

Bank of Albania

ANALYSIS OF DEVELOPMENTS IN THE EXTERNAL SECTOR OF ECONOMY

2012 QI

OLTI MITRE

MONETARY POLICY DEPARTMENT, BANK OF ALBANIA

JULY 2012

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1. BALANCE OF PAYMENTS

Overall balance of payments recorded increase in foreign assets by about EUR 0.9 million in 2012 Q1. Current account deficit accounted for about EUR 259.2 million, increasing by about 17.4%, from 2011 Q1.

Table 1 Balance of Payments Key Items

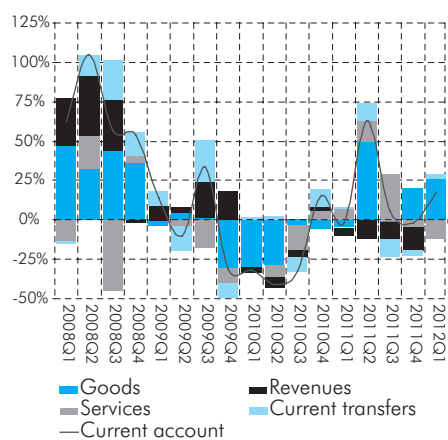
	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12
Current Account (EUR million)	-220.9	-321.9	-253.9	-348.7	-259.2
y-o-y	-1.7%	62.8%	5.9%	-2.1%	17.4%
/ GDP	-10.4%	-13.3%	-10.6%	-14.9%	-12.1%
Trade Balance	-408.5	-581.4	-593.1	-658.6	-465.3
Exports, f.o.b.	370.6	330.8	344.1	360.0	325.8
Imports, f.o.b.	-779.1	-912.2	-937.2	-1,018.6	-791.2
Services Balance	-17.0	-6.2	116.7	41.2	8.4
Credit	312.3	376.8	629.8	428.5	293.8
Debit	-329.3	-383.0	-513.1	-387.3	-285.4
Travel - net	-43.5	-19.9	82.9	28.4	4.3
Income Balance	-3.6	5.6	4.3	17.9	-4.3
Credit	47.5	58.6	66.6	58.9	59.7
Debit	-51.0	-52.9	-62.3	-41.0	-63.9
FDI Income- net	-15.0	-9.5	-21.0	-7.1	-37.1
Current Transfers	208.2	260.2	218.2	250.8	202.0
Credit	238.0	287.6	245.6	279.1	241.5
Debit	-29.8	-27.4	-27.5	-28.3	-39.5
Workers Remittances -net	155.0	190.4	153.8	188.7	159.5
Capital and Financial Account (EUR million)	242.9	199.8	222.7	255.8	269.1
y-o-y	149.1%	6.6%	26.3%	-37.7%	10.8%
/ GDP	11.5%	8.2%	9.3%	10.9%	12.6%
Capital Account	19.1	31.5	6.5	27.8	12.9
Financial Account	223.9	168.3	216.2	228.0	256.2
A. Liabilities	164.0	287.3	408.2	381.9	294.6
FDI	83.3	212.2	158.4	288.1	185.9
Portfolio Investment	0.2	5.2	5.2	5.4	5.4
Other Investment	80.5	70.0	244.7	88.5	103.3
B. Assets	59.9	-119.0	-192.1	-153.9	-38.4
FDI	-4.7	-1.7	-3.9	-19.8	-4.1
Portfolio Investment	-6.6	-37.7	-54.5	0.4	-50.0
Other Investment	71.2	-79.6	-133.6	-134.5	15.7
Errors and Omissions	-99.2	120.4	87.6	86.7	-9.0
Reserve Assets	77.1	1.7	-56.4	6.2	-0.9

Source: Bank of Albania.

