

## **TRADE BALANCE OF THE ALBANIAN AGRICULTURAL SECTOR: A STATISTICAL ANALYSIS**

**Pjerin Shoshi** 

Agricultural University of Tirana, Faculty of Economics and Agribusiness, Albania

[pjerin.shoshi@gmail.com](mailto:pjerin.shoshi@gmail.com)

**Etleva Dashi**

Agricultural University of Tirana, Faculty of Economics and Agribusiness, Albania

**Natasha Hodo**

Agricultural University of Tirana, Faculty of Economics and Agribusiness, Albania

### **Abstract**

*The Albanian economy trade deficit is lower, in percentage, than the deficit in the agricultural sector. Agriculture currently contributes for about 20% of the national GDP and employs about 50% of the workforce in the country. In recent years, the trade balance of the country's economy and that of the agricultural sector, in percentage, has improved, compared to previous periods. This improvement is most noticeable in the agricultural sector, but it is interesting to analyze the balance sheet fluctuations within a period of 1 year. The statistical analysis carried out, through data collected by the National Institute of Statistics (INSTAT), we noted that the trade balance of the agricultural sector deteriorates during the end of the year and the summer vacation period. Periods with the highest level of consumption in the country. This growing trend for imported products is focused mostly on agro-processed products. These products are imported from EU countries, because local producers do not comply yet to the required quality. The analysis shows that in order to further improve the trade balance in agricultural, special importance should be given to the agro-processing sector. Supporting the agro-processing industry would reduce the dependence on imports and increase competitiveness.*

*Keywords: Albanian economy, trade balance, agro-processed products, import-export fluctuations, INSTAT*

## INTRODUCTION

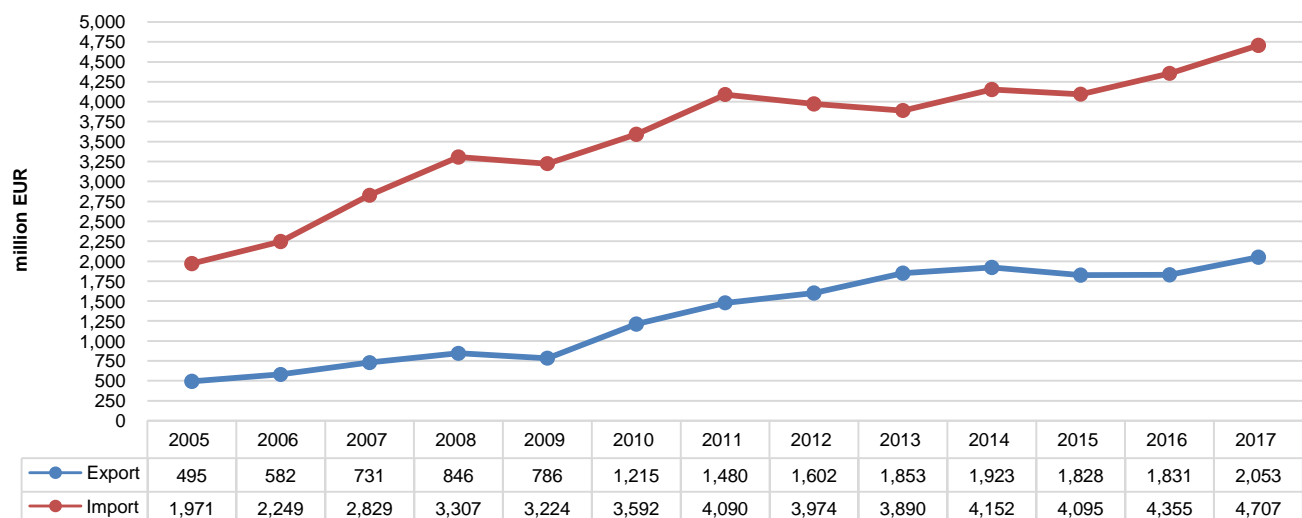
The Republic of Albania is characterized by an area of 28,748 km<sup>2</sup> and a population of 2,787,600 inhabitants (INSTAT – National Institute of Statistics). The Utilized Agriculture Area (UAA) is 1,201,290 ha and represents 41.8% of the entire territory of Albania. The Agriculture sector contributes for about 20% of the national GDP, employing 46% of the population. For this reason, the investment to support the growth of the agriculture sector represents a great potential for the future. Only in 2017, the level of agricultural exports from Albania has marked an increase of 19% (The Ministry for the Agriculture 2017), it shows the tremendous investment potential that this sector offers.

