

Bank of Albania

ANALYSIS OF DEVELOPMENTS IN
THE EXTERNAL SECTOR
OF THE ECONOMY

2012 Q2

OLTI MITRE
MONETARY POLICY DEPARTMENT

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The views expressed in this material are those of the author and do not necessarily reflect those of the Bank of Albania.

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1. BALANCE OF PAYMENTS¹

Overall balance of payments recorded an increase in foreign assets by about EUR 7.5 million in 2012 Q2. Net current account deficit accounted for EUR 196.6 million, decreasing by about 37.3% y-o-y. Net capital and financial flows recorded a positive balance of EUR 171.3 million in 2012 Q2, down by 10.7%, y-o-y. Capital and financial account surplus financed about 87.1% of current deficit during this period.

Table 1 Balance of Payments Key Items

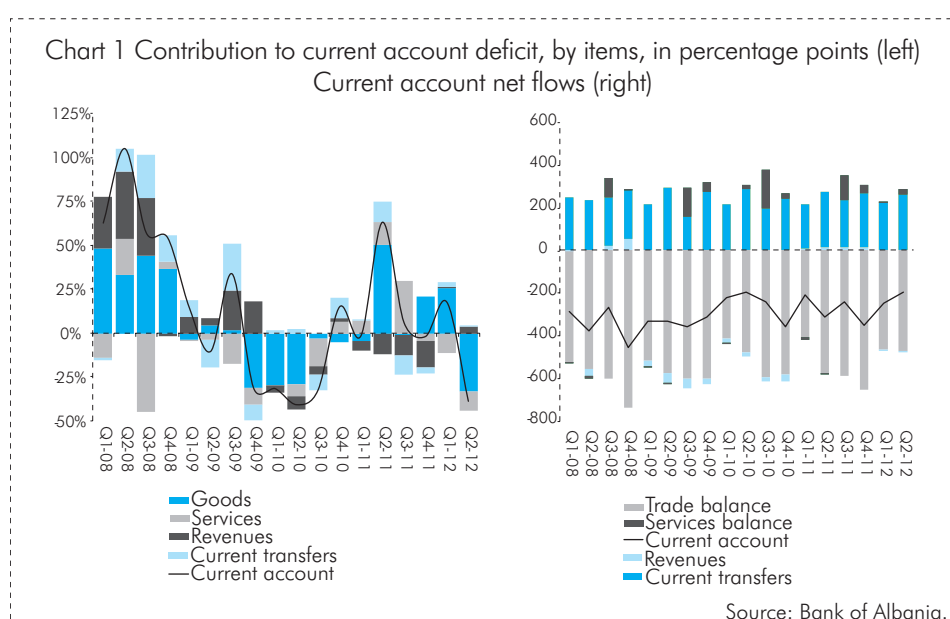
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2
Current account (in EUR million)	-313.8	-244.1	-352.1	-249.3	-196.6
y-o-y	58.7%	1.8%	-1.2%	17.6%	-37.3%
/ GDP	-13.0%	-10.2%	-15.0%	-11.7%	-7.7%
Trade Balance	-581.4	-593.1	-658.6	-465.3	-475.8
Exports, f.o.b.	330.8	344.1	360.0	325.8	394.2
Imports f.o.b.	-912.2	-937.2	-1,018.6	-791.2	-870.0
Balance of services	-6.2	116.7	41.2	8.4	28.8
Credit	376.8	629.8	428.5	293.8	383.7
Debit	-383.0	-513.1	-387.3	-285.4	-354.9
Travel - net	-19.9	82.9	28.4	4.3	6.2
Balance of income	13.7	14.1	14.5	-10.5	-6.6
Credit	67.4	77.5	67.5	59.9	62.5
Debit	-53.7	-63.3	-53.0	-70.4	-69.1
Net FDI income	-10.2	-22.0	-7.9	-38.7	-22.9
Current transfers	260.2	218.2	250.8	218.1	257.0
Credit	287.6	245.6	279.1	241.5	299.8
Debit	-27.4	-27.5	-28.3	-39.5	-42.8
Net remittances	190.4	153.8	188.7	159.5	178.6
Capital and financial account (in EUR million)	192.0	227.6	277.1	254.4	171.3
y-o-y	2.4%	29.1%	-32.6%	10.4%	-10.7%
/ GDP	7.9%	9.5%	11.8%	11.9%	6.7%
Capital account	31.5	6.5	27.8	12.9	44.7
Financial account	160.5	221.1	249.3	241.5	126.7
A. Liabilities	283.0	413.3	390.7	304.0	269.7
FDI	212.5	160.1	289.7	200.3	182.2
Portfolio investment	11.1	11.1	11.4	14.4	13.2
Other investments	59.4	242.1	89.6	89.3	74.3
B. Assets	-122.5	-192.3	-141.3	-62.5	-143.1
FDI	-1.7	-3.9	-19.8	-3.4	-7.7
Portfolio investment	-26.2	-57.1	14.4	-61.0	8.4
Other investments	-94.6	-131.2	-135.9	1.8	-143.7
Errors and omissions	120.1	72.9	68.8	-1.9	32.8
Reserve assets	1.7	-56.4	6.2	-3.2	-7.5

