March 2003
IMF Country Report No. 03/64

Albania: Selected Issues and Statistical Appendix

The Selected Issues paper and Statistical Appendix for **Albania** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **January 13, 2003**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Belgium or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ALBANIA

Selected Issues and Statistical Appendix

Prepared by a staff team comprising Hossein Samiei, Jan Kees Martijn, Jan-Peter Olters, Ivanna Vladkova Hollar (all EU1), Karen Ongly (PDR), and Hamid Davoodi (FAD)

Approved by European I Department

January 13, 2003

Contents Page

I. Causes and Consequences of Real Exchange Rate Appreciation In Albania....4
A. Introduction....4
B. Indicators of Competitiveness....5
C. What are Potential Causes of the REER Appreciation?....7
D. Price Competitiveness and Trade....13
E. Nonprice Factors and Vulnerability Concerns....16
F. Summary and Concluding Remarks....20

Tables
1. Foreign Inflows, 1994–2001....11
2. Sectoral Distribution of Financial Inflows (Grants) from the EU....12
3. Import Equation, 2002Q2....17
4. Export Equation, 2002Q2....17
5. Corruption Perception Index....19
6. Progress in Transition, Selected Indicators....19
7. Geographic Diversification of Exports, 2001....20
8. Coefficient of Variation of Exports, 1998–2001....20

Figures
1. Indicators of Real Appreciation, 1994–2001....5
2. Average Monthly Dollar Wages....7
3. CPI-Based REER, 1992–1994....8
4. The Balassa-Samuelson Effect With and Without Changes in Preferences....9
5. Balassa-Samuelson Effect....10
6. Transfer Effect of Foreign Inflows....11
7. Remittances: Transfer and Resource Effect....12
8. Minimum Deposit Rates, Deposits, and Exchange Rates....14

References 21

II. The Informal Sector—Impeding Economic Development 23
A. Introduction 23
B. The Informal Sector and Economic Development 24
C. The Informal Economy in Albania 30
D. Formalizing the Shadow Economy: Recommended Measures 34

Tables
1. Transition Economies: Estimated Size of the Informal Sector 28
2. Frequency and Extent of the "Bribe Tax" 32
3. Average Holdings of Domestic Cash 33

Figures
1. The Stylized Dual Economy 26
2. The Vicious Circle 27
3. Tax Revenue Developments 31
4. Tax Collection Efficiency 31
5. The Relative Importance of Domestic Cash 33
6. Registered Cigarette Importation 34

References 37

Statistical Appendix Tables
A1. Basic Indicators, 1992–2001 40
A2. GDP by Sector of Origin, 1992–2001 41
A3. Registered Private Enterprises (still active in 2001) 42
A4. Production of Selected Industrial Products in the State Sector, 1992-2001 43
A5. Quarterly Changes of Construction Cost Index, 1993–2002 44
A6. Consumer Price Subsidies, 1992–2001 45
A7. Agricultural Production, 1992–2001 46
A8. Area Under Cultivation, Production, and Yields of Selected Agricultural Crops, 1992–2001 47
A9. Production and Yields of Selected Fruits, 1992–2001 48
A10. Production and Yields of Selected Livestock, 1992–2001 49
A11. Consumer Price Index, 1992–2002 50
A12. Population, Labor Force, and Employment, 1990–2001 51
A13. Employment and Wages in Budgetary Institutions, 1992–2001 52
A14. Fiscal Accounts, 1993–2001 53
A15. Central Government Expenditure Shares, 1993–2001 54
A16. Tax Revenue Shares, 1993–2001 55
A17. Exchange Rate, 1992–2002 56
A18. Deposit Interest Rate Structure, 1996–2002 57

A19. Monetary Survey, 1993–2002 58
A20. Balance Sheet of the Bank of Albania, 1993–2002 59
A21. Net Foreign Asset Position of the Bank of Albania, 1993–2002 60
A22. Structure of Bank Deposits by Currency and Depositor, 1993–2002 61
A23. Distribution of Deposits in State-Owned Commercial Banks, 1993–2001 62
A24. Credit Provided by State-Owned Banks, 1993–2001 63
A25. Nonperforming Credits of State-Owned Banks, 1993–2001 64
A26. Balance of Payments, 1994–2001 65
A27. Commodity Composition of Exports, SITC Classifications, 1994–2001 66
A28. Commodity Composition of Imports, SITC Classifications, 1992–2001 67
A29. Direction of Trade, Exports (f.o.b.) 1994–2001 68
A30. Direction of Trade, Imports (f.o.b.) 1994–2001 69
A31. External Debt in Convertible and Nonconvertible Currencies, 1994–2002 70

Attachment
1. Summary of the Tax System at End-August 2002 71

I. Causes and Consequences of Real Exchange Rate Appreciation in Albania[1]

A. Introduction

1. Against a background of an appreciating real exchange rate over the past eights years, Albania's trade deficit, at 25 percent of GDP in 2001, has remained large even in comparison with other transition countries. The smaller current account deficit, at 6.3 percent of GDP, reflects significant private inflows (remittances). While imports have averaged during 1993-2001 around 30 percent of GDP, broadly consistent with the needs of a small growing economy such as Albania, exports remain low at around 8 percent of GDP.

2. These features have raised concerns that a lack of competitiveness may undermine Albania's external sustainability, in particular by impeding the development of a strong export base. In principle, a real appreciation and an initial decline in net exports are consistent with the general experience of transition economies, especially in the context of strong external inflows and a subsequent pick-up of growth and investment domestically. In line with this experience, so far, Albania's trade deficit has been accommodated by large external inflows. However, over the medium term these inflows will taper off, and Albania's ability to import goods critical to the development process will depend on progress in expanding its export base.

3. In the context of such sustainability concerns, the key questions and conclusions of this chapter are as follows:

- **What is the extent of real appreciation?** While, overall, the evidence supports the existence of a significant appreciation, its extent varies strongly across the various indicators.

- **What are the main causes of the observed real appreciation?** Although data limitations do not allow disentangling the various causes, the appreciation is in line with several structural and, in principle, beneficial changes that are part of the transition process. These factors are reductions in price distortions, high productivity growth, large external inflows, and cautious monetary policies.

- **How has the real appreciation affected the trade balance?** Tentative econometric analysis suggests that the impact of the appreciation on the trade balance has probably been small: while the real exchange rate may have impacted imports, its effect on exports has likely been weak. It appears likely that large financial inflows (such as private remittances), which have put upward pressure on the exchange rate, have also had a direct impact on import demand. The impact on the trade balance of the other factors behind the appreciation is mixed.

---

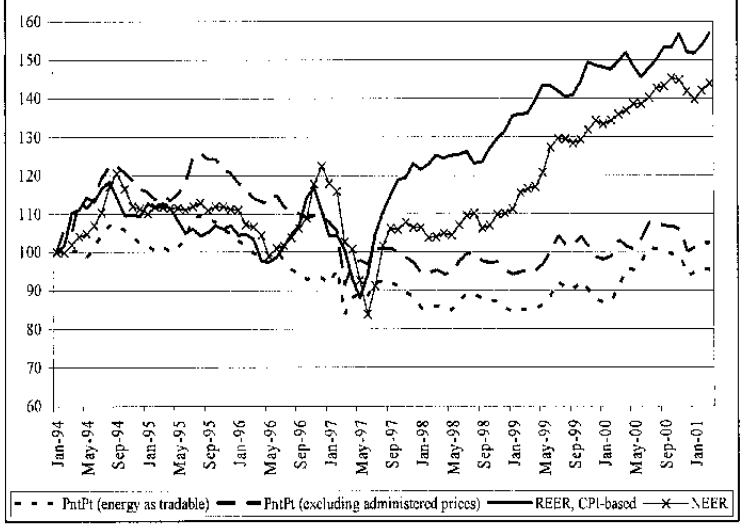
[1] Prepared by Ivanna R. Vladkova Hollar.

- **What factors explain Albania's lackluster export performance?** The weak response of exports to exchange rate changes and informal evidence obtained from discussions with businesses suggests that non-price factors, including deficiencies in the business climate, have played a dominant role. Furthermore, in addition to its small size, the low commodity and geographic diversification of Albania's export base is a significant source of vulnerability.

B. Indicators of Competitiveness

4. The extent of the real appreciation experienced by Albania since the early 1990s differs significantly across alternative indicators. The literature identifies a large number of indicators of competitiveness,[2] but data constraints prevent us from focusing on but a few relevant indicators: the CPI-based real effective exchange rate, the relative price of nontradables to tradables, and a limited dollar wage comparison. Figure 1 compares the evolution of the CPI-based REER with the relative price ("internal") measure of competitiveness. With the exception of the pyramid scheme crisis-related dip in 1997, the CPI-based REER shows a sustained appreciation, closely matching the trend appreciation in the nominal exchange rate post-1997. The relative price measure shows initial appreciation (through mid 1995), followed by a real depreciation through 1997, when the trend reverses. The subsequent appreciation registered by this measure is not as pronounced as the CPI-based REER appreciation.

Figure 1. Albania: Indicators of Real Appreciation, 1994-2001



Source: INSTAT, IMF(2002), and staff estimates

5. Divergence between the two measures in Albania could reflect measurement problems in the classification into tradables and non-tradables—a non-trivial one being the issue of goods with administered prices. Given the theoretical construct of tradables as goods whose prices are anchored by world prices, it is unclear whether one can make that claim in the case of administered prices. Thus, the relative price is shown in Figure 1 as both including and excluding goods with administered prices. These problems suggest that the REER might be a more reliable measure of competitiveness in the Albanian context.

[2] See Turner & Golub (1997), Clark, *et al.*, (1994), Marsh & Tokarick (1994) for a review.

6. The two measures could also diverge due to other reasons, which can be illustrated by decomposing the CPI-based REER measure. Assuming a single trading partner, the CPI-based real effective exchange rate can be written as:

$$REER = \frac{CPI_{NT}^{\alpha} CPI_{T}^{(1-\alpha)}}{CPI^{*\beta}_{NT} CPI^{*(1-\beta)}_{T}} * E,$$

where E is the bilateral nominal exchange rate, CPI_{NT} and CPI_{NT}^{*} are the price indexes for non-tradables domestically and abroad, respectively, and α and β are the weights of non-tradables in the domestic and foreign CPI, respectively.

If we assume that $\alpha = \beta$, i.e. that the weights of non-tradables and tradables in the CPI are the same across both countries, the percent change in the REER[3] can be written as:

$$\begin{aligned} \hat{REER} &= \hat{E} + \alpha \hat{CPI}_{NT} + (1-\alpha)\hat{CPI}_{T} - \alpha \hat{CPI}^{*}_{NT} - (1-\alpha)\hat{CPI}^{*}_{T} = \\ &= \hat{E} + \alpha(\hat{CPI}_{NT} - \hat{CPI}_{T}) - \alpha(\hat{CPI}^{*}_{NT} - \hat{CPI}^{*}_{T}) + \hat{CPI}_{T} - \hat{CPI}^{*}_{T} = \\ &= \alpha\left[(\hat{CPI}_{NT} - \hat{CPI}_{T}) - (\hat{CPI}^{*}_{NT} - \hat{CPI}^{*}_{T})\right] + (\hat{E} + \hat{CPI}_{T} - \hat{CPI}^{*}_{T}) \end{aligned}$$

Assuming that the law of one price holds, so that the percentage change in price of tradables, expressed in a common currency is the same at home and abroad, i.e., that $\hat{E} + \hat{CPI}_{T} - \hat{CPI}^{*}_{T} \approx 0$, allows the last term to drop out. In this case, as long as domestically the ratio of non-tradables to tradables prices rises faster than the ratio abroad (the term in the square brackets above), we observe a real appreciation and both measures of real appreciation—the CPI-based REER and the ratio of non-tradables to tradables prices—move together. However, in Albania, the real appreciation has been more pronounced if measured by the CPI-based REER, which can occur the non-tradables to tradables price ratio moves faster abroad, and/or if tradable prices exhibit some rigidity. The former case could arise if trading partner relative price movements dominate those in the home country.[4] In the latter case, the law of one price would not hold and the CPI-based REER could rise faster than the nontradable to tradables price ratio if the observed nominal appreciation was not reflected fully in domestic tradables prices.

---

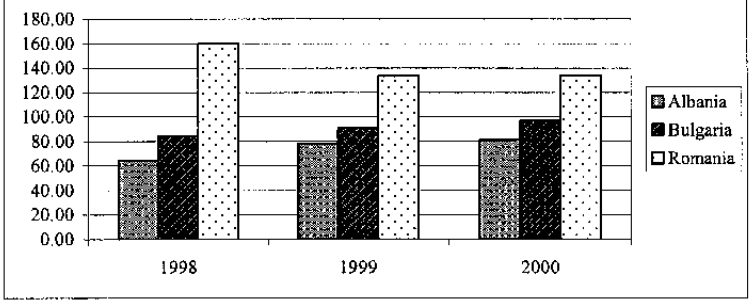
[3] Increases represent an appreciation. The ^ symbol represents a percentage change.

[4] This case represents a variation on the Balassa-Samuelson effect (explained in Section C below) and requires that trading partner productivity grows more rapidly in the non-tradable sector.

7. Labor costs (wages) across countries are generally the most important[5] underlying cost determining competitiveness. A meaningful series of unit labor cost-based REER cannot be constructed from available data, but a limited comparison of dollar wages can reveal something about Albania's relative cost-competitiveness. Krajnyak and Zettelmeyer (1997) provide an insightful way of comparing competitiveness using dollar wage data. The gap between the actual and equilibrium wage gives a measure of competitiveness. They estimate an equilibrium dollar wage as a function of productivity, consistent with what a country can "afford" based on its human and physical capital. Specifically, they model the equilibrium dollar wage as a function of scaled GDP, share of agriculture in GDP (higher shares denotes lower degree of development and lower productivity), and a human capital variable based on the average level of secondary school education.

8. A comparison with Bulgaria suggests that wage costs may be relatively high in Albania. Average dollar wages in manufacturing appear to be catching up to dollar wages in Bulgaria: the gap narrows from US$20 in 1998 to US$15 in 2000 (Figure 2). Given Bulgaria's relatively higher GDP per capita and significantly lower share of agriculture in output, one can infer a relatively higher productivity and equilibrium dollar wage. With actual dollar wages tending toward equalization, one can tentatively conclude that this may put Albania at a relative cost-disadvantage.

Figure 2: Average Monthly Dollar Wages



Source: INSTAT, IMF (2002), and staff estimates

C. What are Potential Causes of the REER Appreciation?

9. While real appreciation may have a negative impact on the trade balance, it could be a response to beneficial adjustments. In assessing real appreciation one should ideally distinguish between potential misalignment of the actual real exchange rate from an equilibrium value and an equilibrium adjustment of the real exchange rate in response to structural changes in the economy. The task of estimating an equilibrium real exchange rate is, however, not easy in the context of a transition economy (see Krajnyak and Zettelmeyer, 1997, for example). We, thus, abstract from making this distinction and focus on factors that could potentially cause equilibrium appreciation of the real exchange rate.

10. We identify four main causes of real appreciation over the 1992–2001 period: (i) initial price liberalization, which began the process of introducing the market mechanism

[5] Wages also represent the most divergent input cost across countries.

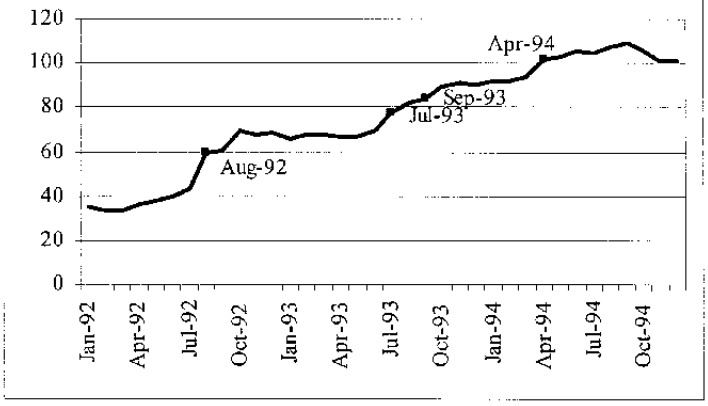
in price determination and resource allocation; (ii) Balassa-Samuelson productivity and growth effects; (iii) the transfer effect of foreign aid and inflows, and private remittances; and, (iv), stabilization policies in response to the 1997 pyramid crisis. While it is difficult to empirically disentangle the effects of the four causes on the real exchange rate given data limitations, we present tentative evidence of the presence of these effects.

Initial price liberalization effect

11. The CPI-based REER appreciated rapidly between mid-1992 and 1994, as a number of administered prices were removed, reducing price distortions. The liberalization of nontradables prices produces an increase in nontradables prices as they adjust to equilibrium, a rise in the CPI, implying a real appreciation.

12. Evidence suggests that changes in the CPI as a result of price liberalization were transmitted almost fully to the real effective exchange rate (Figure 3). In August 1992 the government eliminated price controls for all items other than essential and monopoly-controlled goods (approximately 25 percent of the household consumption basket at the time), and raised prices on a number of controlled products in order to reduce budgetary subsidies. This produced a 46 percent increase in the CPI, and a 37.6 percent real appreciation over July 1992. A range of administered prices were increased in January, February, July and September of 1993. Prices of other subsidized goods (wheat, and notably bread) were also increased during 1993, bringing them closer to their cost-recovery levels. In addition, by mid-1994, energy prices were allowed to increase. Between 1994 and 1999, a large number of goods and services registered cumulative price increases in excess of 200 percent, among which petroleum, hair cuts, electricity, transportation, health (dental) services, and education (foreign language instruction).

Figure 3. Albania, CPI-based REER, 1992-1994



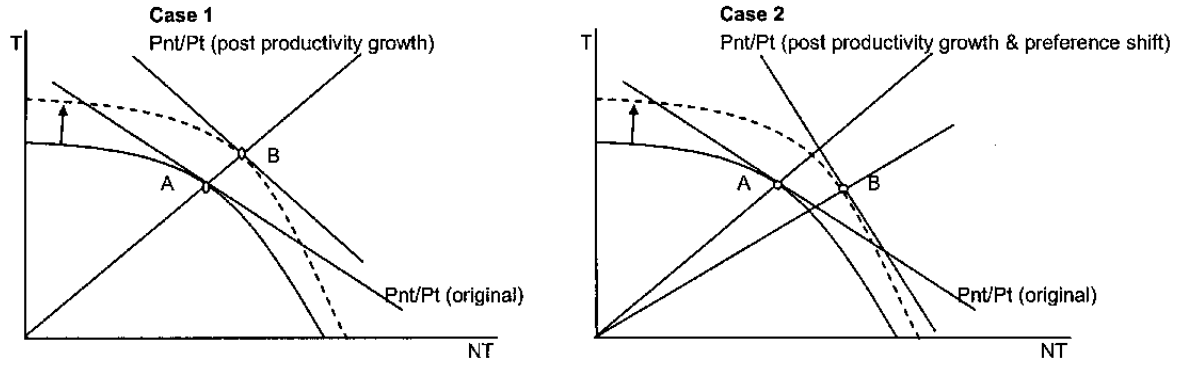
Balassa-Samuelson differential productivity effect

13. The Balassa-Samuelson effect provides a second explanation for a real appreciation that is not associated with a deterioration in the trade balance. The theoretical argument for a Balassa-Samuelson type real exchange rate appreciation holds both in the context of differential productivity growth domestically (between tradable and nontradable sectors) and vis-à-vis advanced economy trading partners. Domestically, productivity increases are assumed to be larger in the tradables sector. As productivity rises in tradables, wages increase; assuming pressures to equalize wages across sectors (a key assumption of the

Balassa-Samuelson model), prices tend to rise faster in the nontradables sector where productivity growth is lower. This supply-side story generates a relative price increase even without a change in demand. If preferences shift in favor of nontradables (such as services) as incomes increase, this demand-side effect will further reinforce the supply-side effect on relative prices.

14. Figure 4 below illustrates the expected impact on relative prices in terms of a two sector model. Case 1 shows a real appreciation (an increase in the price of nontradables relative to tradables) as a result of supply-side changes. The higher productivity growth in tradables is shown as a larger outward shift in the Production Possibilities Frontier (PPF) that is skewed towards tradables. Assuming unchanged preferences in the proportion of tradables and nontradables in absorption, the economy moves from point A along the ray from the origin to point B. At point B, the relative price ratio of nontradables to tradables is higher. In Case 2, the same supply-side effects are enhanced by the additional impact of shifting preferences. The ray from the origin shifts down to denote higher preference for consuming nontradables. In this case, as we move from point A to point B, the relative price ratio of nontradables to tradables increases further. Note that in both cases the change in relative prices will have no adverse impact on the trade balance.

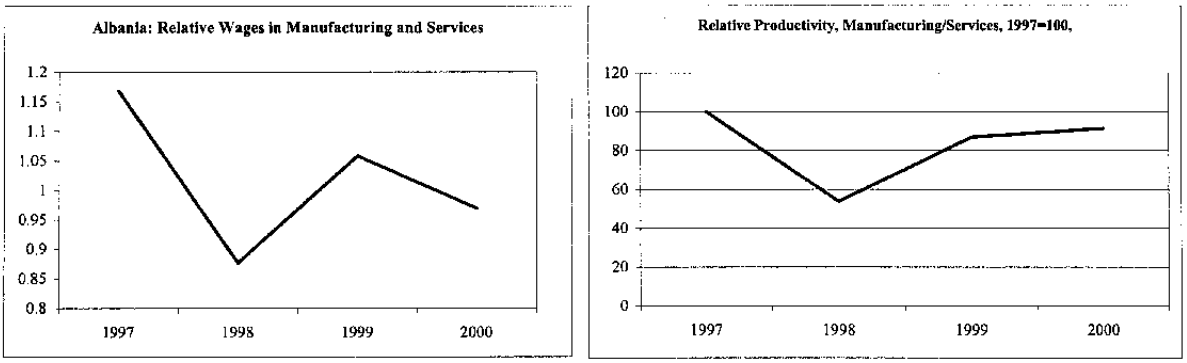
Figure 4: The Balassa-Samuelson Effect With and Without Changes in Preferences



15. The literature on real exchange rate movements in transition economies has generally upheld the contribution of the B-S effect to the observed appreciations. Halpern and Wyplosz (2001) estimate a panel regression for 1992–99 using data on the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Russia, and Slovenia, and find that for a 10 percent productivity increase in tradables (industry), the relative price of nontradables to tradables increases 2.4 percent in the short run and 4.4 percent in the long run. In addition, they find that a floating exchange rate strengthens the Balassa-Samuelson effect: they argue that if the exchange rate is free to absorb some of the equilibrium real appreciation through nominal appreciation versus a relative price adjustment, then the effect is bound to appear faster.

16. As private sector wage and productivity data for Albania are very limited and somewhat unreliable, formal testing of the Balassa-Samuelson hypothesis is not feasible. We can, however, tentatively test whether the two main assumptions of the Balassa-Samuelson effect hold for Albania, with the caveat that wage and productivity data are only available since 1997. One of the key assumptions of the Balassa-Samuelson hypothesis is wage equalization across sectors. The first panel of Figure 5 compares private sector wages for services and manufacturing. While both have been increasing over the period, the ratio of manufacturing to service sector wages has remained approximately close to unity. The second panel tests another key assumption: faster productivity growth in tradables (manufacturing). The unavailability of a longer time series makes the interpretation of the series difficult, especially in the presence of a crisis year (1997) in the sample; however, relative productivity appears to exhibit an upward trend since 1998.

Figure 5: Albania: Evidence for a Balassa-Samuelson Effect

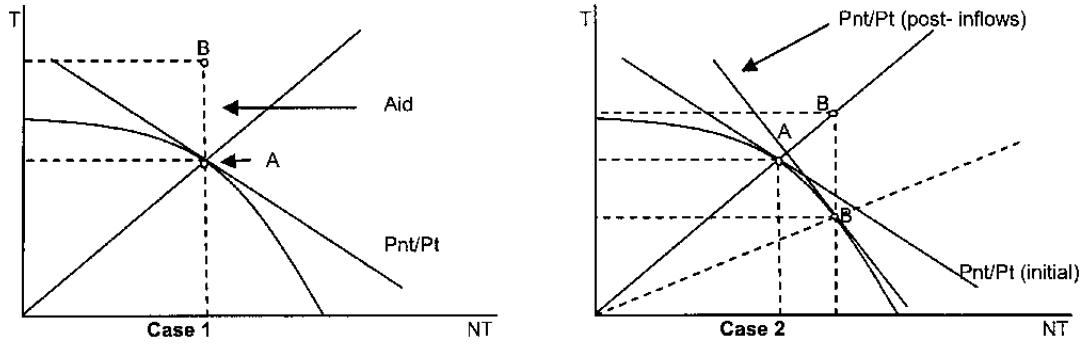


Sources: INSTAT and Fund staff estimates

Foreign inflows: transfer and resource effects

17. Large financial inflows and the associated pattern of consumption can be expected to have a compressing effect on the domestic tradables sector (Figure 6, below). If inflows are spent on tradables (Case 1), then domestic production of and demand for nontradables remain the same, and, consistent with a small country assumption, the increase in demand for tradables does not affect tradables prices. Under this scenario, relative prices remain unchanged, domestic production remains at point A, absorption moves to point B, and the trade deficit increases by the amount of the inflow (the vertical distance between A and B). However, insofar as inflows generate some increase in demand for non-tradable goods, the spending effect will create appreciation pressures (Case 2). Production and consumption of non-tradables increases. The increase in demand for nontradables will raise the relative prices of nontradable, creating relative disincentives for domestic tradables production.