At the end of 2017, the total trade deficit for the Albanian economy was 129%, while the deficit for the agricultural sector amounted to 255% (INSTAT 2017). A concerning problem for the sector remains the low level of mechanization and investments in the collection or storage structures. Meeting food safety standards, poses another problem. The failure to meet these standards comes from the lack of resources for investment in technology, but also from a lack of awareness of the need for meeting these standards.

## THE ALBANIAN ECONOMY TRADE BALANCE AND AGRICULTURE

Albania has faced a high trade deficit over the last 25 years. This comes because it is a very small country that cannot produce everything, but also because it has changed the structure of its economy, from state to a modern market economy. The country's competitiveness growth in recent years has witnessed a sharp fall in trade deficit levels, from 298% in 2005 to 129% in 2017. Figure 1, below, reflects the export-import performance in Albania from 2005 to 2017.

Figure 1: Performance of Export - Import during the years 2005 – 2017 in the Albanian economy

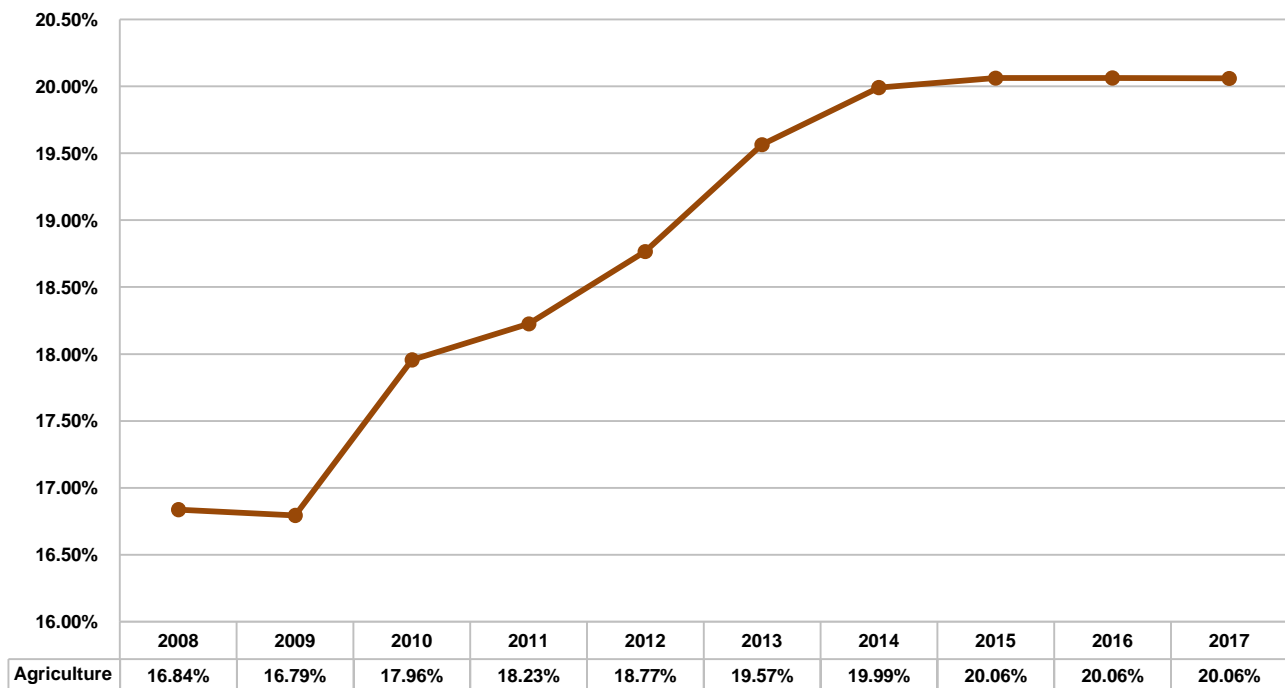


Trade deficit	1476.5	1667.2	2097.9	2461.1	2438.5	2377.6	2609.8	2371.9	2037.5	2229.5	2266.3	2524.4	2654.1
Deficit	298%	286%	287%	291%	310%	196%	176%	148%	110%	116%	124%	138%	129%
Change %	6	18	26	16	-7	55	22	8	16	4	-5	0.1	0.1
Cover %	25	26	26	26	24	34	36	40	48	46	45	42	44