Source: Bank of Albania.

¹ The latest data on the balance of payments belong to the second quarter of 2012. Also, the data of 2011 are reviewed.

1.1 CURRENT ACCOUNT

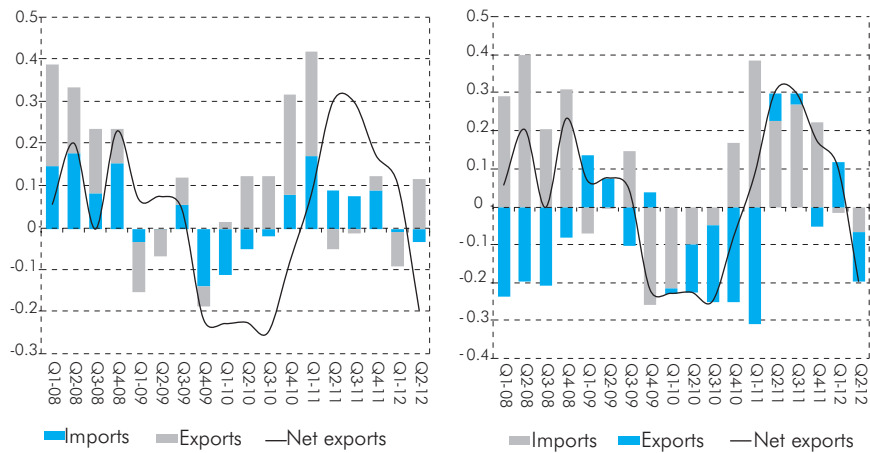
During 2012 Q2, net position of the current account recorded a deficit of EUR 196.6 million. After an expansion in annual terms in 2012 Q1, the current account deficit decreased by about 37.3% during 2012 Q2. Subsequently, this deficit accounted for 7.7% of nominal GDP or about 5.3 percentage points lower compared to 2011 Q2. The current account dynamics was considerably determined by the performance of trade balance and services account over this quarter. The combined improvement of their net position, compared to the same period of previous quarter, contributed significantly to the narrowing of current deficit. The decreased trade deficit in goods, by about 18.2%, y-o-y, and the surplus in services account conditioned the narrowing of net exports deficit by about 23.9% in annual nominal terms.



The performance of external sector indicators of economy in real terms provides evidence for the narrowing of the net exports deficit² in 2012 Q2 compared to 2011 Q2. The decrease in net export deficit owed to the annual growth of goods and services exports by about 11.7%, and the fall by about 3.2% in goods and services imports, both in real terms.

² Unit Value Index published by INSTAT is used to measure the switching from nominal to real terms for goods imports and exports. Consumer price index of the services item calculated by the Monetary Policy Department of the Bank of Albania is used for services imports and exports.

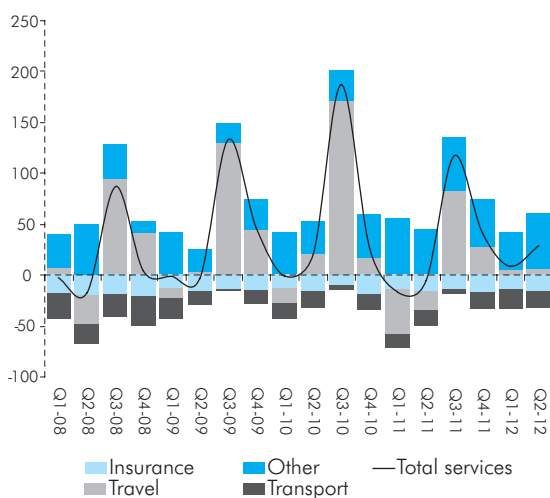
Chart 2 Growth rate in real terms in % (left), contribution in real terms, in percentage points (right)



Source: Bank of Albania, INSTAT.

