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Albania: Recent Economic Developments and Statistical Appendix

This Recent Economic Developments and Statistical Appendix report on Albania was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Albania or the Executive Board of the IMF.

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ALBANIA

Recent Economic Developments and Statistical Appendix

Prepared by a staff team consisting of Robert Corker, Hossein Samiei,
Philipp Rother, and Natalia Tamirisa

Approved by European 1 Department

June 3, 1999

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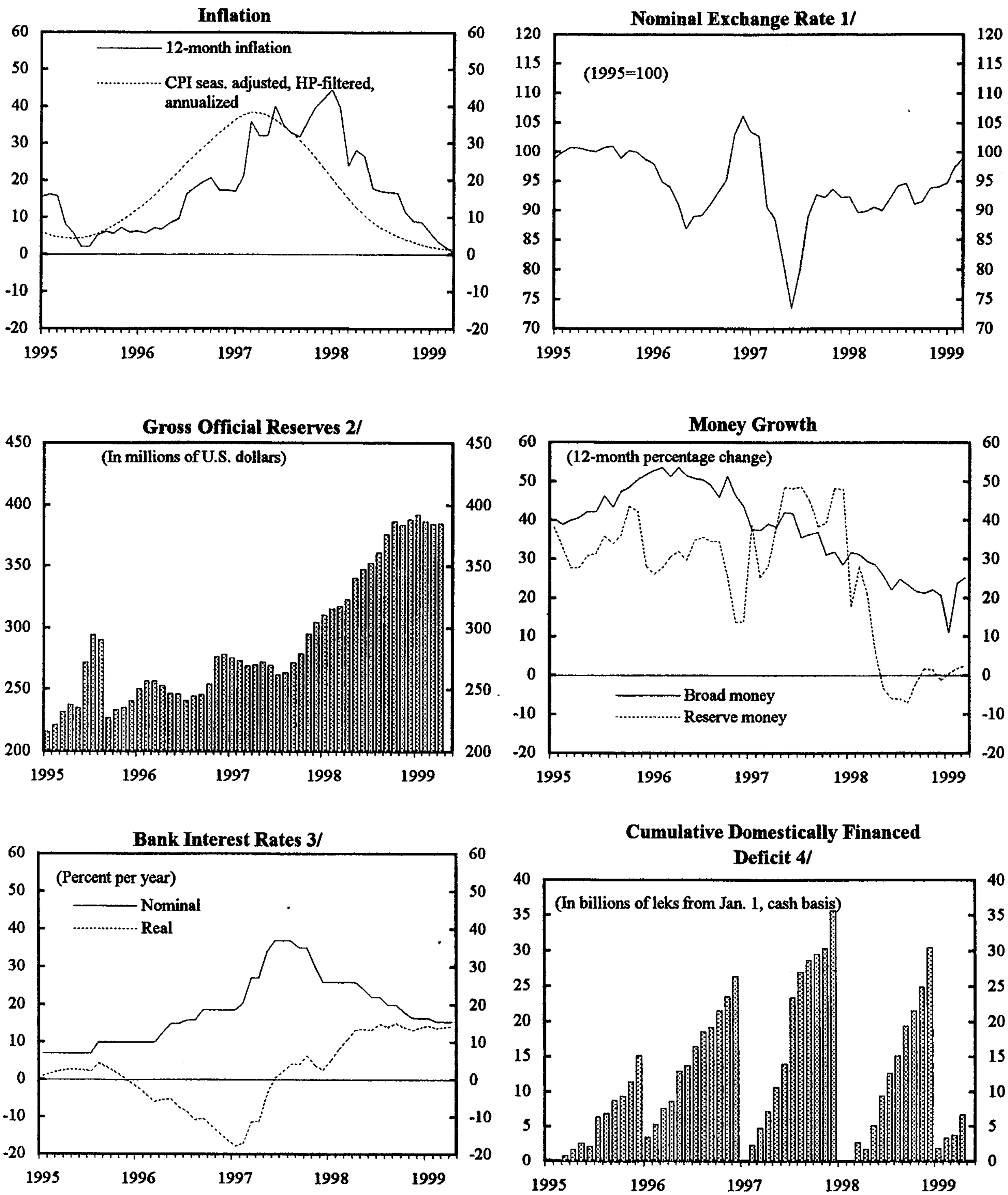
I. Introduction

1. Albania continues to experience wide swings in economic fortunes. Through determined adjustment efforts and substantial donor support Albania had managed to halt the economic collapse of the early transition years and to initiate a strong recovery that lasted until 1996. However, the good performance of the economy was not built on a solid foundation. In the absence of strong institutions and good governance, a gullible public invested a large portion of its savings in pyramid schemes. The subsequent collapse of the pyramid scheme bubbles precipitated severe civil disorder in 1997, putting economic growth sharply into reverse. A new government restored law and order and achieved considerable progress in macroeconomic stabilization. And while a brief flare-up of civil unrest in September 1998 was symptomatic of political fragility, it did not prevent growth from reaching an impressive 8 percent in 1998. The outbreak of the Kosovo crisis in March 1999 has added new uncertainties to the sustainability of the recovery. In particular, a tide of refugees into Albania—equivalent to nearly 15 percent of the local population at end-May—is placing considerable strain on the social and economic infrastructure. While it is too early to assess the full economic impact of this latest shock, the country will have to rely once again on its remarkable adaptability to continue on its path towards macroeconomic and social stability.

2. Strong adjustment policies were the key to Albania's rapid recovery from the 1997 crisis. Immediately after the crisis the government implemented measures to contain the fiscal deficit, including through limiting spending and introducing a reformed VAT. Backed by a tightening of monetary policy, inflation subsided quickly in the second half of 1997 and the exchange rate recovered from its earlier sharp depreciation. Returning confidence in the local currency was also reflected in a rise of the share of domestic currency deposits in total deposits. In 1998, the authorities continued on the path toward macroeconomic stabilization, implementing a tight budget with savings in non-interest current spending and strong revenue measures. As a result, the domestically financed budget deficit decreased from 10½ percent of GDP in 1997 to 6½ percent in 1998. Inflation decreased rapidly from 42 percent at end-1997 to below 9 percent at end-1998 and continued on its downward path in 1999. Returning financial stability provided scope to lower interest rates cautiously, although real interest rates were still strongly positive in the first half of 1999. The exchange rate has remained broadly stable. The current account deficit narrowed substantially in 1998, and foreign exchange reserves rose to a relatively comfortable level (Figure 1).

3. In the structural area, the authorities have achieved considerable progress in transforming Albania into a modern market economy. The disarray left behind by the defunct pyramid schemes has been cleared up and the authorities have taken steps to strengthen the financial system. One major state-owned bank, the National Commercial Bank, is in the process of being sold, while another one, the Rural Commercial Bank, has been liquidated. More generally, to reduce the state's demand on the economy, privatization has been extended: most small- and medium-sized public enterprises have been privatized or liquidated and nearly all of the enterprises under the control of the former Enterprise Restructuring Agency are now no longer government owned. The authorities are preparing the strategic sectors for privatization. In the key agricultural

Figure 1. Albania: Monthly Economic Indicators, 1995-99



Source: Bank of Albania, Ministry of Finance, INSTAT, and Fund staff estimates.

1/ Against the currencies of Albania's major trading partners. A rise in the graph indicates appreciation.

2/ The decline in September 1995 reflects payments associated with rescheduling of Albania's commercial bank debt.

3/ Three-month deposit rate; the real rate is the nominal rate minus annualized inflation, as depicted above.

4/ Preliminary estimates based on Bank of Albania and Social Insurance Institute data.

sector, land has been distributed and the process of land registration is well underway. Rising turnover in the agricultural land market suggests the needed consolidation of landholdings is beginning. Public sector reform has focused on reducing overstaffing and increasing wage differentiation in the public administration. In parallel the government has started to conduct financial reviews of key ministries. To fight corruption, the government formally adopted an anti corruption strategy in September 1998 based on the results of a broad survey on corruption in Albania. Key measures from the strategy emphasizing public transparency and reform of the judiciary are being implemented. A new customs code, passed in April 1999, will also help to address problems of corruption in the customs administration and associated poor tax collection.

4. Nevertheless, Albania still faces tremendous development problems. The physical and financial infrastructure of the economy needs development. Roads are of poor quality, the public utilities require substantial improvements and better management to satisfy the demands of a growing economy, and the provision of financial services remains rudimentary with the dominating state-owned banks providing little effective intermediation in view of large stocks of bad debt. Fiscal revenues remain insufficient to finance essential expenditures. Despite reductions in its size, the public administration remains too large and inefficient and governance continues to pose a serious problem for further institutional development. Finally, the Kosovo crisis increases the risks to macroeconomic and social stability.

5. The remainder of this paper is divided into two parts. Section II presents more details on recent macroeconomic developments in 1997 and 1998, extending the discussion to 1999 where appropriate. Section III discusses major structural issues. The Albanian tax system is described in Appendix I, followed by the Statistical Tables.

II. Macroeconomic Developments

A. Developments in the Real Sector

Output developments

6. The reimposition of relative political, social, and financial stability in 1998 permitted output to fully recover losses of the 1997 disturbances. Output is estimated to have grown by 8 percent in 1998 after a decline of 7 percent in 1997 (Table 2), led by strong growth rates of about 20 percent in the construction and transport sectors. Other services, which had suffered most in 1997, also exhibited an above average growth rate. By contrast, growth in the agricultural sector was confined to 5 percent and industrial output to 4 percent.

7. Looked at over a longer period, output continues to be dominated by the agricultural sector. Despite below-average growth, the share of **Agriculture** in the economy remained around 54 percent in 1998, close to its average over the past six years. High growth rates of the early transition years were the result of reforms that produced quick results, in particular the privatization of agricultural production. With the potential for short-run productivity gains having been largely exploited, further growth in the agricultural sector will depend on the implementation

of structural improvements. In particular, the average farm size of about 1.5 hectares severely limits the scope for further efficiency gains. To address this problem, the authorities have implemented a land registration scheme which is expected to finish in 2001 (discussed below). Once registered, land can be purchased and sold on a secure legal basis which facilitates the consolidation of farm sizes. While there has been a substantial increase in the number of land transactions in 1998, it is too early to judge its effect on average farm sizes. However, the growth in the number of private agricultural enterprises declined markedly to some 3 percent in 1998 from the high levels of the early transition years (Table 3). A further potential impediment to growth is the limited availability of agricultural credit.

8. At the same time, a secular decline in industrial output has coincided with a rise in construction activity while the shares transport and other services have remained broadly unchanged. The trend of decline in **industrial output** reflects a sharp decline in the activity of state enterprises, while private sector output has increased (Table 4). However, a full assessment of the latter remains difficult, as regular data collection by the national statistical institute (INSTAT) has started only recently. Reflecting the dilapidated housing and infrastructure at the end of the communist era and continuing needs for new infrastructure in the market economy, the share of **construction** activity in the economy has been growing continuously since the early transition years. In 1998, it exceeded industrial output for the first time as the widespread destruction of housing and infrastructure during the riots in 1997 contributed to further demand. With public construction limited by tight fiscal constraints, the dominating part of construction activity is conducted in the private sector. Output in **other services** grew steadily between 1992 and 1996, reflecting mainly the development of the private retail and trade sector, although in the last year probably also in part the rise in the pyramid schemes. The service sector was hardest hit by the 1997 disturbances and even the recovery in 1998 left its output share below its 1992 level.

Price developments

9. Fiscal consolidation and tight monetary policy enabled the authorities to tame the inflationary surge resulting from the collapse of the pyramid schemes. After fiscal and monetary relaxation in 1996 had prepared the ground, inflation increased to 42 percent in 1997 when financial discipline and civil order broke down. The subsequent restoration of fiscal and monetary discipline helped stabilize the exchange rate and put a sharp break on inflation, which fell to 9 percent in the year to end-1998 and to 3 percent in March 1999. Disinflation continued in April 1999 when prices rose by only 0.4 percent over the year, showing no visible effect of the Kosovo crisis.

10. The development of the consumer price index in Albanian continues to be driven to a large extent by price changes for food items. Food contributes 75 percent to the overall index, and within this group fruit and vegetables as well as bread dominate with a share of 20 percent of all food items each. The composition of the CPI basket results in a relatively strong seasonal pattern of the index. Inflation tends to fall in summer when the domestic output of agricultural products reaches the markets and rises again in winter when supply decreases.

B. Fiscal Policy

Deficits and financing

11. Strong fiscal consolidation efforts in 1998 played a major role in reasserting financial discipline after the 1997 disturbances. A collapse in revenues during the civil unrest drove the domestically financed deficit up to around 10½ percent of GDP. Fiscal consolidation, in particular the introduction of a broad based VAT with a rate of 20 percent and tight expenditure control, helped slash the deficit to some 6½ percent of GDP in 1998. The decline in the overall deficit was more modest owing to the resumption of foreign financed investment that had stalled in 1997. The overall deficit declined from 12½ percent of GDP in 1997 to around 10½ percent in 1998. The 1999 budget calls for further fiscal consolidation with the domestically financed and overall deficits being reduced to 5½ percent and 9¾ percent of GDP, respectively. However, unanticipated spending to aid refugees from Kosovo is now projected to push the overall deficit to 13¾ percent of GDP. The additional deficit is expected to be largely financed by foreign grants and concessional borrowing leaving the domestically financed deficit as originally budgeted.

12. Fiscal analysis focuses mainly on the domestically financed budget deficit which incorporates extrabudgetary social security funds, i.e., the budgets of the Social Insurance Institute (SII) and the Health Insurance Institute (HII), but excludes foreign project financing on which information is deemed unreliable. Although the SII and the smaller HII are legally separated from the central government, a large part of transfer payments continues to be channeled through these two institutes. Budgetary transfers to the SII, whose budget amounts to roughly 5 percent of GDP, include the regular contributions for public employees as well as for unemployed and for private farmers. In addition, 15 to 20 percent of the SII budget consists of special government welfare programs that are outside the SII's core responsibility, including price subsidies for pensioners and war veterans allowances. Plans to improve coordination between the Ministry of Finance and the Ministry for Economic Cooperation and Trade (MECT), which manages foreign public investment projects, should pave the way for more reliable statistics for public investment and integrated fiscal planning and analysis in the future.

13. The budget deficit is financed domestically through treasury bills with maturities of three, six, or twelve months. The bills are sold in bi-weekly auctions organized by the Bank of Albania (BoA). The main buyer is the Savings Bank, and holdings of T-bills outside the banking sector are few. The Bank of Albania gives credit to the government through purchases of T-bills as well as through direct credits collateralized by T-bills. Foreign budget finance has been received mainly from the World Bank and the European Union (EU).

Revenues

14. Albania's tax revenues remain low compared to other countries of the same degree of development. In 1997, tax revenues amounted to less than 10 percent of GDP, in part owing to the temporary breakdown of public order and the ensuing inability to collect taxes. But even in the more stable environment of 1998, tax revenues did not exceed 12½ percent of GDP, still short of

the level necessary for a sustainable fiscal position in the long run. Taxes are projected to rise to 13½ percent of GDP in the 1999 budget.

15. Indirect taxes are the main source of revenues. About half of total tax revenues stems from the VAT, which was introduced in 1996 and modernized in 1997. The VAT rate is now 20 percent and covers most goods and services with very few exemptions. The full-year effect of the reform became visible in 1998 when VAT collection rose to 6¼ percent of GDP from 4½ percent a year earlier. The next largest source of revenue is customs duties (about 1/5 of the total) while excises on selected goods, such as fuel, cigarettes, and alcohol, contribute about one percent of GDP to revenues. Direct taxes on income, i.e. profit tax, personal income tax, and small business tax, play only a minor role for revenue collection. Uncertain legal provisions and deficiencies in tax payer registration inhibit the full implementation of these revenue sources. Also, a large part of the population draws subsistence from agricultural activities which takes place outside the tax net.

16. The government has continued to make progress in modernizing the tax system, focusing on its simplification and the reduction of distortions. With regard to trade taxation, customs rates have been reduced with a new maximum rate of 20 percent and the government has committed itself to further reductions in the future, especially as high tariff rates encourage smuggling. However, revenues are expected to remain unchanged as a share of GDP in 1999 as enforcement of customs duties will increase. To reduce distortions excise rates for imported and domestically produced goods have been unified at rates that are expected to increase excise revenues from 1.1 percent of GDP to 1.3 percent in 1999. To strengthen collections from direct taxes, the government reformed the personal income tax law, including by introducing taxation of interest income, and modernized the profit tax law. These measures, in conjunction with a full-year impact of an income tax surcharge to pay for increased public security expenditures,(the solidarity tax), are expected to generate close to 1 percent of GDP in revenues in 1999.[1]

17. Nontax revenues consist mainly of social security contributions and the Bank of Albania profit transfer. The share of social security contributions has diminished during 1997 and 1998 owing in part to the transition of a large share of the labor force from the public to the private sector where the collection of social security contributions is more difficult to enforce. An increase of the profit transfer in 1998 relative to 1997 was mainly a result of the higher interest rates as well as the large amount of new government debt borrowed in 1997.

Expenditures

18. The fiscal consolidation 1998 resulted partly from substantially lower non-interest current expenditures while capital expenditure grew by less than expected. Total current spending,

[1] The measures are discussed in greater detail in Section 3.

however, remained broadly stable at around 25½ percent of GDP as interest payments increased with the higher interest rates required for financial stabilization.