Source: INSTAT

Agriculture in 2017 contributed to 20.06% of GDP. This figure has increased if comparing with the value of 16.84% contributing to 2008. This trend is reflected in Figure 2, as follows.

Figure 2: Percentage of Agriculture's contribution to GDP of Albania during the years 2008 – 2016

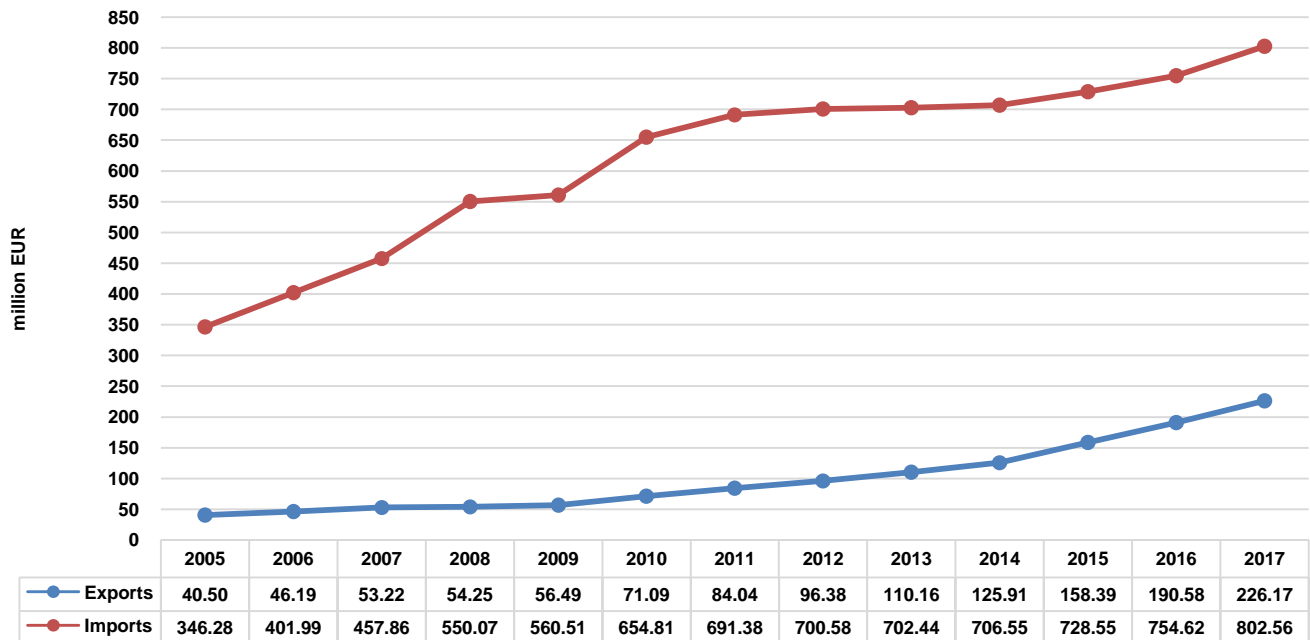


Source: INSTAT

### THE AGRICULTURAL SECTOR TRADE BALANCE DURING THE YEARS 2005 – 2017

Since 2005, exports and imports of agricultural products have undergone considerable growth, although the highest increase was recorded by imports. From Figure 3, below, it is noted that the increase in imports has been more constant in contrast to exports which have experienced a significant increase only after 2010.