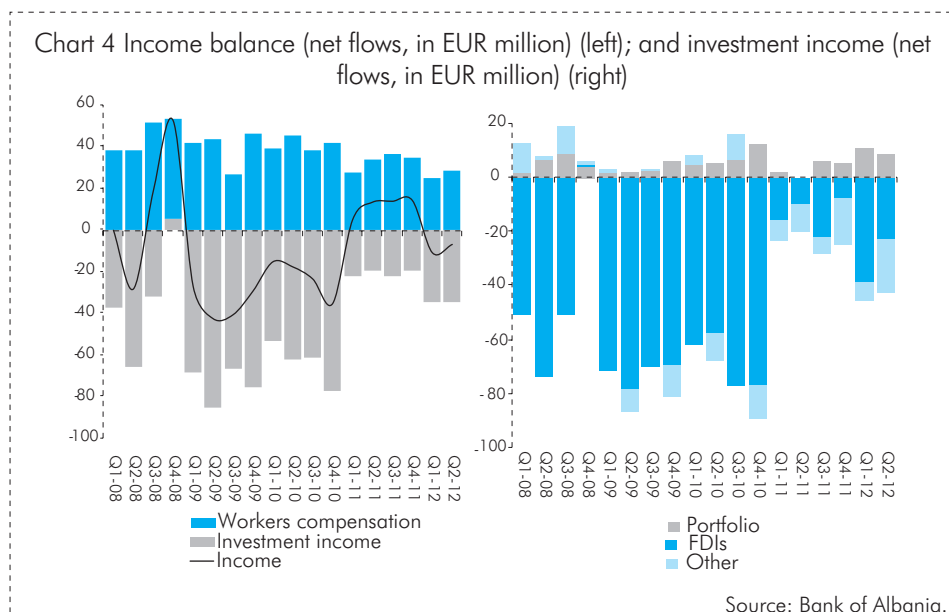
In 2012 Q2, net services account balance recorded a surplus of EUR 28.8 million, up compared to 2011 Q2. This account's year-over-year improvement was determined by increased net foreign currency inflows into the travel services and other business services sub-item. Spending by residents travelling abroad fell during this period (personal travelling sub-item), while spending by non-residents travelling to Albania increased. The rise in other business services mainly owes to the increased communication and government services sub-items. Net balance of services account posted a surplus of EUR 37.2 million during 2012 H1, improving compared to the deficit of EUR 23.2 million recorded in 2011 H1. The positive growth in travel services provided the main role in this improvement. In 2012 H1, this sub-item recorded a surplus of EUR 10.5 million, in cumulative terms, improving from the deficit of EUR 63.4 million recorded in H1 2011.

Chart 3 Services balance (net flows, in EUR million)



Source: Bank of Albania.

Net income account balance recorded a deficit of EUR 6.6 million. Developments in this current account item were determined by increased foreign direct investment and other investments income outflows. In 2012 Q2, the foreign direct investment net outflows were EUR 22.9 million, compared to EUR 10.2 million in 2011 Q2. Also, net flows in other investment income sub-item recorded an outflow of EUR 20 million from EUR 9.8 million in 2011 Q2. Portfolio investment income recorded a surplus by positively affecting the income account. During 2012 H1, the net income account balance recorded a deficit of EUR 17.1 million, in contrast to the surplus of EUR 18.9 million recorded in 2011 H1.

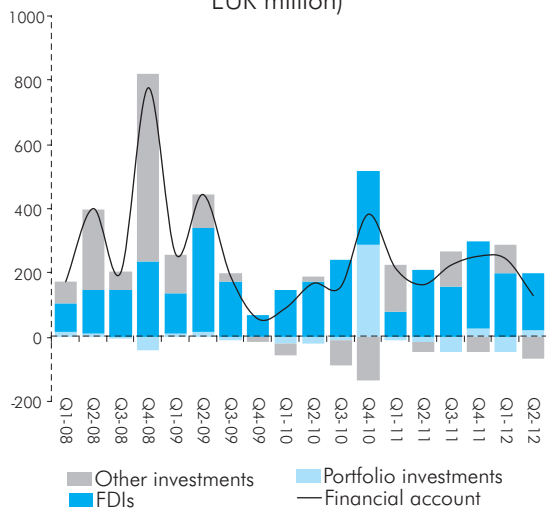


Net current transfers account posted a surplus of EUR 257 million in 2012 Q2, down by about 1.2%, y-o-y. Net remittances, the main sub-item of this account, decreased by about 6.2%, y-o-y, during the period under review. The ratio of net remittances financing the trade deficit was 37.5% during 2012 Q2, higher by 4.8 percentage points compared to 2011 Q2. Public sector inflows increased by EUR 15.6 million from 2011 Q2. Net current transfers increased slightly by 1.4% in 2012 H1, mainly being affected positively by the performance of public sector transfers. Net remittances were down by 2.1% y-o-y, during 2012 H1.