Figure 6: Transfer Effect of Foreign Inflows



18. Foreign inflows (official grants, loans, private remittances, FDI) into Albania over the transition period have been large, fluctuating between 20 percent and 32 percent of GDP (see Table 1). Donor-specific data on grants (Table 2) suggest that, in Albania, an effect on nontradable prices is likely, as large shares of inflows are dedicated to the public sector and nontradables services, such as public administration reform, education, health, and the environment. In addition, information on disbursements of medium and long-term loans over the past 5 years provides evidence on spending within non-tradables such as public administration (2.5 percent of total disbursements), and health[6] (3.6 percent of total disbursements).

Table 1: Alabania, Foreign Inflows, 1994-2001

	In US dollars, Millions					In percent of GDP				
Year	FDI	Official Grants	Loans 1/	Net Private Transfers (Remittances)	Financial Inflows, Total	FDI	Official Grants	Loans	Net Private Transfers (Remittances)	Financial Inflows, Total
1994	64.9	160.7	80.7	264.4	570.8	3.3	8.1	4.1	13.3	28.8
1995	89.0	231.0	102.6	300.0	722.6	3.7	9.5	4.2	12.4	29.8
1996	97.0	208.1	131.0	425.0	861.2	3.6	7.7	4.9	15.8	32.0
1997	41.5	77.5	66.8	250.1	435.8	1.8	3.4	2.9	10.9	19.1
1998	44.5	95.3	110.0	440.0	689.8	1.5	3.1	3.6	14.4	22.6
1999	50.8	368.9	130.1	326.7	876.5	1.4	10.0	3.5	8.9	23.8
2000	142.6	115.6	103.1	438.5	799.9	3.8	3.1	2.8	11.7	21.4
2001	203.7	124.9	88.7	542.6	959.9	5.0	3.0	2.2	13.2	23.4

1/ Medium and long-term loans, excluding IMF credit

[6] The caveat that health spending may include imports of medicine, etc. applies.

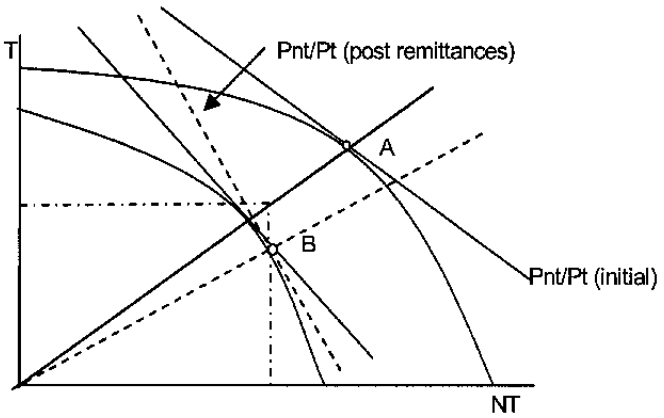
Table 2: Sectoral Distribution of Financial Inflows (Grants) from the EU

EU Programs in Albania, 1991-2001 1/	Allocation	
	Euro mn	Percent of total
Agriculture	49.2	11.15
Education	22.4	5.08
Environment	5.4	1.22
Health	23.0	5.21
Local Community Development	39.1	8.86
Private Sector Development	14.8	3.35
Public Admin. Reform	86.4	19.58
Transport	159.5	36.15
Water	41.4	9.38
	441.2	100.00

1/ Excluding special programs.

19. As is clear from Table 1, a large share of financial inflows over the transition period represent remittances from Albanians working abroad, mainly in Italy and Greece. The expected effect of remittances on the tradables sector is similar to the effect shown in Figure 6, although it involves a productive resource transfer (through an outflow of labor) as well as a spending effect (Figure 7). As labor flows out of the labor force, the PPF shifts inward. If we assume that the non-tradable goods sector is relatively more labor-intensive than the tradable goods sector, this effect amplifies the increase in the relative price of nontradables to tradables (the economy moves from point A to point B).

Figure 7: Remittances: Transfer and Resource Effect



Post-1997 stabilization policies

20. Monetary and fiscal policies post-1997 have likely also promoted the real appreciation. Albania's transition experience of generally strong growth and successful inflation stabilization was interrupted in 1997 with the collapse in pyramid schemes,[7] when real GDP fell by estimated 7 percent, and inflation in the first half of 1997 rose to 28 percent. The subsequent stabilization efforts appear to have boosted confidence in the currency. To illustrate, between January (when the first pyramid scheme bankruptcies were declared) and June 1997, the lek depreciated 62 percent against the US dollar; by December 1997, the lek had already appreciated 17 percent from its June level. By February 1999, the nominal effective exchange rate had returned to its pre-crisis level.

21. As a crucial part of stabilization efforts, monetary policy was relatively tight during 1998 and 1999.[8] Figure 8 attempts to identify periods of a tight monetary policy through the behavior of the BoA's monetary policy instrument, and the effect that it has produced on demand for domestic currency deposits relative to foreign currency deposits. In the absence of private capital flows, the effects of interest rate changes on the exchange rate are transmitted through currency substitution. The second panel of Figure 8 shows a relatively rapid growth of domestic currency deposits,[9] which could be attributed to high (10–15 percent on 3 month deposits) real interest rates. The nominal exchange rate appreciated, and, once inflation was brought under control, real appreciation closely followed the pattern of nominal appreciation.

22. In addition, it can be argued that fiscal policy, although on a consolidating path, may have also put upward pressure on the exchange rate through higher expenditure combined with a relatively high propensity for spending on nontradables. Noninterest government expenditure as a share of GDP rose from 17.7 percent in 1998 to 19.1 percent in 1999 and again to 19.4 percent in 2000.

D. Price Competitiveness and Trade

23. While Section C identified the four main factors which have likely contributed to the real appreciation experienced by Albania, not all factors are associated with a deterioration in

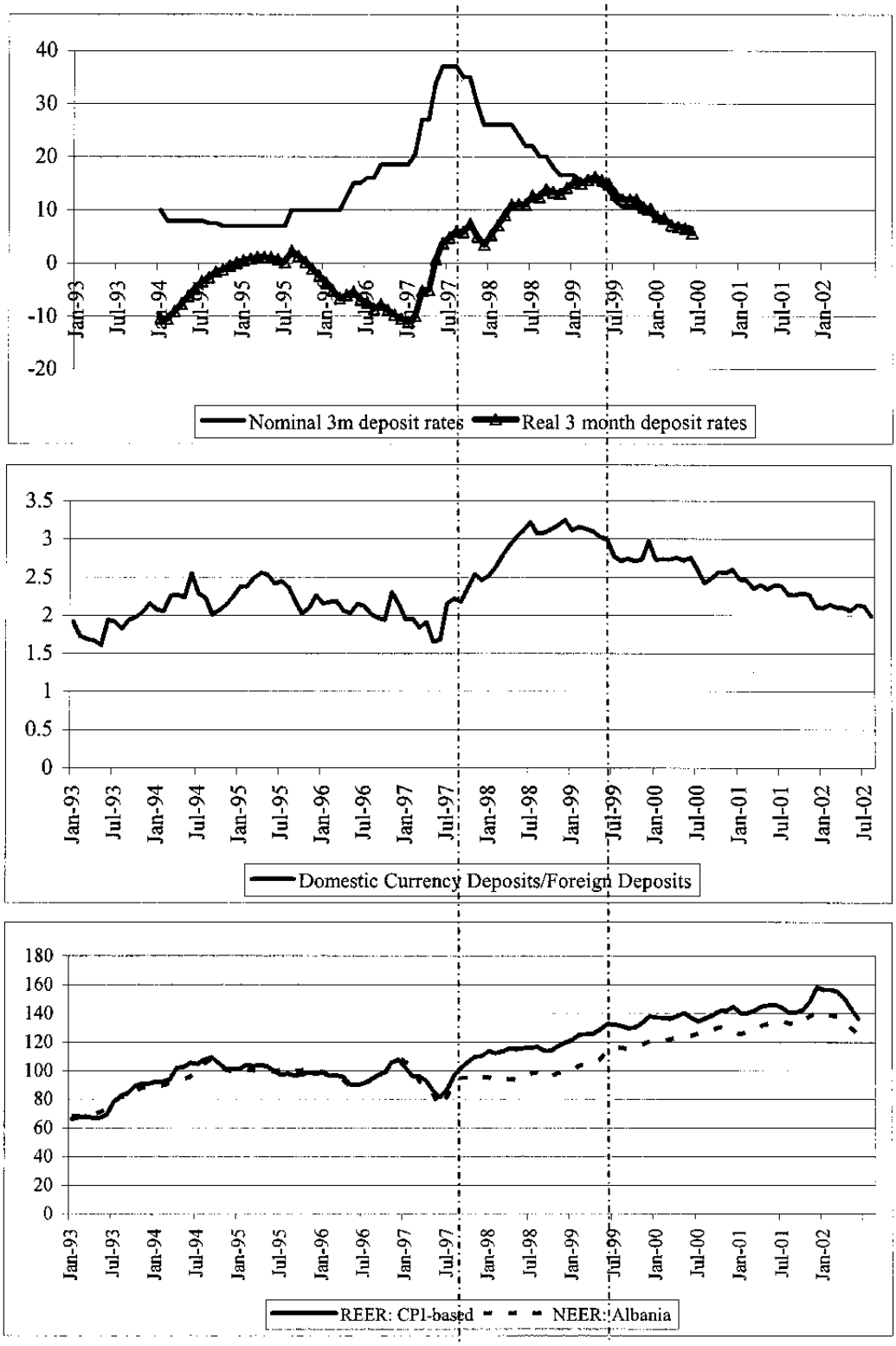
---

[7] See Jarvis (1999) for a comprehensive review of Albania's experience with pyramid schemes.

[8] Until 2001, the Bank of Albania (BoA) relied on minimum deposit rates as direct instruments of monetary policy. During the first half of 2001, the BoA has moved to using indirect monetary policy instruments through the repo rate, engaging in repo and reverse-repo transactions in T-bills to withdraw or inject liquidity.

[9] The currency composition of deposits shifted dramatically: domestic currency deposits recovered from a low of 62 percent in May 1997 to 76.5 percent in December 1998.

Figure 8. Albania: Minimum Deposit Rates, Deposits, and Exchange Rates



Source: Bank of Albania, INSTAT, IMF, and staff estimates

the trade balance. Consequently, the transmission channel merits further attention. The real appreciation resulting from price liberalization and Balassa-Samuelson productivity growth effects does not affect the trade balance, as the relative price changes serve to maintain equilibrium in the market for nontraded goods. In contrast, a real appreciation due to foreign inflows or tight monetary policy is generally associated with a worsening trade balance. In both cases, the change in relative prices would tend to shift demand toward tradables while creating disincentives for their domestic production. The resulting trade deficit is met by foreign inflows or, in the case of tight monetary policy—currency substitution. In addition, the change in relative prices may have differential effects on the components of the trade balance (exports and imports). Consequently, the transmission channel merits further attention.

24. This section focuses on econometric estimation of the link between the real exchange rate and trade performance, examining the effect of real appreciation on the trade balance, by modeling its impact on exports and imports. The Error Correction methodology (ECM) employed in this section focuses on exploring both the long-run relationship between trade variables and the REER, and short-run movements in export and imports. We estimate export and import equations for Albania, using quarterly data from Q4 1993 to Q2 2002.

25. Imports appear to be somewhat sensitive to the REER. Real imports[10] are modeled to depend on standard determinants: a measure of price competitiveness (CPI-based REER) and a measure of domestic demand (real domestic GDP).[11] Table 3 presents the regression results. The long-run relationship appears generally well-behaved, with both the REER and real GDP correctly signed.[12] The error-correction model indicates that imports do not respond to short-run movements in the REER.

26. Real exports are modeled to depend on the CPI-based REER, as an index of price competitiveness, and on real foreign demand. Given the changes in external geo-political and domestic socio-economic conditions which have likely impacted the path of trade variables, we also model exports as a function of risk perception. We employ a quarterly average of the monthly International Country Risk Guide (ICRG) Risk Rating System, which assigns a

---

[10] Nominal trade series for Albania are deflated by WEO trading partner import and export deflators.

[11] While we acknowledge that foreign inflows (particularly aid and remittances) may have had a direct impact on imports, we do not include inflows in the import equation, mostly due to data concerns: a reliable quarterly series on aid and remittances is difficult to construct.

[12] The short-run responses of imports to real GDP do not appear correctly signed. The absence of National Accounts for Albania precludes us from placing a large degree of confidence in the quarterly GDP data series.

numerical value a range of risk components, grouped into three categories—Political, Economic, and Financial.[13] The total risk points for each risk category are further combined to produce a Composite risk rating, such that the higher the number of risk points awarded, the lower the perceived risk, and vice versa.

27. The REER does not appear to play a significant role in the long-run relationship. However, the negative and significant coefficients on the lagged changes in the REER suggest that, in the short run, exports may be sensitive to movements in the real exchange rate. Table 4 presents the regression results from the estimation of the export equation. The coefficient on real foreign demand is significant, positive, and implies a high income elasticity of exports. The risk index enters the long-run relationship with a counter-intuitive sign, as it seems to suggest that an reduction in risk (an increase in total index points) has a negative impact on exports. In the short-run, the coefficients on the lags of changes in composite risk are significant and positive, suggesting that exports respond to short-run changes in risk perception.[14]

E. Nonprice Factors and Vulnerability Concerns

28. As a deterioration in price competitiveness does not appear to be a major factor behind the evolution of exports, we turn to an examination of the nonprice factors that might affect and prevent the expansion and diversification of the export base. Poor physical and financial infrastructure, nontransparency of laws and arbitrariness in their application are potential factors that can affect Albania's export capacity, as it appears that the problem is supply- rather than demand-related.[15]

29. Insufficient structural reforms may have affected the size and diversification of the export base. To illustrate, significant declines are seen in exports of mineral products (copper and chrome), the share of which in total exports declined from approximately 10 percent in

---

[13] Each Risk Category is made up of a number of Risk Components. For example, Political Risk is made up of several sub-components, among which are government stability, external and internal conflict, corruption, law and order, and quality of bureaucracy.

[14] A number of different specifications were estimated to test the robustness of all coefficients. The most robust result is that foreign demand plays a significant role and that the elasticity of exports to foreign demand is high. The coefficient on the REER is less robust and in some specifications, appears to have a marginally significant and negative long-run effect on exports.

[15] It must be noted that infrastructure-related factors can have an impact on imports as well: anecdotal evidence suggests that due to difficulty in transportation and storage infrastructure, in some areas it is more cost-efficient to import agricultural products from neighboring countries than to distribute domestic production to those markets.

Table 3: Albania. Import Equation, 1993:Q4 - 2002: Q2

Long Run Relationship	Coefficent/ T-stat
Log(REER)	0.32 *
	[1.71941]
Log(Real GDP)	2.69 *
	[11.2721]
Error Correction:	
Adjustment Coefficient	-1.53 *
	[-3.18566]
D(Log Real Imports(-1))	0.36
	[1.22213]
D(Log Real Imports(-2))	0.08
	[0.46354]
D(Log REER(-1))	0.28
	[0.31057]
D(Log REER(-2))	0.37
	[0.45295]
D(Log Real GDP(-1))	2.24
	[1.06885]
D(Log Real GDP(-2))	-4.39 *
	[-2.37338]
Dummy for 1997	-0.27 *
	[-1.84683]
Adj. R-squared	0.59
Observations	35

Constant omitted from table
T-statistics in [ ]
* denotes significance at standard signficance levels

Table 4: Albania, Export Equation, 1993Q4 - 2002Q2

Long Run Relationship	Coefficient/T-stat
Log(REER)	0.25
	[0.57548]
Log(Real EU GDP)	4.93 *
	[4.25175]
Log (Total Risk Index)	-2.03 *
	[-3.82436]
Error Correction:	
Adjustment Coefficient	-0.98 *
	[-5.72959]
D(Log Real Exports(-1))	-0.22
	[-1.48677]
D(Log Real Exports(-2))	-0.18
	[-1.18654]
D(Log Real Exports(-3))	-0.10
	[-0.72916]
D(Log REER(-1))	-2.63 *
	[-4.28301]
D(Log REER(-2))	-1.24 *
	[-2.26200]
D(Log REER(-3))	-1.91 *
	[-3.40514]
D(Log Real EU GDP(-1))	-7.86
	[-1.41610]
D(Log Real EU GDP(-2))	-1.63
	[-0.23874]
D(Log Real EU GDP(-3))	-8.30
	[-1.27027]
D(Log Total Risk Index (-1))	2.08 *
	[2.83346]
D(Log Total Risk Index (-2))	2.25 *
	[2.72247]
D(Log Total Risk Index (-3))	1.61 *
	[2.56948]
Dummy for 1997	-0.09
	[-0.78720]
Adj. R-squared	0.63
Observations	34

Constant omitted from table
T-statistics in [ ]
* denotes significance at standard signficance levels

1996 to approximately 2 percent by 2001. The observed decline appears to be related to delays and problems in the privatization process of mines.

30. The quality of the business environment leaves Albania behind comparator countries across a variety of commonly-used indicators. Albania has registered some improvements in governance, reflected in improved rankings on the Corruption Perceptions Index (Table 5); nonetheless, it ranks 81st out of 102 countries in 2001, and ranks last out of a smaller set of relevant comparator countries. EBRD's rankings in terms of progress in transition show a serious comparative deficiency in the development of competition policy, banking reform, and commercial law (Table 6). An EBRD-compiled combined measure of qualitative assessments of the business environment[16] places Albania last among SEE countries in 2002.

31. While the small size of the export base is an important risk to sustainability, its lack of commodity and geographic diversification represents an important vulnerability. Lack of diversification in the export base can introduce excessive volatility in response to both external and domestic shocks. In comparison with its main trading partners, Albania's exports are poorly diversified in absolute terms; in 2000, Albania's export base consisted of only seven three-digit SIC commodity groups, contrasted with Macedonia at 20 commodity groups, and advanced transition economies at an average of 30 commodity groups.[17] In addition, the largest two commodity groups (textiles and footwear) make up over 60 percent of all exports; both textile and footwear exports represent re-processing activities, which are subject to the same shocks. While the low diversification can be simply explained by Albania's small size, it nonetheless remains a risk.

32. Low commodity diversification is accompanied by low geographic diversification. As of 1999, exports to the EU stood at 93.6 percent of total Albanian exports. Furthermore, over 65 percent of Albania's exports go to a single market: Italy. Such geographic concentration is unique among Albania's competitor countries (see Table 7).

The narrow commodity and geographic focus of Albania's exports is likely to result in higher volatility of its exports. Table 8 examines the volatility of exports in Albania and comparator countries. Given the large cross-country variation in the mean level of exports and the underlying GDP over 1998–2001, volatility is measured by the coefficient of variation, which standardizes dispersion by dividing the standard deviation by the mean of exports in each country. Albania's exports indeed seem to exhibit the highest volatility relative to the selected comparator countries.

---

[16] The combined measure of qualitative assessment of the business environment encompasses seven areas: finance, infrastructure, taxes, regulation, judiciary, crime, and corruption. See EBRD, Transition Report 2002.

[17] Data on exports by three-digit SIC codes for comparator countries comes from the UN COMTRADE database.

Table 5. Corruption Perception Index

	1999		2000		2001	
Country	Rank 1/	Score 2/	Rank 1/	Score 2/	Rank 1/	Score 2/
Estonia	27	5.7	27	5.7	29	5.6
Hungary	31	5.2	32	5.2	33	4.9
Lithuania	50	3.8	n.a.	n.a.	36	4.8
Bulgaria	63	3.3	52	3.5	45	4.0
Poland	44	4.2	43	4.1	45	4.0
Croatia	74	2.7	51	3.7	51	3.8
Slovak Republic	53	3.7	52	3.5	52	3.7
Latvia	58	3.4	57	3.4	52	3.7
Czech Republic	39	4.6	42	4.3	52	3.7
Turkey	54	3.6	50	3.8	64	3.2
Macedonia	63	3.3	n.a.	n.a.	n.a.	n.a.
Romania	63	3.3	68	2.9	77	2.6
Albania	84	2.3	n.a.	n.a.	81	2.5
Georgia	84	2.3	n.a.	n.a.	85	2.4
Moldova	75	2.6	74	2.6	93	2.1

Source: Transparancy International

1/ Rank is out of 99 countries in 1999, 90 countries in 2000, and 102 countries in 2001.

2/ Score of 10 indicates "highly clean", whereas score of 0 indicates "highly corrupt".

Table 6. Progress in Transition, Selected Indicators

Country	Trade and foreign exchange system liberalization	Competition Policy Development	Banking Reform and Interest Rate Liberalization	Commercial Law: Effectiveness and Extensiveness
Albania	4+	2-	2+	2+
Bulgaria	4+	2+	3	4-
Croatia	4+	2+	3+	4-
Czech Republic	4+	3	4-	3
Estonia	4+	3-	4-	4-
Georgia	4+	2	2+	3
Hungary	4+	3	4	4-
Latvia	4+	2+	3+	4-
Lithuania	4+	3	3	4-
Macedonia	4	2	3	4-
Moldova	4+	2	2+	4-
Poland	4+	3	3+	3+
Romania	4	2+	3-	4
Slovak Republic	4+	3	3+	4-

Source: EBRD Transition Report 2001

Key: Higher numbers indicate greater liberalization or greater improvements in institutions.

Table 7: Geographic Diversification of Exports, 2001

COUNTRY	Exports to EU (share of total exports)	Largest trading partner (share of total exports)	Second Largest Trading Partner (share of total exports)
Albania	89.9	Italy (65.3)	Greece (16.5)
Bulgaria	55.2	Italy (15.1)	Germany (9.6)
Czech Republic	68.2	Germany (39.3)	Slovak Republic (7.4)
Estonia	60.0	Finland (28.5)	Sweden (11.9)
Hungary	74.4	Germany (36.0)	Austria (7.8)
Latvia	61.3	Germany (16.7)	UK (15.7)
Lithuania	47.8	UK (13.8)	Latvia (12.6)
Macedonia	42.4	Yugoslavia (29.7)	Germany (18.4)
Poland	69.3	Germany (34.4)	France (5.4)
Romania	67.9	Italy (25.1)	Germany (15.6)

Source: IMF, staff estimates

Table 8: Coefficient of Variation of Exports, 1998-2001

Country	Coefficient of Variation
Albania	0.176
Lithuania	0.171
Romania	0.154
Estonia	0.134
Bulgaria	0.133
Poland	0.128
Hungary	0.121
Czech Republic	0.068
Latvia	0.063
Macedonia, FYR	0.048

F. Summary and Concluding Remarks

33. Albania has experienced a sustained real appreciation since 1992, which appears to have been brought about by largely beneficial developments: price liberalization, productivity growth, external inflows, and a successful stabilization policy. The pace of appreciation has slowed in the last few years, and a real depreciation in 2002 has brought the REER back to its January 2000 level. This real depreciation is, however, unlikely to have a significant positive impact on export performance, as limited econometric evidence suggests that exports respond marginally, if at all, to the REER. Instead, they respond strongly to real foreign demand, and to short-run changes in perceived economic, business and political risks. Albania appears to suffer less from a declining price competitiveness than from the repercussions of delayed progress in structural reforms, and lingering problems in governance and infrastructure. These factors appear to contribute to the small size and lack of diversification of the export base, rendering exports more vulnerable to various domestic and external shocks.