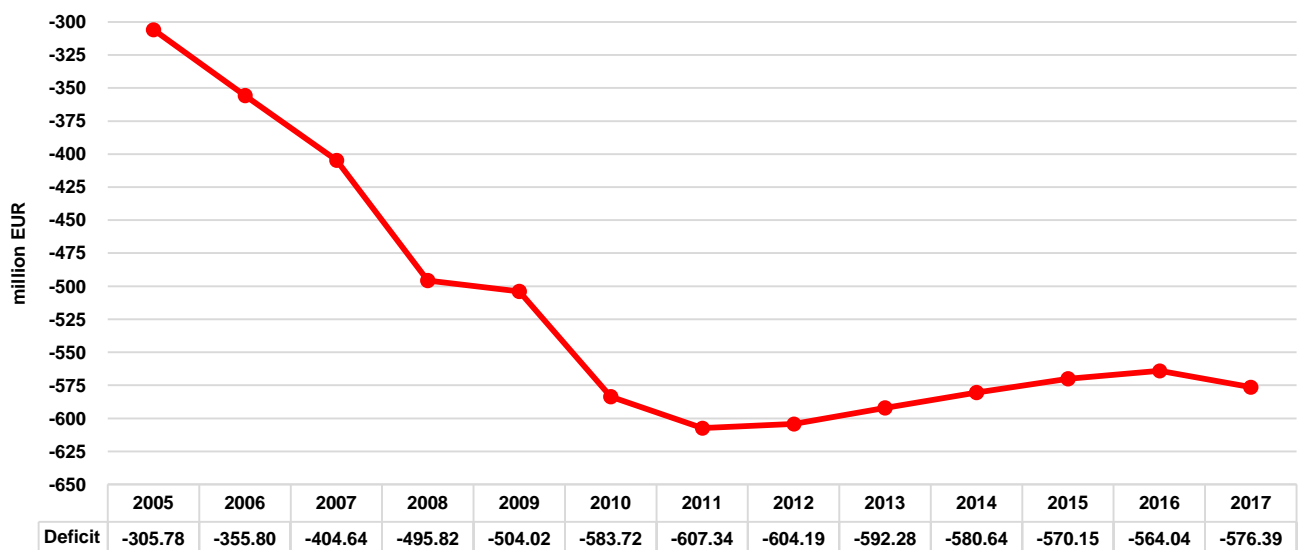
Figure 3: Performance of Export-Imports in the agricultural sector during the years 2005 – 2017



Source: INSTAT

During 2005 – 2011, trade deficit in the agricultural sector has seen a rapid growth, which is reflected in Figure 4, below. By 2012, the deficit has suffered a slight or significant decline, as it shows a growth in the performance of the entire sector. This trade balance reduction period is also related to the increase in the value of exports (Figure 3, above).

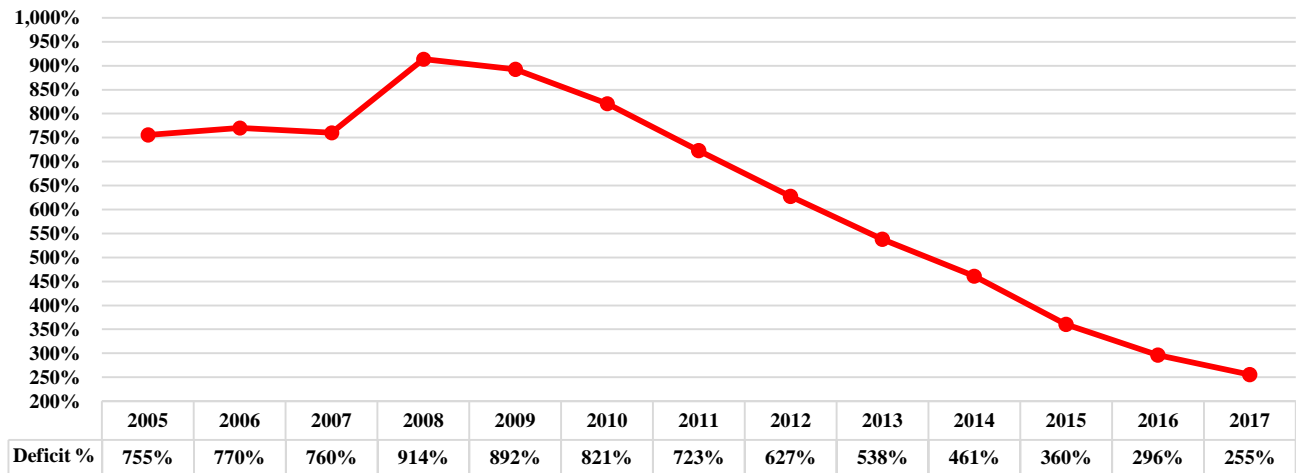
Figure 4: Performance of the trade balance in the agricultural sector during the years 2005-2017