1.2 CAPITAL AND FINANCIAL ACCOUNT

Net flows into capital and financial account recorded a positive balance of EUR 171.3 million in 2012 Q2, financing 87.1% of the current account deficit registered during this period. Capital and financial flows decreased fell by about 10.7% from the same period a year earlier, accounting for 6.7% of nominal GDP. The y-o-y decrease in foreign currency inflows into this account was mainly determined by the 21.1% y-o-y fall in financial flows. As a percentage of nominal GDP, the financial account recorded 4.9%, about 1.7 percentage points lower than a year earlier. Net flows into capital account recorded an annual growth rate of 42.1%. Residents' financial liabilities to non-residents resulted down by 4.7%, y-o-y. The downward rate in financial liabilities partially reflects the fall of liabilities in the form of FDIs. Liabilities deriving from portfolio investments and other investments recorded an annual increase. Domestic assets invested in non-resident economies rose by 16.8%, y-o-y. This development was mainly due to the increase in FDIs and other investments. Portfolio investments recorded a decrease in assets in 2012 Q2.

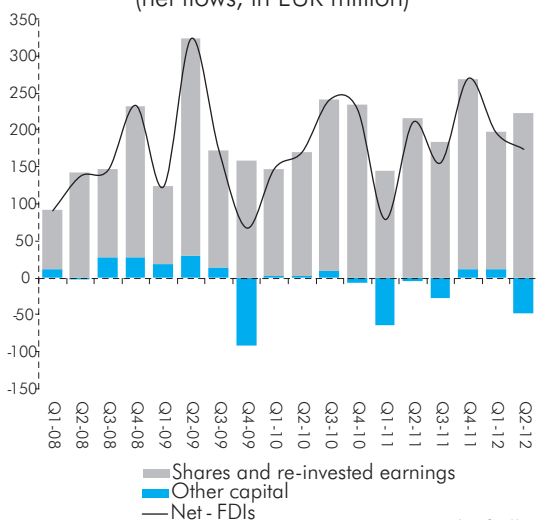
Chart 5 Capital and financial account (net flows, in EUR million)



Source: Bank of Albania.

In 2012 Q2, foreign direct investments (FDIs), net, (inflows - outflows) marked EUR 174.5 million, from EUR 210.8 million in 2011 Q2. This difference derives mainly from the decrease of liabilities in the form of FDIs by about 14.3%. Based on the investment instrument, FDI inflows in the form of shares and re-invested earnings were about EUR 222.2 million, up by about 2.6%, y-o-y. Also, a slight capital outflow in the form of other capital by about EUR 47.8 million was recorded, which drove the fall in FDIs net flows. The allocation of FDIs by sector, during 2012 Q2, reveals a concentration in oil (about 55%), banking system (about 10.4%) and energy concessions (about 5.5%). In 2012 H1, FDIs grew by 27.8%, y-o-y, mainly due to the increased liabilities.

Chart 6 Foreign Direct Investments (net flows, in EUR million)



Source: Bank of Albania.

Net portfolio investments totalled EUR 21.6 million in 2012 Q2, down compared to 2011 Q2. The y-o-y difference in net portfolio investments was determined by residents' decreased portfolio investments in non-resident economies, such as in debt securities and shares sub-items. On the liabilities side, portfolio investments increased slightly from the corresponding period of the previous year, mainly in the form of debt securities. In cumulative terms, the net portfolio investments recorded a deficit of EUR 25 million in 2012 H1, compared to EUR 28.8 million in 2011 H1.

Other investment account, net, which was affected significantly by increased assets of residents in non-resident economies, recorded a deficit of EUR 69.4 million in 2012 Q2. Domestic economy

liabilities grew by about EUR 74.3 million due to the increase in currency and deposits of foreign banks' branches in Albania. On the assets side, in 2012 Q2, residents' assets invested in foreign economies grew significantly by about EUR 143.7 million, due to the increased currency and deposits of Albanian banks in foreign economies. During 2012 H1, other investments, net, recorded a surplus of EUR 21.6 million, down from EUR 109.9 million recorded in 2011 H1. The difference in net accounts between 2012 H1 and 2011 H1 is a consequence of the significantly increased residents' assets in non-resident economies.