2. CURRENT ACCOUNT

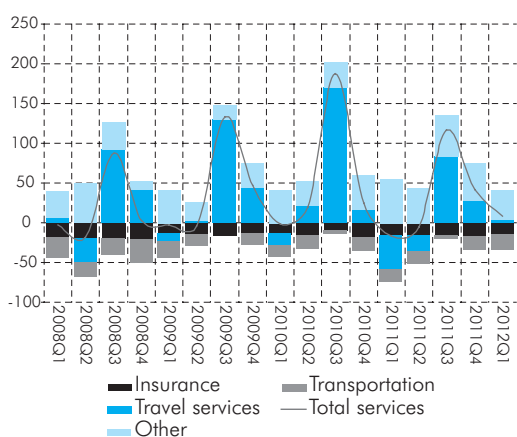
Albania's current account deficit accounted for 12.1% of nominal GDP in 2012 Q1, up by 1.7 percentage points from 2011 Q1. The current account dynamics was determined by the performance of net exports and net income account. The net export deficit widened by about 7.4%, y-o-y, contributing by about 14.2 percentage points to current account deficit over this period. The net income account and transfers contributed by 3.2 percentage points, determining the 17.4% current deficit widening, y-o-y. The capital and financial account surplus reached about EUR 269.1 million, up by about 10.8% y-o-y, to 12.6% of nominal GDP. Foreign currency inflows into this

Chart 1 Contribution to current account deficit, by items, in percentage points



Source: Bank of Albania.

Chart 2 Services balance (net flows, in EUR million)



Source: Bank of Albania.

account fully financed the current account deficit in 2012 Q1.

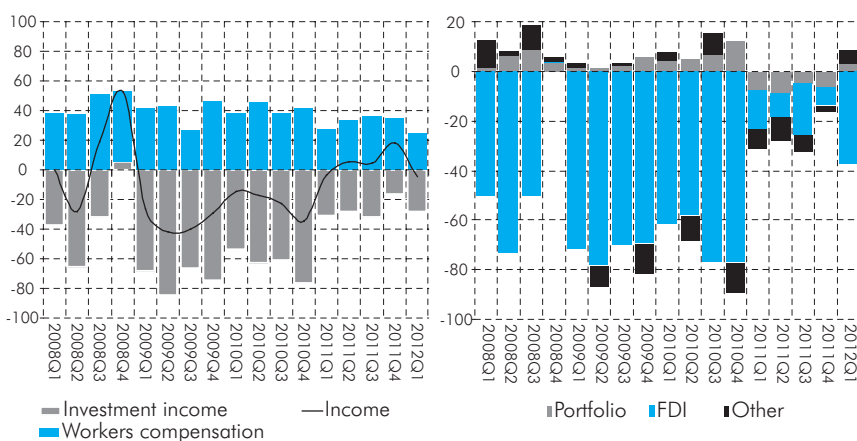
3. OTHER CURRENT ACCOUNT ITEMS

In 2012 Q1, 'trade in services' account recorded a surplus of EUR 8.4 million, being higher than in 2011 Q1. This account's year-over-year improvement was determined by increased net foreign currency inflows into the travel services sub-item. Also, this period recorded downward spending by residents travelling abroad. Other services of businesses and transportation recorded an increasingly negative contribution.

Income account balance recorded a deficit of EUR 4.3 million. Developments in this current account item were determined by increased investment income outflows. In 2012 Q1, the foreign direct investment net outflows recorded EUR 40.4 million, compared to EUR 21.3 million in 2011 Q1. Employees' compensation income, albeit lower than a year earlier, positively affected the total income account.

Net current transfers account posted a surplus of EUR 202 million in 2012 Q1, down by about 3%, y-o-y. Net remittances, the main sub-item of this account, increased slightly by about 3%, y-o-y. The ratio of net remittances financing the trade deficit was 34.3%, or down by 3.5 percentage points from 2011 Q1.

Chart 3 Income balance (net flows, in EUR million) (left); and investment income (net flows, in EUR million) (right)



Source: Bank of Albania.