Source: INSTAT

The rapid decline in trade deficit and the positive performance of the entire sector in recent years is reflected more clearly in Figure 5 below. It is noticed that since 2008 there has been a sharp decline in the level of trade deficit (in percentage) for the agricultural sector. Passing from a negative peak of 914% in 2008 and reaching 255% for 2017, which has already marked the most positive record in the last 12 years.

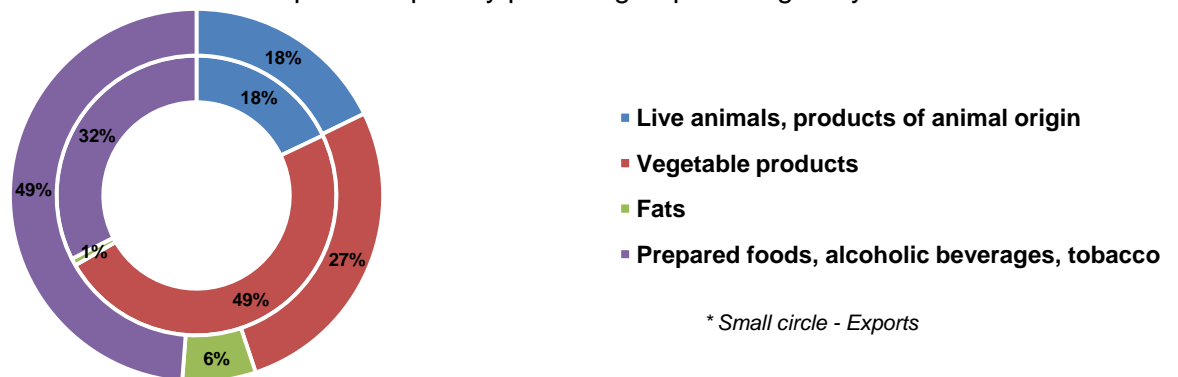
Figure 5: Performance of the deficit rate in the agricultural sector during the years 2005 – 2017



Source: INSTAT

In 2017, Albanian exports and imports to the agriculture sector were distributed according to Figure 6, as follows, into 4 (four) main product groups. It is clear that most exports are based on vegetable products, almost half, while imports are mostly focused, almost half, on prepared foods, alcoholic beverages and tobacco. These import products are not produced by the agro-processing industry in the country or come with large differences in quality compared to products produced in EU countries.