1.3 GROSS EXTERNAL DEBT

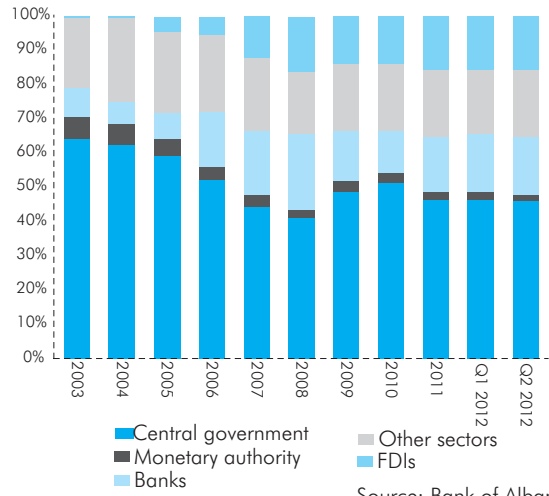
As at the end of 2012 Q2, Albania's gross external debt stock totalled EUR 4,857.1 million, up by about EUR 256.6 million from 2012 Q1.

By institutional sectors, at the end of 2012 Q2, the central government debt to total debt stock was about 45.9%. The remainder of the debt was allocated to other sectors (19.4%), banks (16.7%), FDIs – intercompany loans (16%) and monetary authority (2.0%).

Long-term debt, mainly in the form of loans, accounted for about 82.9% of the debt stock (including FDIs-intercompany loans). Short-term debt accounted for about 16.1%, up and mainly in the form of banking sector's currency and deposits.

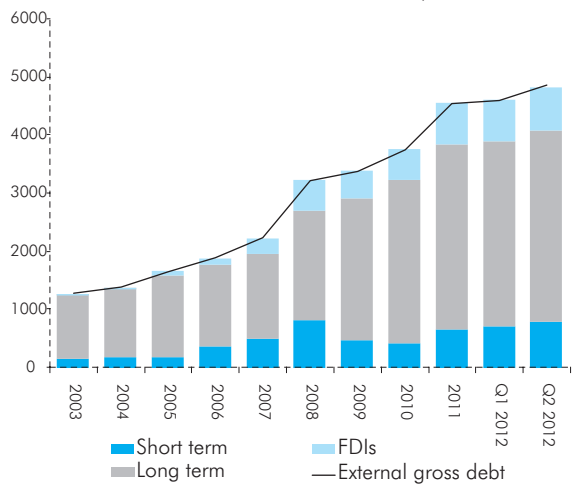
Foreign exchange reserve grew by about EUR 7.5 million as at end-2012 Q2. Its stock totalled EUR 1,930.93 million, as at end-period, sufficient to cover 4.5 months of imports of goods and services.

Chart 7 Gross External Debt by institutional sectors (year-end stock, as a percentage of the total)



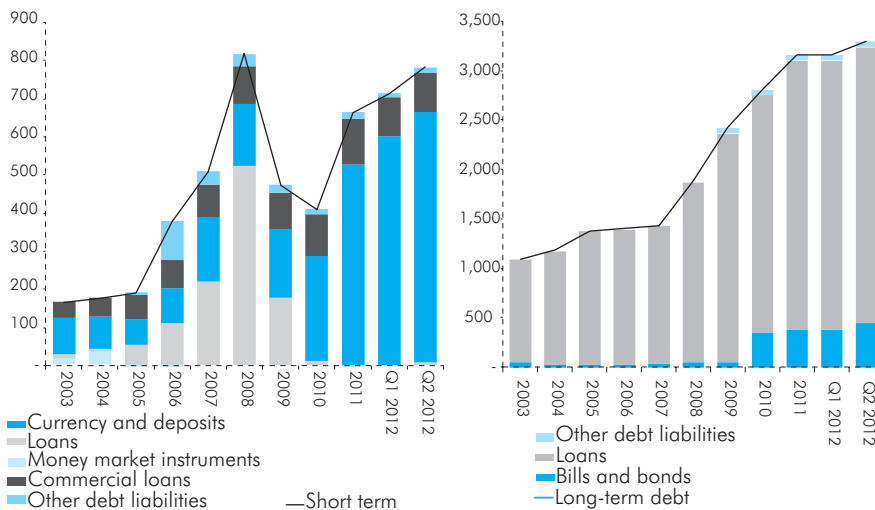
Source: Bank of Albania.

Chart 8 Structure of external debt by maturity (year-end stock, in EUR million)



Source: Bank of Albania.

Chart 9 Short-term and long-term external debt (year-end stock, in EUR million)



Source: Bank of Albania.