References

Agenor, Pierre-Richard (1995), "Competitiveness and External Trade Performance of the French Manufacturing Industry", IMF WP/95/137

Bandara, Jayatilleke (1995), "Dutch Disease in a Developing Country: The Case of Foreign Capital Inflows to Sri Lanka", *Seoul Journal of Economics*, v. 8, No. 3

Catao, L., and E. Falcetti (1999), "Determinants of Argentina's External Trade", IMF WP/99/121

Clark, P., L. Bartolini, T. Bayoumi and S. Symanksy (1994), "Exchange Rates and Economic Fundamentals: A Framework For Analysis", IMF Occasional Paper, No. 115

De Broeck, M., and T. Slok (2001), "Interpreting Real Exchange Rate Movements in Transition Countries", IMF WP/01/56

Edwards, Sebastian (1988), Exchange Rate Misalignment in Developing Countries, The World Bank, Occasional Paper Number 2/ New Series

European Bank for Reconstruction and Development (2001), Transition Report 2001

_____(2002), Transition Report 2002

Ghosh, A., and J. Ostry (1994), "Export Instability and the External Balance in Developing Countries", IMF Staff Papers, v. 41

Halpern, L, and C. Wyplosz (2001), "Economic Transformation and Real Exchange Rates in the 2000s: The Balassa-Samuelson Connection"

Havrylyshyn, O. and H. Al-Atrash (1998), "Opening Up and Geographic Diversification of Trade in Transition Economies", IMF WP/98/22

International Monetary Fund (1994), *IMF Economic Reviews: Albania*, International Monetary Fund, Washington DC

Jarvis, Chris (1999), "The Rise and Fall of Pyramid Schemes in Albania", IMF Working Paper, WP/99/98

Kaminski, Bartlomiej (2002), Country Study: Albania

Laplagne, P., M. Treadgold and J. Baldry (2001), "A Model of Aid Impact in Some South Pacific Microstates", World Development, v. 29, No. 2

Lensink, R., and H. White (2001), "Are There Negative Returns to Aid?", *Journal of Development Studies*, No. 6

Marsh, I., and S. Tokarick (1994), "Competitiveness Indicators—A Theoretical and Empirical Assessment", IMF Working Paper, WP/94/29

Paiva, Claudio (2001), "Competitiveness and the Equilibrium Exchange Rate in Costa Rica", IMF Working Paper WP/01/23

Rother, Philipp (2000), "Inflation in Albania", IMF Working Paper, WP/00/207

Roubini, N., and P. Wachtel (1998), "Current Account Sustainability in Transition Economies", NBER Working Paper 6468

Turner, A., and S. Golub (1997), "Towards a System of Multilateral Unit Labor Cost-Based Competitiveness Indicators for Advanced, Developing, and Transition Countries", IMF Working Paper, WP/97/151

II. The Informal Sector—Impeding Economic Development?[1]

"The improvement of fiscal administration is considered of special importance by the government both to overcome the challenges for the country's long-term development and European integration and to secure the financial resources that are necessary for the implementation of the GPRS. The main objective[...] of the reform of the fiscal administration will be ... [to] increase budget revenues by expanding the taxable base and reducing the informal economy ..."

Government of Albania (2001:59)

A. Introduction

1. In the *National Strategy for Socio-Economic Development* (NSSED or GPRS; Government of Albania, 2001), the Albanian authorities—in collaboration with key stakeholders—have elaborated a comprehensive development strategy and defined their principal social goals. After some initial delays, the strategy's implementation phase is currently being prepared, as line ministries are engaged in costing and prioritizing the projected policy measures. The identification of fiscal resources required to execute the envisaged (social) priority investments has highlighted the urgent need to reinforce efforts to formalize economic activities in order to ensure the timely implementation of the government's poverty-reduction measures.

2. Given Albania's legacy of half a century of misguided economic policies, which have left the country with widespread poverty, a decrepit public infrastructure, and weak public institutions, Albania's policymakers are currently faced with an enormous—but certainly not unique—challenge to simultaneously raise tax revenues and improve public services. As Alesina (1999) succinctly noted, "improving government performance to achieve social goals means switching from a tax-evading economy with no infrastructure and with mistargeted safety nets to a tax-paying formal economy with relatively small but efficient social safety nets. However, many of these reforms are not likely to be successful without a reduction in corruption and bureaucratic inefficiency" (p. 229). This chapter will try to develop proposals aimed at moving the economy, which is currently characterized by a high degree of tax evasion and poor public services, to a superior state with opposite characteristics.

3. While there exists a considerable literature on informal sectors in transition economies, very little research has been done to estimate the size and composition of Albania's shadow economy and, implicitly, the likely extent of fiscal evasion—which is mainly due to data reasons. One notable exception is a recent study by Schneider (2002), which uses a method combining the physical input (electricity), currency demand, and model-based approaches to estimate Albania's shadow economy. With the caveat of "unreliable figures" (cf. footnote in Table 5, p. 14), he estimates that around one-third of total economic

[1] This chapter was prepared by Jan-Peter Olters.

activities in 2000 were informal.[2] This figure is comparable to the one used by the Statistical Institute (INSTAT) when calculating official GDP figures.[3] The Albanian media, however, have periodically suggested that the size of the informal economy could in fact be considerably larger.[4]

4. Section B defines the "informal economy" and summarizes the microeconomic costs of, and benefits from, informal businesses. The Section, while briefly touching upon the discussion regarding the conceptual links to corruption and organized crime, will survey the literature on the effects of economic informality on a country's growth potential. Section C will sketch out a research agenda aimed at estimating the relative size of Albania's informal economy. Section D will conclude with a discussion on possible policy measures to facilitate the formalization process.

B. The Informal Sector and Economic Development

Defining the informal sector

5. There is a large literature and some debate on the correct definition of the *informal economy*, a thorough discussion of which exceeds the scope of this chapter.[5] In the following, the informal sector will be defined as the sum of principally legal, taxable, but undeclared commercial activities that *should* be included in the calculation of national output and are either excluded or—as in Albania—(partially) estimated. This description, resembling the one proposed by Pommerehne and Kirchgässner (1994), has the advantage that it includes all activities that, with the right *economic* policies, could be integrated with the formal sector (and measured GDP).[6]

---

[2] According to Schneider's (2002) estimation method, the size of Albania's informal sector is comparable to those in Lithuania (30.3 percent), Croatia (33.4 percent), Bosnia and Herzegovina (34.1 percent), Romania (34.4 percent), and Bulgaria (36.9 percent).

[3] INSTAT's estimate is based on a survey method analyzing the economic activities of small, medium, and large enterprises in different sectors of the economy.

[4] In its December 16, 2002 issue, the daily newspaper *Dita*, for instance, mentions on page 1 that 50–60 percent of the Albanian economy is informal, with smuggling of imported goods being the principal component ("Ekonomia, 60 përqind informale").

[5] For an in-depth discussion on the benefits and limitations of alternative definitions, see, e.g., Schrage (1984) and Thomas (1992).

[6] The above definition of the informal market excludes an explicit discussion on *organized crime*, largely because this is viewed as a problem more for the public prosecutor than the government's economic policymakers. In the Albanian case, an important media outlet in

(continued...)

6. As stated above, the participation in the informal economy represents a violation of the legal norm (even if the activities *per se* are legal). The flip side of private "underground" activities tends to be public corruption, whereby (poorly paid) officials accept bribes in exchange of protection or other favors to the detriment of the state. In recent years, a rather extensive literature has developed showing that, in a system rooted in bribery and corruption, economic incentives are distorted "as government officials and favored private individuals receive a larger share of public benefits or bear a lower share of the cost of public goods" (IMF, 2000:130), which results in lower private investments, lower government revenues, while increasing inequality and poverty; see Mauro (1995), Tanzi and Davoodi (1997, 2000), and Gupta et al. (1998), with the key arguments being nicely summarized in Tanzi (1998). The large majority of recent studies confirmed the existence of a negative correlation between corruption and growth, thereby stressing the crucial importance of improved "governance" as a core element in successful economic reform programs.

Reducing the size of the shadow economy: when and why?

7. While the task of reducing the informal sector is demanding, the overall environment in 2003 is uniquely favorable. Following the successful "stabilization" phase (1998–2001)[7] and reduced political tensions following realignments in the interim year 2002, Albania is starting its—delayed—socio-economic "development" phase with a full congruence of (i) the PRGF-supported program; (ii) the major World Bank programs; and (iii) the government's remaining political mandate, covering the period up until mid-2005. Concomitantly, the European Union (EU) has invited Albania to start negotiations on a Stabilization and Association Agreement (SAA), which are set to begin in early 2003.[8] In this context, the government will start to implement complementary reforms designed to accelerate the country's politico-economic integration with the EU.

8. The greatest risks that could ultimately thwart the realization of the country's two principal long-term goals—sustainable development and European integration—originate from existing economic interests and, hence, the internal resistance to a government program

---

Italy has recently alluded to such a connection (and this can have an impact on the country's ability to attract foreign investment). The following analysis, however, will abstract from related questions; for comprehensive discussions, see, for example, Altvater and Mahnkopf (2002) and Naylor (2002).

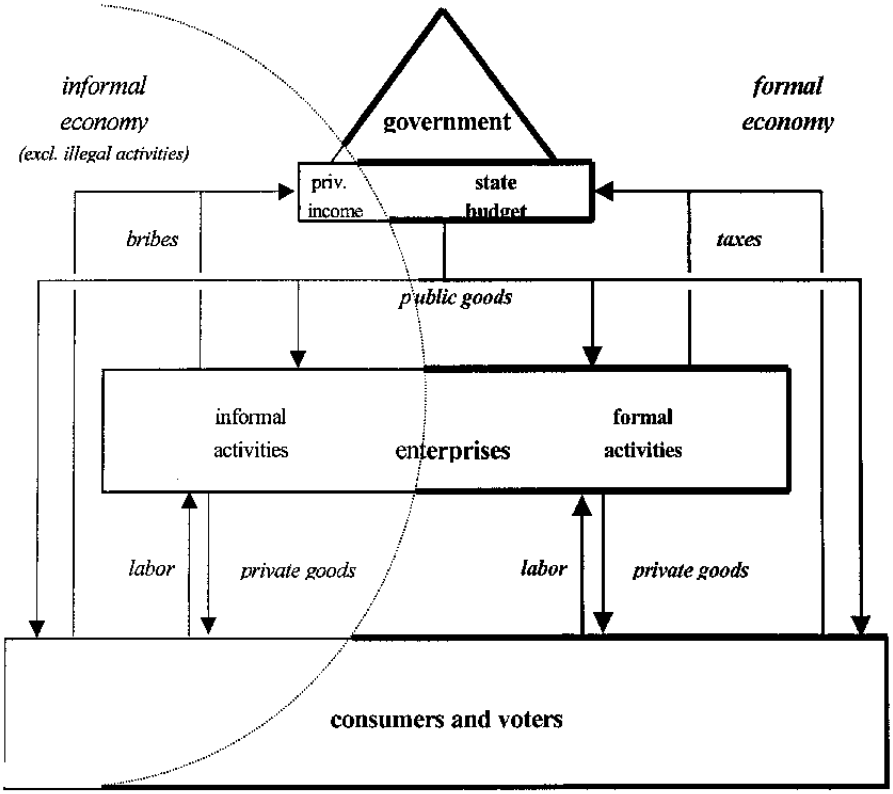
[7] See, e.g., IMF (2002, 2001a) and Treichel (2002). The economic stabilization program was required to address the socio-economic crisis caused by the disastrous collapse of the pyramid schemes in 1997; see Bezemer (2001) and Jarvis (2000).

[8] On October 21, 2002, the European Union invited Albania to begin negotiations under the SAA (EU, 2002:6).

that aims at (i) improving governance; (ii) broadening the tax base; and (iii) integrating informal activities with the official segment of the economy. Containing and reversing the growth of the informal sector represents a major political challenge, all the more so since the increase in "social" welfare (which will follow a decreased level of informality) has to be achieved at the expense of "private" benefits of those participating—in whichever form—in the informal economy.

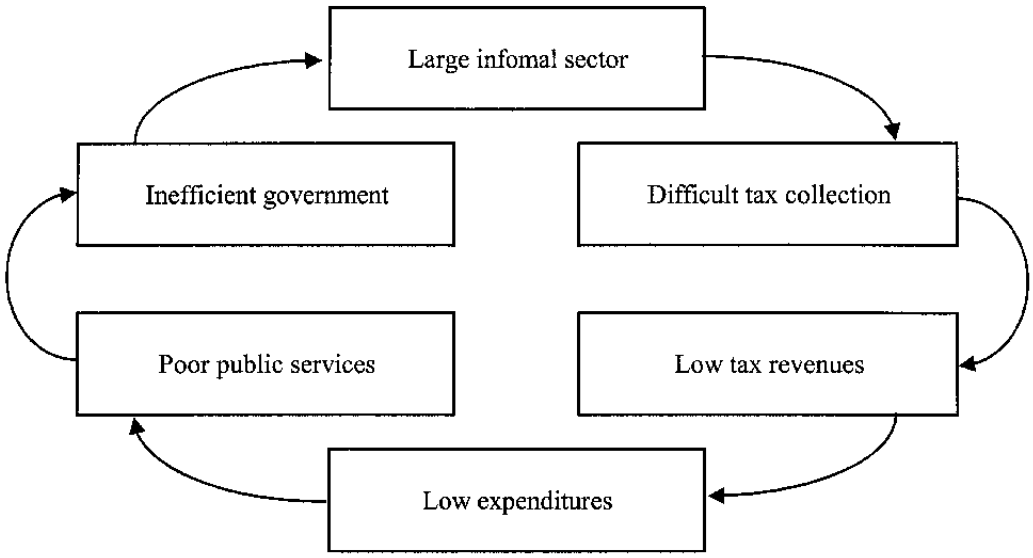
9. This relation is summarized in Figure 1, which shows a stylized flowchart of a dual economy with formal and informal sectors, in which tax receipts pay for the provision of public goods, to which the "free-riding" enterprises have partial access. Moreover, the informal enterprises are able to offer their goods and services at relatively lower prices as (i) they do not contribute to social security, implying that firms' effective labor costs are lower than in those paid by licensed enterprises; and (ii) they do not pay taxes. The companies operating in the shadow economy, however, need to "protect" their position and tend to pay—in lieu of taxes—bribes to (poorly paid) public officials, thereby detrimentally affecting the integrity and efficiency of the government and its ability to provide public services at a sufficient level and in an acceptable quality—which, in turn, reinforces incentives to remain in the sub-optimal equilibrium with "too small" a government.

Figure 1. The Stylized Dual Economy



10. The dual equilibrium interpretation of large informal economies in developing and transition economies—which is particularly applicable to the Albanian situation—has been advanced by Loayza (1997) and Johnson, Kaufman, and Schleifer (1997). In both papers, it is argued that, with the "wrong" policies, an economy could be caught in a "vicious circle" (Alesina, 1999) and converge to an equilibrium with a large informal sector, a weak tax collection rate, low tax revenues, and poor public services—reinforcing economic incentives to (continue to) operate informally (Figure 2). Given that enterprises in the shadow economy do not have (full) access to public services, this sector is less productive than the formal one, specializing in low value-added activities. Hence, the two equilibria can be ranked in terms of efficiency. However, with the adequate policies, the economy can be "forced" to an equilibrium with a high degree of tax discipline and an effective government providing a sufficient amount of valued public services (which will be the focus of the remainder of this chapter).

Figure 2. The Vicious Circle



11. Placing the discussion on the growth implications of a large informal economy in a "dual equilibrium" framework implies that an economy requires an impulse to find the virtuous path toward the "superior" outcome, combining both the government's political commitment for reform and the economic agents' recognition of a changed overall environment. The start of negotiations on an SAA could perceivably represent a sufficiently momentous event to permit the implementation of difficult policy measures that are necessary to reverse the trend increase of economic informality. The implicit challenge relates to the need to have these measures implemented at the expense of—typically well-connected—vested interests. Looking at the experience of other countries, it is thus not surprising to see a possible relation between efforts to join the EU and a decline in informal activity. For

example, when taking the informal sector estimates by Johnson, Kaufmann, and Shleifer (1997) and re-arranging them according to the countries' status vis-à-vis the EU, it becomes evident that a decline in the relative size of shadow economies is observed in countries that were expected to join the EU in the "first wave" in 2004; see Table 1.

Table 1. Transition Economies: Estimated Size of the Informal Sector
(In percent of GDP; unless otherwise indicated)

	1995 Population (in million)	1990	1993	1995
EU accession countries*		**17.4**	**20.7**	**15.5**
Czech Republic	10.3	6.7	16.9	11.3
Estonia	1.5	19.9	24.1	11.8
Hungary	10.2	28.0	28.5	29.0
Latvia**	2.5	12.8	31.0	35.3
Lithuania**	3.7	11.3	31.7	21.6
Poland	38.6	19.6	18.5	12.6
Slovak Republic	5.4	7.7	16.2	5.8
Other transition countries*		**15.8**	**35.8**	**41.8**
Azerbaijan	7.7	21.9	51.2	60.6
Bulgaria	8.4	25.1	29.9	36.2
Georgia	5.4	24.9	61.0	62.6
Moldova	4.4	18.1	34.0	35.7
Romania	22.7	13.7	16.4	19.1
Russia	148.1	14.7	36.7	41.6
Ukraine	51.7	16.3	38.0	48.9

Source: Johnson, Kaufmann, and Shleifer (1997:183).

* Weighted according to population (IMF, 2001b).

** Initially not regarded as a "first round" accession country.

12. While the figures do not define causality, the implication of the uniform trend reversal in the relative size of the informal market in prospective EU accession countries during the mid-1990s would be consistent with the "dual equilibrium" framework. Several economists (see, e.g., Hofreither and Schneider, 1989) have long argued that the existing incentive structure in economies with large informal sectors, resembling the "prisoner's dilemma" discussed in game theory, prevents economic actors from sudden (unprovoked) changes in their conduct. Individual participants in the shadow economy—whether in form of a worker, consumer, voter, or tax-payer—benefit from the *status quo* as it increases net wages and maximizes, subject to the household's budget constraint, the consumption of private goods. Analogously, firms profit from relatively lower labor costs, regulations, and tax obligations,

thereby improving their competitiveness in the marketplace. As a result, elected politicians would not want to propose a reform that reduce their voters' economic advantages. Hence, from a microeconomic viewpoint, there is only an incentive to formalize economic activities if the corresponding costs are more than compensated by (i) (the expectation of) an accompanying tax cut; (ii) improvement in available (and generally valued) public goods; and/or (iii) other tangible benefits (such as possible EU membership).

13. According to the above argument, firms' rational decision on whether to (fully) operate in the formal economy hinges on the tradeoff between benefits of having (unimpeded) access to public goods—and/or other benefits listed above—and the private costs of paying taxes and complying with regulations (net of the concomitant risk of detection and penalty). Subsequently, policies aimed at formalizing the shadow economy need to jointly address the "free rider" problem, which allows informal enterprises to benefit from (a certain number of) public goods without contributing to their provision, and a "coordination failure" dilemma à la Cooper and John (1991), according to whose succinct characterization "mutual gains from an all-around change in strategies may not be realized, because no player has an incentive to deviate from the initial equilibrium" (p. 4). If the starting point is a sub-optimal equilibrium (in this case, one with an inefficient public sector providing an insufficient amount of low quality public goods), enterprises are willing to register their activities and comply with the laws and regulations only *if* they feel sufficiently sure that their respective competitors will comply as well. Otherwise, the cost of compliance will continue to exceed its benefits.

14. The trade-off between "public goods" and "private costs" explains, to a large extent, the development of a large parallel economy and, equally importantly, the difficulty in reversing the trend—as the benefits that tax-paying enterprises perceive to derive from publicly provided goods and services, relative to the costs of tax compliance and net of the expected cost of being caught, are too limited, reinforcing institutional incentives toward a (continued) withdrawal from the formal sector and aggravating the tax department's task of ensuring tax compliance. Subsequently, with an even higher degree of fiscal evasion, public spending will need to be curtailed further.

15. Whereas informal markets in OECD countries are caused by excessive regulations and high tax rates, their relative increase need not necessarily be inconsistent with higher growth rates in the official economy.[9] By contrast, many developing countries—and, in particular, transition economies—tend to be constrained by inefficient governments (including tax collection agencies) and weak public infrastructures. The causality between the entrepreneurs' valuation of (productive) public services and their incentives to go underground has been modeled by Loayza (1997), showing that the informal sector increases in relative size if (i) taxes are increased; (ii) enforcement is decreased; (iii) a larger share of

[9] See, e.g., Adam and Ginsburgh (1985) for Belgium or Fichtenbaum (1989) for the U.S.

the budget is spent on goods to which the informal market has access as well; and (iv) public services, relative to private ones, become less productive. Assuming utility-maximizing behavior by households, Loayza's (1997) model shows that (consumption) growth rates are hence positively related with the degree of the formality in the economy.

C. The Informal Economy in Albania

16. While a detailed and reliable estimation of the size and composition of Albania's informal market may not—given the limited nature of data even on formal activity—be a feasible exercise at this point (but defines a future research agenda),[10] this section examines several macroeconomic indicators to highlight the severity of the situation in Albania. As mentioned in the introduction, current estimates of GDP incorporate an assessment of informal activity at about one-third of total output. However, data on tax collection suggest that this tentative assessment could well be on the low side. Figure 3, for example, summarizes the key differences in tax revenue collections among several countries in the region. Whereas even the relatively poorly performing transition countries in South-Eastern Europe managed to collect tax revenues, including social contributions, of around 30 percent of GDP in 2001,[11] the corresponding figure for Albania stood at roughly 20 percent, notwithstanding the gradual—but consistent—improvement in tax collection since 1997. Still, only a relatively small fraction of the loss in enforcement capacity experienced in 1991–92 could be recovered.[12] As Figure 4 indicates, the reason for the considerable difference in performance is not caused by the level of tax rates levied in Albania (which are comparable to those in neighboring countries) but by differences in tax collection efficiency. Pervasive smuggling, underreporting on invoices, falsification of balance sheets, and a general weakness in (tax) law enforcement have, thus far, defined limits to domestic revenue collection and, subsequently, the government's ability to provide public goods at an adequate level (and in a satisfactory quality). The weak revenue performance can, in part, be explained by "parallel" payments. In its 2002 *Transition Report*, the European Bank for Reconstruction and Development (2002) includes a table on the frequency and extent of the "bribe tax"

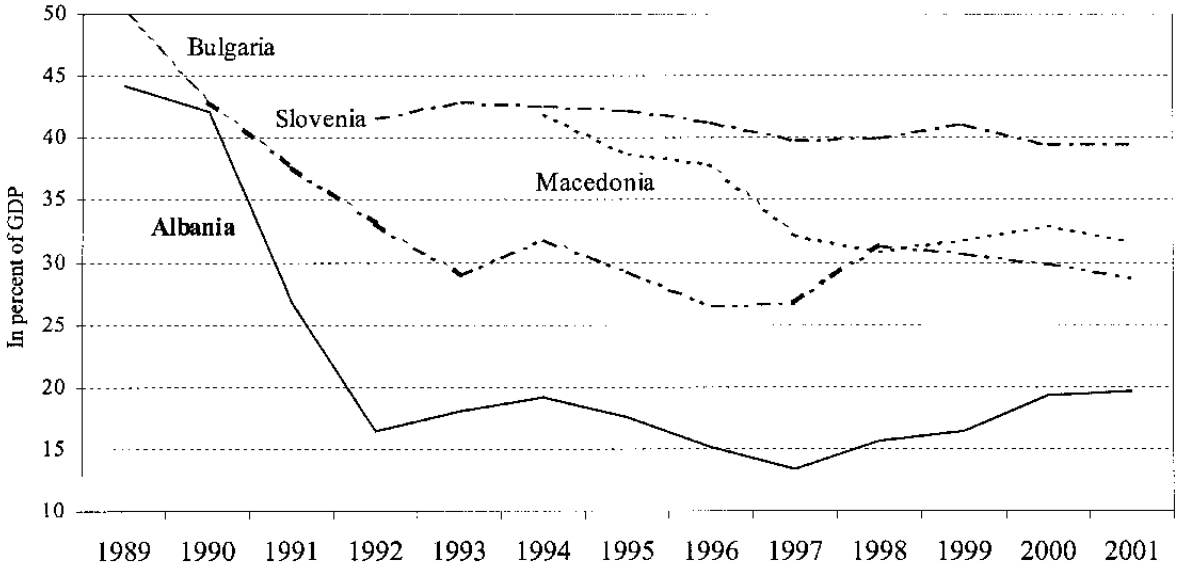
---

[10] For a discussion on the indirect methods used to approximate the size of shadow economies, see, e.g., Feige (1989) and Schneider and Enste (2000a). Johnson, Kaufmann, and Shleifer (1997), Lackó (2000), and Schneider and Enste (2000b) provide estimates for other transition economies.

[11] The comparable figures are: Croatia 37.3 percent, for the Czech Republic 36.2 percent, for Romania 28.3 percent, for Slovakia 30.2 percent, and for Yugoslavia 37.8 percent.