19. The decrease in non-interest current expenditures from 20½ percent of GDP in 1997 to 17½ percent of GDP in 1998 was achieved mainly through reductions in expenditures for personnel, social security, and operations and maintenance. Personnel expenditures decreased as budgetary employment was reduced, by 10 percent to 135,000 at end-1998, and wage increases were kept below inflation. In particular, after a year of unchanged nominal wages in 1997, the government granted a 20 percent increase in public wages effective from February 1998. At the same time, the system of bonuses and allowances that resulted in effective wages far exceeding nominal scheduled wages was discontinued and the bonuses were included in the regular wage schedule—although a one-time compensation was granted to civil servants that were severely negatively affected by the reform, such as those with large families. Given the steep increase in the price level in 1997, real public sector wages thus declined by some 20 percent from 1996 to 1998. Declining real public sector wages also helped to contain pension outlays, which had grown rapidly during the first stages of transition owing to more generous rules of entitlement as well as the age structure of the population. To further limit pension outlays the government gradually narrowed the pension schedule with smaller increases for high pensions resulting in a fall in the difference between average and minimum pensions. Also, eligibility criteria have been enforced more strictly and the retirement age is being gradually increased. Spending on operations and maintenance has remained subdued over the past years. While in the short run saving on those expenditures has provided the government with some leeway to finance urgent expenditures in other areas, such as social assistance, the low level of expenditure has left shortcomings in the infrastructure unaddressed, in particular in the public utilities. As a result, the quality of infrastructure is low and will require substantial improvements to allow long-run economic growth.

20. While investment spending increased from 4 percent of GDP in 1997 to 5¼ percent of GDP in 1998, the increase was much less than budgeted. Although some of the shortfall in the implementation of the investment budget can be explained by political instability and the unsuitable investment environment, the underperformance (which had also been a problem in earlier years) reveals a number of policy deficiencies. First, as noted above, the investment planning process is largely separated from the overall budget preparation. As a result, part of the funds intended for the investment program are not included in the budget, including local counterpart funds for foreign financed investment projects, e.g., for the acquisition of land for infrastructure projects. Consequently, funds have in many cases been insufficient and projects had to be cancelled. Also, budgetary funds to reimburse VAT and customs duties paid on aid-related imports have been inadequate and importers of aid goods have frequently complained about outstanding claims on the government and cumbersome refund procedures. Second, complex and nontransparent approval procedures for foreign financed investment projects have caused delays in the implementation of the projects. In particular, for most of the larger investment projects multiple ministries—the affected line ministries in addition to the Ministry of Finance and the Ministry of Economic Cooperation and Trade—participate in the decision making process and

coordination between ministries is often limited. Third, policy makers have turned first to lowering domestic investment outlays when the fiscal deficit target has come under threat.

21. Capital expenditure has been largely foreign financed. In 1997, more than half of the investment budget originated from foreign sources; in 1998 the balance moved further in favor of foreign financing. The most important multilateral sources of foreign financing are the World Bank and the European Commission's PHARE program, whereas the USA, Germany, and Italy have been the largest bilateral contributors.

C. Monetary and Exchange Developments

22. Judicious monetary management has been instrumental in lowering inflation from over 40 percent, in the aftermath of the collapse of the pyramid schemes in 1996–97, to about 2 percent in the first few months of 1999. Appropriately tight control over monetary aggregates, supported by a significant reduction in the domestically financed budget deficit, enabled interest rates to fall from close to 40 percent in mid-1997 to under 15 percent in May 1999 and confidence in the currency to be restored, as demonstrated by the stability of the lek and a fall in currency-deposit ratio. The monetary program supported under the ESAF arrangement has been on track with the performance criteria for the net domestic assets (NDA) and net international reserves (NIR) of the Bank of Albania met with large margins.

23. Strengthening the framework for monetary management and improving the financial sector have also contributed to increased stability. There has been a gradual move toward adopting indirect instruments of monetary policy, although direct instruments still play a central role and obstacles to their complete removals have not yet disappeared. Financial policies have aimed at strengthening the formal banking sector through privatization, and improved supervision and regulations. Of the three state-owned banks, one has already been liquidated, one is currently being sold, and the third is scheduled to be privatized by end-1999. Despite significant progress, however, further strengthening of banking supervision and prudential regulations is required. In addition, the role of private banks in attracting deposits and extending credit remains limited.

24. The credibility gained in fighting inflation has helped to limit the impact of the Kosovo crisis on prices and the exchange rate. So far there has been no sign of upward pressure on prices, and an initial 2–3 percent depreciation of the lek and withdrawals of bank deposits proved temporary. The inflow of significant external financing in the coming months, however, could seriously test the monetary policy framework. The need to accommodate the inflows to finance increased imports, which would require lower interest rates to mitigate potential upward pressure on the exchange rate, will need to be balanced against the possible impact on inflation.

Conduct of monetary policy

25. The principal aim of monetary policy has been price stability.[2] Policy is conducted through controlling growth in reserve money, as the intermediate target of monetary policy, taking into account current and prospective movements in prices and the exchange rate. The Bank has largely relied on direct instruments of monetary control, namely bank-by-bank credit ceilings and floors on interest rates on deposits with state-owned banks. In addition, monetary policy continues to be constrained by the rudimentary financial framework, the need to finance the fiscal deficit, the limited role of the private sector, and the thinness in the T-bill market. The Savings Bank is still frequently the sole bidder in the auction of primary T-bills.

26. The authorities' goal has been to strengthen monetary management by developing market-based instruments. In reality, the bank-by-bank ceilings have not played a binding role since the beginning of 1998, following the introduction of a prudential regulation preventing all banks with a ratio of nonperforming loans to total loans (the credit ratio) in excess of 20 percent to lend. Formal removal of direct instruments of monetary control and full implementation of market-based instruments, however, require the completion of the bank restructuring process, improvements in supervision and regulation, further deepening of the market for treasury bills, and a better understanding of the determinants of money demand and inflation. The plan is to remove floors on interest rates and ceilings on credit by early 2000, once the Savings Bank has been privatized.

27. The conduct of monetary policy has also been strengthened by the transfer of the management of the primary auctions of T-bills from the Stock Exchange to the Monetary Operations Department of BoA in August 1998, thus unifying management of domestic and foreign currency operations. Further development of the treasury bill market will enhance independence for monetary policy by diminishing its role in financing fiscal deficits. There has also been some progress toward improving the coordination between monetary policy and public debt management. Following advice from an MAE technical mission, a joint committee of representatives from the BoA and Ministry of Finance has been established. However, progress in operationalizing this committee has been very slow.

Developments in the financial system

28. The financial system in Albania has advanced steadily since transition began, but fundamental weaknesses remain: although the importance of private banks is increasing rapidly, the formal financial sector is still dominated by state banks and the informal sector continues to play an important role. Faults in the system were amplified by the growth and collapse of the pyramid schemes in 1996 and 1997, which underscored the need to speed up structural reform

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[2] The new constitution, approved in 1998, formally grants the Bank of Albania independence to implement monetary policy.

and introduce new regulations. The crisis also provided further proof of the need to enhance the role of private banks within a well-functioning and well-regulated environment.

29. The financial impact of the pyramid schemes would have been much more severe if the authorities had been forced into implementing a costly bailout from the budget or had not frozen the assets in the banking system of the two companies with the most depositors.[3] Administrators were hired from major international accounting firms in November 1997 to wind up five major companies, and in April 1998 the remaining 12 companies. The process of winding up is near completion. The crisis led to major legislative changes to help prevent the recurrence of similar phenomena: in particular the Banking System Law was revised, the Money Laundering Law was amended, and the enforcement of the Company Law and other commercial laws was improved.

30. While, starting from a very small base, the market share of private banks has increased substantially—in the year to March 1999 lek deposits in private banks doubled, domestic credit in leks rose seven-folds, and T-bills purchase 5-folds—their role in the domestic credit market is still minor. Private sector lending remains low and largely focused on trade-financing and fee-generating activities so far. In the first quarter of 1999, private banks held 35 percent of foreign currency deposits, but only 2.5 percent of deposits in leks. On the credit side, also their contribution was tiny: they provided 4.2 percent of domestic credits in leks and held 2.3 percent of treasury bills.

31. Further, and more substantial, progress in this area is clearly contingent upon a successful completion of the process of privatizing the state-owned banks. Of these, the operations of the smallest, the Rural Commercial Bank (RCB), were suspended in December 1997, and the majority of the deposits and a corresponding amount of liquid assets were transferred to the Savings Bank. The RCB was liquidated in March 1998 and the remaining assets and some liabilities were transferred to the Loan Collection Agency (LCA). The LCA's mandate is to undertake asset resolution for state-owned banks. The second-largest, the National Commercial Bank, was at the end of 1998 put under the control of a foreign Chief Executive Officer, which was responsible for managing its day-to-day operations, enforcing limits on new lending, and planning and proceeding with divestiture of the bank. A strategic buyer was selected in May 1999. The largest, the Savings Bank, was put under a governance contract in May 1998. Bank of Ireland International Services agreed to carry out the role of foreign manager for the Savings Bank and plans to privatize it by end-1999 are under way. The Savings Bank is virtually the sole provider of credit to the government and its privatization would be a truly major step toward restructuring the banking system in Albania.

32. Steps have also been taken to improve banking supervision and prudential regulation. A Banking System Law was passed in July 1998, which together with the Law on the Bank of

[3] See Jarvis, "The Rise and Fall of the Pyramid Schemes in Albania", forthcoming IMF working paper, for a detailed analysis.

Albania passed in December 1997, provides an adequate legal framework for banks to operate effectively and for bank supervisors to perform their responsibilities. A set of prudential regulations broadly in line with the Basle Core Principles is also now in place. Nevertheless, significant weaknesses remain and further progress is required. In particular, the institutional capacity and skills available to the BoA are still insufficient for effective supervision and regulation, and the staff lack appropriate training and experience. Moreover, while most Core Principles appear to be met from a formal perspective, in practice the current framework does not fully comply with the principles.

Trends in monetary aggregates, interest rates, and the exchange rate

33. Movements in monetary aggregates and interest rates over the past three years have, to a large extent, been shaped by developments relating to the pyramid schemes. During 1996 and 1997, the growth of the schemes led to a significant rise in deposits in state banks, although, thanks to the strict limits imposed on lending by state banks, this did not lead to a further rise in money through the multiplier. Following their collapse, there was a massive fall in deposits, owing to a partial seizure of the assets by the government and withdrawals by owners. The effect on the currency-deposit ratio, however, was largely absorbed by BoA purchases and then sales of T-bills.

34. Tight monetary policy, supported by the implementation in 1998 of the monetary program under the ESAF arrangement, led to a moderation in monetary growth from around 40 percent in mid-1997 to 20 percent in December 1998. Confidence in the banking sector and the lek was restored, as manifested by the positive compositional changes in financial asset holding: there has been a shift from cash holding, and also demand deposits in leks and in foreign currency, to time deposits in leks. In the year to March 1999, lek deposits in the banking sector rose by 41 percent compared with 18 percent for foreign exchange deposits. The share of lek deposits has steadily risen from 63.7 percent at the end of 1992 to 75.3 percent in March 1999, indicating that currency substitution and "dollarization" are not a problem in Albania. There is no evidence so far that the Kosovo crisis has seriously impacted this trend.

35. The increase in private sector credit has, however, been disappointingly small, mostly because of the prudential limits imposed on lending by state-owned banks. Arrears also remain a problem. At the end of 1998 they constituted 57 percent of total claims on state enterprises and the private sector, which is lower than 61 percent in 1997, but still quite substantial.

36. Short-term interest rates were raised from 10.5 percent at the beginning of 1996 to a high of 37 percent by mid-1997 following the pyramid scheme crisis. They were maintained at high levels, and only reduced cautiously as inflation began to fall. The short-term rate stood at 14.0 percent at the end of May 1999, while 12-month and 6-month rates were only slightly higher at 14.5 percent. The significant fall in inflation in recent months, however, has raised real interest rates to levels higher than anytime since transition began in 1991.

37. More recently, as a result of the Kosovo crisis, there has been some reversal of the downward trend in currency-deposit ratio, reflecting the need of the refugees and humanitarian

organizations, and increased government spending (financed by direct credit from the Bank): currency to broad money ratio is estimated to have risen from 26 percent in March to 28 percent by May. There have been no signs of panic, however, and some initial withdrawals of bank deposits proved temporary and the situation quickly normalized.

38. Albania's flexible exchange rate system has shown remarkable resilience to external shocks. Following its recovery from the impact of the 1997 disturbances, the lek remained quite stable, before appreciating somewhat during the last quarter of 1998 and the first quarter of 1999 (5–6 percent against both the dollar and the DM/euro). The initial depreciation of the lek following the Kosovo crisis proved temporary, requiring little interventions by the BoA. The lek has returned to its pre-crisis dollar value and has appreciated by a further 4 percent against the euro, reflecting the latter's weakness in recent months.

D. External Sector Developments

39. While developments remain generally volatile, the balance of payments has shown a significant underlying improvement in the 1990s. Until the late 1980s, Albania's external sector was largely state controlled and based on bilateral payments arrangements in nonconvertible currencies. Since 1989, market-oriented reforms have transformed Albania's trade and exchange systems to one virtually free of restrictions. The private sector has eroded the dominance of the state sector, a broad-based growth in exports of goods and services has taken hold, and émigré earnings have generated substantial inflows of private remittances. The current account deficit, while remaining large, has shrunk considerably since the early 1990s, and foreign exchange reserves have risen to a relatively comfortable level. At the same time, an active foreign exchange market, consisting largely of a thriving curb market and foreign exchange bureaus, has continued to support a substantial volume of foreign exchange transactions.

Recent balance of payments developments

40. The balance of payments position improved during 1998 (Table 28). Although the economic recovery from the 1997 recession led to a sharp rebound in imports and a widening of the trade deficit, the current account deficit, contracted to 6 percent of GDP in 1998 from 12 percent of GDP in 1997 owing to a strong increase in private remittances. External sector statistics, however, remain inadequate and probably exaggerate the improvement in the current account. In particular, sizable positive errors and omissions in 1997 probably reflected unrecorded remittances and receipts from illegal trade. Errors and omissions remained large in 1998, but only half of the 1997 level. As before, the current account deficit was financed by a capital account surplus, generated by the continued inflow of official grants and loans, and by direct investment. Official reserves continued to increase, bringing reserve cover to over 4½ months of imports of goods and services at end-1998.

Merchandise trade

41. After fluctuating sharply during the pyramid crisis, **exports** returned to their underlying upward trend in 1998. The recovery in exports was not hindered by the strong appreciation of the

real effective exchange rate, after mid-1997, (Figure 2), and exports continued to grow at a robust rate of about 15 percent in the first quarter of 1999. The shift away from the traditional reliance on mineral exports (chromium, copper and oil) to light manufacturing (textiles and shoes) continued, after a brief interruption in 1997 (Table 29). Export-oriented light manufacturing mainly comprises processing centers for imported raw materials, and is dominated by private foreign investors, mostly from neighboring Italy and Greece, attracted by low wages and an educated labor force. Other areas, such as food processing and small manufacturing, are still nascent. The shift away from traditional exports was exacerbated by a drop in world prices in 1998 which reduced profitability of both chromium and copper exports, as well as inherent inefficiencies in these state-owned mining enterprises and the lack of modernization. Similarly, obsolescence of the state-owned electricity sector hindered exports of hydropower resources to neighbouring countries, such as Greece and the former Yugoslav Republic of Macedonia (Table 31).

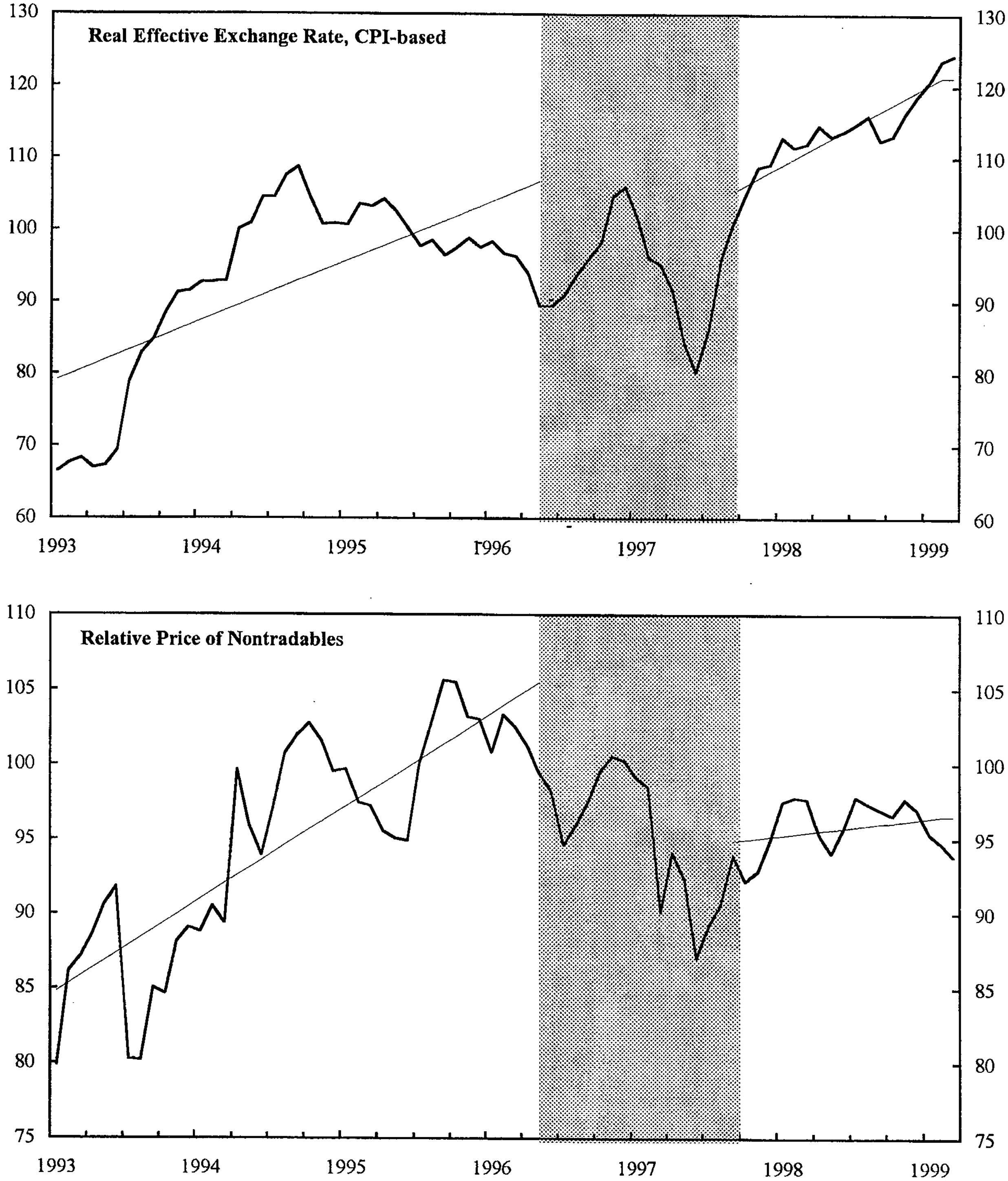
42. With economic recovery under way, **imports** rose sharply, although in 1998 they remained somewhat below their 1996 peak. The composition of imports continued to shift toward food, beverages and tobacco (reaching 23.8 percent of total imports in 1998) and manufactured goods (22.3 percent). The share of machinery and transport equipment continued to decline and reached 16.5 percent in 1998, in part mirroring weaknesses in foreign direct investment. In the first quarter of 1999, imports fell in line with seasonal trends but were nonetheless about 4.0 percent above their level in the same quarter in 1998.