Figure 6: Distribution of Export – Import by product groups during the year 2017

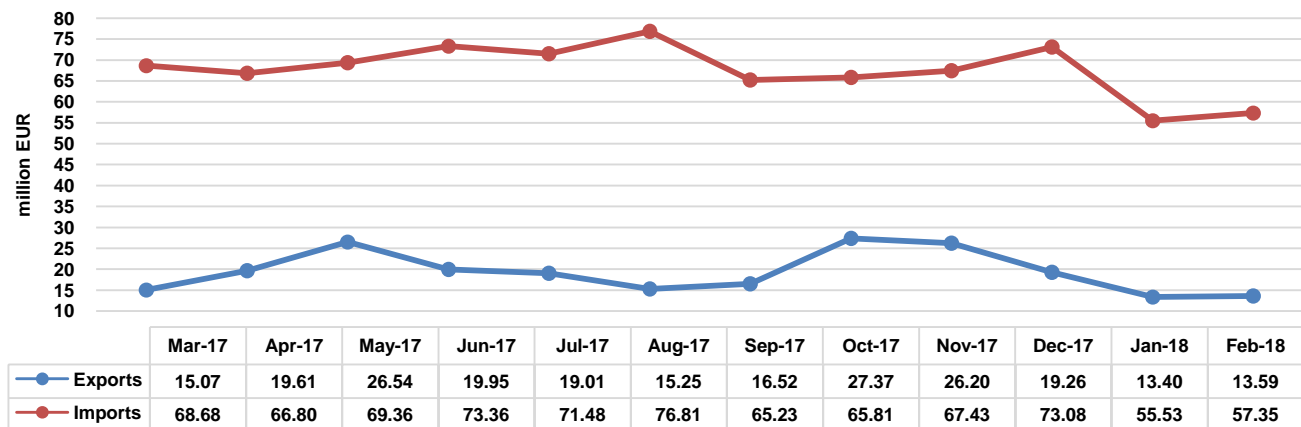


Source: INSTAT

## THE AGRICULTURAL SECTOR TRADE BALANCE DURING THE LAST 12 MONTHS

Between March 2017 and February 2018, exports and imports to the agriculture sector have undergone significant reductions and increases, reflecting their volatility during the year. This positive performance is reflected in Figure 7, below. However, over the past 12 months, the same trend of increasing the value of exports and imports has been followed, as in the years 2010 – 2017, Figure 3, above.

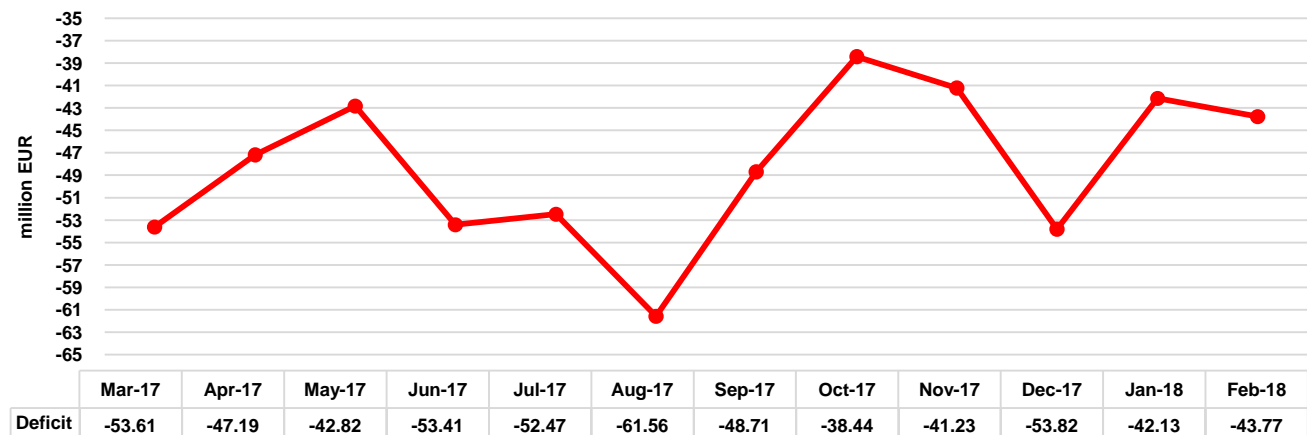
Figure 7: The performance of Export – Import in the agricultural sector over the past 12 months



Source: INSTAT

The same tendency is also reflected in Figure 8, below, clearly showing the declining performance of the trade deficit percentage for the agricultural sector. To be noted, as in Figure 7 above, remains the high variation over the 12-month period.