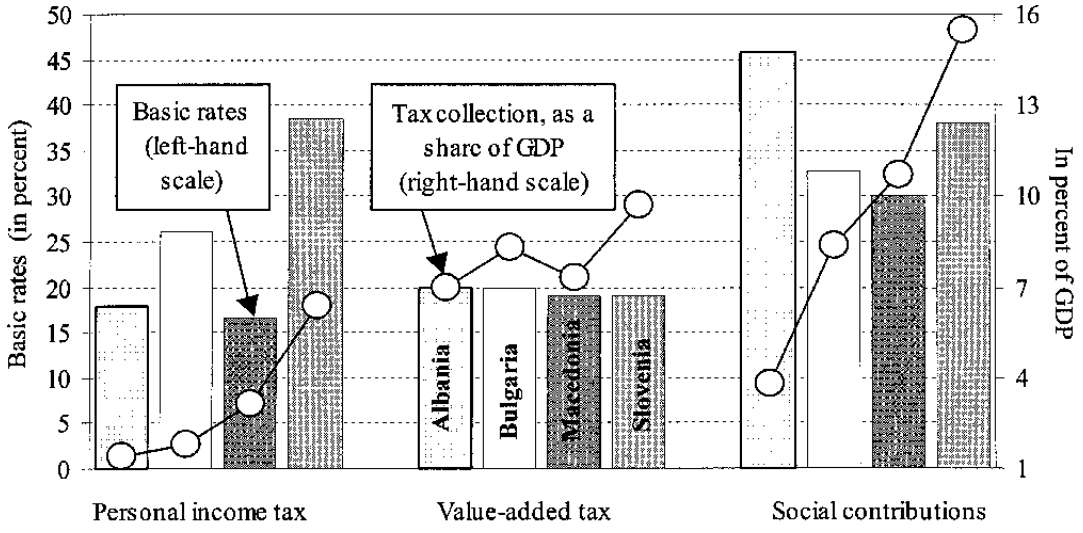
[12] The very steep drop in tax revenue collection in 1991–92, by about 25 percentage points of GDP, was caused by the economic collapse and social anarchy following 48 years of communism and isolationism (for a comprehensive analysis of the early transition years, see, e.g., Blejer et al., 1992).

Figure 3. Tax Revenue Developments



Source: Tanzi and Tsibouris (2000:18), and IMF staff estimates.

Figure 4. Tax Collection Efficiency



Source: Various IMF reports.

(Table 2). The 3.3 percent ratio of average bribes to annual firm revenue in 2002 put Albania on the second worst place of 26 transition countries—below Azerbaijan and Georgia (2.7 percent) and just above the Kyrgyz Republic (3.7 percent). Not surprisingly, the generally ineffective and—at times—arbitrary administration in the customs and tax departments has been identified as a principal deterrent to (foreign) investment. The combination of low revenue collection, average tax rates, and high "tax bribes" is consistent with the a large shadow economy.

Table 2. Frequency and Extent of the "Bribe Tax"

	Percentage of firms making bribes frequently		Average bribe tax as a percentage of annual firm revenues	
	1999	2002	1999	2002
Albania	**46.7**	**36.4**	**1.7**	**3.3**
Bosnia and Herzegovina	20.5	22.4	2.1	0.9
Bulgaria	23.0	32.8	1.3	1.9
Macedonia	33.0	22.7	1.4	0.8
Slovenia	7.7	7.1	1.0	0.8

Source: EBRD (2002:28).

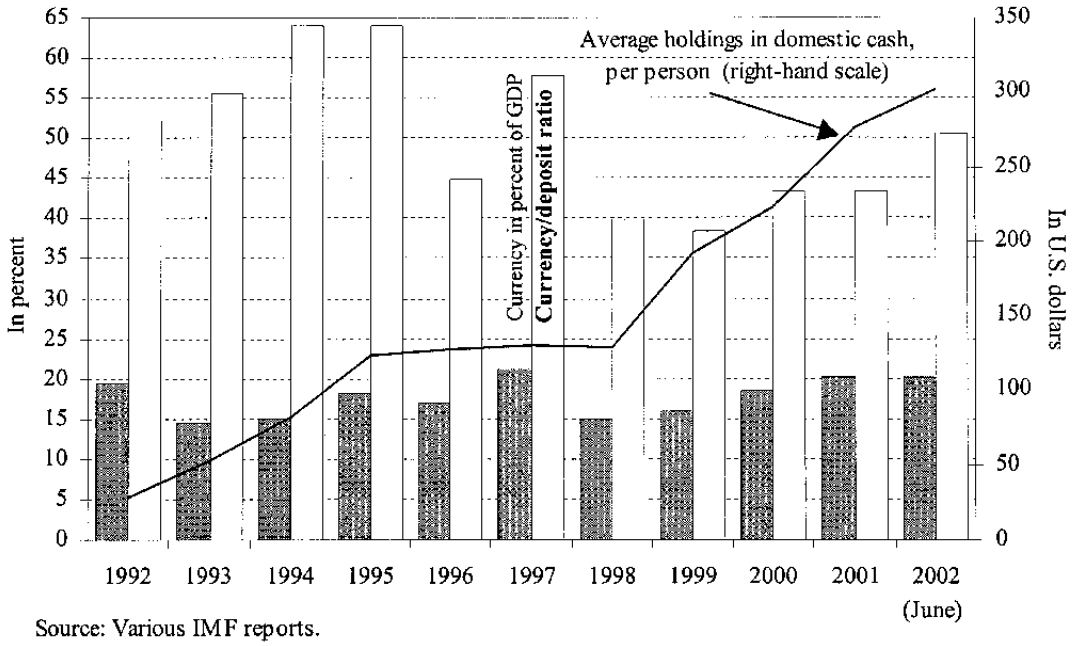
17. These macro data allow for a very rough and preliminary approximation of the estimated size of Albania's informal market. Assuming that the share of the informal sector relative to GDP in Bulgaria is approximately correct (see Table 1) and given an effective tax burden of around 50 percent,[13] the 10 percentage point difference in the tax collection rates between the two countries (see Figure 3) would imply that the majority of economic activities in Albania is, in fact, informal.

18. While recent monetary data seem consistent with this supposition, their interpretation is not straightforward. Informal economic activities tend to be cash-based, and the demand for cash, relative to overall output, is frequently used to approximate developments in the informal sector of the economy—particularly if the demand for cash increases at a pace faster than considered justified by economic fundamentals. In this context, an increase in the demand for cash by 5 percentage points of GDP, between 1998 and 2001, could be taken an indicator of such development (see Figure 5). However, further—and more in-depth—studies would have to (i) separate the demand for cash from the aftermath of, and the behavioral

[13] For households, the average income tax rate is about 18 percent, with employee contribution to the social security institute representing roughly 12 percent. If, of the remaining 70 percent, three-quarter is consumed, another 11 percent will be paid in VAT and, correspondingly, 7 percent for excise. The remaining 2 percent would reflect other taxes.

changes stemming from, the pyramid schemes in 1997; (ii) identify the relation of cash holdings and deposits in light of the large drop in real interest rates during this period; and (iii) include estimates of circulating foreign cash into the equation. Given Albania's income level, together with the circulation of a considerable amount of foreign cash, the per capita amount of domestic cash, both over time (Figure 5) and relative to neighboring countries (Table 3), is very large and, a priori, would seem to support the supposition of an informal sector that is larger than the official estimate.

Figure 5. The Relative Importance of Domestic Cash



Source: Various IMF reports.

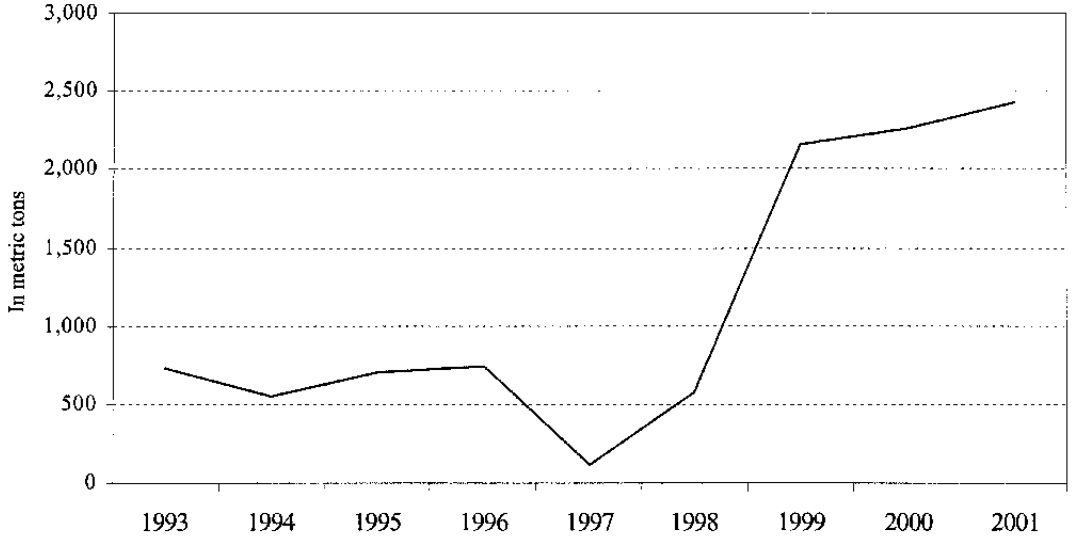
Table 3. Average Holdings of Domestic Cash

	Albania	Bulgaria	Macedonia	Slovenia
		(per capita, in U.S. dollars)		
Average holdings of domestic cash				
in 1999	192.3	122.5	68.5	319.3
in 2001	276.8	178.5	102.2	284.6
		(U.S. dollar based, Albania = 100)		
Per capita GDP				
in 1999	100.0	119.0	144.7	778.4
in 2001	100.0	125.1	123.6	666.3

Source: IFS and, for the Albanian and Macedonian GDP figures, IMF country reports.

19. In light of limited data resources, the most promising method of estimating both the size and composition of the informal market in Albania appears to be the analysis of the discrepancy between the consumption of particular commodities and their taxation. To illustrate this point, take, for example, the market for cigarettes. Despite some considerable improvements at customs (see Figure 6), available information indicates that more than two-thirds of the cigarettes smoked in Albania are smuggled into the country. The difference between registered imports (2,425 metric tons in 2001) and estimated consumption (around 8,000 tons; see Prislopeanu, 2002) represents a retail value of approximately Lek 28 billion[14] (or more than 4½ percent of 2001 GDP). Even with—regionally very low—cigarette excises (Lek 11 per banderole in 2001) and a 20 percent VAT rate, the budget lost, in this market alone, at least Lek 8.6 billion, or 1.5 percent of GDP.

Figure 6. Registered Cigarette Importation



Source: Albanian authorities.

D. Formalizing the Shadow Economy: Recommended Measures

20. Albania's informal sector clearly represents a considerable share of economic activities, thereby jeopardizing the realization of Albania's medium-term goals of socio-economic development and European integration. While budgetary revenues, relative to the performance of Albania's economy, is weak, formal private sector activities are discouraged by (i) strained taxpayer relations and poor public services; (ii) inadequate tax enforcement; (iii) excessive permit and licensing requirements; (iv) the existence of a competitive disadvantage relative to informal market participants; and (v) a weak public infrastructure.

[14] With the weight of 1 cigarette being 1 gram and the average retail price Lek 100 per pack.

21. To move Albania away from this "sub-optimal equilibrium" requires concerted efforts. The government's principal challenge, at this stage in Albania's development phase, lies in the adoption of measures aimed at improving "governance" and strengthening of public institutions, including the customs and tax administrations. A successful strategy would have to stand on two pillars—viz., (i) providing better "public goods" (that is, improving governance, the quality of public services, and taxpayer relations, accelerating the implementation of NSSED investments, and ensuring progress with the SAA negotiations); and (ii) the development of a credible anti-evasion action plan.

22. In Albania's case, it is not high tax rates *per se* but, to a large extent, the ineffectual and discretionary application of tax laws and governmental regulations that has created the conditions under which the shadow economy is growing. Consequently, the government needs to find a way to raise public awareness of the government's increasing commitment to resolutely addressing fiscal evasion (which, in itself, should help to improve tax discipline) while improving taxpayer relations. The authorities could achieve this, for example, by hosting a series of workshops (or brainstorming sessions) charged with enhancing the comprehension of (i) the amount of foregone tax revenues; (ii) the main channels used to bypass the tax and customs directorates; and (iii) effectiveness of possible policy measures aimed at closing the loopholes. Undoubtedly, "fighting evasion" is a very broad and rather ambitious goal, with the public's expectation of actual improvements being low as long as they are not underpinned by practical steps to address the issue commodity by commodity, tax by tax, and problem by problem. Apart from the finance ministry and the tax and customs departments, several other parties have strong interest in improving the situation, most important of which are the formal enterprises experiencing a distinct cost disadvantage in the marketplace vis-à-vis their informal competitors. Their advice should thus be actively sought in any discussion on a detailed anti-evasion strategy.

23. Whether one takes a particular excise commodity (cigarettes, fuel, coffee, or alcoholic beverages) or a specific tax, the formal enterprises that are active in these markets would, in all likelihood, respond very positively to an invitation to engage in a direct dialogue with the finance ministry and the tax and/or customs directorates to (i) identify the main source of leakages; (ii) discuss the related weaknesses in public administration; and (iii) propose policy measures to remedy the situation. Also, the commercial banking system—together with the customs and tax directorates—could support efforts to identify ways for facilitating *cashless* customs and tax payments, either through the use of direct deposits (say, directly at the point of entry at the border), bank-guaranteed checks, or the increased use (and acceptance) of credit cards.

24. At the end of such a consultative process, the resulting policy proposals, together with a firm timetable, should be publicly presented as a comprehensive anti-evasion strategy, thereby (i) increasing public awareness of the government's commitment to address this problem in a serious, comprehensive, and forceful manner; (ii) bolstering efforts in securing both higher revenue levels; (iii) supporting the government's objective in implementing key medium-term policy goals as, for instance, identified in the NSSED; and (iv) starting to

change the widespread perception of evasion being an "acceptable" way of doing business by communicating the costs to the country as a whole, including its effect on the prospect for eventual EU membership.

25. By (i) fragmenting a big problem in a large number of smaller ones; (ii) sensitizing the public that there is indeed a serious and credible commitment by government to make substantial progress (which, in the context of the starting negotiations on an SAA, is a very convincing period of time to make such an announcement); and (iii) explicitly requesting private-sector input, the government should be able to build a momentum that, over the short to medium term, secures higher tax receipts while strengthening the government-business relationship. At the same time, businesses will benefit from fairer competition, improved public services and, possibly, lower tax rates in the medium term, as will Albanian citizens from the realization of NSSED investments and a generally more responsive and effective government. The favorable overall environment, and the prospect for progress in the process of European integration, gives the government and additional—and very important—impetus to underpin, with concrete actions, the efforts to increase governance and reduce the size of the informal market.

References

Adam, Markus, and Victor Ginsburgh, 1985, "The Effects of Irregular Markets on Macroeconomic Policy: Some Estimates for Belgium," *European Economic Review*, Vol. 29, No. 1, pp 15–33.

Alesina, Alberto, 1999, "Too Large and Too Small Governments," in Vito Tanzi, Ke-young Chu, and Sanjeev Gupta, ed., *Economic Policy & Equity* (Washington: International Monetary Fund).

Altvater, Elmar, and Birgit Mahnkopf, 2002, Globalisierung der Unsicherheit: Arbeit im Schatten, schmutziges Geld und informelle Politik (Münster: Verlag Westfälisches Dampfboot).

Bezemer, Dirk, 2001, "Post-Socialist Financial Fragility: the Case of Albania," *Cambridge Journal of Economics*, Vol. 25, pp. 1–23.

Blejer, Mario, Mauro Mecagni, Ratna Sahay, Richard Hides, Barry Johnston, Piroska Nagy, and Roy Pepper, 1992, "Albania: From Isolation Towards Reform," Occasional Paper No. 98 (Washington: International Monetary Fund).

Cooper, Russell, and Andrew John, 1991, "Coordinating Coordination Failures," in Gregory Mankiw and David Romer, *New Keynesian Economics*, Vol. 2 (Cambridge: MIT Press), pp.3–24.

European Bank for Reconstruction and Development, 2002, *Transition Report 2002: Agriculture and Rural Transition* (London: European Bank for Reconstruction and Development).

European Union, 2002, "2458th Council Meeting, Luxembourg, 21 October 2002," General Affairs and External Relations Document No. 12943/02 (Presse 314).

Feige, Edgar (ed.), 1989, The Underground Economies. Tax Evasion and Information Distortion (Cambridge: Cambridge University Press).

Fichtenbaum, Ronald, 1989, "The Productivity Slowdown and the Underground Economy," *Quarterly Journal of Business and Economics*, Vol. 28, No. 3, pp. 78–90.

Government of Albania, 2001, *National Strategy for Socio-Economic Development*, November 2001 (Tirana: Republic of Albania, Council of Ministers).

Gupta, Sanjeev, Hamid Davoodi, and Rosa Alonso-Terme, 1998, "Does Corruption Affect Income Inequality and Poverty?" IMF Working Paper No. 98/76.

Hofreither, Markus, and Friedrich Schneider, 1989, "Gibt es ein politisches Interesse, die Schattenwirtschaft zu bekämpfen? Ein Versuch politisch-ökonomischer Erklärung," in E. Boetcher, P. Herder-Dornreich, K.E. Schenk (eds.), *Jahrbuch für Neue Politische Ökonomie* (Tübingen: J.C.B. Mohr–Paul Siebeck), pp. 62–87.

International Monetary Fund, 2002, "Albania: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; News Brief and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Albania," IMF Country Report No. 02/135.

————, 2001a, "Albania: 2001 Article IV Consultation and Review Under the Poverty Reduction and Growth Facility—Staff Report and Public Information Notice on the Executive Board Discussion," IMF Country Report No. 01/117.

————, 2001b, *International Financial Statistics: Yearbook 2001* (Washington: International Monetary Fund).

————, 2000, *World Economic Outlook, May 2000* (Washington: International Monetary Fund).

Jarvis, Chris, 2000, "The Rise and Fall of the Pyramid Schemes in Albania," *IMF Staff Papers*, Vol. 47, No. 1, pp. 1–29.

Johnson, Simon, Daniel Kaufmann, and Andrei Shleifer, 1997, "The Unofficial Economy in Transition," *Brookings Papers on Economic Activity*, No. 2, pp. 159–221.

Loayza, Norman, 1997, "The Economics of the Informal Sector: A Simple Model and Some Empirical Evidence from Latin America," Policy Research Working Paper 1727 (Washington: The World Bank).

Lackó, Mária, 2000, "Hidden Economy—An Unknown Quantity? Comparative Analysis of Hidden Economies in Transition Countries, 1989–95," *Economics of Transition*, Vol. 8, No. 1, pp. 117–49.

Mauro, Paulo, 1995, "Corruption and Growth," *Quarterly Journal of Economics*, Vol. 110 (August), pp. 681–712.

Naylor, Robin, 2002, Wages of Crime—Black Markets, Illegal Finance, and the Underworld Economy (Ithaca: Cornell University Press).

Pommerehne, Werner and Gebhard Kirchgässner, 1994, "Schattenwirtschaft als wirtschafts- und sozialpolitische Herausforderung," *Wirtschaftsstudium*, Vol. 23, No. 10, pp. 848–60.

Prislopeanu, Ioan, 2002, "Albania Tobacco: A Dying Industry," *Tobacco Journal International* No. 5/02.

Schneider, Friedrich, 2002, "The Value Added of Underground Activities: Size and Measurement of the Shadow Economies of 110 Countries all over the World," Johannes Kepler Universität Linz, Mimeo. (First version, June 2002).

———— and Dominik Enste, 2000a, Schattenwirtschaft und Schwarzarbeit: Umfang, Ursachen, Wirkungen und wirtschaftspolitische Empfehlungen (Munich: Oldenbourg Verlag).

———— and ————, 2000b, "Shadow Economies Around the World: Size, Causes, and Consequences," IMF Working Paper No. 00/26.

Schrage, Horst, 1984, "Schattenwirtschaft—Abgrenzung, Definition, Methoden der quantitativen Erfassung," in Wolf Schäfer (ed), *Schattenökonomie. Theoretische Grundlagen und wirtschaftspolitische Konsequenzen* (Göttingen: Vandenhoeck und Ruprecht), pp. 11–37.

Tanzi, Vito, 1998, "Corruption Around the World," *IMF Staff Papers*, Vol. 45, No. 4, pp. 559–94.

————, and Hamid Davoodi, 2000, "Corruption, Growth, and Public Finances," IMF Working Paper No. 00/182.

————, and ————, 1997, "Corruption, Public Investment, and Growth," IMF Working Paper No. 97/139.

————, and George Tsibouris, 2000, "Fiscal Reform Over Ten Years of Transition," IMF Working Paper No. 00/113.

Thomas, Jim, 1992, *Informal economic activity* (New York: Harvester/Weatsheaf).

Treichel, Volker, 2002, "Stabilization Policies and Structural Reforms in Albania Since 1997—Achievements and Remaining Challenges," IMF Policy Discussion Paper No. 2/2.

Table 1. Albania: Basic Indicators, 1992-2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
					(Percent change)					
Real GDP	-7.2	9.6	9.4	8.9	9.1	-7.0	8.0	7.3	7.8	6.5
Retail prices (period average)	226.0	85.0	22.6	7.8	12.7	32.1	20.9	0.4	0.0	3.1
Retail prices (during period)	236.6	30.9	15.8	6.0	17.4	42.1	8.7	-1.0	4.2	3.5
					(In percent of GDP)					
Saving-investment balance										
Foreign saving 1/	57.1	28.7	14.3	9.7	9.1	12.1	6.1	7.2	7.0	6.3
Domestic saving	-51.9	-15.5	3.6	8.3	6.4	3.9	9.9	9.6	12.0	13.1
Public 2/	-21.9	-14.1	-10.6	-6.7	-9.0	-8.6	-5.2	-5.8	-2.6	-1.2
Private	-30.0	-1.5	14.2	15.0	15.4	12.5	15.1	15.4	14.6	14.3
Investment	5.2	13.2	17.9	18.0	15.5	16.0	16.0	16.8	19.0	19.4
Public	4.0	9.5	8.6	8.2	4.5	4.0	5.2	7.4	6.5	7.3
Private	1.2	3.7	9.3	9.8	11.0	12.0	10.8	9.4	12.5	12.1
Fiscal sector										
Revenues	23.5	25.7	24.5	24.1	18.3	16.9	20.3	21.3	22.4	23.0
Expenditures 3/	44.0	34.9	31.2	30.8	30.3	29.4	30.7	32.7	31.4	31.5
Domestically financed deficit	20.0	9.1	7.0	6.6	10.6	10.5	6.4	5.2	3.2	3.1
Overall deficit	20.3	14.4	12.4	10.3	11.7	12.6	10.4	11.4	9.1	8.5
Monetary indicators										
Broad money growth (in percent)	...	75.0	40.6	51.8	43.8	28.5	20.7	22.3	12.0	19.9
Growth in private sector credit (in percent)	...	...	61.4	15.9	30.5	19.0	14.7	22.6	29.4	43.1
Velocity of circulation	...	3.68	2.83	2.22	1.97	1.72	1.92	1.7	1.6	1.5
					(In millions of U.S. dollars)					
External sector										
Current account balance	-104	-45	-118	-58	-168	-199	-98	-126	-157	-134
(in percent of GDP)	-14.7	-3.7	-5.9	-2.4	-6.2	-8.7	-3.2	-3.4	-4.2	-3.3
Official transfers	330	320	161	118	77	77	89	139	104	125
(in percent of GDP)	46.5	26.1	8.1	4.9	2.9	3.4	2.9	3.8	2.8	3.0
Current account balance 4/	-434	-365	-279	-176	-245	-276	-187	-265	-261	-259
(in percent of GDP)	-61.1	-29.7	-14.1	-7.3	-9.1	-12.1	-6.1	-7.2	-7.0	-6.3
Trade balance	-454	-490	-460	-474	-692	-519	-621	-663	-814	-1027
(in percent of GDP)	-64.0	-39.9	-23.2	-19.6	-25.7	-22.7	-20.4	-18.0	-21.7	-25.0
Gross international reserves	72	147	204	240	275	306	384	485	608	737
(in months of imports of goods and nonfactor services)	1.4	2.3	3.2	3.5	3.1	3.8	4.2	3.8	4.4	4.6
Memorandum items:										
Nominal GDP (in billions of leks)	53.2	125.3	187.9	224.7	281.0	341.7	460.6	506.2	539.2	590.2
Nominal GDP (in billions of U.S. dollars)	0.7	1.2	2.0	2.4	2.7	2.3	3.0	3.7	3.8	4.1
Population and Social Indicators										
Population (in millions)	3.2	3.2	3.2	3.2	3.3	3.3	3.3	3.4	3.4	3.1
Urban population (percent of total population)	37	41	42.0	43	44	46	46	46	...	...
Life expectancy at birth	72	73	71	71	...	72	...	74	...	...
Infant mortality (per 1,000 live births)	33	35	28	30	26	23	21	18	...	...

