Bank of Albania

ANALYSIS OF DEVELOPMENTS IN THE EXTERNAL SECTOR OF THE ECONOMY

2014 Q1

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The views expressed herein are solely of the authors and do not necessarily reflect those of the Bank of Albania.

C O N T E N T S

1. BALANCE OF PAYMENTS HIGHLIGHTS[1]

Albania's net current account balance recorded a deficit of EUR 299.5 million in 2014 Q1. It maintained a widening tendency for the second consecutive quarter, deepening by around 31%, on an annual level, during 2014 Q1, compared to the same quarter a year earlier. The current account deficit was estimated at 12.9% of nominal GDP. All current account items contributed to deficit widening, but the worsened trade deficit in goods and services had a major impact. The stable demand from Albania's traditional trading partners and slight widening of the export base contributed to maintaining an upward trend in exports of goods. Imports also showed a growing tendency for the second consecutive quarter, being mainly concentrated in investment or intermediate goods. The services' account displayed a similar performance, with both imports and exports increasing, y-o-y. Hence, nominal net exports deficit deepened compared to the same period a year earlier. The primary income balance returned to negative territory after two quarters of positive net flows. The maturing immigration cycle, the unfavourable labour market conditions in countries where Albanian immigrants reside, and the repatriation of a considerable number of migrants have led to continued decline in remittances.

Net capital inflows increased to EUR 22.5 million, from EUR 9.7 million in 2013 Q1. Net financial flows recorded an annualised increase of about 29.8%, financing 89.5% of the current account deficit. Dividing the current deficit financing as debt creating inflows and non-debt creating inflows, a more pronounced support to the second type of financing during the quarter under review is noted. Non-debt creating inflows were estimated at 10.3% to nominal GDP, about 1.2 percentage points higher in annual terms. Conversely, financing current account through debt-creating inflows was estimated at about 0.7% of nominal GDP. This ratio is 0.8 percentage points lower compared to the first quarter of previous year. The overall balance of payments shows that, in 2014 Q1, foreign exchange reserve assets fell, by about EUR 40.3 million. As of end-March 2014, the foreign exchange reserve stock totalled EUR 1, 98 billion, sufficient to cover 4.4 months of imports of goods and services.

[1] *The latest data on the balance of payments are as of 2014 Q1. From 2014 Q1, Financial Stability and Statistics Department at the Bank of Albania prepares the Balance of Payments Statistics, in compliance with the International Standards laid down in sixth edition of the Balance of Payments and International Investment Manual, released by the International Monetary Fund (BPM6.) Earlier, they were published based on the Balance of Payments Manual, fifth edition - IMF. The main differences between two methodologies are synthesised in the guideline "Publication of Financial Statements of statistics of external sector, in accordance with BPM6-IMF", published by the Bank of Albania at:*
http://www.bankofalbania.org/web/pub/commentary for changes in the publication of external sector statistics according to BPM 6 (June 2014)_2014_2_6688_1.pdf
For the purposes of internal analysis, the Balance of Payments data from 2002 to 2013 are reclassified in accordance with the new methodology by the Monetary Policy Department.