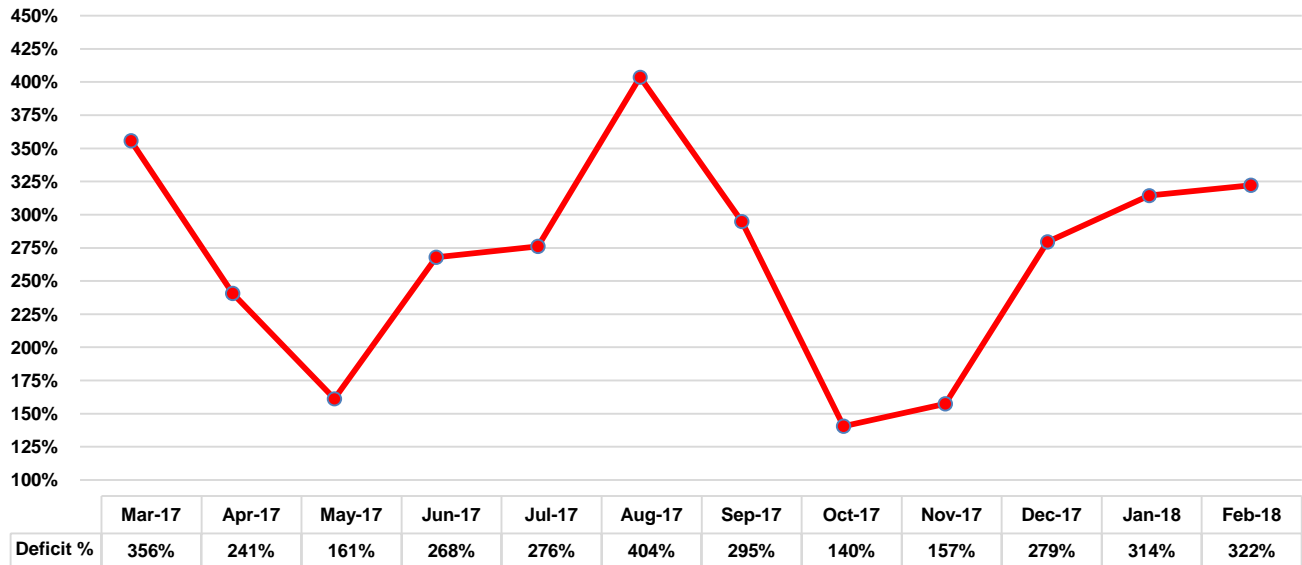
Figure 8: Performance of the trade balance in the agricultural sector over the last 12 months



Source: INSTAT

The high variation in the trade deficit is most clearly shown in Figure 9 below, where it is clearly shown that, despite the downward trend, there is a strong increase in the deficit, in percentage, especially during the holidays. The highest percentages of deficit are distinguished in the months of March 2017, May 2017 and February 2018. This is in line with the highest increase in consumption in the country.

Figure 9: Performance of the deficit rate in the agricultural sector over the past 12 months



Source: INSTAT

## CONCLUSIONS

From the above statistical data, it can be seen that in general, the agricultural sector shows a lower trade performance than the Albanian economy in general. This is noticed by the highest deficit level, 129% (see Figure 1) in the country's economy and 255% (see Figure 5) in the agricultural sector, in 2017, 2 (two) times more.

Since 2010, there has been a significant increase in agricultural exports compared to the previous period, which has led to a significant reduction in the trade deficit, from 914% in 2008 to 255% in 2017 (Figure 5, above). This does not mean that imports in the agricultural sector have been reduced but the increase in imports has been higher in percentages. Also, since 2011, there has been a slight improvement in trade deficit of the agricultural sector, in value.

The improvement in trade balance reflects the increased competitiveness and production of the agricultural sector, but domestic products still fail to replace imported products because import levels continue to grow. This fact shows another reality, domestic production

growth is destined for export, and more is concentrated in fresh products, while the domestic market continues to import large quantities of agro-processed products. This is for 2 (two) reasons, first the domestic industry does not provide substitute products and secondly, domestic substitute products are not yet of the right quality.

Therefore, consumers are still oriented towards agro-processed imported products. Clearly, this is confirmed by the large increase in imports compared with exports during the holiday periods, the months of December 2017 - February 2018 and July - September 2017, Figure 9, above.

The high imports of agro-processed products offer a tremendous opportunity for the domestic industry to produce substitute products but with comparable quality to EU countries. Increasing the competitiveness of the agro-processing industry should also be at the center of the Government's attention through the National Support Scheme for the agriculture sector, but also through fiscal policies or soft loans. These mutually integrated supporting measures would bring a sharp and immediate reduction of imports, but at the same time, why not, they would provide an opportunity for further growth of Albanian agricultural exports.

Further studies shall be conducted by the academia to explore the solutions and measures that need to be tackled by the Government in order to improve the negative trade balance of the agricultural sector. How to improve the agro-processed products in order to increase exports and in the same time to substitute some of the importing products. The more developed analyzes should be a guide to further increase the competitiveness of the sector.

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