Sources: Albanian authorities; and Fund staff estimates and projections.

1/ Current account excluding net factor services and official transfers.
2/ Revenue (excluding grants) minus current expenditure.
3/ Commitment basis, excluding foreign financed investment.
4/ Excluding official transfers.

Table 2. Albania: GDP by Sector of Origin, 1992-2001 1/

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
					(In millions of leks at current prices)					
Gross domestic product	50,698	125,335	184,393	229,793	280,998	341,716	460,631	506,208	539,210	590,238
Industry	8,547	17,361	23,110	26,943	34,309	42,351	55,047	68,338	70,928	77,648
Agriculture	27,490	68,487	100,749	125,435	144,825	191,269	250,705	188,310	193,584	201,777
Construction	3,867	11,344	17,720	23,620	31,360	38,423	58,037	45,053	52,104	61,058
Transportation	1,519	3,875	6,211	8,115	9,006	9,362	14,024	45,558	51,337	59,631
Other services	9,275	24,268	36,603	45,680	61,498	60,311	82,817	158,949	171,257	190,124
					(In millions of leks at constant 1990 prices)					
Gross domestic product	11,235	12,309	13,331	15,106	16,478	15,325	16,548	17,748	19,125	20,367
Industry	1,894	1,705	1,671	1,771	2,012	1,899	1,978	2,396	2,516	2,679
Agriculture	6,092	6,726	7,284	8,246	8,493	8,578	9,007	6,602	6,866	6,963
Construction	857	1,114	1,281	1,553	1,839	1,723	2,085	1,580	1,848	2,107
Transportation	337	381	449	533	528	420	504	1,597	1,821	2,058
Other services	2,055	2,383	2,646	3,003	3,606	2,705	2,975	5,573	6,074	6,560
					(Percent change over previous period)					
Gross domestic product	-7.2	9.6	8.3	13.3	9.1	-7.0	8.0	7.3	7.8	6.5
Industry	-51.2	-10.0	-2.0	6.0	13.6	-5.6	4.1	6.4	5.0	6.5
Agriculture	18.5	10.4	8.3	13.2	3.0	1.0	5.0	3.7	4.0	1.4
Construction	7.0	30.0	15.0	21.2	18.4	-6.3	21.0	15.0	17.0	14.0
Transportation	-15.0	13.0	18.0	18.7	-0.9	-20.5	20.0	15.0	14.0	13.0
Other services	9.0	16.0	11.0	13.5	20.1	-25.0	10.0	12.0	9.0	8.0
					(Share of GDP at constant 1990 prices)					
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100	100	100
Industry	16.9	13.9	12.5	11.7	12.2	12.4	12.0	13.5	13.2	13.2
Agriculture	54.2	54.6	54.6	54.6	51.5	56.0	54.4	37.2	35.9	34.2
Construction	7.6	9.1	9.6	10.3	11.2	11.2	12.6	8.9	9.7	10.3
Transportation	3.0	3.1	3.4	3.5	3.2	2.7	3.0	9.0	9.5	10.1
Other services	18.3	19.4	19.8	19.9	21.9	17.7	18.0	31.4	31.8	32.2

Sources: Ministry of Finance; and Fund staff estimates.

1/ Given the very limited production-side data, these estimates are based mostly on demand-side developments, and should be treated with caution. There are significant discrepancies between data in this table and some production-side data, e.g., for agriculture.

Table 3. Albania: Registered Private Enterprises (still active in 2001)
by Activity and Date of First Registration, 1992-2001

	Legal Status				
	Physical Persons	Private Albanian Company	Joint Venture	Foreign Company	Total
1992					
Activity					Total
Agriculture	44	17	2	...	63
Industry	457	108	18	7	590
Construction	22	79	7	8	116
Service	1,271	50	10	11	1,342
Transport	510	28	12	11	561
Trade	3,200	443	235	81	3,959
Total	5,504	725	284	118	6,631
1993					
Activity					Total
Agriculture	262	47	7	...	316
Industry	905	404	66	50	1,425
Construction	34	321	32	15	402
Service	2,416	149	31	31	2,627
Transport	1,840	59	32	19	1,950
Trade	6,437	1,056	473	242	8,208
Total	11,894	2,036	641	357	14,928
1994					
Activity					Total
Agriculture	504	112	15	2	633
Industry	1,534	783	165	97	2,579
Construction	77	687	57	35	859
Service	4,816	333	57	58	5,264
Transport	4,254	169	54	45	4,522
Trade	12,966	2,154	740	454	16,314
Total	24,151	4,238	1,088	691	30,168
1995					
Activity					Total
Agriculture	544	199	23	6	772
Industry	1,775	1,125	234	124	3,258
Construction	96	970	74	55	1,195
Service	5,749	466	82	94	6,391
Transport	5,332	252	62	51	5,697
Trade	15,507	3,274	957	619	20,357
Total	29,003	6,286	1,432	949	37,670
1996					
Activity					Total
Agriculture	577	238	26	10	851
Industry	2,073	1,491	306	171	4,041
Construction	125	1,217	90	62	1,494
Service	6,940	683	114	134	7,871
Transport	6,171	315	75	55	6,616
Trade	17,608	4,191	1,114	761	25,378
Total	33,494	8,135	1,725	1,193	44,547
1997					
Activity					Total
Agriculture	586	256	28	11	881
Industry	2,241	1,626	355	196	4,418
Construction	130	1,298	98	71	1,597
Service	7,452	784	117	152	8,505
Transport	6,402	335	76	59	6,872
Trade	18,605	4,531	1,179	803	25,118
Total	35,416	8,830	1,853	1,292	47,391
1998					
Activity					Total
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					
Activity					Total
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					
Activity					Total
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					
Activity					Total
Agriculture	554	303	26	7	890
Industry	2,940	1,945	387	223	5,495
Construction	142	1,639	90	83	1,954
Service	9,387	1,164	124	159	10,834
Transport	8,453	474	69	42	9,038
Trade	23,113	5,544	1,097	608	30,362
Total	44,589	11,069	1,793	1,122	58,573

Source: Albanian Institute of Statistics.

Table 4. Albania: Production of Selected Industrial Products in the State Sector, 1992-2001

Product	Unit	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Energy											
Crude oil	000 tons	585	568	535	521	488	360	365	323	314	329
Natural gas	mil m3	102	82	52	28	23	18	17	14	11	10
Gasoline	000 tons	45	46	39	43	37	15	21	20	24	22
Diesel	000 tons	116	148	111	106	95	57	91	65	72	74
Petroleum	000 tons	41	29	29	29	26	11	2	1	2	0
Copper coks	000 tons	72	94	74	69	63	34	58	48	46	45
Electric energy	000 kwh	3,357	3,482	3,904	4,414	5,926	5,184	5,068	5,396	4,737	3,684
Firewood	mil. mst	427	330	35	2	0	...	...	0	...	...
Mining											
Chromium ore	000 tons	322	281	223	243	236	157	150	79	57	17
Rich chromium ore	000 tons	56	82	107	129	114	84	82	65	46	12
Chromium concentrate	000 tons	49	33	11	31	30	22	20	7	3	2
Carbonic ferrochrome	000 tons	22	35	34	43	32	31	30	28	9	0
Copper	000 tons	240	239	178	258	188	25	55	34	0	0
Copper concentrate	000 tons	8	14	9	17	11	0	2	1	0	0
Blister copper	000 tons	2	2	2	3	1	0	2	0	0	0
Lignite	000 tons	216	133	120	81	69	39	49	33	21	1
Coal concentrate	000 tons	37	51	0	0	0	6	6	0	0	0
Manufacturing											
Mineral processing											
Rolled wrougth 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
Chemical											
Phosphate fertertilizer	000 tons	22	9	11	14	0	27	12	9	0	0
Ammonium nitrate	000 tons	9	5	6	0	0	0	0	0	0	0
Sulfuric acid	000 tons	11	6	4	0	0	0	0	0	0	0
Building material											
Cement	000 tons	197	198	240	238	203	100	84	106	180	30
Bricks	mil pieces	90	69	40	38	30	22	20	26	2	0
Tiles	mil pieces	3	3	1	0	0	0	0	0	0	0
Paper	000 tons	1	1	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
Electric lamps	mil pieces	0	0	0	0	0	0	0	0	0	0
Furniture	mil leks	21	390	152	26	...	12	11	3	2	0
Carpet	mil m2	...	25	0	0	0	0	0	0	0	0
Wall carpet	mil m2	...	10	0	0	0	0	0	0	0	0
Textile											
Total clothes	mil ml	6	9	...	1	...	2	2	1	0	0
Total tissues	mil ml	2	1	2	0	...	1	2	0	0	0
Knitwear	mil pieces	3	4	3	0	...	0	0	1	0	0
Shoes	mil pair ...		5	2	1	3	2	2	1	1	0
Non durable consumer goods											
Cigarettes	000 tons	1	1	1	1	5	0	0	1	1	0
Soap	000 tons	2	4	3	2	2	2	...	1	0	0
Foodstuffs											
Bread	000 tons	263	138	32	20	147	87	...	67	0	0
Sugar	000 tons	1	0	0	1	0	0	..	0	0	0
Fish	000 tons	1	0	0	0	...	...	...	...	0	0
Vegetable oil	000 tons	3	6	6	3	4	1	...	3	0	0
Cheese	000 tons	1	1	0	0	4	6	...	7	0	0
Maceroni	000 tons	10	6	4	1	2	2	...	0	0	0
Beer	000 hl	18	5	72	89	88	20	...	602	138	7
Wine	000 hl	12	9	5	11	12	17	...	61	29	0

Source: Institute of Statistics.

Table 5. Albania: Quarterly Changes of Construction Cost Index, 1993-2002

(In percent)

	Share in the index	1993	1994	1995	1996	1997	1998				1999				2000				2001				2002			
		Q4	Q4	Q4	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total index	100.0	4.8	3.4	-1.5	2.5	10.8	8.6	3.4	7.8	1.1	1.1	1.1	0.2	4.6	4.4	0.2	2.2	2.3	2.9	0.8	0.2	-1.0	0.1	0.7		
Direct expenses	73.7	4.5	3.1	-0.9	1.1	14.6	8.1	1.0	7.0	0.1	0.6	1.3	0.0	6.9	4.2	0.3	3.1	3.4	3.4	1.5	-0.3	-1.9	0.1	0.3		
Materials	65.8	2.2	3.3	-1.5	0.3	11.2	7.9	1.3	0.3	0.2	0.2	2.1	0.0	-0.5	4.5	0.1	2.7	3.3	3.5	0.5	-0.4	-2.4	0.1	0.3		
Construction	62.8	2.0	3.0	-1.5	0.2	11.0	8.4	1.3	0.3	0.2	0.2	2.1	0.0	-0.6	4.7	0.1	2.8	3.4	3.5	0.6	-0.3	-2.6	0.1	0.1		
Electricity	1.0	9.3	1.2	-1.1	1.7	7.4	0.4	1.1	0.3	0.4	-0.9	-0.1	0.1	5.8	3.4	-0.3	5.4	-0.2	1.2	0.3	0.1	-0.8	0.0	-0.4		
Hydro-sanitary	2.0	4.8	12.5	-0.4	1.5	18.8	-5.9	2.2	0.4	0.0	2.6	0.1	0.3	-0.5	1.1	0.1	1.4	2.6	3.1	-0.1	-0.6	-0.8	-0.1	0.3		
Basic Salary	4.0	37.7	6.1	4.4	5.9	31.9	8.4	-0.3	40.8	-0.3	1.6	0.2	-0.1	34.0	3.5	1.3	5.2	3.7	3.3	5.3	0.1	0.4	0.3	1.1		
Transport expenses	2.2	14.3	-4.4	-7.1	0.5	36.2	5.3	0.6	0.4	1.1	1.7	0.0	0.0	-4.0	2.0	2.1	-1.5	5.9	2.9	-0.3	1.0	3.9	0.0	0.0		
Machinery expenses	1.8	1.1	-10.5	-4.2	1.4	8.9	15.1	0.5	-0.2	0.3	0.1	0.1	0.0	-1.0	-0.2	0.2	0.0	1.7	0.2	1.3	-0.6	-3.3	0.0	0.0		
Complementary expenses	8.1	4.5	4.6	-0.4	0.9	9.5	4.9	10.2	7.0	6.5	1.8	1.2	0.0	10.8	11.9	-0.1	-7.4	7.4	7.7	-2.2	6.0	1.3	0.0	2.5		
Anticipated profit	12.3	4.5	7.1	2.9	12.6	-6.7	12.4	13.0	6.4	3.7	2.2	-0.1	1.5	17.1	8.6	-0.7	8.5	-6.0	0.1	-0.5	-1.2	2.2	0.0	3.4		
Set up of yard	4.7	4.5	-8.5	-36.5	3.5	-60.3	33.0	36.0	7.6	6.3	7.9	2.4	0.4	-24.7	2.3	0.1	0.3	0.9	-0.3	0.0	7.8	6.1	0.0	0.0		
VAT	1.2	23.7	2.6	2.3	4.8	107.6	8.7	-0.2	32.4	-0.2	1.5	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		

Source: Institute of Statistics.

Table 6. Albania: Consumer Price Subsidies, 1992-2001 1/

(In millions of leks)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Childwear	3	0	0	0	0	0	0	0	0	0
Cereals	296	0	0	0	0	0	0	0	0	0
Meat	38	0	0	0	0	0	0	0	0	0
Flour	0	0	0	0	0	0	0	0	0	0
Fertilizer	44	0	0	0	0	0	0	0	0	0
Other	1,381	2,608	1,942	1,933	1,922	2,080	1,712	2,071	1,515	1,556
Firewood	...	800	338	0	0	0	0	0	0	0
Coal	...	28	8	0	0	0	0	0	0	0
Kerosene	...	225	53	0	0	0	0	0	0	0
Heating	...	56	51	0	0	0	0	0	0	0
Passenger Transport	...	342	357	420	300	167	187	220	210	205
Railway transportation of goods	...	154	150	75	42	413	310	370	360	360
Drinking water for rural areas	...	70	147	142	30	45	129	55	135	70
Water for irrigation	...	400	171	287	120	150	170	180	0	0
Medicine	...	310	329	400	750	0	0	0	0	0
School books	...	152	239	285	280	200	250	263	280	276
Funeral expenses	...	71	99	94	100	135	101	103	160	160
Student treatment enterprise	...	...	...	...	...	300	345	370	370	385
Homeless	...	...	...	230	300	670	220	510	0	100
Total price subsidies	1,762	2,608	1,942	1,933	1,922	2,080	1,712	2,071	1,515	1,556

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 7. Albania: Agricultural Production, 1992-2001 1/

(In millions of leks)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
					(At constant 2000 prices)					
Total gross agricultural production	134,815	149,309	157,504	177,660	181,310	160,753	166,702	170,633	177,713	180,236
Crop production	71,284	80,386	77,401	87,564	91,099	77,817	81,463	81,710	84,371	83,410
Grains	7,056	12,992	11,760	11,340	7,594	10,875	11,063	7,616	9,548	7,902
Maize	4,524	5,104	5,597	6,264	6,206	5,649	5,484	5,974	5,974	5,751
Potatoes	3,160	4,040	3,560	5,360	5,280	5,068	5,800	6,476	6,440	6,548
Vegetables	39,550	40,600	41,300	47,950	54,950	40,061	42,322	42,728	43,400	45,500
Tobacco	4,680	5,070	1,482	2,223	2,457	3,081	2,886	2,847	2,418	1,404
Sunflower seeds	210	140	70	112	105	154	182	189	203	189
Sugarbeets	276	162	360	402	444	305	334	239	252	231
Distic barley	420	280	630	511	224	259	224	203	231	210
Soybean	300	150	20	24	45	30	15	180	90	120
Dried beans	3,475	3,197	2,502	3,475	3,475	2,780	3,155	3,614	3,503	3,072
Fodder	155	558	620	403	394	375	388	409	487	608
Forages	7,478	8,093	9,500	9,500	9,925	9,180	9,610	11,235	11,825	11,875
Fruits and olives	8,747	10,009	10,899	12,629	12,728	13,701	14,448	14,515	15,916	16,662
Apples, pears, peaches, figs	2,652	3,284	3,510	4,040	4,532	4,259	4,095	4,235	5,062	4,976
Citrus	813	838	819	239	189	189	139	158	164	176
Grapes	3,969	4,242	4,620	5,828	6,206	7,088	7,172	7,392	8,337	8,936
Olives	1,313	1,645	1,950	2,522	1,801	2,165	3,042	2,730	2,353	2,574
Livestock	54,784	58,914	69,204	77,467	77,483	69,235	70,791	74,408	77,426	80,164
Meat	27,180	28,860	33,600	34,920	31,620	31,200	31,740	33,300	33,600	34,170
Wool	284	314	323	392	314	284	294	294	333	323
Milk	25,092	27,495	32,931	39,700	42,792	34,834	35,301	37,187	38,868	40,385
Eggs	2,158	2,210	2,280	2,280	2,512	2,696	3,176	3,312	4,240	4,866
Honey	70	35	70	175	245	221	280	315	385	420
					(At constant 1994 prices)					
Total gross agricultural production	71,163	78,667	83,780	94,670	97,095	85,286	88,644	91,496	95,219	96,798
Crop production	37,679	42,306	41,438	46,977	48,991	41,853	43,946	44,825	46,218	45,938
Grains	3,150	5,800	5,250	5,063	3,390	4,855	4,939	3,400	4,263	3,528
Maize	2,652	2,992	3,281	3,672	3,638	3,312	3,215	3,502	3,502	3,371
Potatoes	2,370	3,030	2,670	4,020	3,960	3,801	4,350	4,857	4,830	4,911
Vegetables	19,775	20,300	20,650	23,975	27,475	20,031	21,161	21,364	21,700	22,750
Tobacco	1,920	2,080	608	912	1,008	1,264	1,184	1,168	992	576
Sunflower seeds	105	70	35	56	53	77	91	95	102	95
Sugarbeets	138	81	180	201	222	153	167	120	126	116
Distic barley	210	140	315	256	112	130	112	102	116	105
Soybean	140	70	9	11	21	14	7	84	42	56
Dried beans	1,750	1,610	1,260	1,750	1,750	1,400	1,589	1,820	1,764	1,547
Fodder	85	306	340	221	216	206	212	224	267	333
Forages	5,384	5,827	6,840	6,840	7,146	6,610	6,919	8,089	8,514	8,550
Fruits and olives	3,846	4,447	4,820	5,285	5,217	5,525	5,897	5,879	6,375	6,631
Apples, pears, peaches, figs	1,360	1,684	1,800	2,072	2,324	2,184	2,100	2,172	2,596	2,552
Citrus	645	665	650	190	150	150	110	125	130	140
Grapes	1,134	1,212	1,320	1,665	1,773	2,025	2,049	2,112	2,382	2,553
Olives	707	886	1,050	1,358	970	1,166	1,638	1,470	1,267	1,386
Livestock	29,638	31,914	37,522	42,409	42,887	37,908	38,801	40,792	42,626	44,229
Meat	12,684	13,468	15,680	16,296	14,756	14,560	14,812	15,540	15,680	15,946
Wool	249	272	281	340	272	247	255	255	289	281
Milk	15,300	16,765	20,080	24,208	26,093	21,240	21,525	22,675	23,700	24,625
Eggs	1,349	1,381	1,425	1,425	1,570	1,685	1,985	2,070	2,649	3,041
Honey	56	28	56	140	196	176	224	252	308	336

Sources: Ministry of Agriculture; and Fund staff estimates.

1/ These estimates are based on Ministry of Agriculture data with some items that should properly be classified as inputs (e.g., manure, new trees) excluded from the output figures.

Table 8. Albania: Area Under Cultivation, Production, and Yields of Selected Agricultural Crops, 1992-2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
					(In thousands of hectares)					
Grains	104	155	170	141	125	136	141	109	112	100
Maize	63	73	75	69	66	61	57	55	53	52
Potatoes	9	10	11	12	12	12	11	11	11	11
Vegetables	29	32	30	36	36	30	31	31	33	34
Tobacco	13	13	6	6	7	8	7	7	6	4
Sunflower seeds	9	2	1	1	1	2	2	2	2	2
Sugarbeets	4	2	2	2	2	2	2	1	1	1
Distic barley	4	3	4	3	2	3	2	2	1	1
Soybean	3	1	0	0	0	0	0	1	0	0
Dried beans	21	20	20	22	24	22	21	23	23	19
Fodder	5	15	12	11	11	10	10	10	11	11
Forages	160	162	186	189	147	134	146	158	165	164
					(In thousands of quintals)					
Grains	2,533	4,672	4,230	4,080	2,710	3,884	3,951	2,720	3,410	2,820
Maize	1,561	1,758	1,930	2,160	2,140	1,948	1,891	2,060	2,066	1,983
Potatoes	785	1,010	890	1,340	1,315	1,260	1,450	1,619	1,600	1,637
Vegetables	5,646	5,800	5,900	6,850	7,850	5,500	6,046	6,104	6,350	6,500
Tobacco	125	130	38	57	63	58	74	73	63	36
Sunflower seeds	34	17	10	16	15	22	26	27	29	27
Sugarbeets	465	268	600	670	740	509	557	399	420	385
Distic barley	56	40	90	73	32	37	32	29	23	30
Soybean	20	10	1	2	3	2	1	12	6	8
Dried beans	250	230	180	250	250	200	227	260	252	221
Fodder	47	180	200	130	127	121	125	132	157	196
Forages	29,910	32,370	38,000	38,000	39,700	36,700	38,440	45,000	47,300	47,500
					(Quintals per hectare)					
Grains	24	30	25	29	22	28	28	25	31	28
Maize	25	23	25	30	30	29	33	37	36	36
Potatoes	83	98	81	111	106	110	127	141	140	146
Vegetables	192	179	182	182	197	189	197	195	193	194
Tobacco	10	10	6	9	9	10	11	11	11	10
Sunflower seeds	4	8	8	13	13	15	16	17	15	15
Sugarbeets	129	121	288	329	349	304	305	303	309	289
Distic barley	14	13	24	22	13	15	19	18	15	25
Soybean	5	8	8	12	17	13	14	19	13	18
Dried beans	12	22	8	10	11	8	11	11	9	11
Fodder	9	12	17	12	12	12	13	13	13	14
Forages	187	200	204	263	235	239	264	285	287	289

Sources: Ministry of Agriculture; and Fund staff estimates.

Table 9. Albania: Production and Yields of Selected Fruits, 1992-2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
					(In thousands of trees)					
Apples, pears, peaches, figs	2,867	2,867	4,065	4,061	4,012	4,107	4,009	3,875	4,179	4,294
Citrus	305	305	374	407	361	296	275	266	305	302
Grapes										
Pergola	2,233	2,233	2,867	3,126	3,370	3,665	3,497	3,706	3,856	3,945
Vineyard (in hectares)	6,193	6,193	4,545	4,342	4,345	4,121	4,306	4,380	4,613	4,878
Olives	2,313	2,313	2,646	2,799	3,084	3,209	3,212	3,200	3,256	3,246
					(In thousands of tons)					
Apples, pears, peaches, figs	34	42	45	52	58	55	53	54	65	64
Citrus	13	13	13	4	3	3	2	3	3	3
Grapes	38	40	44	55	59	67	68	70	79	85
Pergola	27	28	28	38	40	45	40	41	46	45
Vineyard	11	12	17	18	19	22	28	29	33	41
Olives	20	25	30	39	28	33	47	42	36	40
					(Yield in kilogram per root)					
Apples, pears, peaches, figs	12	15	11	13	14	13	13	14	16	15
Citrus	42	44	35	9	8	10	8	9	9	9
Grapes										
Pergola	12	13	10	12	12	12	11	11	12	11
Vineyard	2	2	36	40	49	55	66	66	71	83
Olives	9	11	11	14	9	10	15	13	11	12

Sources: Ministry of Agriculture; and Fund staff estimates.