Table 1 Balance of Payments indicators

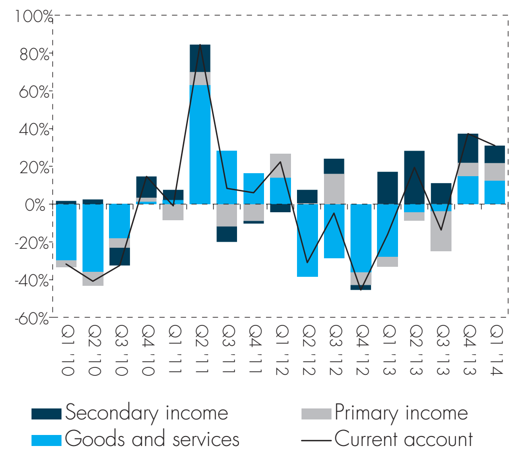
	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14
Current account (in EUR million)	-272.5	-251.9	-247.8	-205.8	-228.6	-300.8	-214.1	-282.7	-299.5
y-o-y	22.4%	-31.0%	-4.7%	-45.5%	-16.1%	19.4%	-13.6%	37.4%	31.0%
/ GDP	-12.7%	-9.9%	-10.2%	-8.3%	-10.2%	-11.3%	-9.0%	-11.0%	-12.9%
Goods and services	-456.8	-447.1	-401.6	-480.3	-380.3	-436.1	-392.3	-511.0	-408.6
Exports, f.o.b.	619.7	777.5	986.8	814.8	661.6	805.7	981.2	937.9	738.2
Imports, f.o.b.	1076.5	1224.7	1388.4	1295.1	1041.9	1241.8	1373.6	1448.9	1146.7
Travel - net	4.3	6.2	119.7	12.3	-34.6	-31.5	26.1	34.0	-21.8
Primary income	-24.0	-33.0	-36.5	21.8	-9.8	-21.8	15.6	7.5	-31.3
Credit	45.2	39.3	53.7	50.2	42.2	47.1	52.2	51.8	29.1
Debit	69.2	72.3	90.2	28.5	51.9	68.9	36.6	44.3	60.4
Net FDI income	-35.3	-31.3	-53.7	0.4	-33.5	-45.1	-14.7	-22.1	-40.1
Secondary income	208.4	228.2	190.3	252.7	161.5	157.1	162.6	220.8	140.3
Credit	245.0	268.1	228.7	284.6	194.1	189.2	196.9	252.3	167.6
Debit	36.7	39.9	38.4	31.9	32.6	32.0	34.2	31.6	27.3
Net remittances	166.5	171.6	140.8	196.3	120.9	99.8	117.6	159.0	115.9
Capital account	12.9	43.0	9.8	15.6	9.7	4.8	15.0	18.2	22.5
Net borrowing/net lending	-259.5	-208.9	-238.0	-190.2	-219.0	-296.0	-199.1	-264.5	-277.0
Financial account	-228.4	-83.6	-39.7	-269.6	-206.6	-235.4	-31.8	-189.5	-268.1
y-o-y	-29.1%	-52.2%	-77.6%	19.9%	-9.6%	181.5%	-20.0%	-29.7%	29.8%
/ GDP	-10.6%	-3.3%	-1.6%	-10.8%	-9.2%	-8.9%	-1.3%	-7.4%	-11.6%
Direct investment	-191.7	-141.8	-125.2	-189.1	-194.0	-239.3	-266.4	-193.3	-216.7
Portfolio investment	49.4	-26.5	21.6	-10.9	22.4	100.2	4.2	-23.1	3.1
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-89.3	77.2	-25.8	-46.4	-11.3	-182.7	195.9	19.9	-14.1
Reserve assets	3.2	7.5	89.7	-23.1	-23.6	86.4	34.5	7.1	-40.3
Errors and omissions	31.5	125.8	197.8	-78.8	12.4	60.5	167.3	75.1	8.9
Net borrowing/net lending	-259.9	-209.4	-237.5	-190.7	-219.0	-296.0	-199.1	-264.5	-277.0

Source: Bank of Albania.

2. CURRENT ACCOUNT[2]

Albania's net current account balance recorded a deficit of EUR 299.5 million in 2014 Q1. Current deficit widened for the second successive quarter, increasing by 31.0% in annual terms, during the first quarter. The current deficit accounted for about 12.9% of nominal GDP, or about 2.7 percentage points higher than in the same period a year earlier. Excluding income from official transfers, the current account deficit was estimated at about 13.0% of nominal GDP, from 10.5% in the same period a year earlier.

Chart 1 Contribution to current account deficit by item (in percentage points)



Source: Bank of Albania.

Current account dynamic, during 2014 Q1, continued to be broadly affected for the second successive quarter by the development of net exports balance in goods and services. Imports of goods and services grew by about 10.1% in annual terms. On the other side, the 11.6% y-o-y increase of goods and services exports was not sufficient to offset the increase of such imports. In 2014 Q1, nominal deficit in exports increased by about 7.4% in annual terms, contributing to the deepening of the current deficit. The worsened net position of primary[3] and secondary income account[4] provided the same impact.

While the resulted current deficit in 2014 Q1 is considered in the light of gap performance between public savings and national investments, a further strengthening of private sector impact on the creation of current account deficit[5] is noted. Such a trend started in 2013 Q3, while in the three first quarters of 2013, the public sector had the main share in the creation of current deficit.

2 *Overall, the shift to the international standards laid down in Sixth Edition of the Balance of Payments Manual does not reveal any change in the general view of the current account, compared to the previous standards. The most significant changes consist in the goods and services account. Their composing sub-items are reclassified, renamed and further detailed.*

3 *In accordance with the standards set forth in the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual, "primary income" corresponds to "income" in the Fifth IMF's Balance of Payments Manual.*

4 *In accordance with the standards set forth in the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual, "secondary income" corresponds to "current transfers" in the Fifth IMF's Balance of Payments Manual.*

5 *An alternative but equivalent measuring of current account net position for a definite period is the method of gap between savings and national investments. Thus, the net realised position of current account is equal to the amount of gap realised between savings and public and private investments in period t.*