43. From the geographical perspective, European Union countries continued to dominate merchandise trade, with Italy, Greece and Germany being the principal trading partners. The importance of trade with the former CMEA countries has declined in recent years, while developing countries from the Mediterranean basin and the Far East are beginning to account for a larger share of total trade.

Services

44. Albania's net payments for current invisible transactions remained at a low level in 1998. Following the commercial debt restructuring in 1995 interest payments on foreign debt are relatively small (about US$7 million a year). At the same time higher receipts from tourism, transportation, insurance, and communications, broadly offset higher payments for transportation, communications, and substantial technical assistance provided by the international community. Stronger tourism receipts partly reflected improvements in domestic security as well as spending by refugees from Kosovo who arrived in Albania in 1998, prior to the full-scale eruption of the Kosovo crisis about a year later. The government has also been making efforts to foster the tourism industry through investment in infrastructure and encouraging foreign investors to enter this market through investments in hotels and other accommodations.

Figure 2. Albania: Competitiveness Indicators 1/
(1995=100)



Source: Fund staff estimates.

1/ Shaded area represents a period of nominal exchange rate instability associated with the pyramid schemes.

Private remittances

45. The turbulent economic and political climate in the aftermath of the demise of communism fuelled mass migration; an estimated 15–20 percent of the labor force left the country, mostly to neighbouring Greece and Italy. Remittances from these sources continue to be the largest single source of foreign exchange inflows (about 14.4 percent of GDP in 1998). Cash transfers, mostly in U.S. dollars, Deutsche marks, Italian liras and Greek drachmas, tend to peak during the second and third quarter of the year. During 1998, however, private remittances arrived relatively uniformly, possibly suggesting the improved economic status and an increasing shift toward non-seasonal occupations of Albanians working abroad. Data limitations, however, prevent definite conclusions on the nature and exact level of remittances, with the possibility that receipts from illegal exports and capital inflows are being classified as remittances.

Financial account and official reserves

46. While returning political stability provided some boost to the capital account in 1998, private and official inflows remained well below the levels of 1995–96. Official transfers and loans experienced a modest upturn, but foreign direct investment remained at only US$45 million (1.5 percent of GDP—a relatively low level for a transition economy). With the current account declining and the capital account improving, official reserves increased to US$384 million (4.7 months of imports of goods and services) at end-1998.

47. Albania continues to enjoy access to concessional official assistance, a large proportion of which takes the form of official grants, mainly project-related from the European Union. During 1997-98 the gradual substitution from food and humanitarian aid towards project-based lending, and within that an increasing importance of multilateral lending, continued. However, total loan disbursements increased only slightly to US$53 million in 1998, after the crisis of 1997 had significantly disrupted project implementation. Only a small portion of project-related financing was on non-concessional terms, mainly from the European Bank of Reconstruction and Development and the European Investment Bank.

48. Foreign direct investment in Albania has declined markedly reflecting weaker financial and political stability as a result of the 1997 crisis, despite relatively liberal regimes for trade, foreign exchange, and investment. The nature of foreign direct investment had been changing gradually from a focus on small-scale light industry to tourism-related activities and strategic sectors such as oil exploration, minerals (chromium) and gas production. This development in part reflected the shift in emphasis of the privatization strategy to the strategic sectors since 1995, and better infrastructure and communications facilities. In addition, following the enactment of the Petroleum Law in 1993, several production sharing agreements have been signed with foreign companies for off-shore and on-shore sites. Incentives created by liberalization of the external sector regime, however, could not fully compensate for the high country risk, and foreign direct investment rose only slightly to US$45 million in 1998, still significantly below the 1995 level of US$89 million.

49. Foreign exchange reserves of the BoA have increased steadily in recent years, reaching US$384 million at end-1998. The accumulation of reserves in the central bank reflected official aid inflows (including balance of payments support) and, more generally, the underlying improvement in the balance of payments. Reserves were not adversely affected in the first two months following the outbreak of the Kosovo crisis in March 1999.

External debt

50. A sustained effort to regularize relations with external creditors since 1993 has led to a significant reduction in the external debt burden to tolerable levels (29 percent of GDP at end-1998), and a corresponding decline in debt service payments. Albania's external indebtedness had reached as high as 108 percent of GDP at end-1992 mainly due to short-term borrowing by the former State Bank of Albania to support a highly speculative reserve management policy. By end-1993, more than three-quarters of Albania's stock of external debt comprised arrears to commercial and bilateral creditors, including Paris Club creditors, and debts owed under inoperative bilateral clearing accounts (Table 33). As these external arrears threatened to jeopardize Albania's external trade activities and soured relations with potential bilateral donors, Albania made major strides towards eliminating these arrears and regularizing relations with creditors. As a first step, short-term obligations (US$36.7 million) to Paris Club creditors were rescheduled in December, 1993. In addition, US$6.2 million in arrears on medium-term debts were paid in full at end-March 1994. A significant second step was a debt and debt service reduction agreement (DDSR) in 1995 with commercial bank creditors. The agreement settled claims worth US$371 million of principal and US$111 million in past due interest (after adjustments). The final cost of the settlement was US$96 million, translating into an overall buy-back equivalent price of about 26 cents per dollar of principal. The third notable step was a Paris Club agreement on the terms of reference for rescheduling Albania's debt in arrears to Russia and Italy in July 1998, which provided a framework for reconciling and rescheduling of this debt.

51. As a result, Albania's stock of external debt in arrears stood at US$359 million at end-1998. Of this, inoperative bilateral clearing (dollar) accounts were worth US$74 million and bilateral clearing (ruble) accounts US$172 million (valued at an official US$/ruble exchange rate of 1.6), the main creditors being Russia, China, Yugoslavia, the Czech Republic, the Slovak Republic, and Romania. Most of these debts remain to be reconciled and eventually rescheduled. In addition, Albania still holds about US$52 million of commercial debt (mostly unconfirmed letters of credit) in arrears, and arrears of about US$22 million to foreign telecommunication agencies. The growing importance of multilateral lending to Albania is reflected in the increase in the share of multilateral debt from just 6 percent of total debt in 1993 to about 35 percent in 1998. Monitoring of external debt flows improved in 1998 with the creation of an external debt database at the Ministry of Finance.

Exchange and trade system

52. Since 1992, Albania's exchange and trade system has been largely free of restrictions. At the same time, there has been a steady progress towards creating an open, multilateral trading

system. Exchange restrictions on current transactions have been largely eliminated, except for outstanding debit balances under inoperational bilateral payments agreements. Most export licensing requirements have been converted into export bans, which have been subsequently eliminated and exist only on scrap metal (because of fears about asset stripping of state-owned enterprises that have yet to be privatized). The only known exception is export licensing on wood and wood products, which is maintained for environmental reasons and operated as a near-ban. All quantitative import restrictions were removed in 1992. Automatic import licensing of fuel products was introduced in early 1999 to support the application of domestic technical standards. The import tariff system was rationalized and simplified to a three-tier structure with rates of 7, 25, and 40 percent in 1995. In January 1997, the top rate was reduced to 30 percent with four other rates of 0, 5, 10, and 20 percent, and in April 1999 the top rate was lowered further to 20 percent.

53. Albania's request for accession to the World Trade Organization (WTO) is progressing. A memorandum on foreign trade regimes was submitted in early 1995 and the Working Party on Albania's accession request is in the process of scrutinizing it to determine its consistency with the WTO, while market access negotiations are proceeding in parallel.

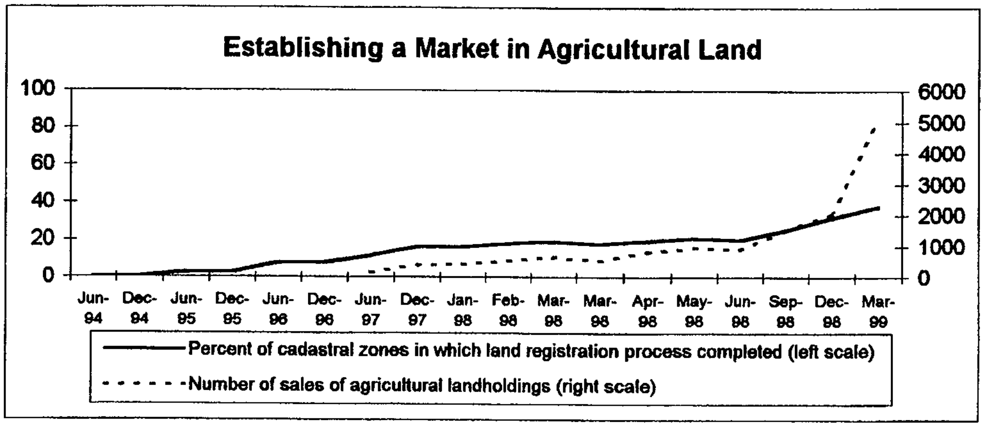
III. Structural Transformation

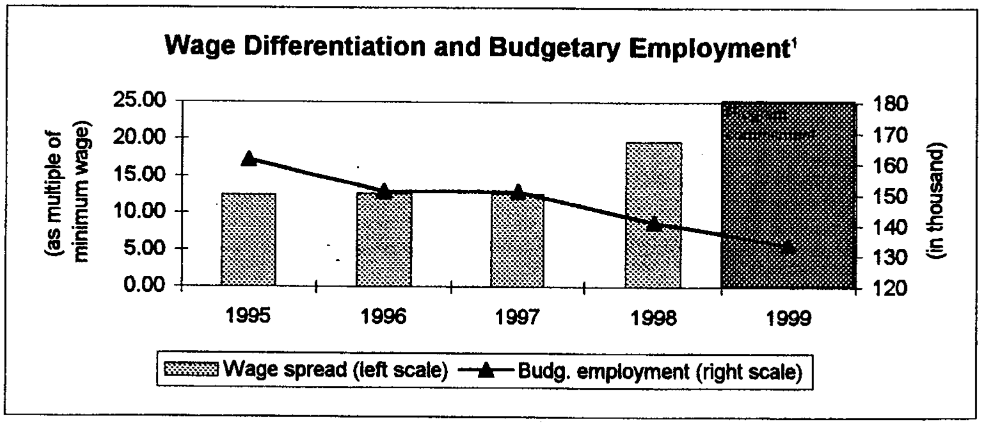
A. Agricultural Land Market

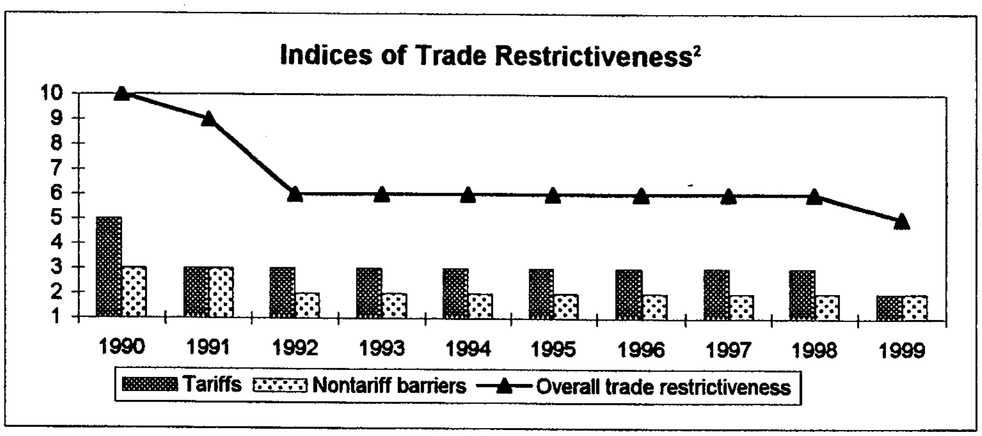
54. Despite much progress, there remains considerable potential for productivity increases in the agricultural sector. The privatization of agricultural land immediately after the end of the communist era induced sizeable productivity increases and agricultural output increased by more than 60 percent between 1991 and 1995. With the land distribution process largely finalized, the priority is to develop an agricultural land market in order to consolidate landholdings and raise average farm sizes.

55. To encourage the development of the land market, the government has embarked on a medium-term strategy aimed at facilitating agricultural land transactions through increased land registration and a modern legal environment. In particular, the government has established registration offices in all cadastral zones and established registration procedures. A package of laws approved in April 1998 clarified and simplified the legal framework for land transactions, removing the articles relating to priority claims in land sales, establishing a procedural framework for the leasing of agricultural land, and allowing undistributed state lands to be used to compensate former landowners in cases of conflicting claims on land holdings. These measures have yielded positive results with land registered amounting to one third of total agricultural land at end-1998 (Figure 3). Also, the number of land transactions has been rising continuously.

Figure 3. Albania: Indicators of Progress in Structural Reform, 1990-99







[1] Wage differentiation as indicated by the ratio of the difference between maximum and minimum wages in the public sector to the minimum wage. Budgetary employment in annual averages.

[2] The indices were developed in "Trade Liberalization in Fund-Supported Programs" (EBS/97/163). The maximum index values are 10 for overall trade restrictiveness, 5 for tariffs, and 3 for nontariff barriers. The minimum index value is one for all indices. For 1999, data is of end-May.

56. To ensure full compliance with legal requirements and allow the settlement of opposing land claims, land registration proceeds in several steps. The first step to registration is the issuing of an allotment certificate (tapi) indicating which properties belong to a specific family. These have usually been issued early on in the transition process. On the basis of the tapis all properties in a cadastral zone can then be mapped and ownership sheets (kartellas) be established. Once all ownership sheets for a cadastral zone have been established, a list of these sheets is put on public display for 90 days to allow voicing of potential conflicts. Experience shows that conflicts are usually raised shortly after the public display has started. After the end of the display period and the solution of possible conflicts the ownership sheets are officially registered and ownership certificates are issued.

B. Enterprise Privatization

57. A new, more flexible privatization strategy adopted in March 1998 has accelerated the previously stalled privatization process. Before 1998 privatization proceeded only slowly owing to political opposition and low investor interest. The new strategy allows for the sale of publicly owned businesses below book value—which in many cases does not reflect market values—enabling the government to divest the state share in joint ventures to private sector counterparts and private enterprises in strategic sectors. There are some differences in the privatization strategies relating to the type of enterprise, where small and medium-sized enterprises (SMEs) can be distinguished from those of the former Enterprise Restructuring Agency (ERA) as well as from strategic enterprises.

58. Nearly all SMEs that had remained in public ownership after the first wave of privatization early in the transition process were sold or liquidated in 1997 and 1998. Many of the enterprises comprised only a few assets with very low market values, such as old machines and warehouses, and were not economically viable. These were usually put into liquidation with the assets being transferred to local authorities. Sales of enterprises were usually organized in the form of auctions in line with the privatization laws. There was very little foreign interest in SMEs with only three enterprises going to foreign investors. A small number of SMEs, namely those involved in national security or the provision of public goods, will remain in public ownership.

59. Of the 32 ERA enterprises, all but three had been sold, leased, or liquidated by March 1999. The ERA had been established in 1993 to deal with larger public enterprises or those where political considerations, for example regarding regional unemployment, were involved. While the ERA succeeded in downsizing the enterprises, few were privatized or liquidated, and the agency was closed in 1996 and the responsibility for the enterprises transferred to the Ministry of Privatization. Three alternatives were developed for dealing with the former ERA enterprises: sale, lease, or liquidation. Sales were again organized in auctions. Lease contracts involve a long-term commitment (e.g., for 20 years) to maintain and manage the facilities involved. As a special feature, the price of the lease may depend on the number of jobs kept or created with more jobs reducing the price as, for example, in the case of the recent transfer of the Elbasan steel plant. Liquidation comprises the breaking up of the respective company and transfer of ownership of the

assets to interested parties, if possible by selling them at market prices. There was some foreign interest in the former ERA enterprises and some lease contracts involve foreign counterparts.

60. The privatization of strategic enterprises—telecommunications, mining companies, the oil company, and public utilities—has been lagging and will require further preparation. Except for one mining company, no strategic enterprises have been sold so far. Generally, a specific privatization strategy needs to be developed for every enterprise in cooperation with privatization advisors covering the necessary legal and management decisions on the way to privatization. In many cases, the enterprises need to be restructured to make them attractive investors, including by separating fringe activities that can be sold individually from the core businesses.