Table 10. Albania: Production and Yields of Selected Livestock, 1992-2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
					(In thousands of units)					
Stock	5,371	6,489	7,317	7,766	7,414	7,703	7,865	8,139	8,446	8,579
Cattle	566	655	820	840	806	771	705	720	728	719
Pigs	90	93	98	100	98	97	83	81	103	106
Sheep	1,232	1,415	1,630	1,736	1,453	1,372	1,395	1,435	1,448	1,448
Goats	858	948	1,100	1,150	895	840	764	795	800	802
Poultry	2,538	3,359	3,662	3,900	4,108	4,566	4,862	5,023	5,291	5,422
Beehives	36	20	27	40	54	57	56	67	76	82
					(In thousands of units)					
Production										
Meat, total (tons, live yield)	91	96	112	116	105	104	106	111	112	114
Cattle	43	44	51	56	59	59	58	61	63	62
Pigs	16	18	20	20	9	10	10	10	10	10
Sheep and goats	30	30	37	37	33	31	33	35	35	37
Poultry	3	3	4	4	4	4	5	5	4	5
Wool (tons)	3	3	3	4	3	3	3	4	3	3
Milk, total (liters)	612	671	803	968	1,044	850	861	908	948	984
Cow milk	486	537	644	791	895	708	722	761	807	840
Sheep milk	55	59	73	82	70	68	72	74	70	72
Goat milk	70	75	83	96	79	74	67	73	71	72
Eggs (million)	270	276	285	285	314	337	397	414	530	608
Honey (tons)	0	0	0	450	705	633	805	906	1,076	1,183
					(Yield per unit)					
Average live weight (kg.)										
Slaughtered cattle	127	117	209	...	...	...	...	...	...	...
Slaughtered pigs	99	92	78	...	...	...	...	...	...	...
Number of calves born per 100 cows	79	79	82	...	...	...	...	...	...	...
Number of calves born per sow	9	9	8	...	...	...	...	...	...	...
Milk (liter per head)										
Cow	...	...	1,647	1,720	1,870	1,750	1,710	1,763	1,801	1,906
Sheep	47	48	49	47	47	50	51	51	49	50
Goat	86	88	92	83	85	89	88	89	89	92
Wool from sheep (kg.)	2	2	2	2	2	1	1	1	2	1
Eggs per chicken	113	113	116	109	108	102	103	103	129	143

Sources: Ministry of Agriculture; and Fund staff estimates.

Table 11. Albania: Consumer Price Index, 1992-2002

(December 1993 = 100)

	Average		End-of-Period	
	Index	Percent change from previous period	Index	Percent change from previous period
1992	49.1	226.0	76.4	236.6
Q1	28.4	46.1	31.7	39.7
Q2	37.0	30.5	39.4	24.2
Q3	56.2	51.6	65.4	66.1
Q4	74.9	33.3	76.4	16.8
1993	90.9	85.0	100.0	30.9
Q1	84.2	12.4	85.8	12.4
Q2	85.5	1.6	85.4	-0.5
Q3	94.2	10.2	97.2	13.9
Q4	99.6	5.7	100.0	2.8
1994	111.4	22.6	115.8	15.8
Q1	103.4	3.8	104.4	4.4
Q2	115.7	12.0	117.7	12.7
Q3	112.2	-3.0	111.6	-5.2
Q4	114.1	1.6	115.8	3.8
1995	120.0	7.8	122.8	6.0
Q1	119.8	5.0	120.9	4.4
Q2	121.8	1.7	120.2	-0.7
Q3	117.2	-3.8	118.4	-1.5
Q4	121.3	3.5	122.8	3.7
1996	143.7	12.7	144.2	17.4
Q1	127.4	5.0	129.4	5.4
Q2	131.9	3.5	131.7	1.7
Q3	138.3	4.8	141.6	7.5
Q4	143.7	4.0	144.2	1.8
1997	180.2	33.2	204.8	42.1
Q1	158.9	10.6	176.0	22.1
Q2	177.6	11.8	184.5	4.9
Q3	184.0	3.6	186.4	1.0
Q4	200.3	8.8	204.8	9.9
1998	217.4	20.6	222.6	8.7
Q1	215.3	7.5	218.2	6.6
Q2	220.2	2.3	217.5	-0.3
Q3	214.7	-2.5	217.1	-0.2
Q4	219.4	2.2	222.6	2.5
1999	218.3	0.4	220.3	-1.0
Q1	223.5	1.8	222.6	0.0
Q2	220.0	-1.6	216.2	-2.9
Q3	213.0	-3.2	213.0	-1.5
Q4	216.5	1.6	220.3	3.4
2000	218.3	0.0	229.6	4.2
Q1	219.9	1.6	217.9	-1.1
Q2	218.9	-0.5	216.3	-0.7
Q3	212.3	-3.0	215.0	-0.6
Q4	222.2	4.7	229.6	6.8
2001	227.4	4.1	228.3	-0.5
Q1	224.2	0.9	224.8	-2.1
Q2	225.0	0.4	225.9	0.5
Q3	222.5	-1.1	221.7	-1.9
Q4	237.7	6.8	228.3	3.0
2002 1/				
Q1	101.4	5.5	101.5	1.5
Q2	99.8	-1.6	98.2	-3.2
Q3	98.0	-1.8	98.7	0.4
Q4	100.0	2.0	102.1	3.5

Sources: Institute of Statistics; and Fund staff estimates.

1/ New weights were introduced in Q1 2002, with December 2001 = 100

Table 12. Albania: Population, Labor Force, and Employment, 1990-2001

(In thousands, annual averages)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total population	3,293	3,260	3,190	3,167	3,202	3,249	3,283	3,324	3,354	3,373	3,401	3087
Of which:												
Male	1,709	1,682	1,617	1,606	1,623	1,647	1,624	1,629	1,650	1,662	1,677	1,540
Female	1,584	1,578	1,573	1,562	1,579	1,602	1,659	1,625	1,704	1,711	1,724	1,547
Of which:												
Nonworking age population 1/	1,389	1,389	1,396	1,406	1,418	1,431	1,433	1,463	1,467	1,462	1,462	...
Working age population 1/	1,904	1,871	1,794	1,762	1,784	1,818	1,850	1,861	1,888	1,911	1,939	...
Male	1,000	1,003	962	955	956	974	981	928	945	957	971	...
Female	904	868	832	806	828	843	869	933	943	954	968	...
Inactive and dependent population 2/	319	187	179	141	143	145	148	...	568	...	...	...
Labor force	1,585	1,654	1,614	1,621	1,642	1,672	1,702	1,301	1,320	1,305	1,282	1,244
Of which:												
Male	812	877	853	869	869	885	891	794	803	791	779	730
Female	773	777	762	752	772	787	811	507	517	514	503	514
Of which:												
Emigrant workers 3/	0	110	200	232	295	295	428	...	...	...	...	...
Domestic labor force	1,585	1,544	1,414	1,389	1,347	1,377	1,274	1,301	1,320	1,305	1,283	1,244
Domestic employment	1,434	1,434	1,020	987	1,083	1,145	1,116	1,107	1,085	1,065	1,068	1,063
Of which:												
State sector 4/	905	917	640	408	327	295	239	226	213	201	191	189
Agriculture sector 5/	529	487	318	486	515	584	761	761	761	761	761	761
Private sector	0	30	62	92	241	265	116	120	111	103	116	113
Total unemployment	151	140	394	301	262	171	158	194	235	240	215	181
Of which:												
Receiving benefits	33	55	295	107	51	46	38	31	25	23	22	14
Unemployment rate (in percent) 6/	9.5	8.9	27.9	21.7	19.5	12.4	12.4	14.9	17.8	18.4	16.8	14.5
Of which:												
Receiving benefits (in percent)	2.1	3.6	20.8	7.7	3.8	3.3	3.0	2.4	1.9	1.8	1.7	1.1

Sources: Institute of Statistics; 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 13. Albania: Employment and Wages in Budgetary Institutions, 1992-2001

(End of period)

	Employment	Monthly wage		Price	% change	Nom.	% change	Real wage index	
	In thousands	In leks	Percent change			Indcx		Index Dec. 95=100	Percent change
1992	207.1	2,879	...	76.4	236.6	32.9	...	52.9	...
1993	185.4	4,738	64.5	100.0	30.9	54.2	64.5	66.5	25.7
1994	167.8	6,962	46.9	115.8	15.8	79.6	46.9	84.4	26.9
1995	156.0	8,745	25.6	122.8	6.0	100.0	25.6	100.0	18.5
1996	151.0	10,491	20.0	144.2	17.4	120.0	20.0	102.2	2.2
1997	150.0	10,491	0.0	204.8	42.1	120.0	0.0	71.9	-29.6
1998	135.0	13,234	26.1	222.59	8.7	151.3	26.2	83.5	16.1
1999	128.4	13,195	-0.3	220.3	-1.0	150.9	-0.3	84.1	0.7
2000	122.1	15,078	14.3	229.56	4.2	172.4	14.3	92.2	9.7
2001	120.1	17,251	14.4	237.66	3.5	197.3	14.4	102.0	10.6

Sources: Albanian authorities; and Fund staff estimates.

Table 14. Albania: Fiscal Accounts, 1993-2001

(In millions of leks)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
I. Total revenue	31,170	43,849	53,715	51,341	57,594	93,515	107,809	120,588	135,484
Counterpart sales revenue	4,476	4,194	2,468	266	256	137	155	0	0
Tax revenue	22,736	35,965	39,679	42,884	46,298	72,572	83,530	104,098	114,294
Turnover tax / VAT	4,991	4,959	5,587	9,076	15,655	28,771	29,794	38,107	41,149
Income tax	4,582	4,140	3,979	4,787	3,592	6,400	10,331	14,346	18,521
Personal income tax 1/	0	571	633	637	814	1,167	3,110	4,590	6,300
Small business tax	590	824	870	755	385	910	1,188	1,641	1,974
Profit tax	3,992	2,745	2,477	3,395	2,393	4,323	6,033	8,115	10,248
Social security contributions	3,208	6,384	9,245	12,688	13,143	15,828	18,157	20,053	22,506
Property tax	0	332	485	376	293	304	181	190	2
Customs duties	3,642	6,260	6,231	7,708	8,960	12,615	11,450	13,548	12,795
Excise tax	4,348	9,495	10,404	4,947	2,168	4,910	6,961	9,153	9,544
Other taxes	1,965	4,396	3,748	3,302	2,487	3,744	6,656	8,702	9,777
Nontax revenue	3,957	3,690	11,568	8,191	11,040	20,806	24,124	16,490	21,190
Profit transfer from Bank of Alban	1,250	400	5,926	3,859	8,067	16,400	17,591	10,225	10,912
Income from budgetary institution:	1,105	2,054	3,965	2,735	1,834	3,326	5,352	4,841	5,569
Other	1,602	1,236	1,677	1,597	1,139	1,080	1,181	1,424	4,709
II. Current expenditure	38,582	52,125	58,026	72,493	86,870	117,604	131,545	134,361	142,653
Personnel	10,120	15,442	18,438	22,980	25,544	28,336	31,184	33,240	41,208
Wages	8,586	12,045	14,692	17,918	20,377	22,048	24,208	25,820	32,940
Social security contributions	1,534	3,397	3,746	5,062	5,167	6,288	6,976	7,420	8,268
Interest	2,941	4,405	4,984	8,571	18,779	36,086	34,938	29,572	23,620
Operations and maintenance	7,589	10,585	12,231	12,482	13,565	18,537	19,499	19,294	15,741
Subsidies	2,443	2,225	1,304	1,110	1,551	2,308	2,706	5,247	7,778
Social security	7,302	10,821	13,999	20,342	20,133	24,329	34,437	37,402	43,502
Unemployment insurance	4,756	2,367	2,504	2,163	2,204	1,621	1,450	1,919	1,881
Social assistance	1,390	4,156	3,698	3,795	4,274	6,168	6,360	6,661	6,938
Ex-political prisoners (restitution)	395	713	500	500	320	0	...	...	...
Subsidies for homeless	0	0	0	300	500	220	510	...	100
Bread/Energy Compensation	494	862	230	...	...	...	...	...	0
Enterprise restructuring	1,152	549	139	250	...	...	...	...	0
Interest cost of bank restructuring	...	...	0	0	0	0	461	1,025	1,886
III. Capital expenditure	11,853	16,134	19,108	12,752	13,751	23,789	34,127	35,062	43,397
Investment	11,853	16,134	19,108	12,752	13,751	23,789	34,127	35,062	43,397
Of which: Foreign financed	6,722	9,661	7,893	3,792	7,231	13,199	17,158	16,327	19,442
IV. Total expenditure (II+III)	50,435	68,259	77,134	85,245	100,621	141,393	165,672	169,423	186,050
V. Fiscal balance, cash	-19,265	-24,410	-23,419	-33,904	-43,027	-47,878	-57,863	-48,835	-50,566
VI. Financing requirement	19,265	24,410	23,419	33,904	43,027	47,878	57,863	48,835	50,566
VII. Domestic financing	12,543	14,270	14,877	30,834	36,884	29,666	27,389	26,155	28,265
Privatization revenues	916	2,200	309	546	910	133	906	8,975	12,686
Other	11,627	12,070	14,568	30,288	35,974	29,533	26,483	17,180	15,580
VIII External financing	6,722	10,140	8,542	3,070	6,143	18,212	30,474	22,680	22,300
Foreign loans and grants	6,722	10,277	8,585	3,792	7,231	19,623	31,474	23,679	23,118
Development (gross)	6,722	9,661	7,893	3,792	7,231	13,199	17,158	16,327	19,442
Budget Support and others	0	616	692	0	0	6,424	14,316	7,352	3,677
minus: amortization	0	137	43	722	1,088	1,411	1,000	999	818
IX. Arrears	160	-1,121	-298	0	...	...	...	...	...
X. Overall fiscal balance, commitment basi	-19,425	-23,290	-23,121	-33,904	-43,027	-47,878	-57,863	-48,835	-50,566

Sources: Ministry of Finance; and Fund staff estimates.

1/ Small amounts collected in 1992 and 1993 are included under the small business tax.

Table 15. Albania: Central Government Expenditure Shares, 1993-2001

	1993	1994	1995	1996	1997	1998	1999	2000	2001
				(In percent of total expenditure)					
Current expenditure	77.8	89.6	75.2	85.0	86.3	83.2	77.4	79.3	76.7
Personnel	19.4	23.8	23.9	27.0	25.4	20.0	18.7	20.7	22.1
Wages	16.2	16.1	19.0	21.0	20.3	15.6	14.4	16.2	17.7
Social security contributions	3.2	7.7	4.9	5.9	5.1	4.4	4.3	4.5	4.4
Interest	7.1	9.2	6.5	10.1	18.7	25.5	21.1	17.5	12.7
Operational and maintenance	14.9	18.9	15.9	14.6	13.5	13.1	14.4	13.7	8.5
Subsidies	5.1	3.5	1.7	1.3	1.5	1.6	1.2	3.2	4.2
Social security	14.4	17.5	18.1	23.9	20.0	17.2	16.5	18.5	23.4
Unemployment insurance	8.3	3.6	3.2	2.5	2.2	1.1	0.9	1.3	1.0
Social assistance	4.3	6.1	4.8	4.5	4.2	4.4	4.0	3.8	3.7
Ex-political prisoners (restitution)	0.4	1.2	0.6	0.6	0.3	0.0	0.0	0.0	0.0
Subsidies for homesless	0.0	0.0	0.0	0.4	0.5	0.2	0.3	0.0	0.1
Interest cost of bank restructuring	...	...	0.0	0.0	0.0	0.0	0.3	0.6	1.0
Capital expenditure	22.2	23.6	24.8	15.0	13.7	16.8	22.6	20.7	23.3
Of which: Foreign financed	11.0	14.2	10.2	4.4	7.2	9.3	15.3	9.6	10.4
				(In percent of GDP)					
Current expenditure	31.5	29.6	25.8	25.8	25.4	25.5	25.3	24.9	24.2
Personnel	7.9	7.9	8.2	8.2	7.5	6.2	6.1	6.5	7.0
Wages	6.6	5.3	6.5	6.4	6.0	4.8	4.7	5.1	5.6
Social security contributions	1.3	2.6	1.7	1.8	1.5	1.4	1.4	1.4	1.4
Interest	2.9	3.0	2.2	3.1	5.5	7.8	6.9	5.5	4.0
Operational and maintenance	6.0	6.2	5.4	4.4	4.0	4.0	4.7	4.3	2.7
Subsidies	2.0	1.2	0.6	0.4	0.5	0.5	0.4	1.0	1.3
Social security	5.8	5.8	6.2	7.2	5.9	5.3	5.4	5.8	7.4
Unemployment insurance	3.3	1.2	1.1	0.8	0.6	0.4	0.3	0.4	0.3
Social assistance	1.7	2.0	1.6	1.4	1.3	1.3	1.3	1.2	1.2
Ex-political prisoners (restitution)	0.0	0.0	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Subsidies for homeless	0.0	0.0	0.0	0.4	0.5	0.2	0.1	0.0	0.0
Interest cost of bank resturcturing	...	...	0.0	0.0	0.0	0.0	0.1	0.2	0.3
Capital expenditure	9.5	8.6	8.5	4.5	4.0	5.2	7.4	6.5	7.4
Of which: Foreign financed	5.4	5.1	3.5	1.3	2.1	2.9	5.0	3.0	3.3
Total expenditure (II + III)	40.2	36.3	34.3	30.3	29.4	30.7	32.7	31.4	31.5
Memorandum item:									
Expenditure on defense affairs and services	3.2	2.5	2.1	1.7	1.3	1.1	1.2	1.0	1.1

Sources: Ministry of Finance; and Fund staff estimates.

Table 16. Albania: Tax Revenue Shares, 1993-2001

	1993	1994	1995	1996	1997	1998	1999	2000	2001
				(In percent of total tax revenue)					
Tax Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Turnover tax / VAT	21.3	13.8	14.1	21.2	33.8	39.6	35.5	36.8	36.0
Income tax	19.8	11.5	10.0	11.2	7.8	8.8	12.0	14.0	16.2
Personal income tax 1/	0.3	1.6	1.6	1.5	1.8	1.6	3.6	4.7	5.5
Small business tax	2.5	2.3	2.2	1.8	0.8	1.3	1.2	1.6	1.7
Enterprise profits tax	17.0	7.6	6.2	7.9	5.2	6.0	7.2	7.8	9.0
Social security contributions	16.4	17.8	23.3	29.6	28.4	21.8	21.7	19.2	19.7
Property tax	0.0	0.9	1.2	0.9	0.6	0.4	0.0	0.0	0.0
Customs duties	15.5	17.4	15.7	18.0	19.4	17.4	13.9	13.0	11.2
Excise tax	18.5	26.4	26.2	11.5	4.7	6.8	8.4	8.8	8.3
Other taxes	8.4	12.2	9.4	7.7	5.4	5.2	8.4	8.3	8.6
				(In percent of GDP)					
Tax Revenue	18.7	19.4	17.7	15.3	13.5	15.8	16.6	19.3	19.4
Turnover tax / VAT	4.0	2.7	2.5	3.2	4.6	6.2	5.9	7.1	7.0
Income tax	3.7	2.2	1.8	1.7	1.1	1.4	2.0	2.7	3.1
Personal income tax 1/	0.1	0.3	0.3	0.2	0.2	0.3	0.6	0.9	1.1
Small business tax	0.5	0.4	0.4	0.3	0.1	0.2	0.2	0.3	0.3
Enterprise profits tax	3.2	1.5	1.1	1.2	0.7	0.9	1.2	1.5	1.7
Social security contributions	3.1	3.5	4.1	4.5	3.8	3.4	3.6	3.7	3.8
Property tax	0.0	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Customs duties	2.9	3.4	2.8	2.7	2.6	2.7	2.3	2.5	2.2
Excise tax	3.5	5.1	4.6	1.8	0.6	1.1	1.4	1.7	1.6
Other taxes	1.6	2.4	1.7	1.2	0.7	0.8	1.4	1.6	1.7

Sources: Ministry of Finance; and Fund staff estimates.

1/ Small amounts collected in 1992 and 1993 are included under the small business tax.

Table 17. Albania: Exchane Rate, 1992-2002
(In leks per U.S. dollar)

	1992		1993		1994		1995		1996		1997		1998		1999		2000		2001		2002	
	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	Period Average	End of Period	Period Average	End of Period
Jan.	58.87	59.90	108.60	111.00	102.47	100.69	95.15	94.26	95.50	97.19	111.19	128.08	152.64	152.89	139.93	139.60	136.62	139.67	141.74	142.43	140.18	142.68
Feb.	74.50	78.57	112.25	112.00	103.03	101.50	93.76	92.69	98.64	97.82	129.60	144.13	157.11	158.51	140.48	141.10	139.52	139.97	142.84	143.25	141.57	140.75
Mar.	82.24	83.10	112.13	111.70	102.47	100.52	93.28	93.40	99.72	100.52	145.10	148.50	160.23	160.17	142.33	147.70	140.81	141.05	144.33	148.86	141.96	143.81
Apr.	83.75	84.59	109.86	107.80	101.95	100.64	93.23	92.65	103.59	104.64	147.90	148.33	159.89	158.23	144.72	144.15	142.44	144.82	145.48	145.01	144.06	144.87
May	83.49	83.00	107.01	106.00	100.04	98.85	92.56	92.67	112.33	109.35	160.71	175.10	157.01	154.21	141.42	139.95	147.37	144.11	146.53	149.04	144.91	146.08
Jun.	80.67	76.98	107.03	107.60	96.76	93.26	92.18	91.72	110.57	111.71	180.46	178.74	154.05	152.75	137.40	136.88	140.75	139.62	148.55	148.58	142.93	139.75
Jul.	112.60	77.02	106.05	104.30	91.37	90.43	90.60	90.32	111.06	111.21	172.20	145.17	150.46	148.16	135.55	135.09	140.60	141.48	147.85	145.39	138.28	138.16
Aug.	100.81	77.38	102.38	101.90	86.92	86.60	91.57	92.75	108.76	108.03	159.53	155.69	149.36	149.92	132.87	135.70	143.58	147.01	143.25	142.93	138.06	140.10
Sep.	94.74	81.99	100.94	100.40	84.64	84.72	94.43	93.32	108.49	107.79	148.99	147.40	148.62	146.16	135.36	134.10	148.38	146.95	142.67	141.65	139.21	138.89
Oct.	96.17	90.28	99.44	99.80	87.25	88.72	92.21	91.35	106.49	104.91	147.44	143.71	142.67	141.09	132.53	133.93	149.00	149.95	141.39	140.85	138.59	138.10
Nov.	97.19	96.53	100.23	101.00	92.20	94.63	92.42	92.16	99.65	100.41	143.24	144.58	141.90	141.21	134.39	135.48	149.35	149.36	140.16	138.81		
Dec.	98.88	98.70	100.72	98.68	95.22	95.39	94.43	94.24	102.30	103.07	149.01	149.14	140.80	140.58	135.31	135.20	146.08	142.64	137.04	136.55		
Year	88.66	98.70	105.55	98.68	95.36	95.39	92.99	94.24	104.76	103.07	149.61	149.14	151.23	140.58	137.69	135.20	143.71	142.64	143.49	136.55		

Sources: Bank of Albania; and Fund staff calculations.

