–90,000</td> <td>10 percent</td> </tr> <tr> <td>90,001–200,000</td> <td>15 percent</td> </tr> <tr> <td>80,001–100,000</td> <td>20 percent</td> </tr> <tr> <td>200,001-500,000</td> <td>25 percent</td> </tr> <tr> <td>over 500,000</td> <td>30 percent</td> </tr> </table> <p>10 percent flat rate on other income subject to tax (e.g., interest income, dividends, and royalties paid to Albanian residents), 15 percent where such payments are made to non-residents. Revenues from lottery games and casinos 20 percent.</p>	14,001–40,000	5 percent	40,001–90,000	10 percent	90,001–200,000	15 percent	80,001–100,000	20 percent	200,001-500,000	25 percent	over 500,000	30 percent
14,001–40,000	5 percent														
40,001–90,000	10 percent														
90,001–200,000	15 percent														
80,001–100,000	20 percent														
200,001-500,000	25 percent														
over 500,000	30 percent														
1.1.2 Small Business Tax (SBT)	A tax on all small businesses with an annual turnover of less than 8 million leks.	The tax does not apply to agricultural activities.	A flat rate of 3 percent is levied on the annual turnover.												
1.2 Taxes on Corporate Income	A tax on worldwide income of domestic businesses and Albanian income of foreign businesses in Albania; provided their annual turnover exceeds 8 million leks. Loss carry forward for 3 years.	Foreign tax credit. No domestic double taxation of dividends.	A flat rate of 23 percent is levied on profits of the business.												

Albania: Summary of Tax System at End-January 2005

Tax	Nature of Tax	Deductions and Exemptions	Rates
2. Social Security Contributions			
2.1 Employees			
2.1.1 Employer Contributions	All public and private employers are liable. Social insurance contributions fund pensions, maternity benefits, unemployment insurance, sickness benefits, and employment injury insurance. Health insurance contributions fund subsidies to medicines, and some other medical costs.	Excluding bonuses and in-kind compensation.	Social insurance: Based on minimum and maximum (5 times the minimum) reference gross wages set annually for contribution purposes. For 2005, the minimum is set at 11,400 leks. Rate is 29 percent of gross wages of employees, if the wage is between the minimum and the maximum. If the wage is above maximum, 29 percent of the maximum. If the wage is below minimum, 29 percent of the minimum, and 11.2 percent of the difference between the actual wage and the minimum. Health insurance: 1.7 percent of gross wage.
2.2.1 Employee Contributions	All employees are liable.	Excluding bonuses and in-kind compensation.	Social insurance: 9.5 percent of the gross wage not to exceed 9.5 percent of the maximum. Health insurance: 1.7 percent of gross wage.
2.2 Self-employed	All urban self-employed are liable.		Social insurance: 29.7 of the minimum gross wage.
3. Property Tax	Local tax is levied on buildings located in Albania. The tax is administered by local government.	Property of international organizations; buildings let at controlled rents.	Building tax is levied per square meter and varies according to the district and the purpose of the building.

Albania: Summary of Tax System at End-January 2005

Tax	Nature of Tax	Deductions and Exemptions	Rates
4. Taxes on goods and services			
4.1 Value Added Tax	A general tax on domestic consumption, implemented as a tax on (i) imported goods (tax base includes import duty) and (ii) the supply of goods and services by registered taxpayers (with turnover of 8 million leks per year or more). Registered taxpayers receive a credit for tax charged on their inputs.	(a) Major exemptions consist of financial services; supplies for health, educational, religious, non-profit organizations etc.; and supplies to diplomatic and consular missions; medicines and medical equipment. (b) Raw materials imported under the Temporary Processing Regime to be eventually exported and all goods in transit to other countries are also exempted.	20 percent. Exports of goods and services are zero-rated.
4.2 Excise Tax	The tax is levied on domestic production and imports of: (a) tobacco and tobacco products (b) alcoholic drinks (c) soft drinks and mineral water (d) coffee (e) oil by-products (f) cosmetics and perfumes	Exemptions: ethyl alcohol used in production of alcoholic drinks for export; liquid gas used for household consumption.	Levied either as a percentage rate or per unit, depending on the commodity. Perfumes and deodorants 60 percent Diesel 65 percent <i>(between a maximum of 27 leks and a minimum of 13 leks)</i> Kerosene (per liter) Lek 20 Unleaded gasoline (per liter) Lek 33 Leaded gasoline (per liter) Lek 38 Cigarettes (per pack) Lek 25 Soft Drinks (per liter) Lek 2 Mineral Water (per liter) Lek 1 Coffee Roasted (per kilogram) Lek 80 Not roasted (per kilogram) Lek 40 Beer (per liter) Lek 30 Wine (per liter) Lek 20 Other alcoholic drinks Lek 130
5. Import Duties	Imports are subject to duty according to their classification in the 8-digit Harmonized System.	Major exemptions are for: (a) goods imported under government agreements, and where the duty exemption is explicitly stated in the agreement; (b) certain imports of	Rates vary between 0-15 percent.

Albania: Summary of Tax System at End-January 2005

Tax	Nature of Tax	Deductions and Exemptions	Rates
		contractors in oil exploration; (c) humanitarian aid.	
6. Other Taxes			
6.1 National and Local Taxes	A variety of taxes and fees including port charges, consular fees, TV and telephone licenses, driving license fees, hunting license fees, hotel tax (for foreigners), airport arrival and departure tax, business registration tax, stamp duties, etc.	Various, under the different taxes.	Various fixed fees and flat rates
6.2 Tax on Road Circulation	Annual registration tax on automobiles.	None.	10,000 leks per year for automobiles with at most 4 seats, 30,000 leks per year for automobiles with more than four seats. Higher rates apply for diesel and older vehicles.