61. While privatization of the telecommunications sector may proceed relatively rapidly, natural resources and the public utilities are expected to require longer preparation periods. In the mining sector, the government has recently undertaken steps to relieve the core businesses from marginal activities which should make the former more attractive to investors. The state-owned oil company has been split into three units, dealing with upstream activities, refining, and selling and servicing, respectively. For both mining and petroleum sector, the authorities plan to complete the requisite privatization legislation by September 1999. The public utilities (electricity and water) are in poor financial shape and considerable efforts will be necessary to make them attractive to potential, probably foreign, buyers. In particular, the financial position of the two companies and their mutual financial obligations need to be established before further measures can be implemented. Concerning the electricity company, KESH, a financial plan for 1999 and later years will be presented in the near future and its management will be strengthened through foreign involvement. Distribution losses of close to 50 percent (mid-1998), largely resulting from electricity theft, and shortfalls in bill collection for electricity from households of around 30 percent will be among the areas to be addressed immediately.

C. Public Administration Reform

62. To overcome the lapse in public administration reform in 1997 the government adopted a new strategy in 1998 focusing on establishing a modern legal environment for the civil service, modernizing personnel management, and increasing the flexibility of the wage structure. A new civil service law has already been drafted aimed at depoliticizing public employment and establishing a civil service based on merit. Also, a Supreme Audit Institute has been established, centralizing external audit functions in the civil service to improve governance. A civil service commission will start operating shortly to oversee the implementation of the new civil service law in particular with regard to personnel decisions. Finally, a review of the salary structure in the civil service will be completed within the next few months. This will provide the basis for a wide-ranged revision of the salary structure intended to attract and retain the most qualified staff in the civil service.

63. To take responsibility for civil service reform, the Department of Public Administration, which is attached to the Deputy Prime Minister's Office, has been strengthened. The department remained inoperational for many months due to under staffing and the lack of a legal framework.

These deficiencies have now been addressed through an increase in the department's staff from 5 to 14 in 1998 and the drafting of the new civil service law. One of the department's first activities will be the redesign of the salary scale. To improve planning capabilities, a database for public employment at the department of public administration is also being developed.

64. Despite the lack of detailed information on the structure of employment in the civil service, there is evidence of overstaffing and a compressed wage schedule in the Albanian civil service. Since end-1997, the number of budgetary employees has been reduced by more than 10 percent without visible losses in the quality of public services (Figure 3). Average wage increases have been modest in line with the need for fiscal consolidation, but substantial increases were directed at core groups of civil servants in early 1998: a 60 percent increase was directed at some 10,000 public order personnel and about 5,400 senior civil servants received a 40 to 100 percent increase. Also, allowances have been included in the base wage as of February 1998 resulting in a rationalization of the pay structure. Since late 1998, public order personnel have received a further bonus financed through the so-called solidarity tax.

65. With the aim of improving the organizational structure of policy execution, the government decided at end-1998 to conduct functional reviews in four ministries: the Council of Ministers, the Ministry of Finance, the Ministry of Local Government, and the Ministry of Justice. The functional reviews will provide a detailed analysis of the structure of the respective institutions and will, in a further step, be used to detect over staffing in the civil service. Building on the experience with the four ministries, other ministries, in particular those with many budgetary employees, will undergo the same exercise that should reveal significant scope for further rationalizaton. The review of the Council of Ministers was completed in April 1999,

D. Strengthening Fiscal Revenues

66. To strengthen its revenue base Albania has introduced a number of major tax policy and tax administration measures in recent years. Tax policy measures have consisted primarily in establishing a modern tax system through the adoption of new laws and regulations for direct and indirect taxes. However, in a country with weak institutional capacity, at least as much effort is needed to implement the existing rules and to enforce the payment of taxes.

67. Efforts on the administration side have focused on the customs area, which generates some 60 percent of total tax revenues, in particular addressing smuggling, under valuation of imports, and corruption in the customs force. To combat smuggling, the government has worked closely with a technical assistance team financed by the EU to modernize customs procedures. In the aftermath of the 1997 crisis, a pre arrival information system (PAIS) was set up with the major trading partners through which Albanian customs offices were informed by their foreign counterparts about the details of all shipments leaving the participating countries for Albania. Using this system, customs officials could establish whether the information on volumes and prices provided by importers matched the information from the exporting countries. While the system was very successful in the beginning, over time collusion between Albanian importers and exporters in the neighboring countries increased, and prices stated by exporters and importers

converged to the publicly known minimum prices. Nevertheless, the system continues to provide valuable information on the volume of shipments.

68. To address under valuation of imports in a systematic way, the customs authorities have developed a customs reference valuation file for use in all major customs houses. Under valuation reflects the lack of an information base at customs offices to apply true market values to imported goods. As a result, customs officials have referred regularly to minimum prices set out in customs regulations which, in many instances, substantially deviated from the true values. An electronic file containing market prices for all major traded goods was provided by Italy to the Albanian customs in early 1999. The file is also updated using information from past imports as recorded by the customs.

69. While smuggling and corruption depend to a large extent on economic conditions, such as price differentials, deficiencies in Albania's legal framework also inhibited decisive counter measures. After a long period of drafting, the parliament passed a new customs code in April 1999, which corrects the major weaknesses of the preceding legislation. In particular, the code imposes significant fines for smuggling and related offences and provides the basis for establishing an anti-smuggling unit within the Customs Directorate. To fight corruption, the code also establishes the basis for increased internal auditing and contains measures to apply when corruption of customs officials is detected.

70. With a view to enhancing tax collection by the Tax Directorate, a large taxpayer office was established in Tirana at end-1997. The large taxpayer office monitors and controls the 200 largest taxpayers in the country, providing them with an integrated service on all tax obligations. It is staffed with skilled and experienced auditors and tax officers who are able to provide efficient service to the taxpayers and enforce tax compliance. Computerization has proceeded gradually over the past years in line with organizational progress in the Tax Directorate. While the tax administration would welcome further rapid computerization, tax officials acknowledge the need to establish a modern organizational framework as a condition for reaping the benefits of further automation.

71. In addition to improving tax administration, Albania has also conducted a major modernization of its tax laws. The process started in October 1997 with changes to the VAT which had been established in mid-1996, replacing an ineffective turnover tax. The initial tax rate of 12½ percent was increased to 20 percent and most exemptions, including on bread and kerosene for heating purposes, were abolished. Currently, standard VAT exemptions are granted for financial services, leasing of land and buildings, and non-profit activities, while specific exemptions exist for oil exploration and medical supplies.

72. The government has also implemented several measures to strengthen the personal income tax. Introduced in 1992, the personal income tax has never contributed more than 0.3 percent of GDP to tax revenues. This was a result of a low marginal tax rate, tax exemptions for various kinds of income, and low levels of enforcement owing to weak administrative capacity. With effect from the beginning of 1999, major shortcomings have been addressed. The tax base now

includes not only wages but also cash benefits, such as bonuses. The marginal tax rate has been raised to 30 percent, in line with the profit tax rate. In addition, interest income will be taxed at a rate of 10 percent by means of a withholding tax. These measures are expected to more than double income tax revenues as a share of GDP in 1999. However, low enforcement levels remain a problem with the continuing reduction of the public sector workforce, where the income tax is relatively easy to collect, exacerbating the situation.

73. The profits tax has also been reformed. Introduced in 1992, it has never yielded significant revenues owing to the low and declining profits in the public sector, where tax collection is easier than in the private sector, and from the existence of various tax incentives which reduced tax obligations. The reform of the profit tax law, coming into effect in early 1999, aims at simplifying the tax rules so as to facilitate administration, increase equity, and set a modern tax framework capable of coping with new developments such as foreign direct investment. The new law contains a single tax rate of 30 percent. No new tax holidays will be granted and existing tax holidays are being phased out. Furthermore, the rules for depreciation allowances are considerably simplified with four broad asset categories and a general depreciation rate of 20 percent for most business assets. The law also provides rules for the treatment of transfer pricing with internationally operated businesses. Enforcement is strengthened through enhanced rights for the tax authorities to seize assets of non-compliant taxpayers.

74. Finally, after a brief eruption of civil unrest in September 1998, the government introduced an additional tax, the Solidarity Tax, to finance wage increases for public order personnel. The tax imposes a fixed nominal monthly levy on taxpaying individuals and businesses with the proceeds earmarked for the Ministry of Public Order and the Ministry of Defense. Although originally intended to be temporary, the Solidarity Tax may stay in effect for the longer term given the fragile domestic and external security situation.

E. Governance and Legal Reforms

75. Albania continues to suffer from poor governance, reflected in low institutional capacity of the government bureaucracy as well as widespread corruption. A survey conducted by the government in cooperation with the World Bank in 1998 revealed that the population has very little confidence in the state institutions' ability to fulfill their tasks efficiently and that corruption is perceived as permeating essentially all areas of public activity, with the customs administration and the judicial sector being affected worst. In particular, deficiencies in the judicial area inhibit economic and social stabilization as they preclude the establishment of a clear framework in which individual activity can take place.

76. To develop a comprehensive anti-corruption strategy, the government held an "Anti-Corruption Workshop" in Tirana in June 1998, aimed at identifying means of addressing Albania's serious problems. Following the conference, the government presented a detailed action plan for combating corruption, focusing on reforms in five areas: public administration reform, legal and judicial reform, economic policy reform, public expenditure management, and public awareness. The plan is being implemented under the responsibility of the Deputy Prime Minister, assisted by a

technical-level monitoring group. In addition to the reforms in public administration discussed above, the measures relating to the customs administration include establishing transparent recruitment and promotion procedures in the customs administration, training of customs officials, and the establishment of an anti-smuggling unit in the customs directorate. Measures in other sectors comprise posting public information on the budget funding and the agreed service fees at schools, hospitals, and other public institutions, and the publication of procurement rules in newspapers.

77. The judicial sector in Albania suffers not only from corruption but also from lack of legal information, the low professional quality of judges owing to poor education and political influence in recruitment decisions, poor court management, lack of trained personnel, and inadequate physical infrastructure. The government has made a start in addressing some of the problems. It issued the regulation to create the Judicial Inspector's Office, intended to carry out investigations of complaints against individual judges and to be involved in all major personnel decisions; however, the office has yet to start operating. Also, a re-accreditation test for active judges with less than ten years experience has been prepared and given to the majority of judges. Those failing the test will face expulsion from the profession. To increase public awareness of legal affairs, a state publication office has been established to ensure that all laws, regulations, and court decisions are publicized and accessible by all interested parties. The government is also drafting a plan to improve the standards at the Tirana law school, in the short term through reforms to the curriculum and changes in exam procedures, and in the longer term through a complete modernization of the university, including its physical facilities.

Albania: Summary of Tax System at End–April 1999

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	A schedular tax on wages and other specified sources of individual income of residents of Albania. Physical persons in trade and services pay the small business tax instead. Enterprises withhold the tax on wages from employees, monthly.	The first 10,000 lek of monthly wages are exempt. Also exempt are: state unemployment benefits, pensions and other transfers. The tax does not apply to income from self–employment, which is covered by the small business tax.	**monthly wages (lek) rate** 10,001–20,000 5% 20,001–30,000 10% 30,001–50,000 15% 50,001–80,000 20% 80,001–120,000 25% ours 125,000 30% 10% flat rate on other income subject to tax. Revenues from lottery games and casinos 20% Revenues from transfer of right to ownership onto immovable property (in percent of sale price; in million of leks) 0–2 5% 2–4 1% 4–6 2% Over 6 3%
1.1.2 Small Business Tax	A tax on all small businesses with an annual turnover of less than 5 million leks. The tax is levied as a fixed fee under a threshold turnover, depending on the nature of the business. Above the threshold, a percent rate is applicable.	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. A tax rate of 4 percent is levied on the annual turnover between 2–5 million leks.
1.2 Taxes on Corporate Income	A tax on profits of domestic and foreign corporations conducting business in Albania.	Foreign tax credit. No domestic double taxation of dividends.	A flat rate of 30 % applies to income of all corporations.

Albania: Summary of Tax System at End–April 1999

Tax	Nature of Tax	Deductions and Exemptions	Rates
	Deductions are defined by the Ministry of Finance. Loss carry–forward for 3 years.		
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: 32.5% of gross wages of employees, between a floor and a ceiling (set at 6,040 leks per month and 18,120 leks per month from February, 1998). Health insurance: 1.7% 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: 10% Health insurance: 1.7%
3. Property Tax	Tax is levied separately on agricultural land (twice yearly, in August and November), and on buildings. The agricultural land tax is currently suspended.	Property of international organizations; persons affected by natural disasters such as floods; buildings let at controlled rents. For low income families receiving social assistance the full liability is paid by the state.	**Agricultural land**: from 1,500 leks/hectare for class 10 land, to 6,000 leks/ha for class 1 land (in steps of 500 leks/ha). **Buildings**: rate 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% of tax due, if paid before the due date.

Albania: Summary of Tax System at End–April 1999

Tax	Nature of Tax	Deductions and Exemptions	Rates
4. Domestic Taxes on Goods and Services			
4.1 Value Added Tax	A general tax on domestic consumption, implemented as a tax on (i) imported goods, and (ii) the supply of goods and services by registered taxpayers (with turnover of 5 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 (etc.) purposes by non–profit organizations; and supplies to diplomatic and consular missions. (b) Medicines and medical equipments 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 by–products In the case of imports, the tax is based on customs value including import duty.	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 duty, depending on the commodity. Tobacco 60% Beer 50% Soft Drinks 5% Mineral Water 5% Coffee 20% Benzene up to 89.9 octane 77% " over 90 octane 90% Gazoil 50% Kerosene 80% Lubricant oils + all kinds of grease 50% coke, oil, bitumen, toluol, sulfur, xylol, solvent 20% Other oil sub-products 90% Sailor, Mazut 5% Excise Value per banderole: Cigarettes Quality I: lek 15 per pack II: lek 15 per pack III: lek 11 per pack

Albania: Summary of Tax System at End-April 1999

Tax	Nature of Tax	Deductions and Exemptions	Rates
			Raki Lek 120 per liter Wine Valued up to lek 300 per liter Lek 50 Valued over lek 300 per liter Lek 150 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 charged duty according to their classification in the 6-digit Harmonized System. For many imported items, minimum customs values are applied.	Major exemptions are for: (a) goods imported under government agreements, and where the duty exemption is explicitly stated in the agreement; (b) goods for Rinas airport project; (c) certain imports of contractors in oil exploration; (d) humanitarian aid.	The tariff nomenclature contains 4 tariff rates (0, 5, 10, 20).
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, hotel tax (for foreigners), airport arrival and departure tax, business registration tax, and stamp duties.	Various, under the different taxes.	
6.2 Solidarity Tax	A tax on private person and businesses; fixed amount per taxpayer	Monthly salaries under 10,000 leks.	Monthly rates. Individual 500 leks Small businesses 1,000-2,000 leks Large private business 5,000 leks Large state business 100,000 leks.

Table 1. Albania: Basic Indicators, 1992-98

	1992	1993	1994	1995	1996	1997	1998 Est.
				(Percent change)			
Real GDP	-7.2	9.6	9.4	8.9	9.1	-7.0	8.0
Retail prices (period average)	226.0	85.0	22.6	7.8	12.7	32.1	20.9
Retail prices (during period)	236.6	30.9	15.8	6.0	17.4	42.1	8.7
				(In percent of GDP)			
Saving-investment balance							
Foreign saving 1/	57.1	28.7	14.3	9.7	11.5	14.3	8.3
Domestic saving	-51.9	-15.5	3.6	8.3	4.0	1.7	7.7
Public 2/	-21.9	-14.1	-10.6	-6.7	-8.6	-10.8	-8.1
Private	-30.0	-1.5	14.2	15.0	12.6	12.4	15.9
Investment	5.2	13.2	17.9	18.0	15.5	16.0	16.0
Public	4.0	9.5	8.6	8.2	4.5	4.0	5.2
Private	1.2	3.7	9.3	9.8	11.0	12.0	10.8
Fiscal sector							
Revenues	23.5	25.7	24.5	24.1	18.6	16.9	20.3
Expenditures 3/	44.0	34.9	31.2	30.8	29.0	27.3	27.8
Domestically financed deficit	20.0	9.1	7.0	6.6	10.6	10.8	6.4
Overall deficit	20.3	14.4	12.4	10.3	11.7	12.6	10.4
Monetary indicators							
Broad money growth (in percent)	...	75.0	40.6	51.8	43.8	28.4	19.9
Growth in private sector credit (in percent)	...	...	61.4	15.9	30.5	19.0	15.8
Velocity of circulation	...	3.68	2.83	2.22	1.97	1.92	1.94
				(In millions of U.S. dollars)			
External sector							
Current account balance	-104	-45	-118	-58	-168	-199	-90
(in percent of GDP)	-14.7	-3.7	-5.9	-2.4	-6.2	-8.7	-3.0
Official transfers	330	320	161	118	77	77	97
(in percent of GDP)	46.5	26.1	8.1	4.9	2.9	3.4	3.2
Current account balance 4/	-434	-365	-279	-176	-245	-276	-187
(in percent of GDP)	-61.1	-29.7	-14.1	-7.3	-9.1	-12.1	-6.1
Trade balance	-454	-490	-460	-474	-692	-519	-621
(in percent of GDP)	-64.0	-39.9	-23.2	-19.6	-25.7	-22.7	-20.4
Gross international reserves	72	147	204	240	275	306	384
(in months of imports of goods and nonfactor services)	1.4	2.3	3.2	3.5	3.1	4.5	4.7
Memorandum items:							
Nominal GDP (in billions of leks)	53.2	125.3	187.9	224.7	281.0	341.7	460.6
Nominal GDP (in billions of U.S. dollars)	0.7	1.2	2.0	2.4	2.7	2.3	3.0

Population and Social Indicators

Population (mid-1995, in millions)	3.3
Urban population (percent of total population)	37
GNP per capita (1995, in U.S. dollars)	745
Life expectancy at birth	73
Infant mortality (per 1,000 live births)	31