Table 18. Albania: Deposit Interest Rate Structure, 1996-2002 1/

(Percent per annum)

From:	1-Apr-96	24-Apr-96	24-Jun-96	21-Aug-96	2-Feb-97	5-Mar-97	26-May-97	1-Jul-97	18-Sep-97	13-Nov-97	24-Nov-97	3-Dec-97
To:	23-Apr-96	24-Jun-96	21-Aug-96	1-Feb-97	4-Mar-97	25-May-97	30-Jun-97	17-Sep-97	12-Nov-97	23-Nov-97	3-Dec-97	25-May-98
Minimum deposit rates: 2/												
12-month time deposits	15.0	16.0	17.0	19.0	22.0	28.5	28.5	28.5	28.5	28.5	28.5	27.0
6-month time deposits	14.0	15.0	16.0	18.5	21.0	28.0	28.0	28.0	28.0	28.0	28.0	26.0
3-month time deposits	12.5	15.0	16.0	18.5	20.5	27.0	34.0	37.0	35.0	32.0	30.0	26.0

From:	25-May-98	19-Jun-98	24-Aug-98	22-Oct-98	12-Nov-98	17-Feb-99	27-May-99	15-Jun-99	7-Jul-99	14-Sep-99	3-Nov-99	19-Jan-00
To:	19-Jun-98	24-Aug-98	22-Oct-98	12-Nov-98	17-Feb-99	27-May-99	15-Jun-99	7-Jul-99	14-Sep-99	3-Nov-99	10-Jan-00	29-Mar-00
Minimum deposit rates: 2/												
12-month time deposits	24.0	21.0	20.0	18.0	16.5	15.0	14.0	13.0	11.0	10.0	9.0	8.5
6-month time deposits	24.0	22.0	20.0	18.0	16.5	15.5	14.5	13.5	11.5	10.5	9.3	8.3
3-month time deposits	24.0	22.0	20.0	18.0	16.5	15.5	14.5	13.5	11.5	10.5	9.3	8.0

From:	1-Jan-00	1-Feb-00	29-Mar-00	1-Mar-00	1-Apr-00	17-May-00	1-May-00	7-Jun-00	1-Jul-00	1-Aug-00	1-Sep-00	1-Oct-00	1-Nov-00	1-Dec-00
To:	31-Jan-00	28-Feb-00	17-May-00	31-Mar-00	30-Apr-00	7-Jun-00	31-May-00	30-Jun-00	31-Jul-00	31-Aug-00	30-Sep-00	31-Oct-00	30-Nov-00	31-Dec-00
Minimum deposit rates: 2/														
12-month time deposits			8.0			8.0		7.8	7.8	...	...	...	...	...
6-month time deposits			7.5			...		...	...	...	...	...	...	...
3-month time deposits			7.0			7.0		6.5	6.5	6.5	6.5	...	...	...
Actual average deposit rates 3/														
12-month time deposits	8.9	8.6		8.6	8.6		8.6	8.3	7.8	7.8	8.2	8.1	7.8	7.7
6-month time deposits	9.5	8.9		8.8	8.9		8.8	8.2	8.2	8.2	8.2	7.9	7.8	7.5
3-month time deposits	9.0	8.2		8.1	8.1		8.1	7.8	7.4	7.4	7.3	7.2	6.9	6.9

From:	1-Jan-01	1-Feb-01	1-Mar-01	1-Apr-01	1-May-01	1-Jun-01	1-Jul-01	1-Aug-01	1-Sep-01	1-Oct-01	1-Nov-01	1-Dec-01
To:	31-Jan-01	28-Feb-01	31-Mar-01	30-Apr-01	31-May-01	30-Jun-01	31-Jul-01	31-Aug-01	30-Sep-01	31-Oct-01	30-Nov-01	31-Dec-01
Actual average deposit rates												
12-month time deposits	7.73	7.79	7.77	7.68	7.72	7.68	7.69	7.71	7.71	7.72	7.74	7.76
6-month time deposits	7.52	7.61	7.53	7.41	7.41	7.23	7.24	7.33	7.26	7.28	7.29	7.37
3-month time deposits	6.91	6.84	6.90	6.87	6.88	6.87	6.87	6.85	6.88	6.88	6.91	6.93

From:	1-Jan-02	1-Feb-02	1-Mar-02	1-Apr-02	1-May-02	1-Jun-01	1-Jul-02	1-Aug-02	1-Sep-02	1-Oct-02	1-Nov-02	1-Dec-02
To:	31-Jan-02	28-Feb-02	31-Mar-02	30-Apr-02	31-May-02	30-Jun-02	31-Jul-02	31-Aug-02	30-Sep-02	31-Oct-02	30-Nov-02	31-Dec-02
Actual average deposit rates												
12-month time deposits	7.75	7.75	7.75	7.76	8.64	8.63	8.74					
6-month time deposits	7.31	7.33	7.39	7.39	7.78	7.98	8.21					
3-month time deposits	6.93	6.94	6.91	6.97	7.28	7.69	7.96					

Source: Bank of Albania

1/ For deposits in leks; interest rates on foreign currency deposits are set in line with rates in major European countries.

2/ From April 1, 1996, the BOA set the minimum deposit rates, until these were phased out during 2000.

3/ Average deposit rates are calculated as a simple arithmetic average.

Table 19. Albania: Monetary Survey, 1993-2002
(In billions of lek)

	1993	1994	1995	1996	1997	1998	1999				2000				2001				2002		
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Stocks, end-period																					
Broad money	50.4	70.8	107.4	154.6	198.5	239.5	250.5	264.4	279.9	292.9	295.4	299.8	311.7	328.1	337.9	347.0	362.5	393.4	392.4	395.4	407.4
Currency	18.0	27.6	41.9	47.8	72.7	68.3	65.0	72.0	74.5	81.3	83.4	85.6	92.0	99.2	94.8	101.2	106.3	119.1	124.7	132.7	130.7
Deposits	32.4	43.1	65.5	106.7	125.8	171.2	185.5	192.4	200.3	211.5	212.0	214.3	219.8	228.9	243.2	245.8	256.3	274.3	267.8	262.7	276.6
Lek deposits	22.1	29.8	45.5	72.8	89.5	130.9	140.6	144.3	146.9	158.3	155.2	157.2	156.7	165.3	170.6	173.4	177.8	186.2	181.6	178.9	185.2
Forex deposits	10.2	15.3	20.1	33.9	36.3	40.3	44.9	48.1	53.5	53.2	56.7	57.1	63.0	63.6	72.5	72.4	78.4	88.1	86.2	83.7	91.4
Net foreign assets	-28.9	-21.5	35.5	54.4	68.3	83.0	88.0	94.0	101.1	100.0	98.7	102.4	121.8	130.4	146.7	147.2	153.6	158.6	159.2	157.8	165.6
Bank of Albania	-36.9	-36.6	13.1	20.2	31.4	35.9	38.7	42.6	46.7	46.9	47.0	52.5	63.6	71.8	79.9	82.3	84.7	86.0	92.1	94.5	96.8
Commercial banks	8.1	15.1	22.3	34.2	36.9	47.1	49.3	51.4	54.4	53.1	51.7	49.9	58.2	58.6	66.7	64.9	69.0	72.6	67.1	63.4	68.8
Net domestic assets	79.2	92.3	72.0	100.1	130.3	156.5	162.5	170.4	173.8	192.5	196.4	197.2	189.7	197.3	191.3	199.8	208.8	234.9	233.2	237.5	241.8
Claims on central government (net)	73.3	87.6	74.0	111.8	147.0	175.5	179.1	182.5	187.2	201.2	202.2	207.2	207.6	215.3	216.0	212.3	217.2	231.0	233.5	235.2	236.7
Claims on state enterprises and farms	2.4	2.5	3.1	3.4	2.9	2.8	2.2	1.9	2.0	1.7	1.6	1.6	1.6	1.1	0.6	0.7	0.6	0.5	0.6	0.1	0.1
Claims on the private sector	4.5	7.2	8.3	10.9	13.0	14.9	16.4	16.3	16.6	16.8	18.4	19.7	22.2	22.2	23.2	25.3	21.9	27.4	29.0	33.2	35.5
Other items (net)	-1.0	-5.0	-13.5	-25.9	-32.5	-36.7	-35.2	-30.3	-32.0	-27.3	-25.8	-31.3	-41.7	-41.3	-48.6	-38.5	-30.8	-24.0	-29.9	30.9	-30.5
Memorandum items:																					
Contribution to cumulative growth of broad money during the year																					
Broad money	75.0	40.6	5.1	43.8	28.5	20.6	4.6	10.4	16.9	22.3	0.9	2.4	6.4	12.0	3.0	5.8	10.5	19.9	-0.2	0.5	3.6
NFA 1/	15.1	14.6	1.9	17.7	9.0	7.4	2.1	4.6	7.5	7.1	-0.4	0.8	7.4	10.4	5.0	5.1	7.1	8.6	0.2	-0.2	1.8
NDA 1/	59.9	25.9	3.2	26.2	19.5	13.2	2.5	5.8	7.2	15.0	1.3	1.6	-0.9	1.7	-1.8	0.8	3.5	11.4	-0.4	0.7	1.8
Claims on central government (net)	...	28.3	7.1	35.1	22.6	14.4	1.5	2.9	4.9	10.7	0.3	2.0	2.2	4.8	0.2	-0.9	0.6	4.8	0.7	1.1	1.5
Claims on state enterprises and farms	...	0.1	0.0	0.3	-0.3	0.0	-0.3	-0.4	-0.3	-0.5	0.0	0.0	0.0	-0.2	-0.1	-0.1	-0.1	-0.2	0.0	-0.1	-0.1
Claims on the private sector	...	5.4	0.5	2.4	1.3	1.0	0.6	0.6	0.7	0.8	0.5	1.0	1.8	1.8	0.3	0.9	-0.1	1.6	0.4	1.5	2.1
Other items (net) 1/	...	-7.9	-4.4	-11.6	-4.1	-2.1	0.6	2.7	2.0	3.9	0.5	-1.4	-4.9	-4.8	-2.2	0.8	3.2	5.3	-1.5	-1.7	-1.7
12-month percent change																					
Broad money	75.0	40.6	51.4	40.0	28.5	20.6	23.3	24.5	24.2	22.3	17.9	13.4	11.4	12.0	14.4	15.7	16.3	19.9	16.1	14.0	12.4
Of which:																					
NFA 1/	15.1	14.6	37.2	17.7	9.0	21.6	24.5	28.2	23.5	20.4	12.2	8.9	20.5	30.4	48.6	43.7	26.1	21.6	8.6	7.2	7.8
Claims on government	...	28.3	26.0	35.1	22.6	19.4	22.1	18.1	12.8	14.6	12.9	13.5	10.9	7.0	6.8	2.5	4.6	7.3	8.1	10.8	9.0
Claims on state enterprises and farms	...	1.7	18.2	14.7	-15.6	-1.7	-24.6	-31.8	-29.3	-41.0	-27.0	-17.3	-17.7	-37.0	-61.0	-53.8	-64.0	-48.0	-11.2	-87.2	-89.4
Claims on the private sector	...	61.4	20.1	27.1	19.0	14.7	21.5	15.6	14.0	13.3	12.2	21.1	33.5	31.8	26.3	28.0	-1.2	23.4	24.7	31.2	62.3

Sources: Bank of Albania; and Fund staff estimates.

1/ Reflects the one-off adjustment to the monetary authorities' accounts following the commercial bank debt deal of September 1995; NFA was raised and NDA decreased by equivalent amounts.

Table 20. Albania: Balance Sheet of the Bank of Albania, 1993-2002

(In billion of lek)

	1993	1994	1995	1996	1997	1998	1999				2000				2001				2002			
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Stocks, end period																						
Reserve money	30.4	42.1	53.9	61.4	90.9	89.9	87.7	94.3	98.7	109.3	108.8	111.2	124.2	128.8	125.3	135.1	135.7	152.1	159.6	162.8	161.0	
Currency	18.3	28.4	42.7	50.3	74.1	69.6	67.1	74.6	76.6	82.9	86.4	88.5	95.3	101.4	98.0	104.4	109.2	121.3	129.3	135.5	134.2	
Currency outside banks	18.0	27.6	41.9	47.8	72.7	68.3	65.0	72.0	74.5	81.3	83.4	85.6	92.0	99.2	94.8	101.2	106.2	119.1	124.7	132.7	130.7	
Commercial bank cash in vaults	0.3	0.8	0.8	2.5	1.4	1.1	2.1	2.6	2.1	1.6	3.0	2.9	3.3	2.2	3.2	3.3	2.9	2.3	4.6	2.8	3.5	
Deposit money banks deposits	12.1	13.6	11.2	11.1	16.8	20.3	20.6	19.7	22.0	26.4	22.4	22.7	28.9	27.4	27.3	30.6	26.6	30.8	30.3	27.2	26.8	
Required reserves	3.5	4.2	5.7	9.2	12.0	17.0	18.6	4.5	6.1	5.8	6.1	6.2	6.6	6.7	7.4	7.6	7.7	7.9	9.3	8.5	8.9	
Excess reserves	9.6	9.4	5.5	1.9	4.8	3.3	2.0	15.2	15.9	20.6	16.3	16.5	22.3	20.7	19.9	23.1	18.9	22.9	21.0	18.8	17.8	
Net foreign assets	-36.9	-36.6	13.1	20.2	31.3	35.9	38.8	42.6	46.7	47.0	47.0	52.5	63.6	71.8	79.9	82.3	84.7	86.0	92.1	94.5	96.8	
Foreign assets	17.6	22.6	46.8	57.0	85.2	91.0	96.3	65.1	71.4	71.1	73.1	73.3	84.7	92.3	100.8	102.3	105.1	104.9	111.6	115.2	116.9	
Foreign liabilities	54.5	59.3	33.6	36.8	53.9	55.1	57.5	22.5	24.7	24.1	26.1	20.8	21.1	20.5	20.9	20.0	20.4	18.9	19.5	20.8	20.2	
Net domestic assets	67.3	78.7	40.8	41.2	59.6	54.0	48.9	51.7	52.0	62.3	61.8	58.7	60.6	57.0	45.4	52.8	51.0	66.2	67.5	68.3	64.2	
Net credit to government	22.4	34.7	39.3	44.9	70.4	67.5	61.9	58.8	63.0	65.9	67.9	67.0	73.7	72.4	75.7	70.9	64.6	70.0	71.7	73.5	68.4	
Claims on deposit money banks 1/	3.0	3.4	3.3	3.4	7.4	4.6	3.2	6.0	2.6	5.9	4.2	6.6	4.4	1.3	-6.6	-1.9	1.1	6.7	10.5	13.3	11.4	
Other items (net)	41.9	40.5	-1.9	-7.1	-18.3	-18.1	-16.1	-13.1	-13.6	-9.5	-10.3	-14.9	-17.5	-16.8	-23.8	-16.2	-14.6	-10.6	-14.8	-18.5	-15.6	
Memorandum items:																						
Contribution to cummulative growth of reserve money during the year																						
Reserve money	109.9	38.5	28.1	14.0	48.1	-1.2	-2.4	4.9	9.8	21.6	-0.5	1.7	13.6	17.8	-2.7	4.9	5.4	18.1	4.9	7.0	5.8	
NFA 2/	1.6	1.0	40.1	13.1	18.1	5.1	3.2	7.4	12.0	12.3	0.0	5.1	15.2	22.7	6.3	8.2	10.0	11.0	4.0	5.6	7.1	
NDA 2/	108.2	37.5	-12.0	0.8	30.0	-6.3	-5.6	-2.5	-2.2	9.3	-0.5	-3.3	-1.6	-4.9	-9.0	-3.3	-4.6	7.1	0.8	1.4	-1.3	
Net credit to government	...	40.7	10.9	10.5	45.8	-3.2	-6.2	-9.6	-5.0	-1.7	1.8	1.0	7.1	5.9	2.6	-1.2	-6.1	-1.8	1.1	2.3	-1.1	
Claims on deposit money banks 1/	...	1.4	-0.3	0.1	6.7	-3.1	-1.6	1.6	-2.2	1.4	-1.6	0.6	-1.4	-4.2	-6.1	-2.5	-0.2	4.2	2.5	4.3	3.1	
Other items (net) 2/	...	-4.6	-22.6	-9.7	-22.5	0.2	2.2	5.6	5.0	9.6	-0.7	-4.9	-7.3	-6.7	-13.1	-6.1	-4.7	-1.0	-2.8	-5.2	-3.3	
Reserve money growth (12-month change)	109.9	38.5	28.1	14.0	48.1	-1.1	2.7	12.0	14.2	21.6	24.1	17.9	25.8	17.8	15.2	21.5	9.3	18.1	27.4	20.5	18.6	
Ratio: Broad money to reserve money	1.7	1.7	2.0	2.5	2.2	2.7	2.9	2.8	2.8	2.7	2.7	2.7	2.5	2.5	2.7	2.6	2.7	2.6	2.5	2.4	2.5	

Sources: Bank of Albania; and Fund staff estimates.

1/ In January 1996, a 1.7 billion lek bond was issued to the BOA to cover its loan to the NCB; the BOA no longer has a claim on the NCB.

2/ Reflects the one-off adjustment to the monetary authorities' accounts following the commercial bank debt deal of September 1995; NFA was raised and NDA decreased by equivalent amounts.

Table 21. Albania: Net Foreign Asset Position of the Bank of Albania, 1993-2002

(In millions of U.S. dollars, end of period)

	1993	1994	1995	1996	1997	1998				1999				2000				2001				2002			
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net foreign assets	-299.7	-286.5	119.4	153.9	179.2	187.9	207.7	223.8	224.9	231.8	282.9	315.2	314.7	302.0	344.0	404.6	467.0	516.6	528.1	570.9	600.8	608.9	642.8	663.1	
Foreign assets	152.0	209.6	469.2	510.9	538.8	545.5	574.0	610.2	615.0	619.7	445.4	497.4	492.1	486.7	491.1	546.6	618.2	657.8	661.0	713.7	737.7	742.8	789.7	806.4	
Gold 1/	2.9	3.1	3.2	5.8	5.5	5.4	5.4	5.6	5.8	5.8	5.8	5.9	5.8	5.8	5.6	5.4	5.4	5.0	4.9	5.0	4.9	4.8	5.1	5.1	
Cash in vaults	0.0	0.0	0.0	2.0	1.8	2.3	2.3	0.1	0.1	4.0	3.8	2.1	1.5	0.6	0.3	0.3	0.1	0.1	0.0	2.9	1.9	5.5	6.0	0.2	
Deposits																									
Demand deposits	7.0	6.5	3.9	9.6	33.4	31.8	33.0	32.0	37.0	31.1	70.4	65.4	71.7	54.7	43.8	66.6	76.1	71.9	64.7	22.6	71.4	16.9	15.5	25.1	
Time deposits	140.4	197.9	236.9	267.7	272.5	280.9	251.0	288.3	286.0	277.1	262.3	301.5	234.6	227.1	253.6	274.8	324.7	377.4	297.7	270.1	198.0	172.1	114.0	72.1	
Equity participation	1.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.7	35.1	39.9	97.0	106.3	103.1	114.4	131.5	116.6	212.2	324.6	375.8	457.3	556.7	616.2	
Reserve position in the Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.5	4.5	4.6	4.6	4.5	4.5	4.4	4.4	4.2	4.2	4.3	4.2	4.2	4.4	4.4	
SDR holdings	0.0	0.3	0.1	0.8	0.6	0.1	57.3	59.2	61.1	61.5	63.5	78.0	76.9	87.7	80.2	80.7	76.0	82.5	77.3	84.2	81.5	81.9	87.9	83.3	
U.S. Treasury bill collateral	...	...	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	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	
Foreign liabilities	451.7	496.1	349.7	357.0	359.6	357.6	366.3	386.4	390.1	387.9	162.5	182.2	177.4	184.7	147.1	142.0	151.2	141.2	132.9	142.8	136.8	133.9	146.9	143.3	
Demand deposits liabilities	5.5	9.1	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Foreign banks credit	5.5	23.5	19.9	35.3	40.7	39.8	41.4	59.6	61.7	55.9	56.4	61.9	58.7	55.7	55.8	51.3	58.6	51.5	49.6	52.9	53.6	53.6	61.2	60.3	
Non-residents deposists	27.6	30.8	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Overdue obligations	378.2	414.9	0.0	0.0	0.0	0.0	0.0	0.0	39.0	38.2	38.2	38.2	38.2	38.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
30-year bonds for foreign exchange claims	...	...	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	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	
External public debt after the debt deal	...	...	15.8	17.8	14.1	15.6	15.6	15.6	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	0.0	
Additional letters of credit arrears	...	...	24.8	24.8	24.8	23.3	23.4	23.4	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	0.0	
Liabilities to the IMF	30.5	52.7	64.2	54.1	55.0	53.9	60.9	62.8	64.4	68.8	67.9	82.1	80.5	90.8	91.3	90.7	92.6	89.7	83.3	89.9	83.2	80.3	85.8	83.0	

Source: Bank of Albania.

1/ Valued at SDR 35 per ounce.

Table 22. Albania: Structure of Bank Deposits by Currency and Depositor, 1993-2002

(In millions of leks)

	1993	1994	1995	1996	1997	1998				1999				2000				2001				2002	
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total deposits	32,365	43,148	65,543	106,733	125,821	134,600	147,135	158,074	171,202	185,541	192,413	200,291	211,537	211,983	214,276	219,777	228,865	243,157	245,806	256,235	274,324	267,766	262,665
Domestic currency deposits	22,115	29,844	45,464	72,831	89,495	99,039	111,382	119,369	130,940	140,648	144,264	146,804	158,326	155,249	157,199	156,732	165,261	170,621	173,409	177,840	186,199	181,565	178,933
Of which:																							
State enterprises	7,981	7,962	10,909	9,103	9,853	7,345	9,590	9,061	8,227	7,191	7,264	6,951	8,131	7,427	8,066	6,411	8,023	8,059	7,964	7,543	6,702	7,556	7,859
Private sector	1,647	2,801	5,591	34,215	8,500	6,560	5,896	5,714	7,358	8,579	9,723	9,968	15,793	12,250	12,798	13,849	15,881	12,840	13,989	14,787	17,332	16,257	17,310
Households	12,487	19,081	28,964	29,454	71,102	83,167	95,896	104,594	115,355	124,878	127,277	129,884	134,402	135,572	136,335	136,472	141,357	149,722	151,456	155,510	162,164	157,752	153,764
Foreign currency deposits	10,248	13,304	20,080	33,906	36,326	35,561	35,753	38,704	40,262	44,893	48,149	53,487	53,211	56,734	57,077	63,045	63,604	72,536	72,397	78,395	88,125	86,201	83,732
Of which:																							
State enterprises	7,231	6,915	8,260	6,900	9,041	9,120	9,768	9,919	10,851	10,696	11,470	10,563	10,049	10,905	10,710	11,273	10,025	12,809	12,269	11,452	10,301	10,133	10,112
Private sector 1/	1,129	2,328	4,382	16,854	10,497	8,954	8,956	9,860	9,905	13,542	15,032	14,139	11,447	13,704	12,297	14,224	12,823	14,482	16,046	17,313	17,908	17,938	15,818
Households	1,888	4,061	7,438	10,152	16,789	17,487	17,029	18,925	19,507	20,655	21,647	28,785	31,715	32,125	34,070	37,548	40,756	45,245	44,082	49,629	59,916	58,130	57,802
Memorandum item:																							
Domestic/total deposits (percent)	68.3	69.2	69.4	68.2	71.1	73.6	75.7	75.5	76.5	75.8	75.0	73.3	74.8	73.2	73.4	71.3	72.2	70.2	70.5	69.4	67.9	67.8	68.1

Sources: Bank of Albania; and Fund staff estimates.

1/ Incomplete reporting through March 1993.

Table 23. Albania: Distribution of Deposits in State-Owned Commercial Banks, 1993-2001

	December 1993		December 1994		December 1995		December 1996		December 1997		December 1998		December 1999		December 2000		December 2001	
	Millions of leks	Percent of total	Millions of leks	Percent of total	Millions of leks	Percent of total	Millions of leks	Percent of total	Millions of leks	Percent of total	Millions of leks	Percent of total	Millions of leks	Percent of total	Millions of leks	Percent of total	Millions of leks	Percent of total
Total 1/	32,365	100	43,148	100	65,543	100	106,738	100	125,820	100	171,406	100	211,535	100	228,865	100	274,468	100
Of which:																		
National Commercial Bank (NCB) 2/	16,728	51.7	16,860	39.1	24,562	37.5	61,932	58.0	27,420	21.8	20,920	12.2	22,426	10.6	...	...	...	...
State enterprises/farms	14,152	92.0	12,505	86.0	16,132	85.6	...	...	...	...	...	...	...	...	...	...	...	...
Joint ventures	415	99.4	386	53.9	453	2.4	...	...	...	...	...	...	...	...	...	...	...	...
Private sector	1,354	57.4	2,375	52.4	5,948	31.5	...	...	...	...	...	...	...	...	...	...	...	...
Households	807	5.7	1,594	6.9	2,029	10.8	...	...	...	...	...	...	...	...	...	...	...	...
Savings Bank (SB)	12,696	39.2	20,401	47.3	32,002	48.8	34,699	32.5	65,704	52.2	136,406	79.6	160,974	76.1	162,550	71.0	178,263	64.9
State enterprises/farms	463	3.0	495	3.4	864	4.6	...	...	...	...	...	...	...	...	...	...	...	...
Joint ventures	0	0.0	0	0.0	0	0.0	...	...	...	...	...	...	...	...	...	...	...	...
Private sector	341	14.5	1,082	23.9	2,219	24.1	...	...	...	...	...	...	...	...	...	...	...	...
Households	11,892	83.7	18,824	81.8	28,919	79.4	...	...	...	...	...	...	...	...	...	...	...	...
Rural Commercial Bank (RCB)	2,556	7.9	4,108	9.5	5,941	9.1	6,644	6.2	3,711	2.9	...	...	...	...	...	...	...	...
State enterprises/farms	791	5.1	634	4.4	901	4.8	...	...	...	...	...	...	...	...	...	...	...	...
Joint ventures	8	1.9	35	4.9	7	0.9	...	...	...	...	...	...	...	...	...	...	...	...
Private sector	275	11.7	345	7.6	416	4.5	...	...	...	...	...	...	...	...	...	...	...	...
Households	1,482	10.4	3,094	13.4	4,619	12.7	...	...	...	...	...	...	...	...	...	...	...	...

Source: Bank of Albania.

1/ Including private banks.
2/ Reflecting its privatization, the deposit stock of the National Commercial Bank was included until September 2000.

