

The Exchange Rate in Albania and its Connection with Import-Export

Alba Cani

Epoka University

Albania

acani10@epoka.edu.al

Abstract: *Recently, trade agreements among different countries are becoming more and more important. Exchange rate and its volatility are important elements taken into consideration when these trade agreement and exchanges are done. The history of Albania has had crucial developments in different periods. These changes and developments have had an impact not only in policy making process but also in the way how economic policies are compiled. Among the most important economic actions undertaken in the transition period is the adoption of flexible exchange rate. This paper is an attempt to explain the relationship that exists through the exchange rate and import-export as this is one of the traditional methods for long-term analysis taken into consideration in studying this connection. The aim of this research paper is to analyze the way how these variables are connected to each-other and to explain which factors have influenced in the volatility of exchange rate in these years in Albania. This study examines the effect of exchange rate volatility in imports and exports by using multiple regression analysis with exchange rate as dependent variable and trade balance, remittances, government spending as independent variables. Thus, an empirical method is used in order to prove whether there is a relationship between the exchange rate and its variables and import-export. Moreover, a detailed analysis of exchange rate volatility on trade balance connection is included. All the data are taken by Bank of Albania, Instat and World Bank and all the values of variables are in million Albanian Leke. The analysis is based on respective values of above mentioned variables for the period from 1996-2010 for Leke-Dollar exchange rate and from 1999-2010 for Leke-Euro exchange rate. The findings of this study conclude with the result that exchange rate volatility does not have significant impact on import because some of the products that Albania imports are basic products regarding the inelastic demand of these products. On the other hand, exchange rate volatility affects exports as exports are directly related with exchange rate volatility.*

Keywords: *Exchange Rate, Volatility, Import, Export, Regression Analysis, Trade Balance, Government Spending.*