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, 1992-98 1/

	1992	1993	1994	1995	1996	1997	1998
	(In millions of leks at current prices)						
Gross domestic product	50,698	125,335	184,393	229,793	280,998	341,716	460,631
Industry	8,547	17,361	23,110	26,943	34,309	42,351	55,047
Agriculture	27,490	68,487	100,749	125,435	144,825	191,269	250,705
Construction	3,867	11,344	17,720	23,620	31,360	38,423	58,037
Transportation	1,519	3,875	6,211	8,115	9,006	9,362	14,024
Other services	9,275	24,268	36,603	45,680	61,498	60,311	82,817
	(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
Industry	1,894	1,705	1,671	1,771	2,012	1,899	1,978
Agriculture	6,092	6,726	7,284	8,246	8,493	8,578	9,007
Construction	857	1,114	1,281	1,553	1,839	1,723	2,085
Transportation	337	381	449	533	528	420	504
Other services	2,055	2,383	2,646	3,003	3,606	2,705	2,975
	(Percent change over previous period)						
Gross domestic product	-7.2	9.6	8.3	13.3	9.1	-7.0	8.0
Industry	-51.2	-10.0	-2.0	6.0	13.6	-5.6	4.1
Agriculture	18.5	10.4	8.3	13.2	3.0	1.0	5.0
Construction	7.0	30.0	15.0	21.2	18.4	-6.3	21.0
Transportation	-15.0	13.0	18.0	18.7	-0.9	-20.5	20.0
Other services	9.0	16.0	11.0	13.5	20.1	-25.0	10.0
	(Share of GDP at constant 1990 prices)						
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industry	16.9	13.9	12.5	11.7	12.2	12.4	12.0
Agriculture	54.2	54.6	54.6	54.6	51.5	56.0	54.4
Construction	7.6	9.1	9.6	10.3	11.2	11.2	12.6
Transportation	3.0	3.1	3.4	3.5	3.2	2.7	3.0
Other services	18.3	19.4	19.8	19.9	21.9	17.7	18.0

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 by Activity, 1992-98

	Legal Status				
	Physical Persons	Private Albanian Company	Joint Venture	Foreign Company	Total
1992					
Activity					Total
Agriculture	73	18	2	7	106
Industry	564	116	18	7	796
Construction	23	80	7	8	142
Service	1,412	51	10	11	1,502
Transport	558	29	12	11	640
Trade	3,547	443	238	81	4,317
Total	6,177	737	287	118	7,503
1993					
Activity					Total
Agriculture	351	60	7	1	437
Industry	1,066	436	74	50	1,725
Construction	36	328	32	15	436
Service	2,685	157	31	31	2,925
Transport	1,998	60	32	19	2,143
Trade	7,060	1,070	481	243	8,862
Total	13,196	2,111	657	359	16,528
1994					
Activity					Total
Agriculture	673	142	16	3	885
Industry	1,772	890	194	101	3,187
Construction	82	708	59	35	936
Service	5,238	366	58	58	5,778
Transport	4,591	184	55	45	4,971
Trade	14,010	2,221	761	456	17,493
Total	26,366	4,511	1,143	698	33,250
1995					
Activity					Total
Agriculture	728	256	24	7	1,066
Industry	2,054	1,287	266	129	3,976
Construction	102	1,010	76	56	1,298
Service	6,253	511	83	94	7,006
Trade	5,740	283	64	51	6,236
Transport	16,724	3,432	985	623	21,812
Total	31,601	6,779	1,498	960	41,394
1996					
Activity					Total
Agriculture	774	308	27	11	1,171
Industry	2,386	1,685	343	177	4,831
Construction	133	1,273	93	63	1,616
Service	7,506	737	115	133	8,556
Transport	6,628	349	78	56	7,209
trade	18,991	4,424	1,149	766	25,378
Total	36,418	8,776	1,805	1,206	48,761
1997					
Activity					Total
Agriculture	784	326	29	12	1,202
Industry	2,555	1,821	395	202	5,213
Construction	138	1,356	101	72	1,721
Service	8,029	839	118	151	9,202
Transport	6,856	370	79	60	7,463
Trade	20,018	4,777	1,214	808	26,865
Total	38,380	9,489	1,936	1,305	51,666
1998					
Activity					Total
Agriculture	800	340	36	14	1,241
Industry	2,767	1,979	444	244	5,674
Construction	142	1,504	121	84	1,905
Service	8,745	943	130	159	10,042
Transport	7,538	418	84	61	8,199
Trade	21,918	5,250	1,318	858	29,392
Total	41,910	10,434	2,133	1,420	56,453

Source: Institute of Statistics.

Table 4. Albania: Production of Selected Industrial Products in the State Sector, 1992-98

Product	Unit	1992	1993	1994	1995	1996	1997	1998
Energy								
Crude oil	000 tons	585	568	535	521	488	360	365
Natural gas	mil m3	102	82	52	28	23	18	17
Gasoline	000 tons	45	46	39	43	37	15	21
Diesel	000 tons	116	148	111	106	95	57	91
Petroleum	000 tons	41	29	29	29	26	11	2
Copper coks	000 tons	72	94	74	69	63	34	58
Electric energy	000 kwh	3,357	3,482	3,904	4,414	5,926	5,184	5,068
Firewood	mil mst	427	330	35	2	0	...	...
Mining								
Chromium ore	000 tons	322	281	223	243	236	157	150
Rich chromium ore	000 tons	56	82	107	129	114	84	82
Chromium concentrate	000 tons	49	33	11	31	30	22	20
Carbonic ferrochrome	000 tons	22	35	34	43	32	31	30
Copper	000 tons	240	239	178	258	188	25	55
Copper concentrate	000 tons	8	14	9	17	11	0	2
Blister copper	000 tons	2	2	2	3	14	0	2
Lignite	000 tons	366	215	169	120	113	40	49
Coal concentrate	000 tons	37	51	2	6	0	1	6
Manufacturing								
Mineral processing								
Rolled wrougth steel	000 tons	0	9	17	19	21	21	20
Copper wires and cables	000 tons	0	1	0	0	0	0	0
Chemical								
Phosphate fertertilizer	000 tons	22	9	11	14	0	27	12
Ammonium nitrate	000 tons	9	5	6	0	0	0	0
Sulfuric acid	000 tons	11	6	4	0	0	0	0
Building material								
Cement	000 tons	197	198	240	238	203	100	84
Bricks	mil pieces	90	69	40	38	30	22	20
Tiles	mil pieces	3	3	1	0	0	0	0
Paper	000 tons	1	1	0	0	0	0	0
Durable consumer goods								
Ceramic kitchen	mil leks	16	9	8	0	0	0	0
Electric lamps	mil pieces	0	0	0	0	0	0	0
Furniture	mil leks	21	404	152	26	...	5	11
Carpet	mil m2	...	25	0	0	0	0	0
Wall carpet	mil m2	...	10	0	0	0	0	0
Textile								
Total clothes	mil ml	6	9	10	5	...	1	0
Total tissues	mil ml	2	1	2	0	...	1	2
Knitwear	mil pieces	3	4	3	0	...	0	0
Shoes	mil pair	1	1	0	0	...	2	2
Non durable consumer goods								
Cigarettes	000 tons	1	1	1	1	5	0	0
Soap	000 tons	2	4	3	2	2	2	...
Foodstuffs								
Bread	000 tons	263	138	32	20	...	...	...
Sugar	000 tons	1	0	0	1	...	...	...
Fish	000 tons	1	0	0	0	...	...	...
Vegetable oil	000 tons	3	6	6	3	...	...	...
Cheese	000 tons	1	1	0	0	...	...	...
Maceroni	000 tons	10	6	4	1	...	...	...
Beer	000 hl	18	5	72	89	...	...	...
Wine	000 hl	12	9	5	11	...	...	...

Source: Institute of Statistics.

Table 5. Albania: Construction Cost Index, 1993-98

(1993 Q1=100)

	Share in the index	1993			1994				1995				1996				1997				1998	
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 1/	Q2 1/	Q3 1/	Q4	Q1	Q2
Total index	100.0	5.4	13.2	4.8	6.4	2.5	3.5	3.4	1.5	2.1	1.7	-1.5	0.7	2.1	0.1	2.5	...	...	...	10.8	8.6	3.4
Direct expenses	73.7	5.3	13.2	4.5	6.6	4.1	4.1	3.1	1.5	1.9	1.8	-0.9	0.0	1.8	1.8	1.1	...	...	...	14.6	8.1	1.0
Materials	65.8	4.6	13.7	2.2	3.8	4.4	2.0	3.3	1.4	1.0	1.8	-1.5	-0.5	2.1	2.1	0.3	...	...	...	11.2	7.9	1.3
Construction	62.8	5.0	14.7	2.0	3.3	4.7	1.9	3.0	1.3	1.0	1.9	-1.5	-0.4	2.2	2.2	0.2	...	...	...	11.0	8.4	1.3
Electricity	1.0	8.0	-5.8	9.3	17.3	-16.0	2.2	1.2	-2.0	-1.0	1.5	-1.1	-1.8	1.8	-1.2	1.7	...	...	...	7.4	0.4	1.1
Hydro-sanitary	2.0	-9.2	-11.4	4.8	16.6	5.3	5.8	12.5	3.3	0.9	0.0	-0.4	-0.4	0.6	1.2	1.5	...	...	...	18.8	-5.9	2.2
Basic Salary	4.0	12.3	11.8	37.7	35.8	7.8	23.3	6.1	1.4	8.4	2.7	4.4	3.7	0.2	0.6	5.9	...	...	...	31.9	8.4	-0.3
Transport expenses	2.2	4.3	12.2	14.3	10.6	-10.8	-6.2	-1.4	-0.9	1.6	-2.6	-7.1	-3.4	0.0	-1.8	0.5	...	...	...	36.2	5.3	0.6
Machinery expenses	1.8	15.2	1.8	1.1	13.1	-1.4	11.4	-10.5	10.7	0.9	-1.3	-4.2	0.2	1.5	-1.1	1.4	...	...	...	8.9	15.1	0.5
Complementary expense	8.1	5.3	13.2	4.5	7.6	3.1	0.5	4.6	1.5	2.0	1.7	-0.4	0.1	2.6	1.5	0.9	...	...	...	9.5	4.9	10.2
Anticipated profit	12.3	5.3	13.2	4.5	6.7	4.0	-0.5	7.1	1.5	-3.6	2.1	2.9	-3.8	0.3	-6.6	12.6	...	...	...	-6.7	12.4	13.0
Set up of yard	4.7	5.3	13.2	4.5	11.1	-42.1	8.7	-8.5	0.2	34.2	-0.3	-36.5	47.7	17.9	-6.1	3.5	...	...	...	-60.3	33.0	36.0
Turnover tax	1.2	10.8	9.6	23.7	25.7	2.4	16.0	2.6	2.2	6.4	1.5	2.3	2.5	0.3	-16.6	4.8	...	...	...	107.6	8.7	-0.2

Source: Institute of Statistics.

1/ No data collected.

Table 6. Albania: Consumer Price Subsidies, 1992-99 1/

(In millions of leks)

	Fakt 1992	Fakt 1993	Fakt 1994	Fakt 1995	Fakt 1996	Fakt 1997	Fakt 1998	Plan 1999
Childwear	3	0	0	0	0	0	0	0
Cereals	296	0	0	0	0	0	0	0
Meat	38	0	0	0	0	0	0	0
Flour	0	0	0	0	0	0	0	0
Fertilizer	44	0	0	0	0	0	0	0
Other	1,381	2,562	1,942	1,703	1,622	1,410		
Firewood	...	848	338	0	0	0	0	0
Coal	...	28	8	0	0	0	0	0
Kerosene	...	225	53	0	0	0	0	0
Heating	...	56	51	0	0	0	0	0
Passenger Transport	...	348	357	420	300	167	187	220
Railway transportation of goods	...	154	150	75	42	413	310	350
Drinking water for rural areas	...	70	147	142	30	45	129	55
Water for irrigation	...	300	171	287	120	150	180	180
Medicine	...	310	329	400	750	0	0	0
Schoolbooks	...	152	239	285	280	200	250	261
Funeral expenses	...	71	99	94	100	135	101	160
Student treatment enterprise						300	345	370
Homeless							220	200
Total price subsidies	0	2,562	1,942	1,703	1,622	1,410	1,722	1,796

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: Retail Prices for Energy, 1991-98

	Unit	Sept. 1991	Dec. 1991 1/	Aug. 1992	Dec. 1993 2/	Dec. 1994 3/	Dec. 1995	Dec. 1996	Dec. 1997	Dec. 1998
Firewood	m3	63	63	220	500	1500-2000	1700 (avg)	...	1500	2000
Gasoline										
Octane 45-70	liter	1.2 4/	3.5 4/	12 4/	24	34	...	60	50	60
Octane 70.1-85	liter	1.2 5/	6 5/	18 5/	34	46	55-60	60	75	90
Octane 85.1-95	liter	1.2 6/	9.5 6/	40 6/	50	65	70-75	75	100	100
Octane 95.1 and above	liter	...	...	...	62	82	85-90	90	100	100
Unleaded	liter	...	...	...	...	80	80-85	85	100	110
Diesel	liter	1.2	6	12	25	38	40-45	45	71	70
Electricity										
Households	kwh	0.3 7/	0.3 7/	0.3 7/	0.8 8/	4.5 9/	4.5	4.5	4.5	4.5
Large enterprises	kwh	0.2	0.6	1.2	2	2.1	2.4	2.4	2.4	2.4
Budget institutions	kwh	0.2	0.6	1.2	2	2.1	2.4	2.4	2.4	2.4
Other producers	kwh	0.2	0.6	1.2	2	3.5	4.2	4.2	4.2	4.2
Services	kwh	0.2	0.6	1.2	2	4.5	4.7	6.2	6.3	6.3
Kerosene										
Households	liter	1.2	1.2	4	5	20	20	20	50	59
Non-household users	liter	1.2	1.2	30	30	38	38	38	50	60
Central heat										
Steam	l/m3amb	...	...	3.6	8.2	40	40	...	...	...
Liquid gas	kg	0.5	0.5	8	10	19	50 (ceiling)	...	...	...

Sources: Ministry of Finances; and Fund staff estimates.

1/ Prices were raised between October and November 1992.
2/ Prices were raised in the second half of 1993.
3/ Prices were raised in April 1994; prices for firewood and coal were liberalized.
4/ 45-65.9 octane benzine.
5/ 66-89.9 octane benzine.
6/ 90 octane benzine and above.
7/ Price for electricity usage less than 250 kwh per month per household: large cities, 150 kwh in small towns, and 70 kwh in rural areas.
8/ The price for "lifeline block" was 0.8 lek/kwh, for the next 50 kwh 1 lek/kwh, and for greater usage 3 lek/kwh.
9/ Price differentiation was abolished in April 1994.

Table 8. Albania: Agricultural Production, 1992-98 1/

(In millions of leks at constant 1994 prices)

	1992	1993	1994	1995	1996	1997	1998 Est.
Total gross agricultural production	71,610	79,032	84,222	95,480	97,736	86,053	90,068
Crop production	37,882	42,374	41,490	47,017	49,023	41,851	44,227
Grains	3,166	5,840	5,288	5,100	3,387	4,855	5,037
Maize	2,654	2,989	3,281	3,672	3,638	3,311	3,400
Rice	48	29	0	0	0	0	0
Potatoes	2,355	3,030	2,670	4,020	3,960	3,801	3,900
Vegetables	19,761	20,300	20,650	23,975	27,475	20,030	21,000
Tobacco	1,998	2,080	608	912	960	1,264	1,392
Sunflower seeds	119	60	35	56	63	77	81
Cotton	91	14	14	3	0	0	0
Sugarbeets	140	80	180	201	222	153	186
Distic barley	196	140	315	256	112	130	123
Soybean	140	70	9	11	21	14	7
Dried beans	1,750	1,610	1,260	1,750	1,820	1,400	1,680
Fodder	80	306	340	221	219	206	221
Forages	5,384	5,827	6,840	6,840	7,146	6,610	7,200
Fruits and olives	4,080	4,744	5,230	6,069	5,875	6,302	5,779
Apples, pears, peaches, figs	1,360	1,680	1,800	2,080	2,320	2,184	2,080
Citrus	387	399	390	114	90	90	99
Grapes	1,323	1,400	1,540	1,925	2,065	2,363	2,100
Olives	1,010	1,265	1,500	1,950	1,400	1,665	1,500
Livestock	29,648	31,914	37,503	42,395	42,838	37,900	40,062
Meat	12,684	13,468	15,680	16,296	14,700	14,560	16,072
Wool	249	272	281	340	272	247	255
Milk	15,300	16,765	20,075	24,208	26,100	21,240	21,750
Eggs	1,349	1,381	1,425	1,425	1,570	1,685	1,803
Honey	66	28	42	126	196	168	182

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 9. Albania: Area Under Cultivation, Production, and Yields of Selected Agricultural Crops, 1992-98

	1992	1993	1994	1995	1996	1997	1998 Est.
			(In thousands of hectares)				
Grains	104	155	170	141	125	136	142
Maize	63	73	75	69	66	61	65
Rice	0	0	0	0	0	0	0
Potatoes	9	10	11	12	12	12	13
Vegetables	29	32	30	36	36	30	30
Tobacco	13	13	6	6	7	8	9
Sunflower seeds	9	2	1	1	1	2	2
Cotton	1	0	0	0	0	0	0
Sugarbeets	4	2	2	2	2	2	2
Distic barley	4	3	4	3	2	3	3
Soybean	3	1	0	0	0	0	0
Dried beans	21	20	20	22	24	22	23
Fodder	5	15	12	11	11	10	11
Forages	160	162	186	189	147	134	140
			(In thousands of quintals)				
Grains	2,533	4,672	4,230	4,080	2,710	3,884	4,030
Maize	1,561	1,758	1,930	2,160	2,140	1,948	2,000
Rice	10	6	0	0	0	0	0
Potatoes	785	1,010	890	1,340	1,315	1,267	1,300
Vegetables	5,646	5,800	5,900	6,850	7,850	5,723	6,000
Tobacco	125	130	38	57	63	79	87
Sunflower seeds	34	17	10	16	15	22	23
Cotton	13	2	2	0	0	0	0
Sugarbeets	465	268	600	670	740	509	620
Distic barley	56	40	90	73	32	37	35
Soybean	20	10	1	2	3	2	2
Dried beans	250	230	180	250	250	200	240
Fodder	47	180	200	130	127	121	130
Forages	29,910	32,370	38,000	38,000	39,700	36,720	40,000
			(Quintals per hectare)				
Grains	24	30	25	29	22	28	28
Maize	25	23	25	30	30	29	31
Rice	40	42	0	0	0	0	0
Potatoes	83	98	81	111	106	110	110
Vegetables	192	179	182	182	197	189	200
Tobacco	10	10	6	9	9	10	10
Sunflower seeds	4	8	8	13	13	15	15
Cotton	10	10	0	0	0	0	0
Sugarbeets	129	121	288	329	349	304	305
Distic barley	14	13	24	22	13	15	12
Soybean	5	8	8	12	17	13	10
Dried beans	12	22	8	10	11	8	10
Fodder	9	12	17	12	12	12	12
Forages	187	200	204	263	235	239	286

Sources: Ministry of Agriculture; and Fund staff estimates.