Table 24. Albania: Credit provided by State-Owned Banks, 1993-2001 1/

	1993	1994	1995	1996	1997	1998	1999	2000	2001
	(In millions of leks, end of period)								
Total credit	6,851	9,228	11,315	13,094	12,907	12,607	9,751	7,377	934
Of which:									
Public enterprises	2,587	2,433	3,136	3,752	2,832	2,830	1,686	876	154
Private	4,264	6,796	8,179	9,342	10,075	9,776	8,079	6,499	780
National Commercial Bank 3/	2,863	3,280	3,564	3,889	2,080	1,525	1,526	...	...
Of which:									
Public enterprises	1,646	1,327	1,522	1,178	831	431	418	...	...
Private	1,210	1,953	2,042	2,711	1,259	1,094	1,107	...	...
Savings Bank	1,044	1,669	2,850	4,511	9,454	9,705	8,225	7,377	934
Of which:									
Public enterprises	337	690	1,197	2,159	2,001	2,400	1,268	876	154
Private	656	979	1,654	2,352	7,453	7,305	6,972	6,499	780
Rural Commercial Bank	2,995	4,067	4,475	4,693	1,373	1,377	...	...	...
Of which:									
Public enterprises	604	523	524	414	0	0	...	...	...
Private	2,322	3,544	3,951	4,279	1,373	1377 2/	...	...	...
Memorandum items				(In percent)					
Total credit									
12-month percent change	74.9	34.7	22.6	9.8	-1.4	-2.3	-22.7	-24.3	-87.3
Ratio to GDP	5.5	4.9	5.0	4.7	3.8	2.7	1.9	1.4	0.2

Sources: Bank of Albania; and Fund staff estimates.

1/ Excludes pre-June 1992 loans to state enterprises, farms and agricultural cooperatives for which the government assumed responsibility.

2/ Before liquidation, March 1998.

3/ Reflecting its privatization, the credit stock of the National Commercial Bank was included until September 2000.

Table 25. Albania: Nonperforming Credits of State-Owned Banks, 1993-2001

	1993	1994	1995	1996	1997	1998	1999	2000	2001
	(In millions of leks, end of period)								
Total	926	2,452	3,442	4,516	9,049	10,064	8,181	7,650	223
Of which:									
State	186	255	315	418	1,625	1,638	917	901	2
Private	740	2,197	3,127	4,098	7,424	8,426	7,264	6,749	221
National Commercial Bank 1/									
Total	364	939	1,256	1,517	1,048	1,229	1,179	1,214	...
Of which:									
State	135	228	284	334	545	293	286	299	...
Private	230	711	973	1,183	503	936	893	915	...
Savings Bank									
Total	243	360	465	566	7,271	7,860	7,002	6,436	223
Of which:									
State	0	0	1	57	1,080	1,345	631	601	1.7
Private	243	360	464	509	6,190	6,515	6,371	5,835	221.2
Rural Commercial Bank 2/									
Total	319	1,133	1,598	2,231	1,377	1,377	...	...	...
Of which:									
State	52	27	31	27	0	0	...	...	...
Private	267	1,107	1,567	2,204	1,377	1,377	...	...	...
Memorandum items:									
Ratio of nonperforming credits to:									
Commercial bank deposits	2.9	5.7	5.3	4.2	7.2	5.9	3.9	3.3	#DIV/0!
Total claims on state enterprises and the private sector	13.4	25.3	30.2	31.6	57.1	56.9	41.1	31.1	#DIV/0!
deposits	32365	43148	65543	106738	125820	171406	211535	######	
claims	6900	9700	11400	14304	15835.1	17692.1	19889.7	24620.6	

Sources: Bank of Albania; and Fund staff estimates.

1/ The National Commercial Bank (currently, the BKT) was privatized in 2000.
2/ Before liquidation, March 1998.

Table 26. Albania: Balance of Payments, 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
	(In millions of U.S. dollars)							
Current account	-282	-176	-249	-281	-193	-270	-271	-260
Trade balance	-460	-474	-692	-519	-621	-846	-821	-1,027
Exports	141	205	229	167	205	275	255	305
Imports	601	679	921	685	826	1121	1,076	1,332
Services (net) 1/	-87	-2	18	-12	-11	66	111	225
Of which : Interest due	42	6	11	11	13	11	10	12
Private transfers	264	300	425	250	440	327	439	543
Capital account	181	201	167	83	99	219	319	279
Official transfers	161	118	77	77	89	139	111	125
Direct investment	65	89	97	42	45	51	143	204
Other capital including short-term flows	-98	-87	-120	-81	-88	-44	-6	-131
Official medium- & long-term loans (net) 2/	54	81	113	46	53	72	71	81
New borrowing	60	82	119	53	62	80	79	89
Multilateral loans 2/	15	32	42	16	31	54	60	54
World Bank	13	20	29	15	24	28	40	34
EBRD	0	4	7	0	1	0	2	2
Other	0	8	6	1	6	25	18	18
Bilateral loans	45	50	77	37	31	26	19	34
Other loans	0	0	0	0	0	0	0	0
Amortization 2/	-6	0	-5	-8	-9	-8	-9	-7
Errors and omissions 3/	57	9	106	206	105	28	33	106
Net balance = I+II+III	-44	35	25	9	11	-23	80	125
Financing requirement = - IV	44	-35	-25	-9	-11	23	-80	-125
Available financing	44	-35	-25	-9	-11	23	-80	-125
Change in net reserves (increase = -)	-35	-26	-43	-27	-71	-83	-111	-131
Change in gross reserves, (increase = -)	-57	-36	-35	-31	-78	-101	-123	-129
Use of Fund Resources (net)	22	10	-8	4	7	17	12	-1
Fund (Credit Tranche)	0	0	0	12	0	0	0	0
Fund (ESAF)	22	11	0	0	8	21	19	12
Repayments to Fund	0	-1	-8	-8	-1	-3	-7	-14
BOP support	20	21	13	14	54	96	29	4
Bilateral	0	3	11	9	17	46	5	4
Multilateral	20	18	2	5	37	50	24	0
Changes in arrears (increase = +) 4/ 5/ 6/	-50	-422	5	4	-139	5	2	-32
Overdue debt forgiveness 6/ 7/	0	393	0	0	0	0	0	10
Debt service relief (rescheduling) 6/ 8/	109	0	0	0	145	5	0	23
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Gross usable reserves	204	240	275	306	384	485	608	737
(months of imports of goods and non-factor services)	2.9	2.7	4.0	3.8	3.7	3.8	4.1	4.6
Trade balance (percent of GDP) 8/	-23.2	-19.6	-25.7	-22.7	-20.4	-18.0	-21.9	-25.0
Current account (percent of GDP)	-14.2	-7.3	-9.2	-12.3	-6.3	-7.3	-7.2	-6.3
Current account excl. factor services (percent of GDP)								
Debt service (percent of exports of goods and non-factor services)	21.5	2.5	6.9	7.3	8.4	3.8	3.6	3.9
External debt (percent of GDP) 9/	56	32	31	38	33	30	31	29
Merchandise exports (percent growth)	26.5	44.9	11.8	-27.1	22.9	34.2	-7.1	19.3
Merchandise imports (percent growth)	-0.2	13.0	35.6	-25.6	20.6	13.5	14.8	23.7

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

1/ New methodology introduced in 2000 for the calculation of tourism services. 1999 tourism services revised (staff estimate based on new methodology) to allow for inter-year comparisons in the 2001 Article IV consultation.
2/ Excluding IMF.
3/ The large errors and omissions in 1997 reflects incomplete data for the first half of the year as a result of the crisis.
4/ The figure for 1994 includes the elimination of arrears on medium-term debt to Paris Club creditors and the settlement of bilateral clearing account arrears (to GDR) with Germany.
5/ The figure for 1998 corresponds to the clearance of arrears to Russia and Italy as a result of an assumed new Paris Club rescheduling. The stock of arrears is subject to reconciliation with Russia and Italy.
6/ The figures for 2001 correspond principally to the clearance of arrears to the Turkish Export-Import Bank in May 2001 (USD9.4 million in overdue interest forgiven; USD17.6 million rescheduled at 6M Libor+0.5%, 15 years maturity, 5 years grace) and the Turkish Central bank in December 2001 (USD0.5 million in penalty interest forgiven; USD5.1 million rescheduled at 6M Libor+0.5%, 15 years maturity, 5 years grace; 20 equal semi-annual
7/ Debt forgiveness in 1995 corresponds to commercial bank debt restructuring under the Brady deal.
8/ The figure for 1994 corresponds to the rescheduling of Paris Club debt in December 1993.
9/ Excludes imports (official transfers) related to the Kosovo crisis.
10/ Includes arrears. Estimates revised to reconcile the data recently provided by the authorities.

Table 27. Albania: Commodity Composition of Exports
SITC Classification, 1994-2001

SITC Category	Description	1994	1995	1996	1997	1998	1999	2000	2001
		(In percent of total exports)							
0-1	Food, beverages, tobacco and live animals	9.3	7.5	8.9	11.0	9.6	5.4	6.6	5.8
2	Crude materials, except fuel	28.2	24.7	16.9	20.8	19.2	7.6	8.6	7.5
3	Mineral fuels, lubricants and related materials	3.2	2.9	4.1	1.7	1.2	2.2	1.9	1.5
4	Animal and vegetable oils and fats	0.4	0.7	2.2	0.0	0.2	0.1	0.0	0.0
5	Chemical products	2.3	1.2	1.4	1.9	0.4	0.3	0.7	1.1
6	Manufactured goods	10.0	14.1	13.8	12.0	9.3	8.3	11.8	12.7
7	Machinery and transport equipment	0.7	1.4	1.7	5.7	2.8	5.7	1.9	3.2
8	Miscellaneous manufactured articles	45.9	45.6	51.1	46.8	57.3	70.2	68.5	68.3
9	Miscellaneous transactions and commodities not classified according to kind	0.0	1.8	0.0	0.0	0.0	0.1	0.0	0.0
		(In millions of US dollars)							
	Total (SITC 0-9)								
	Balance of payments estimates 1/	141	205	229	167	205	275	255	305
	Reported by INSTAT	141	201	211	140	207	352	261	305

Sources: Ministry of Foreign Trade; Customs Department; Bank of Albania; Institute of Statistics (INSTAT); and staff estimates.

1/Bank of Albania estimates for balance of payments purposes (including adjustments for freight, insurance and smuggling) have not yet been revised to reflect recent updates by INSTAT.

Table 28. Albania: Commodity Composition of Imports
SITC Classification, 1994-2001

SITC Category	Description	1994	1995	1996	1997	1998	1999 1/	2000	2001
					(In percent of total imports)				
0-1	Food, beverages, tobacco and live animals	25.3	25.5	31.4	24.0	23.5	25.5	19.8	17.9
2	Crude materials inedible, except fuels	1.8	2.1	1.5	1.7	2.0	4.2	1.4	1.3
3	Mineral fuels, lubricants and related materials	9.4	8.6	2.5	3.2	3.8	3.8	9.0	9.9
4	Animal and vegetable oils and fats	2.5	2.4	2.5	3.1	3.2	1.7	1.9	1.4
5	Chemical products	7.3	7.2	5.9	7.3	9.2	7.2	6.9	6.7
6	Manufactured goods	12.6	15.6	18.3	23.8	24.8	22.6	24.0	23.8
7	Machinery and transport equipment	28.8	22.0	22.6	21.4	16.3	17.7	21.6	24.3
8	Miscellaneous manufactured articles	12.3	16.1	14.7	15.5	17.1	17.2	15.4	14.7
9	Miscellaneous transactions and commodities not classified according to kind	0.0	0.4	0.4	0.0	0.0	0.0	0.0	0.0
					(In millions of US dollars)				
	Total (SITC 0-9)								
	Balance of payments estimates 2/	601	679	921	685	826	938	1076	1332
	Reported by INSTAT	601	650	939	633	839	1158	1094	1329

Sources: Ministry of Foreign Trade; Customs Department; Bank of Albania; Institute of Statistics; and staff estimates.

1/ Excluding Kosovo-related imports.
2/ Bank of Albania estimates for balance of payments purposes (including adjustments for freight, insurance and smuggling) have not yet been revised to reflect recent updates by INSTAT.

Table 29. Albania: Direction of Trade, Exports (f.o.b.), 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
	(In percent of total exports)							
Industrial countries	90.1	83.3	89.5	89.7	94.5	96.1	94.7	93.3
Germany	4.8	6.1	6.9	6.9	5.7	6.6	6.6	5.5
Italy	51.8	51.5	57.9	49.4	60.1	69.5	70.6	71.0
Greece	10.4	9.9	13.0	20.5	19.8	13.5	12.7	12.7
France	2.1	2.3	2.0	1.9	1.2	0.6	0.8	0.7
Japan	1.4	0.7	0.3	0.1	0.1	0.0	0.1	0.0
Austria	2.4	0.9	1.1	1.5	1.6	1.7	0.7	0.2
Belgium-Luxemburg	4.3	4.1	1.3	0.5	1.5	0.9	0.6	0.1
Netherlands	0.1	2.1	2.9	5.6	0.9	0.0	0.1	0.1
Switzerland	0.6	1.0	0.6	0.5	0.3	0.9	0.3	1.5
United States of America	11.0	3.4	1.2	1.5	1.7	0.4	0.9	0.7
Other	1.2	1.2	2.3	1.3	1.8	2.0	1.3	0.8
Regional countries	2.6	6.8	3.6	1.7	1.2	1.4	3.5	4.3
Bulgaria	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Romania	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Czechoslovakia 1/	0.4	0.3	0.2	0.1	0.2	0.1	0.1	0.2
Hungary	0.2	0.1	0.1	0.2	0.0	0.0	0.0	0.0
Poland	0.0	0.0	0.1	0.2	0.1	0.0	0.0	0.0
Turkey	1.1	6.2	3.1	0.9	0.5	0.3	0.7	1.0
Yugoslavia 1/	0.2	0.0	0.0	0.3	0.3	1.0	2.7	3.1
Other countries	7.3	10.1	6.9	8.6	4.1	2.5	1.8	2.4
Memorandum items:			(In millions of US dollars)					
Total exports								
Balance of payments estimates 2/	141	205	229	167	205	275	255	305
Reported by partner countries 3/	175	238	306	259	280	273	282	350

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

1/ Includes data for the successor states to the Republic of Czechoslovakia and the former Socialist Federal Republic of Yugoslavia, respectively.
2/ Bank of Albania estimates for balance of payments purposes (including adjustments for freight, insurance and smuggling) have not yet been revised to reflect recent updates by INSTAT.

Table 30. Albania: Direction of Trade, Imports (f.o.b.), 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
	(In percent of total imports)							
Industrial countries	77.0	79.8	79.6	84.8	84.4	82.7	79.1	77.4
Germany	5.9	5.1	5.8	4.2	3.8	5.6	6.1	5.9
Italy	37.4	37.9	40.2	45.8	43.8	33.9	35.2	31.9
Greece	23.7	24.7	20.2	26.0	28.4	24.1	26.4	25.8
France	1.9	1.3	3.0	1.2	1.1	2.0	1.5	0.9
Japan	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Austria	1.4	2.1	1.1	1.5	1.4	1.8	1.1	0.8
Belgium-Luxemburg	1.2	1.6	2.5	1.1	1.1	1.5	0.9	0.7
Netherlands	0.9	0.8	0.8	0.8	0.8	2.3	0.8	0.8
Switzerland	1.2	0.9	1.9	1.6	1.5	2.1	1.2	0.9
United States of America	1.2	1.3	1.6	0.2	0.3	2.4	1.5	1.1
Republic of Korea	0.2	0.0	0.0	0.0	0.1	0.0	0.1	0.2
Others	2.0	4.1	2.4	2.4	2.1	6.9	4.3	8.4
Selected Regional Countries	14.8	13.4	11.8	9.0	8.1	9.8	10.3	11.2
Bulgaria	8.2	7.3	3.8	2.7	2.8	2.5	2.4	2.0
Romania	0.6	0.7	2.4	0.3	0.4	0.7	0.6	0.9
Czechoslovakia 1/	0.5	0.5	0.5	0.3	0.3	0.4	0.1	0.5
Hungary	0.8	0.7	0.8	1.0	1.1	1.0	1.0	1.1
Poland	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Turkey	4.6	4.1	4.2	4.4	3.4	5.1	5.3	6.1
Yugoslavia 1/	0.0	0.0	0.0	0.2	0.1	0.1	0.8	0.5
Developing countries	2.1	0.6	1.2	0.3	1.0	0.6	1.5	2.3
China	1.1	0.3	0.2	0.1	0.2	0.2	1.3	2.0
Egypt	1.0	0.3	1.0	0.2	0.8	0.4	0.2	0.3
Morocco	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Regional & Developing Countries	6.1	6.2	7.4	5.9	6.5	6.9	9.1	9.1
Memorandum items:	(In millions of US dollars)							
Total imports								
Balance of payments estimates 2/ 3/	601	679	921	685	826	938	1,076	1,332
Reported by partner countries 4/	682	916	1,195	753	792	964	961	1,219

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

1/ Includes data for the successor states to the Republic of Czechoslovakia and the former Socialist Federal Republic of Yugoslavia, respectively.
2/ Excluding Kosovo-related imports in 1999.
3/ Bank of Albania estimates for balance of payments purposes (including adjustments for freight, insurance and smuggling) have not yet been revised to reflect recent updates by INSTAT.
4/ From Direction of Trade Statistics, IMF, for reporting countries.

Table 31. Albania: External Debt in Convertible and Nonconvertible Currencies, 1994-2002 1/

	1994	1995	1996	1997	1998	1999	2000	2001	2002 1/
	(In millions of U.S. dollars; end of period)								
Total	1101	783	838	868	996	1096	1158	1181	1105
Multilateral	119	182	208	221	304	419	492	523	625
EBRD	0	5	10	9	9	8	8	9	10
EIB	0	0	0	0	1	15	27	35	46
IDA	65	109	137	148	220	296	345	366	452
IDB	0	0	0	0	1	1	2	5	6
IFAD	1	2	5	5	8	12	13	15	18
IMF 2/	53	66	54	56	62	80	89	84	83
OPEC	0	0	1	2	4	6	7	8	9
Bilateral	113	145	170	183	218	211	214	259	368
Paris Club	104	128	142	144	164	145	142	150	214
Pre cut-off	45	47	41	32	27	20	18	17	56
Austria	8	9	8	6	4	3	2	1	1
Britain	0	0	0	0	0	0	0	0	0
France	19	20	17	13	10	8	5	4	4
Germany	14	15	13	11	10	8	5	7	6
Italy	2	2	2	2	1	1	6	5	5
Netherlands	1	1	1	1	1	0	0	0	0
Russia	0	0	0	0	0	0	0	0	40
Post cut-off	60	81	102	112	137	125	124	133	157
Austria	2	4	6	5	5	5	4	4	4
Germany	19	31	40	46	58	50	50	53	63
Italy	39	46	56	61	74	71	69	76	90
Non-Paris Club	9	17	28	39	55	66	72	109	155
China	0	0	0	2	2	2	2	2	41
Greece	0	0	0	0	11	11	11	12	13
Japan	8	11	9	17	21	31	29	26	28
Kuwait	1	7	12	13	15	16	15	16	20
Norway	0	0	3	3	3	3	11	26	26
Sweden	0	0	4	4	4	4	4	4	4
Turkey	0	0	0	0	0	0	0	23	23
Arrears	869	455	461	465	474	465	452	399	112
Convertible currency	130	133	134	134	134	134	131	91	56
Budgetary	56	59	60	60	60	60	57	21	17
Bilateral (USD) clearing accounts	74	74	74	74	74	74	74	71	39
Non-convertible currency 3/ 4/	168	168	168	168	171	171	160	161	23
Commercial 5/	473	52	52	52	52	39	37	34	33
Cumulative Overdue Interest	98	102	106	111	117	121	124	113	0
Memorandum items:									
Total debt (percent of GDP)	56	32	31	38	33	30	31	29	24
Total arrears (percent of GDP)	44	19	17	20	16	13	12	10	2

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

1/ As at end-September 2002.
2/ PRGF (formerly ESAF) and ordinary resources.
3/ Consists of bilateral clearing accounts in rubles. These are converted using official cross-exchange rates.
4/ Excludes transferable ruble arrears the value of which is subject to reconciliation and rescheduling agreements yet to be agreed with creditors.
5/ Includes debt to commercial banks, arrears on spot and money market transactions, financial lines, confirmed and unconfirmed letters.
6/ Overdue and penalty interest calculated as part of 2001 and 2002 rescheduling agreements with Turkey, Russia, Greece (private creditors) and China.

ATTACHMENT

Albania: Summary of Tax System at End–August 2002

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.	**Monthly Wages (lek) rate** 14,001–30,000 5 percent 30,001–60,000 10 percent 60,001–80,000 15 percent 80,001–100,000 18 percent 100,001-125,000 20 percent 125,001-150,000 23 percent over 150,000 25 percent 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. Income from transfer of right to ownership on immovable property (in percent of total sale price; in million of leks) 0–2 0.5 percent 2–4 1 percent 4–6 2 percent Over 6 3 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.	Fixed fee for all businesses with an annual turnover of under a threshold of 2 million leks, depending on nature of business and category of the district the business is conducted. A tax rate of 4 percent is levied on the annual turnover between 2–8million leks.

Albania: Summary of Tax System at End–August 2002

Tax	Nature of Tax	Deductions and Exemptions	Rates
1.2 Taxes on Corporate Income	A tax on worldwide income of domestic corporations and Albanian income of foreign corporations in Albania. Loss carryBforward for 3 years.	Foreign tax credit. No domestic double taxation of dividends.	A flat rate of 25 percent applies to income of all corporations.
2. Social Security Contributions			
2.1 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.		Social insurance: 30.7 percent of gross wages of employees, between a floor and a ceiling (set at 9,403 leks and 47,015 leks per month). Health insurance: 1.7 percent of the same base.
2.2 Employee Contributions	All employees are liable.		Contribution rate on gross wages (between the same floor and ceiling as apply to employers' contributions): Social insurance: 9.5 percent Health insurance: 1.7 percent
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 (in lek): public buildings: 2 residential bldgs: 3–6 communal services: 20 production bldgs: 50 commercial bldgs: 100 Discount of up to 10 percent of tax due, if paid before the due date.
4. Domestic Taxes on			

ATTACHMENT

Albania: Summary of Tax System at End–August 2002

Tax	Nature of Tax	Deductions and Exemptions	Rates
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) Standard exemptions consist of financial services; leasing of land and buildings (apart from hotels etc, vehicle parks, and leases for less than 2 months); national currency and postal stamps; supplies for health, educational, religious, nonBprofit organizations etc.; and supplies to diplomatic and consular missions. (b) Medicines and medical equipment and certain supplies in connection with oil exploration are exempted.	20 percent. Exports of goods and services, and supplies relating to international transport 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 byBproducts	Exemptions: ethyl alcohol used in production of alcoholic drinks for export; liquid gas used for household consumption.	Levied either as a percentage rate or a per unit stamp, depending on the commodity. Tobacco 60 percent Beer 50 percent Soft Drinks 5 percent Mineral Water 5 percent Coffee 20 percent Perfumes and deodorants 50 percent Gasoline up to 89.9 octane 77 percent Gasoline 90 octane and more 90 percent Unleaded gasoline 90 percent Diesel 50 percent Kerosene 80 percent Lubricant oils and grease 50 percent Sailor, Mazut 5 percent Oil, bitumen, toluol, xylol, solvent 20 percent Other oil by-products not mentioned above 90 percent Excise Value per banderole: Cigarettes: lek 11 per pack Raki Valued up to lek 400 per liter Lek 40 Valued over lek 400 per liter

ATTACHMENT

Albania: Summary of Tax System at End–August 2002

Tax	Nature of Tax	Deductions and Exemptions	Rates
			Lek 350/liter
			Wine Valued up to lek 300 per liter Lek 50 Valued over lek 300 per liter Lek 150/liter
			Alcoholic drinks Valued up to lek 400 per liter Lek 80/liter Valued over lek 400 per liter Lek 400/liter
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 contractors in oil exploration; (c) humanitarian aid.	The tariff nomenclature contains 4 tariff rates (0, 2, 10, 15).
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 Solidarity Tax	A tax on legal entities and small businesses; fixed amount per taxpayer	Small business taxpayers engaged in ambulatory activities in market places approved by the concerned organs of local governments.	Monthly rates. State enterprises registered for VAT 100,000 leks Subsidiaries of VAT registered state enterprises 5,000 lek Joint ventures (enterprises with joint state-private capital) 50,000 lek Private companies registered for VAT

ATTACHMENT

Albania: Summary of Tax System at End–August 2002

Tax	Nature of Tax	Deductions and Exemptions	Rates	
				5,000 leks
			Small businesses in cities	2,000 leks
			Small businesses in villages	5,000 leks
6.3. Durres-Kukes Road Tax	A temporary set of taxes instituted to help finance road construction		1 percent surcharge on all imports 3 Lek per liter on gasoline, benzine, and benzoil 30,000 leks a year from registered VAT taxpayers	