4. CAPITAL AND FINANCIAL ACCOUNT

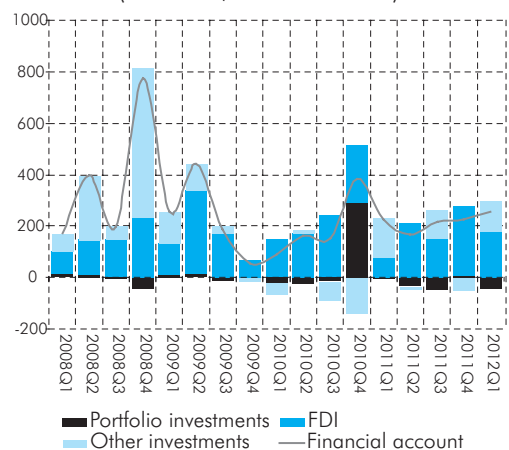
Net flows into capital and financial account recorded a positive balance of EUR 269.1 million in 2012 Q1, fully financing this quarter's current account deficit. Capital and financial flows increased by about 10.8% from the same period a year earlier, accounting for 12.6% of nominal GDP. The y-o-y increase in foreign currency inflows into this account was determined by the 14.4% y-o-y increase in financial inflows. As a percentage of nominal GDP, the financial account recorded 12%, or about 1.4 percentage points higher than a year earlier. Residents' financial liabilities to non-residents rose substantially, y-o-y. The high rate of financial liabilities is partially due to lower base of comparison a year earlier, a period that recorded about EUR 64.6 million capital outflows as intra-company loans. Also, domestic assets invested in non-resident economies climbed in portfolio investments, particularly in the shares sub-item.

In 2012 Q1, foreign direct investments (FDI), net, (inflows – outflows) marked EUR 181.8 million, from EUR 78.6 million in 2011 Q1. This difference derives mainly from the base effect of 2011 Q1, which recorded capital outflow in the form of other capitals¹. Inflows increased substantially in 2012 Q1. Based on the investment instrument, FDI inflows in the form of shares and re-invested earnings totalled EUR 188.6 million, up by about 27.5% y-o-y. Also, in 2012 Q1, a slight capital outflow in the form of other capitals by about EUR 2.7 million was recorded. The role of privatisation receipts in FDI growth remained modest, recording EUR 4.2 million in 2012 Q1.

Net portfolio investments totalled EUR 44.6 million in 2012 Q1, considerably higher than in 2011 Q1. The year-over-year difference in net portfolio investments was determined by residents' increased portfolio investments in non-resident economies, such as in shares and debt securities sub-items.

Other investment account, net, which was affected significantly by increased liabilities of residents to non-residents, recorded a surplus of EUR 119 million in 2012 Q1. Increase in borrowing flows and across-border currency and deposits by the Albanian banking system contributed to increasing liabilities of the Albanian economy by about EUR 103.3 million. On the asset side, in 2012 Q1, domestic assets invested in foreign economies fell by about EUR 15.7 million, as a consequence of decreased trade financing loans.

Chart 4 Capital and financial account
(net flows, in EUR million)

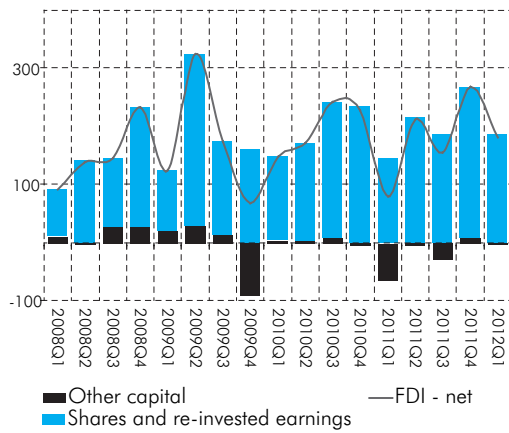


Source: Bank of Albania.

¹ Other capitals (or intra-company debt transactions) cover the borrowing and lending of funds, including debt securities and trade loans, between a direct investor and a direct investment company, and between two direct investment companies that share the same direct investor.