Table 10. Albania: Production and Yields of Selected Fruits, 1992-98

	1992	1993	1994	1995	1996	1997	1998 Est.
			(In thousands of trees)				
Apples, pears, peaches, figs	2,867	2,867	4,065	4,061	4,012	4,107	4,150
Citrus	305	305	374	407	361	296	300
Grapes							
Pergola	2,233	2,233	2,867	3,126	3,370	3,665	3,800
Vineyard (in hectares)	6,193	6,193	4,545	4,342	4,345	4,121	4,100
Olives	2,313	2,313	2,646	2,799	3,084	3,209	3,250
			(In thousands of tons)				
Apples, pears, peaches, figs	34	42	45	52	58	55	52
Citrus	13	13	13	4	3	3	3
Grapes	38	40	44	55	59	67	60
Pergola	27	28	28	38	40	45	45
Vineyard	11	12	17	18	19	22	20
Olives	20	25	30	39	28	33	30
			(Yield in kilogram per root)				
Apples, pears, peaches, figs	12	15	11	13	14	13	14
Citrus	42	44	35	9	8	10	10
Grapes							
Pergola	12	13	10	12	12	12	12
Vineyard	...	...	...	...	49	55	58
Olives	9	11	11	14	9	10	10

Sources: Ministry of Agriculture; and Fund staff estimates.

Table 11. Albania: Production and Yields of Selected Livestock, 1992-98

	1992	1993	1994	1995	1996	1997	1998 Est.
			(In thousands of units)				
Stock	5,284	6,469	7,310	7,726	7,414	7,703	7,748
Cattle	566	655	820	840	806	771	780
Pigs	90	93	98	100	98	97	98
Sheep	1,232	1,415	1,630	1,736	1,453	1,372	1,400
Goats	858	948	1,100	1,150	895	840	810
Poultry	2,538	3,359	3,662	3,900	4,108	4,566	4,600
Beehives	36	20	27	40	54	57	60
			(In thousands of units)				
Production							
Meat, total (tons, live yield)	91	96	112	116	105	104	115
Cattle	43	44	51	56	59	59	62
Pigs	16	18	20	20	9	10	11
Sheep and goats	30	30	37	37	33	31	38
Poultry	3	3	4	4	4	4	4
Wool (tons)	3	3	3	4	3	3	3
Milk, total (liters)	612	671	803	968	1,044	850	870
Cow milk	486	537	644	791	895	708	731
Sheep milk	55	59	73	82	70	68	69
Goat milk	70	75	83	96	79	74	70
Eggs (million)	270	276	285	285	314	337	360
Honey (tons)	0	0	0	450	705	633	650
			(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	1,740
Sheep	47	48	49	47	47	50	51
Goat	86	88	92	83	85	89	90
Wool from sheep (kg.)	2	2	2	2	2	1	1
Eggs per chicken	113	113	116	109	108	102	107

Sources: Ministry of Agriculture; and Fund staff estimates.

Table 12. Albania: Consumer Price Index, 1992-99

(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	3.9	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	8.9	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	-0.4
Q3	214.7	-2.5	217.1	-0.2
Q4	219.5	2.2	222.6	2.5
1999				
Q1	223.5	1.8	222.6	0.0

Sources: Institute of Statistics; and Fund staff estimates.

Table 13. Albania: Population, Labor Force, and Employment, 1990-98

(In thousands, annual averages)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total population	3,293	3,260	3,190	3,167	3,202	3,249	3,283	3,324	...
Of which:									
Male	1,709	1,682	1,617	1,606	1,623	1,647	1,624	1,629	...
Female	1,584	1,578	1,573	1,562	1,579	1,602	1,659	1,625	...
Of which:									
Nonworking age population 1/	1,389	1,389	1,396	1,406	1,418	1,431	1,433	1,463	...
Working age population 1/	1,904	1,871	1,794	1,762	1,784	1,818	1,850	1,861	...
Male	1,000	1,003	962	955	956	974	981	928	...
Female	904	868	832	806	828	843	869	933	...
Inactive and dependent population 2/	319	187	179	141	143	145	148	...	...
Labor force	1,585	1,684	1,614	1,621	1,642	1,672	1,702	1,301	...
Of which:									
Male	812	889	853	869	869	885	891	794	...
Female	773	795	762	752	772	787	811	507	...
Of which:									
Emigrant workers 3/	0	110	200	232	295	295	428	...	...
Domestic labor force	1,585	1,574	1,414	1,389	1,347	1,377	1,274	1,301	...
Domestic employment	1,434	1,434	1,020	987	1,083	1,145	1,116	1,107	...
Of which:									
State sector 4/	905	917	640	408	327	295	239	226	...
Agriculture sector 5/	529	487	318	486	515	584	761	761	...
Private sector	0	30	62	92	241	265	116	120	...
Total unemployment	151	140	394	402	264	233	158	194	235
Of which:									
Receiving benefits	33	55	295	252	68	51	40	31	24.6
Unemployment rate (in percent) 6/	9.5	8.9	27.9	29.0	19.6	16.9	12.4	14.9	...
Of which:									
Receiving benefits (in percent)	2.1	3.5	20.8	18.1	5.1	3.7	3.2	...	...

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 14. Albania: Fiscal Accounts, 1992-98

(In millions of leks)

		1992	1993	1994	1995	1996	1997	1998
I.	Total revenue	11,957	31,170	43,849	53,715	51,341	57,594	93,515
	Counterpart sales revenue	2,939	4,476	4,194	2,468	266	256	137
	Tax revenue	8,745	22,736	35,965	39,679	42,884	46,298	72,572
	Turnover tax / VAT	2,365	4,991	4,959	5,587	9,076	15,655	28,771
	Income tax	1,586	4,582	4,140	3,979	4,787	3,592	6,400
	Personal income tax 1/	0	0	571	633	637	814	1,167
	Small business tax	215	590	824	870	755	385	910
	Enterprise profits tax	1,371	3,992	2,745	2,477	3,395	2,393	4,323
	Social security contributions	1,700	3,208	6,384	9,245	12,688	13,143	15,828
	Property tax	0	0	332	485	376	293	304
	Customs duties	1,504	3,642	6,260	6,231	7,708	8,960	12,615
	Excise tax	1,264	4,348	9,495	10,404	4,947	2,168	4,910
	Other taxes	325	1,965	4,396	3,748	3,302	2,487	3,744
	Nontax revenue	273	3,957	3,690	11,568	8,191	11,040	20,806
	Profit transfer from Bank of Albania	0	1,250	400	5,926	3,859	8,067	16,400
	Income from budgetary institutions	45	1,105	2,054	3,965	2,735	1,834	3,326
	Other	228	1,602	1,236	1,677	1,597	1,139	1,080
II.	Current expenditure	21,426	38,582	52,125	58,026	72,493	86,870	117,604
	Personnel	5,380	10,120	15,442	18,438	22,980	25,544	28,336
	Wages	4,482	8,586	12,045	14,692	17,918	20,377	22,048
	Social security contributions	898	1,534	3,397	3,746	5,062	5,167	6,288
	Interest	650	2,941	4,405	4,984	8,571	18,779	36,086
	Operations and maintenance	5,096	7,589	10,585	12,231	12,482	13,565	18,537
	Subsidies	4,045	2,443	2,225	1,304	1,110	1,551	2,308
	Social security	3,341	7,302	10,821	13,999	20,342	20,133	24,329
	Unemployment insurance	1,643	4,756	2,367	2,504	2,163	2,204	1,621
	Social assistance	238	1,390	4,156	3,698	3,795	4,274	6,168
	Ex-political prisoners (restitution)	0	395	713	500	500	320	0
	Bread/energy compensation, state enterpri	140	494	862	230	0	0	0
	Enterprise restructuring	0	1,152	549	139	250	0	0
	Other	893	0	0	0	300	500	220
III.	Capital expenditure	2,154	11,853	16,134	19,108	12,752	13,751	23,789
	Investment	2,154	11,853	16,134	19,108	12,752	13,751	23,789
	Of which: Foreign financed	0	6,722	9,661	7,893	3,792	7,231	13,199
IV.	Total expenditure (II+III)	23,580	50,435	68,259	77,134	85,245	100,621	141,393
V.	Fiscal balance, cash	-11,623	-19,265	-24,410	-23,419	-33,904	-43,027	-47,878
VI.	Financing requirement	11,623	19,265	24,410	23,419	33,904	43,027	47,878
VIII.	Domestic financing	11,623	12,543	14,270	14,877	30,834	36,884	29,666
	Privatization revenues	544	916	2,200	309	546	910	133
	Other	11,079	11,627	12,070	14,568	30,288	35,974	29,533
IX.	External financing	0	6,722	10,140	8,542	3,070	6,143	18,212
	Foreign loans	0	6,722	10,277	8,585	3,792	7,231	19,623
	Development (gross)	0	6,722	9,661	7,893	3,792	7,231	13,199
	Budget support	0	0	616	692	0	0	6,424
	minus: amortization	0	0	137	43	722	1,088	1,411
X.	Arrears	93	160	-1,121	-298	0	0	0
XI.	Overall fiscal balance, commitment basis	11,716	19,425	23,290	23,121	33,904	43,027	47,878

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, 1992-98

	1992	1993	1994	1995	1996	1997	1998
				(In percent of total expenditure)			
Current expenditure	90.9	77.8	89.6	75.2	85.0	86.3	83.2
Personnel	22.8	19.4	23.8	23.9	27.0	25.4	20.0
Wages	19.0	16.2	16.1	19.0	21.0	20.3	15.6
Social security contributions	3.8	3.2	7.7	4.9	5.9	5.1	4.4
Interest	2.8	7.1	9.2	6.5	10.1	18.7	25.5
Operational and maintenance	21.6	14.9	18.9	15.9	14.6	13.5	13.1
Subsidies	17.2	5.1	3.5	1.7	1.3	1.5	1.6
Social security	14.2	14.4	17.5	18.1	23.9	20.0	17.2
Unemployment insurance	7.0	8.3	3.6	3.2	2.5	2.2	1.1
Social assistance	1.0	4.3	6.1	4.8	4.5	4.2	4.4
Ex-political prisoners (restitution)	0.0	0.4	1.2	0.6	0.6	0.3	0.0
Bread/energy compensation, state enterprises	0.6	0.8	4.5	0.3	0.0	0.0	0.0
Enterprise restructuring	0.0	3.2	1.4	0.2	0.3	0.0	0.0
Other	3.8	0.0	0.0	0.0	0.4	0.5	0.2
Capital expenditure	9.1	22.2	23.6	24.8	15.0	13.7	16.8
Of which: Foreign financed	0.0	11.0	14.2	10.2	4.4	7.2	9.3
				(In percent of GDP)			
Current expenditure	40.3	31.5	29.6	25.8	25.8	25.4	25.5
Personnel	10.1	7.9	7.9	8.2	8.2	7.5	6.2
Wages	8.4	6.6	5.3	6.5	6.4	6.0	4.8
Social security contributions	1.7	1.3	2.6	1.7	1.8	1.5	1.4
Interest	1.2	2.9	3.0	2.2	3.1	5.5	7.8
Operational and maintenance	9.6	6.0	6.2	5.4	4.4	4.0	4.0
Subsidies	7.6	2.0	1.2	0.6	0.4	0.5	0.5
Social security	6.3	5.8	5.8	6.2	7.2	5.9	5.3
Unemployment insurance	3.1	3.3	1.2	1.1	0.8	0.6	0.4
Social assistance	0.4	1.7	2.0	1.6	1.4	1.3	1.3
Ex-political prisoners (restitution)	0.0			0.2	0.2	0.1	0.0
Bread/energy compensation, state enterprises	0.3	0.3	1.5	0.1	0.0	0.0	0.0
Enterprise restructuring	0.0	1.3	0.5	0.1	0.1	0.0	0.0
Other	1.7	0.0	0.0	0.0	0.1	0.1	0.0
Capital expenditure	4.0	9.5	8.6	8.5	4.5	4.0	5.2
Of which: Foreign financed	0.0	5.4	5.1	3.5	1.3	2.1	2.9
Total expenditure	44.3	40.2	36.3	34.3	30.3	29.4	30.7
Memorandum item:							
Expenditure on defense affairs and services	...	3.2	2.5	2.1	1.7	1.3	1.1

Sources: Ministry of Finance; and Fund staff estimates.

Table 16. Albania: Tax Revenue Shares, 1992-98

	1992	1993	1994	1995	1996	1997	1998
			(In percent of total tax revenue)				
Tax Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Turnover tax / VAT	27.3	21.3	13.8	14.1	21.2	33.8	39.6
Income tax	17.9	19.8	11.5	10.0	11.2	7.8	8.8
Personal income tax 1/	0.0	0.3	1.6	1.6	1.5	1.8	1.6
Small business tax	2.5	2.5	2.3	2.2	1.8	0.8	1.3
Enterprise profits tax	15.4	17.0	7.6	6.2	7.9	5.2	6.0
Social security contributions	19.6	16.4	17.8	23.3	29.6	28.4	21.8
Property tax	0.0	0.0	0.9	1.2	0.9	0.6	0.4
Customs duties	17.3	15.5	17.4	15.7	18.0	19.4	17.4
Excise tax	14.6	18.5	26.4	26.2	11.5	4.7	6.8
Other taxes	3.4	8.4	12.2	9.4	7.7	5.4	5.2
			(In percent of GDP)				
Tax Revenue	17.1	18.7	19.5	17.7	15.3	13.5	15.8
Turnover tax / VAT	4.7	4.0	2.7	2.5	3.2	4.6	6.2
Income tax	3.1	3.7	2.2	1.8	1.7	1.1	1.4
Personal income tax 1/	0.0	0.1	0.3	0.3	0.2	0.2	0.3
Small business tax	0.4	0.5	0.4	0.4	0.3	0.1	0.2
Enterprise profits tax	2.6	3.2	1.5	1.1	1.2	0.7	0.9
Social security contributions	3.4	3.1	3.5	4.1	4.5	3.8	3.4
Property tax	0.0	0.0	0.2	0.2	0.1	0.1	0.1
Customs duties	3.0	2.9	3.4	2.8	2.7	2.6	2.7
Excise tax	2.5	3.5	5.1	4.6	1.8	0.6	1.1
Other taxes	0.6	1.6	2.4	1.7	1.2	0.7	0.8

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: Exchange Rate, 1992-98

(In leks per U.S. dollar)

	1992		1993		1994		1995		1996		1997		1998	
	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	102.70	95.15	94.23	95.50	97.56	111.19	125.00	152.64	153.70
Feb.	74.50	78.57	112.25	112.00	103.03	103.20	93.76	92.81	98.64	98.25	129.60	144.00	157.11	158.70
Mar.	82.24	83.10	112.13	111.70	102.47	101.85	93.28	94.05	99.72	100.30	145.10	149.98	160.23	161.80
Apr.	83.73	84.59	109.86	107.80	101.95	101.40	93.23	92.75	103.59	105.90	147.90	151.05	159.89	159.50
May	83.49	83.00	107.01	106.00	100.04	99.25	92.56	92.55	112.33	110.50	160.71	178.00	157.01	155.00
Jun.	80.67	76.98	107.03	107.60	96.76	92.70	92.18	91.90	110.57	112.90	180.46	179.00	154.05	153.77
Jul.	76.02	77.02	106.05	104.30	91.37	90.70	90.60	90.65	111.06	110.18	172.20	143.00	150.46	147.88
Aug.	77.80	77.38	102.38	101.90	86.92	86.10	91.57	93.15	108.76	108.20	159.53	156.02	149.36	151.00
Sep.	82.05	81.99	100.94	100.40	84.64	84.80	94.43	93.35	108.49	108.20	148.99	148.20	148.62	147.00
Oct.	85.56	90.28	99.44	99.80	87.25	88.70	92.21	91.30	106.49	103.50	147.44	143.80	142.67	141.60
Nov.	94.35	96.53	100.23	101.00	92.20	95.82	92.42	94.20	99.65	100.40	143.24	145.50	141.90	142.70
Dec.	96.15	98.70	100.72	100.90	95.22	95.02	94.43	94.50	102.30	103.70	149.01	149.80	140.80	141.40
Year	81.3	98.7	105.6	100.9	95.4	95.0	93.0	94.5	104.8	103.7	149.6	149.8	151.2	141.4

Sources: Bank of Albania; and Fund staff calculations.