5. GROSS EXTERNAL DEBT

Chart 5 FDIs
(net flows, in EUR million)



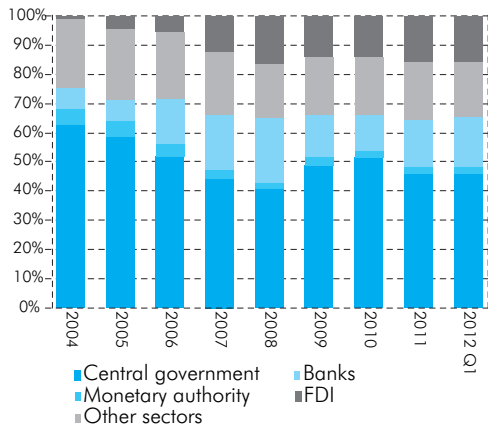
Source: Bank of Albania.

As at the end of 2012 Q1, Albania's gross external debt stock totalled EUR 4,600.5 million, up by EUR 66.6 million from 2011 Q4.

By institutional sectors, in 2012 Q1, the central government debt to total debt stock was about 46.5%. The remainder of the debt was allocated to other sectors (18.5%), banks (17.2%), FDIs – intercompany loans (15.7%) and monetary authority (2.0%).

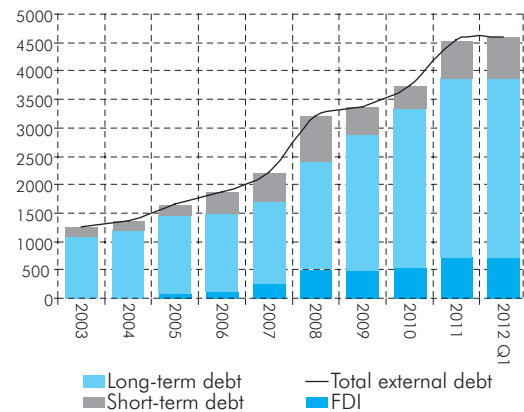
Long-term debt, mainly in the form of loans, accounted for about 84.5% of the debt stock (excluding FDIs – intra-company loans). Short-term

Chart 6 Gross external debt by institutional sectors (year-end stock, as a percentage of the total)



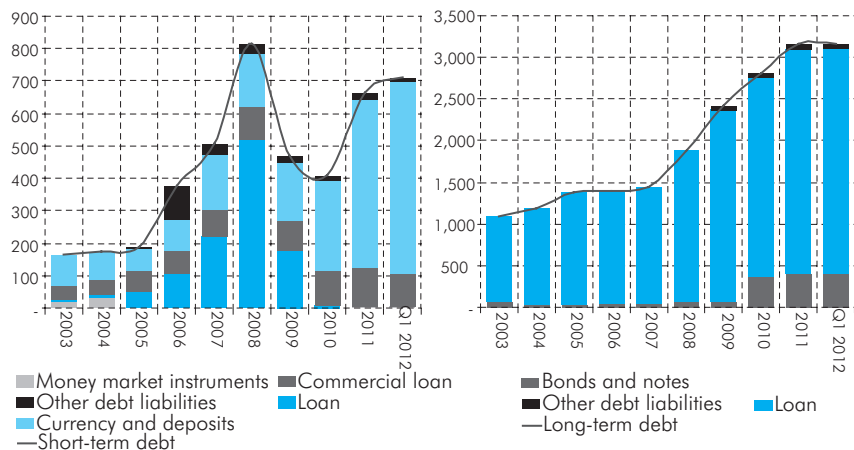
Source: Bank of Albania.

Chart 7 Structure of external debt by maturity (year-end stock, in EUR million)



Source: Bank of Albania.

Chart 8 Short-term and long-term debt (year-end stock, in EUR million)



Source: Bank of Albania.

debt, mainly in the form of banking sector's currency and deposits accounted for about 15.5% in 2012 Q1.

Foreign exchange reserve grew by about EUR 1 million in 2012 Q1, totalling about EUR 1,888.8 million as at end-period, sufficient to cover 4.3 months of imports of goods and services.