Table 18. Albania: Interest Rate Structure, 1994-99 1/

(Percent per annum)

From: To:	Sep-94 Jul-95	24-Jul-95 Sep-95	Oct-95 Mar-96	1-Apr-96 23-Apr-96	24-Apr-96 24-Jun-96	24-Jun-96 21-Aug-96	21-Aug-96 1-Feb-97	2-Feb-97 4-Mar-97	5-Mar-97 25-May-97	26-May-97 30-Jun-97	1-Jul-97 17-Sep-97
Central bank refinancing rate:											
Basic rate	25	22	20.5	20.5	20.5	22.0	24.0	29.0	34.0	36.0	32.0
Individual and private sector deposit rates:											
12-month time deposit	16.5 2/	14.25 3/	13.25 3/	15 4/	16.0	17.0	19.0	22.0	28.5	28.5	28.5
6-month time deposits	13.5 5/	12.75 3/	12.25 3/	14 4/	15.0	16.0	18.5	21.0	28.0	28.0	28.0
3-month time deposits	8 6/	10.5 7/	10.5 7/	12.5 4/	15.0	16.0	18.5	20.5	27.0	34.0	37.0
Demand deposits 8/	2	2	2								

From: To:	18-Sep-97 12-Nov-97	13-Nov-97 23-Nov-97	24-Nov-97 3-Dec-97	3-Dec-97 25-May-98	25-May-98 19-Jun-98	19-Jun-98 24-Aug-98	24-Aug-98 22-Oct-98	22-Oct-98 12-Nov-98	12-Nov-98 17-Feb-99	17-Feb-99 27-May-99	27-May-99
Central bank refinancing rate:											
Basic rate	29.0	27.0									
Individual and private sector deposit rates:											
12-month time deposit	28.5	28.5	28.5	27.0	24.0	21.0	20.0	18.0	16.5	15.5	14.5
6-month time deposits	28.0	28.0	28.0	26.0	24.0	22.0	20.0	18.0	16.5	15.5	14.5
3-month time deposits	35.0	32.0	30.0	26.0	24.0	22.0	20.0	18.0	16.5	15.0	14.0
Demand deposits											

Source: Bank of Albania.

1/ For lending and deposits in leks; interest rates on foreign currency deposits are set in line with rates in major European countries.
2/ Plus-minus 200 basis points; lower end of band enforced minimum.
3/ Plus-minus 75 basis points; lower end of band enforced minimum.
4/ Beginning April 1, 1996 the BOA sets only the minimum deposit rate.
5/ Plus-minus 150 basis points; lower end of band enforced minimum.
6/ Plus-minus 100 basis points; lower end of band enforced minimum.
7/ Plus-minus 50 basis points; lower end of band enforced minimum.
8/ Beginning January 29, 1996, the BOA does not set the demand deposit rate.

Table 19. Albania: Monetary Survey, 1992-98

	1992	1993	1994	1995	1996	1997				1998			
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(In billions of leks; foreign assets and liabilities at current exchange rates)												
Stocks, end-period													
Broad money	28.8	50.4	70.8	107.4	154.6	157.0	174.0	185.3	198.5	203.1	212.4	225.4	239.5
Currency	9.9	18.0	27.6	41.9	47.8	56.5	75.7	74.2	72.7	68.5	65.2	67.3	68.3
Deposits	18.9	32.4	43.1	65.5	106.7	100.5	98.2	111.2	125.8	134.6	147.1	158.1	171.2
Lek deposits	12.0	22.1	29.8	45.5	72.8	65.1	61.6	76.2	89.5	99.0	111.4	119.4	130.9
Forex deposits	6.8	10.2	13.3	20.1	33.9	35.4	36.6	35.0	36.3	35.6	35.8	38.7	40.3
Net foreign assets	-33.2	-28.9	-21.5	35.5	54.4	60.4	66.9	64.0	68.3	70.7	73.3	81.9	83.0
Bank of Albania	-37.2	-36.9	-36.6	13.1	20.2	27.9	32.5	29.4	31.4	34.9	36.5	37.3	35.9
Commercial banks	4.0	8.1	15.1	22.3	34.2	32.5	34.3	34.7	36.9	35.8	36.9	44.6	47.1
Net domestic assets	62.0	79.2	92.3	72.0	100.1	96.6	107.1	121.3	130.3	132.5	139.0	143.5	156.5
Claims on central government (net)	...	73.3	87.6	74.0	111.8	115.4	135.0	156.6	147.0	146.7	154.6	166.0	175.5
Claims on state enterprises and farms	...	2.4	2.5	3.1	3.4	2.8	3.1	2.4	2.9	2.9	2.8	2.8	2.8
Claims on the private sector	...	4.5	7.2	8.3	10.9	11.5	12.5	12.5	13.0	13.5	14.1	14.6	14.9
Other items (net)	...	-1.0	-5.0	-13.5	-25.9	-33.1	-43.5	-50.3	-32.5	-30.7	-32.4	-39.9	-36.7
Memorandum items:	(In percent)												
Contribution to cumulative growth of broad money during the year													
Broad money	...	75.0	40.6	5.1	43.8	1.6	12.6	19.9	28.5	2.3	7.0	13.5	20.6
NFA 1/	...	15.1	14.6	1.9	17.7	3.9	8.0	6.2	9.0	1.2	2.5	6.8	7.4
NDA 1/	...	59.9	25.9	3.2	26.2	-2.3	4.5	13.7	19.5	1.1	4.4	6.7	13.2
Claims on central government (net)	...	...	28.3	7.1	35.1	2.4	15.0	29.0	22.6	0.0	4.0	9.7	14.5
Claims on state enterprises and farms	...	...	0.1	0.0	0.3	-0.4	-0.2	-0.6	-0.3	0.0	0.0	0.0	0.0
Claims on the private sector	...	...	5.4	0.5	2.4	0.4	1.1	1.1	1.3	0.3	0.6	0.8	1.0
Other items (net) 1/	...	...	-7.9	-4.4	-11.6	-4.6	-11.3	-15.8	-4.1	0.8	-0.1	-3.8	-2.3
12-month percent change													
Broad money	...	75.0	40.6	51.4	40.0	39.1	41.7	36.8	28.5	29.4	22.1	21.6	20.6
Of which:													
NFA 1/	...	15.1	14.6	37.2	17.7	20.3	23.4	14.3	9.0	6.5	3.7	9.6	7.4
Claims on government	...	...	28.3	26.0	35.1	29.9	37.0	43.8	22.6	19.9	11.3	5.0	14.5
Claims on state enterprises and farms	...	...	1.7	18.2	14.7	-8.2	-7.2	-31.6	-15.6	3.1	-9.0	15.5	-1.7
Claims on the private sector	...	...	61.4	20.1	27.1	28.7	27.6	20.5	19.0	17.4	12.6	16.4	14.7

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, 1992-98

	1992	1993	1994	1995	1996				1997				1998			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(In billions of leks; foreign assets and liabilities at current exchange rates)															
Stocks, end period																
Reserve money	14.5	30.4	42.1	53.9	55.0	60.3	63.7	61.4	70.5	89.4	88.2	90.9	85.4	84.2	86.5	89.9
Currency	9.9	18.3	28.4	42.7	46.1	51.2	53.9	50.3	58.1	76.6	76.7	74.1	70.4	67.2	69.4	69.6
Currency outside banks	9.9	18.0	27.6	41.9	44.7	49.8	51.4	47.8	56.5	75.7	74.2	72.7	68.5	65.2	67.3	68.3
Commercial bank cash in vaults	--	0.3	0.8	0.8	1.4	1.5	2.6	2.5	1.6	0.9	2.5	1.4	1.8	2.0	1.9	1.1
Deposit money banks deposits	4.6	12.1	13.6	11.2	8.9	9.1	9.8	11.1	12.4	12.8	11.5	16.8	15.0	17.0	17.1	20.3
Required reserves	0.8	2.5	4.2	5.7	6.5	7.1	7.7	9.2	11.3	11.1	10.3	12.0	13.4	14.4	15.4	17.0
Excess reserves	3.7	9.6	9.4	5.5	2.4	2.0	2.0	1.9	1.1	1.7	1.2	4.8	1.6	2.5	1.7	3.3
	19.8															
Net foreign assets	-37.2	-36.9	-36.6	13.1	15.7	16.2	16.8	20.2	27.9	32.5	29.4	31.3	34.9	36.5	37.3	35.9
Foreign assets	3.8	17.6	22.6	46.8	51.4	55.6	53.7	57.0	79.6	93.9	80.1	85.2	92.4	92.6	94.1	91.0
Foreign liabilities	41.0	54.5	59.3	33.6	35.7	39.4	36.9	36.8	51.7	61.4	50.7	53.9	57.4	56.1	56.8	55.1
Net domestic assets	51.6	67.3	78.7	40.8	39.3	44.1	47.0	41.2	42.6	56.9	58.8	59.6	50.5	47.7	49.1	54.0
Net credit to government	...	22.4	34.7	39.3	41.9	45.9	49.4	44.9	49.3	72.4	78.3	73.1	65.2	63.1	66.2	67.5
Claims on deposit money banks 1/	...	3.0	3.4	3.3	1.7	1.9	1.8	3.4	5.2	5.2	4.9	7.5	5.3	6.3	7.3	5.4
Other items (net)	...	41.9	40.5	-1.9	-4.2	-3.6	-4.2	-7.1	-11.9	-20.7	-24.4	-20.9	5.9	6.7	6.1	4.6
Memorandum items:																
Contribution to cummulative growth of reserve money during the year	(In percent)															
Reserve money	--	109.9	38.5	28.1	2.1	12.0	18.3	14.0	14.8	45.6	43.6	48.1	-6.1	-7.4	-4.9	-1.1
NFA 2/	--	1.6	1.0	40.1	4.7	5.7	6.8	13.1	12.5	20.0	15.0	18.1	3.9	5.6	6.6	5.0
NDA 2/	--	108.2	37.5	-12.0	-2.7	6.2	11.5	0.8	2.3	25.6	28.7	30.0	-10.0	-13.0	-11.5	-6.2
Net credit to government	--	--	40.7	10.9	4.7	12.2	18.7	10.5	7.0	44.7	54.3	45.8	-5.7	-8.0	-4.6	-3.2
Claims on deposit money banks 1/	--	--	1.4	-0.3	-3.1	-2.7	-2.8	0.1	3.0	3.0	2.5	6.7	-2.1	-1.0	-1.8	-3.9
Other items (net) 2/	--	--	-4.6	-22.6	-4.3	-3.2	-4.3	-9.7	-7.7	-22.2	-28.1	-22.5	-2.6	-4.2	-5.4	0.2
Reserve money growth (12-month change)	--	109.9	38.5	28.1	30.4	34.8	34.6	14.0	28.2	48.2	38.4	48.1	21.2	-5.9	-2.0	-1.1
Ratio: Broad money to reserve money	1.99	1.66	1.68	1.99	2.05	2.04	2.13	2.52	2.23	1.95	2.10	2.18	2.38	2.52	2.61	2.67
Ratio: Broad money to reserve money (excluding excess reserves)	2.68	2.42	2.17	2.22	2.15	2.10	2.20	2.60	2.26	1.98	2.13	2.30	2.48	2.67	2.72	2.81

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, 1992-98

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

	1992	1993	1994	1995	1996				1997				1998			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net foreign assets	-361.3	-299.7	-286.5	119.4	139.3	132.9	134.0	153.9	152.0	152.1	166.7	179.2	217.2	236.5	252.7	252.8
Foreign assets	37.1	152.0	209.6	469.2	485.4	474.8	473.9	510.9	501.6	494.4	509.1	538.8	574.8	602.8	639.1	642.9
Gold 1/	2.6	2.9	3.1	3.2	3.3	3.3	3.2	5.8	5.6	5.5	5.5	5.5	34.7	34.2	34.5	33.7
Cash in vaults	0.0	0.0	0.0	0.0	5.2	3.5	2.0	2.0	3.1	2.0	1.3	1.8	2.3	2.3	0.1	0.1
Deposits																
Demand deposits	4.7	7.0	6.5	3.9	2.3	5.2	3.5	9.6	12.5	12.0	13.0	33.4	31.8	33.0	32.0	37.0
Time deposits	28.0	140.4	197.9	236.9	249.5	237.6	240.1	267.7	254.6	249.3	264.2	272.5	280.9	251.0	288.3	286.0
Equity participation	1.8	1.7	1.7	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
Portfolio + SDR holdings	0.0	0.0	0.3	0.1	0.1	0.2	0.1	0.8	0.7	0.7	0.1	0.6	0.1	57.3	59.2	61.1
U.S. Treasury bill collateral	...	...	...	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0
Foreign liabilities	398.4	451.7	496.1	349.7	346.1	341.9	339.9	357.0	349.6	342.3	342.4	359.6	357.6	366.3	386.4	390.1
Demand deposits liabilities	6.9	5.5											0.2	0.0	0.0	0.0
Foreign banks credit	5.0	9.0		19.9	18.6	17.4	17.9	35.3	31.8	30.1	33.9	40.7				
Non-residents deposists	29.6															
Overdue short-term obligations	342.9	378.2	414.9	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
30-year bonds for foreign exchange claims	...	...	...	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0	225.0
External public debt after the debt deal	...	...	...	15.8	15.6	15.6	15.6	17.8	18.0	14.6	13.9	14.1	15.6	15.6	15.6	15.6
Additional letters of credit arrears	...	28.5	28.5	24.8	24.8	24.8	24.8	24.8	24.8	24.8	24.8	24.8	23.3	23.4	23.4	23.4
Liabilities to the IMF	14.0	30.5	52.7	64.2	62.0	59.1	56.6	54.1	50.0	47.8	44.8	55.0	53.9	60.9	62.8	64.4

Source: Bank of Albania.

1/ Valued at SDR 35 per ounce.

Table 22. Albania: Structure of Bank Deposits by Currency and Depositor, 1992-98

(In millions of leks)

	1992	1993	1994	1995	1996	1997				1998			
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total deposits	18,874	32,365	43,148	65,543	106,737	100,488	98,222	111,163	125,821	134,600	147,135	158,074	171,406
Domestic currency deposits	12,031	22,117	29,844	45,464	72,831	65,133	61,602	76,203	89,495	99,039	111,382	119,369	131,164
Of which:													
State enterprises	5,330	7,981	7,110	9,952	7,930	6,130	5,831	5,808	7,625	7,345	6,904	6,453	6,416
Private sector	571	1,427	2,210	4,970	31,082	26,547	16,272	10,334	8,500	6,560	5,896	5,714	7,611
Households	5,692	12,318	19,081	28,964	29,454	29,396	36,564	57,150	71,102	83,167	95,896	104,594	115,355
Foreign currency deposits	6,844	10,248	13,304	20,080	33,906	35,355	36,620	34,960	36,326	35,561	35,753	38,704	40,243
Of which:													
State enterprises	1,541	7,228	6,585	7,944	6,438	6,550	6,865	8,880	8,433	8,547	9,228	9,160	10,127
Private sector 1/	1,144	534	1,749	2,820	13,021	9,592	9,256	7,498	10,497	8,954	8,956	9,860	9,672
Households	1,062	1,888	3,941	7,438	10,152	14,333	17,381	17,109	16,789	17,487	17,029	18,925	19,507
Memorandum item:													
Domestic/total deposits (percent)	63.7	68.3	69.2	69.4	68.2	64.8	62.7	68.6	71.1	73.6	75.7	75.5	76.5

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, 1992-98

	December 1992		December 1993		December 1994		December 1995		December 1996		December 1997		December 1998	
	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	18,874	100	32,365	100	43,148	100	65,543	100	106,738	100	125,820	100	171,406	100
Of which:														
National Commercial Bank (NCB)	11,267	59.7	16,728	51.7	16,860	39.1	24,562	37.5	61,932	58.0	27,420	21.8	20,920	12.2
State enterprises/farms	9,382	93.5	14,152	92.0	12,505	86.0	16,132	85.6	...	...	...	...	...	...
Joint ventures	212	99.5	415	99.4	386	53.9	453	2.4	...	...	...	...	...	...
Private sector	1,031	79.6	1,354	57.4	2,375	52.4	5,948	31.5	...	...	...	...	...	...
Households	642	8.8	807	5.7	1,594	6.9	2,029	10.8	...	...	...	...	...	...
Savings Bank (SB)	7,022	37.2	12,696	39.2	20,401	47.3	32,002	48.8	34,699	32.5	85,704	68.1	136,406	79.6
State enterprises/farms	151	1.5	463	3.0	495	3.4	864	4.6	...	...	...	...	...	...
Joint ventures	0	0.0	0	0.0	0	0.0	0	0.0	...	...	...	...	...	...
Private sector	210	16.2	341	14.5	1,082	23.9	2,219	24.1	...	...	...	...	...	...
Households	6,661	90.8	11,892	83.7	18,824	81.8	28,919	79.4	...	...	...	...	...	...
Rural Commercial Bank (RCB)	585	3.1	2,556	7.9	4,108	9.5	5,941	9.1	6,644	6.2	3,711	2.9	0	0.0
State enterprises/farms	497	5.0	791	5.1	634	4.4	901	4.8	...	...	...	...	...	...
Joint ventures	1	0.5	8	1.9	35	4.9	7	0.9	...	...	...	...	...	...
Private sector	54	4.2	275	11.7	345	7.6	416	4.5	...	...	...	...	...	...
Households	33	0.4	1,482	10.4	3,094	13.4	4,619	12.7	...	...	...	...	...	...

Source: Bank of Albania.

Table 24. Albania: Credit in State-Owned Banks, 1992-98 1/

	1992	1993	1994	1995	1996	1997	1998
	(In millions of leks, end of period)						
Total credit	3,918	6,851	9,228	11,315	13,094	12,907	12,607
Of which:							
State	2,732	2,587	2,433	3,136	3,752	2,832	3,141
Private	1,185	4,264	6,796	8,179	9,342	10,075	9,566
National Commercial Bank	2,514	2,863	3,280	3,564	3,889	2,080	1,525
Of which:							
State	2,018	1,646	1,327	1,522	1,178	831	431
Private	497	1,210	1,953	2,042	2,711	1,259	1,094
Savings Bank	235	1,044	1,669	2,850	4,511	9,454	9,705
Of which:							
State	76	337	690	1,197	2,159	2,001	2,710
Private	159	656	979	1,654	2,352	7,453	6,995
Rural Commercial Bank	1,168	2,995	4,067	4,475	4,693	1,373	1,377
Of which:							
State	638	604	523	524	414	0	0
Private	530	2,322	3,544	3,951	4,279	1,373	1377 2/
Memorandum items	(In percent)						
Total credi							
12-month percent change	...	74.9	34.7	22.6	9.8	(1.4)	(2.3)
Ratio to GDP	7.4	5.5	4.9	5.0	4.7	3.8	2.7

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.

Table 25. Albania: Nonperforming Credits, 1992-98

	1992	1993	1994	1995	1996	1997	1998
				(In millions of leks, end of period)			
Total	1,111	926	2,452	3,442	4,516	9,049	10,064
Of which:							
State	1,029	186	255	315	418	1,625	1,638
Private	82	740	2,197	3,127	4,098	7,424	8,426
National Commercial Bank							
Total	187	364	939	1,256	1,517	1,048	1,229
Of which:							
State	145	135	228	284	334	545	293
Private	42	230	711	973	1,183	503	936
Savings Bank							
Total	17	243	360	465	566	7,271	7,860
Of which:							
State	0	0	0	1	57	1,080	1,345
Private	17	243	360	464	509	6,190	6,515
Rural Commercial Bank							
Total	907	319	1,133	1,598	2,231	730	975 1/
Of which:							
State	884	52	27	31	27	0	
Private	23	267	1,107	1,567	2,204	730	975 1/
Memorandum items:				(In percent)			
Ratio of nonperforming credits to:							
Commercial bank deposits	5.9	2.9	5.7	5.3	4.2	7.2	5.9
Total claims on state enterprises and the private sector	...	13.4	25.3	30.2	31.6	60.7	56.9

Sources: Bank of Albania; and Fund staff estimates.

1/ Before liquidation, March 1998.

Table 26. Albania: Balance of Payments, 1992-98

	1992	1993	1994	1995	1996	1997	1998
	(In millions of U.S. dollars)						
Current account	-427	-357	-278	-176	-245	-276	-186
Trade balance	-454	-490	-460	-474	-692	-519	-621
Exports	70	112	141	205	229	167	205
Imports	524	602	601	679	921	685	826
Services (net)	-121	-97	-83	-2	22	-8	-5
Of which: Interest due	30	32	38	6	7	6	7
Private transfers	148	230	264	300	425	250	440
Capital account	411	393	181	201	167	83	99
Official transfers	329	351	161	118	77	77	89
Direct investment	32	45	65	89	97	42	45
Other capital including short-term flows	-9	-42	-98	-87	-120	-81	-88
Official medium- & long-term loans (net) 1/	59	39	54	81	113	46	53
New borrowing	59	39	60	82	119	53	62
Multilateral loans 1/	0	3	15	32	42	16	31
World Bank	0	3	13	20	29	15	24
EBRD	0	0	0	4	7	0	1
Other	0	0	0	8	6	1	6
Bilateral loans	59	35	45	50	77	37	31
Other loans	0	1	0	0	0	0	0
Amortization 1/	0	0	-6	0	-5	-8	-9
Errors and omissions 2/	32	-38	85	41	107	206	105
Net balance	15	-2	-12	67	29	13	17
Financing requirement	-15	2	12	-67	-29	-13	-17
Available financing	-16	2	12	-67	-30	-13	-17
Change in net reserves (increase = -)	-57	-58	-35	-26	-43	-27	-71
Change in gross reserves, (increase = -)	-71	-75	-57	-36	-35	-31	-78
Use of Fund Resources (net)	14	17	22	10	-8	4	7
Fund (Credit Tranche)	14	5	0	0	0	12	0
Fund (ESAF)	0	12	22	11	0	0	8
Repayments to Fund	0	0	0	-1	-8	-8	-1
BOP support	3	22	20	21	13	14	54
Bilateral	1	0	0	3	11	9	17
Multilateral	2	22	20	18	2	5	37
Changes in arrears (increase = +) 3/ 4/	39	38	-83	-454	1	0	-145
Overdue debt forgiveness 5/	0	0	0	393	0	0	0
Debt service relief (rescheduling) 6/	0	0	109	0	0	0	145
Financing gap	0	0	0	0	0	0	0
Memorandum items:							
Gross usable reserves	72	147	204	240	275	306	384
(months of imports of goods and non-factor services)	1.4	2.3	3.2	3.5	3.0	4.5	4.7
Trade balance (percent of GDP)	-64.1	-39.9	-23.2	-19.6	-25.7	-22.7	-20.3
Current account (percent of GDP)	-60.3	-29.1	-14.0	-7.3	-9.1	-12.1	-6.1
Debt service (percent of exports of goods and non-factor services)	37.1	16.9	19.7	2.5	6.0	6.1	6.1
External debt (percent of GDP) 7/	114	78	51	28	27	33	29
Merchandise exports (percent growth)	-4.4	59.9	26.5	44.9	11.8	-27.1	22.9
Merchandise imports (percent growth)	86.5	14.9	-0.2	13.0	35.6	-25.6	20.6

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

1/ Excluding IMF.

2/ The large errors and omissions in 1997 reflect incomplete data for the first half of the year as a result of the crisis.

3/ 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.

4/ 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.

5/ Debt forgiveness in 1995 corresponds to commercial bank debt restructuring under Brady deal.

6/ The figure for 1994 corresponds to the rescheduling of Paris Club debt in December 1993.

7/ Includes arrears. Estimates revised to reconcile the data recently provided by the authorities.

Table 27. Albania: Commodity Composition of Exports SITC Classification, 1992-98

SITC Category	Description	1992 1/	1993 2/	1994 2/	1995 2/	1996 2/	1997 2/	1998 2/
		(In percent of total)						
0-1	Food, beverages, tobacco and live animals	13.3	14.0	14.3	7.5	8.9	12.6	9.7
2	Crude materials, except fuel	80.8	24.0	24.3	24.7	16.9	18.7	16.5
3	Mineral fuels, lubricants and related materials	...	8.3	7.0	2.9	4.1	3.7	1.2
4	Animal and vegetable oils and fats	...	0.1	0.5	0.7	2.2	0.0	0.2
5	Chemical products	1.1	4.3	3.0	1.2	1.4	1.4	0.8
6	Manufactured goods	4.8	14.7	14.0	14.1	13.8	10.1	12.3
7	Machinery and transport equipment	0.0	3.6	3.4	1.4	1.7	4.1	2.8
8	Miscellaneous manufactured articles	...	31.0	39.2	45.6	51.1	49.5	56.4
9	Miscellaneous transactions and commodities not classified according to kind	0.0	0.0	2.2	1.9	0.0	0.0	0.0
		(In millions of U.S. dollars)						
	Total (SITC 0-9)	46	112	141	205	229	167	205

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

1/ Staff estimates based on data available for state sector only (estimated to account for 60 percent of total).

2/ Staff estimates based on Harmonized System data provided by the Customs Department.

Table 28. Albania: Commodity Composition of Imports
SITC Classification, 1992-98

SITC Category	Description	1992 1/	1993 2/	1994 2/	1995 2/	1996 2/	1997 2/	1998 2/
				(In percent of total)				
0-1	Food, beverages, tobacco and live animals	28.3	20.1	25.5	22.3	32.0	22.3	23.8
2	Crude materials inedible, except fuels	5.6	0.7	2.4	0.9	1.2	5.0	4.9
3	Mineral fuels, lubricants and related materials	14.6	3.3	10.9	9.7	2.6	1.8	3.8
4	Animal and vegetable oils and fats	0.0	1.8	0.0	2.4	2.6	3.6	3.3
5	Chemical products	5.7	12.4	6.5	6.8	5.9	8.0	9.8
6	Manufactured goods	11.9	14.5	18.9	21.2	18.4	21.3	22.3
7	Machinery and transport equipment 2/	33.8	38.1	31.8	20.3	22.5	18.5	16.5
8	Miscellaneous manufactured articles	0.0	9.1	0.0	16.1	14.4	13.1	15.3
9	Miscellaneous transactions and commodities not classified according to kind	0.0	0.0	0.0	0.2	0.4	6.6	0.4
				(In millions of U.S. dollars)				
	Total (SITC 0-9)	100	602	601	679	921	685	826

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

1/ Staff estimates based on data available for state sector only (estimated to account for 20 percent of total).

2/ Staff estimates based on Harmonized System data provided by the Customs Department.

Table 29. Albania: Geographical Distribution of Exports (f.o.b.), 1992-98

	1992 1/	1993	1994	1995	1996	1997	1998
	(In percent of total)						
Former CMEA countries	...	...	...	3.9	5.5	8.6	4.8
Bulgaria	...	0.7	0.6	0.1	0.0	0.0	0.1
Romania	0.0	0.2	0.0	0.0	0.1	0.0	0.1
Czechoslovakia 2/	0.2	0.2	0.4	0.3	0.2	0.1	0.2
Hungary	0.8	0.4	0.3	0.1	0.1	0.1	0.0
Poland	0.0	0.3	0.0	0.0	0.1	0.3	0.1
Other	...	...	...	3.3	5.0	8.1	4.4
Industrial countries	41.5	...	...	84.5	89.5	89.7	94.5
Germany	7.3	4.3	4.8	6.1	6.9	6.9	5.7
Italy	13.6	41.0	52.1	51.5	57.9	49.4	60.1
Greece	8.5	18.0	10.4	9.9	13.0	20.5	19.8
France	2.3	1.8	2.1	2.3	2.0	1.9	1.2
Japan	2.4	1.4	1.4	0.7	0.3	0.1	0.1
Austria	1.1	1.0	2.4	0.9	1.1	1.5	1.6
Belgium-Luxemburg	0.9	6.1	4.3	5.4	1.3	0.5	1.5
Netherlands	0.7	0.3	0.1	2.1	2.9	5.6	0.9
Switzerland	0.6	1.3	0.6	1.0	0.6	0.5	0.3
United States of America	2.7	3.7	11.1	3.4	1.2	1.5	1.7
Other	1.4	...	...	1.2	2.3	1.3	1.8
Developing countries	57.5	...	...	11.6	5.0	1.9	1.2
Algeria	1.3	...	0.0	0.0	0.0	0.0	0.0
China	0.1	0.1	0.0	0.8	0.0	0.0	0.0
Egypt	1.9	...	0.0	0.1	0.0	0.0	0.3
Morocco	6.1	...	0.0	0.0	0.0	0.0	0.0
Tunisia	1.7	...	0.0	0.0	0.0	0.0	0.0
Turkey	0.0	1.4	0.7	6.2	3.1	1.0	0.6
Republic of Korea	32.2	...	0.0	0.0	0.0	0.0	0.0
Yugoslavia 2/	7.9	13.6	6.0	0.0	0.0	0.3	0.3
Other	14.2	...	...	4.5	1.9	0.6	0.1
Memorandum items:	(In millions of U.S. dollars)						
Total exports							
Balance of payments estimates	70	112	141	205	229	167	205
Reported by partner countries 1/	190	143	164	242	322	252	277

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

1/ From Direction of Trade Statistics, IMF, 1997, for reporting countries.

2/ For 1992-95 includes data for the successor states to the Republic of Czechoslovakia and the former Social Federal Republic of Yugoslavia, respectively.

Table 30. Albania: Geographical Distribution of Imports (f.o.b.), 1992-98

	1992 1/	1993	1994	1995	1996	1997	1998
				(In percent of GDP)			
Former CMEA countries	...	...	...	12.6	13.3	8.9	10.4
Bulgaria	...	5.7	8.2	8.0	4.0	2.7	2.8
Romania	0.4	0.5	0.6	0.5	2.4	0.3	0.4
Czechoslovakia 2/	0.6	0.9	0.5	0.5	0.5	1.1	0.3
Hungary	2.0	1.2	0.5	0.7	0.8	0.1	1.1
Poland	0.0	0.7	0.1	0.1	0.1	0.0	0.0
GDR	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	...	...	...	2.8	5.5	4.5	5.7
Industrial countries	71.9	...	...	81.1	79.6	83.4	85.2
Germany	5.1	12.4	5.5	4.6	4.1	4.2	3.8
Italy	23.8	31.2	35.0	37.9	41.7	44.5	44.1
Greece	6.7	18.5	24.0	26.8	21.2	26.6	29.2
France	17.1	8.7	1.9	1.2	3.1	1.1	0.9
Japan	0.0	0.3	0.0	0.0	0.1	0.0	0.0
Austria	0.8	0.9	1.5	2.0	1.0	1.5	1.4
Belgium-Luxemburg	7.9	1.0	1.0	1.6	2.5	1.1	1.1
Netherlands	1.0	0.7	0.5	0.6	0.8	0.5	0.6
Switzerland	1.5	1.7	0.9	0.7	1.7	1.2	1.5
United States of America	5.9	2.5	0.2	0.3	1.3	0.1	0.3
Others	2.1	...	...	5.5	2.3	2.6	2.3
Developing countries	24.9	...	...	6.5	7.1	7.8	4.8
China	0.3	0.5	1.1	0.0	0.2	0.1	0.2
Egypt	2.2	0.0	...	0.3	1.0	0.2	0.8
Republic of Korea	9.8	0.4	0.2	0.0	0.0	0.0	0.1
Morocco	3.9	3.1	...	0.0	0.0	0.0	0.0
Turkey	3.3	3.0	4.6	4.1	4.4	4.4	3.4
Yugoslavia 2/	4.8	4.6	4.5	0.0	0.0	0.1	0.1
Others	0.6	...	...	2.0	1.5	2.3	0.3
Memorandum items:				(In millions of U.S. dollars)			
Total imports							
Balance of payments estimates	524	602	601	679	921	685	826
Reported by partner countries 1/	614	628	668	912	1171	631	750

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

1/ From Direction of Trade Statistics, IMF, 1997, for reporting countries.

2/ For 1992-95 includes data for the successor states to the Republic of Czechoslovakia and the former Social Federal Republic of Yugoslavia, respectively.

Table 31. Albania: External Debt in Convertible and Nonconvertible Currencies, 1991-98

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

	1991	1992	1993	1994	1995	1996	1997	1998
Total	742	811	936	1012	683	732	757	874
Multilateral	0	16	57	119	182	208	221	303
EBRD	0	0	0	0	5	10	9	9
EIB	0	0	0	0	0	0	0	1
IDA	0	2	27	65	109	137	148	220
IDB	0	0	0	0	0	0	0	1
IFAD	0	0	0	1	2	5	5	8
IMF 1/	0	14	30	53	66	54	56	62
OPEC	0	0	0	0	0	1	2	3
Bilateral	22	26	73	120	146	169	181	212
Paris Club 2/	6	12	54	104	128	141	143	159
Pre cut-off	0	0	1	45	53	46	36	29
Austria	0	0	0	8	9	8	6	4
Britain	0	0	0	0	0	0	0	0
France	0	0	0	19	20	17	13	10
Germany	0	0	0	14	21	18	14	13
Italy	0	0	0	2	2	2	2	1
Netherlands	0	0	1	1	1	1	1	1
Post cut-off	6	12	53	60	75	95	107	130
Austria	0	0	0	2	4	6	5	5
Germany	6	12	16	19	25	34	41	51
Italy	0	0	37	39	46	56	61	74
Non-Paris Club	16	14	19	16	18	28	37	53
China	2	4	4	0	0	0	1	1
Greece	0	4	14	6	1	0	0	11
Japan	0	0	0	8	11	9	17	20
Kuwait	0	0	0	1	7	12	13	15
Norway	0	0	0	0	0	3	3	3
Sweden	0	0	0	0	0	4	4	4
Turkey	14	6	1	0	0	0	0	0
Arrears	720	769	807	772	355	356	356	359
Convertible currency	93	113	120	131	134	135	135	135
Budgetary	19	39	46	57	60	61	61	61
China	0	0	0	5	5	5	5	5
Greece	0	0	4	11	18	19	19	19
IDB	0	0	0	0	0	0	0	0
Turkey	0	8	13	14	14	14	14	14
PTT	8	20	20	18	15	15	15	15
Railway	7	7	7	7	7	7	7	7
Other	4	4	1	0	0	0	0	0
Bilateral clearing account (U.S. $)	74	74	74	74	74	74	74	74
Non-convertible currency 3/	228	228	228	169	169	169	169	172
Commercial 4/	399	428	459	473	52	52	52	52
Memorandum items:								
Total debt (percent of GDP)	66	114	76	51	28	27	33	29
Total arrears (percent of GDP)	64	109	66	39	15	13	16	12

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

1/ ESAF and ordinary resources.

2/ Excludes debt in arrears to Russia and Italy subject to the July 1998 Paris Club rescheduling agreement and reconciliation during bilateral negotiations. Based on the Albanian official sources, the amounts subject to this rescheduling are estimated at about US$145 million.

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

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

Table 32. Albania: Employment and Wages in Budgetary Institutions, 1992-98

(End of period)

	Employment	Monthly wage		Real wage index	
	In thousands	In leks	Percent change	Index Dec. 95=100	Percent change
1992	207.1	2,879	...	52.9	...
1993	185.4	4,738	64.5	66.5	25.7
1994	167.8	6,962	46.9	84.4	26.9
1995	156.0	8,745	25.6	100.0	18.5
1996	151.0	10,491	20.0	102.2	2.2
1997	150.0	10,491	0.0	71.9	-29.7
1998	135.0	13,234	26.1	83.5	16.1

Sources: Albanian authorities; and Fund staff estimates.