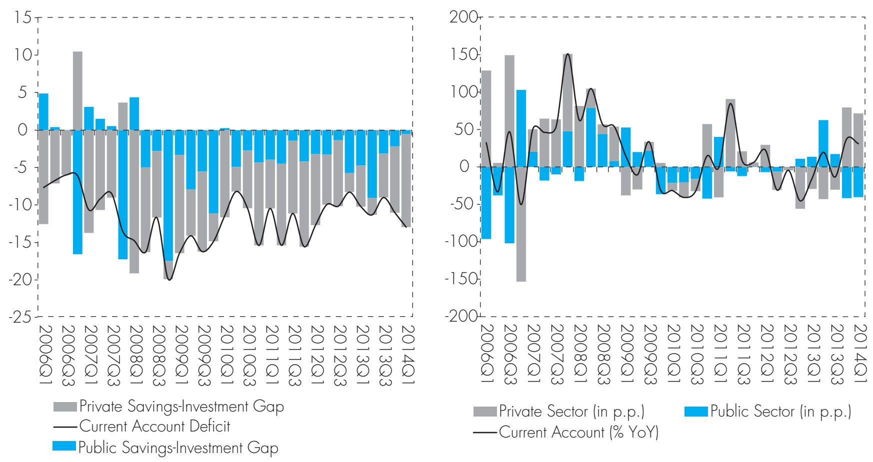
$CA_t=(S_{publike}-I_{publike})t+(S_{private}-I_{private})_t$

Due to the need for a continuing accumulation of capital stock in Albania, and maintaining the stability of the external sector, the increase in the private sector share in creating the current deficit is welcomed[6].

In 2014 Q1, the gap between savings and public investments narrowed more rapidly in annual terms. The increase in public savings and the decrease in public investments at annual level contributed to the same side.

Moreover, the gap between savings and private investments increased faster in annual terms. Private sector share in the creation of current account deficit averaged 95.7%, about 36.7 percentage points higher than its historical average. More concretely, in the annual expansion of the current account deficit by about 31%, the public sector contributed negatively (-40.6 percentage points), whereas the private sector contributed positively (+71.6 percentage points).

Chart 2 Savings – investment gap of private and public sectors to GDP (left) and their contribution to annual current account deficit (right)



Source: Bank of Albania, Ministry of Finance.

In 2014 Q1, net financial flows from the combined position of primary income account, secondary income account and services account recorded a considerable fall. Thus, the net flows of these three accounts financed about 15.9% of trade deficit recorded during this period.

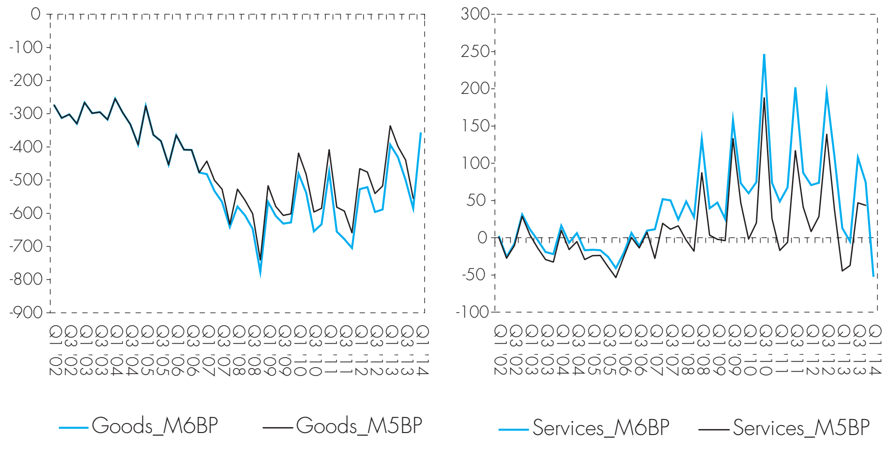
Albania's trade openness stood at 81.5% in 2014 Q1, around 5.4 percentage points higher than in the same period a year earlier.

[6] *Various studies conclude that when the current deficit is created by the private sector, in an economy that is accumulating capital, the latter becomes more tolerant against persistently high current deficitrates, than whenthe current deficit is created mostly by the public sector. See: Milesi-Ferretti & Razin (1996), 'Sustainability of Persistent Current Account Deficits', NBER, WP5467. Cusolito & Nedeljkovic (2013), 'Toolkit for the Analysis of Current Account Imbalances', WB, WP83248.*

Other current account items

In the framework of adopting the international standards of the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual, the constituent sub-items of services account were subject of a series of re-classifications and re-nominations in the light of an increasing importance of cross-border transactions in services. Thus, the most important changes relate to the sub-items of services account "processing services on physical inputs owned by others" (Manufacturing services on physical inputs owned by others BPM5) and "services for maintenance and repair" ("manufacturing goods in BPM5 and "services for maintenance and repair" ("merchandise for repair" in BPM5), which are reclassified from "goods" to "services". "Merchanting" (net exports of goods under trading intermediation) and other services related to trade are re-classified from "services" to "goods". Due to methodical changes, net balance of goods and services account reveals changes, particularly sensitive in the case of services account.

Chart 3 Trade balance and services account balance (net flows, in EUR million)

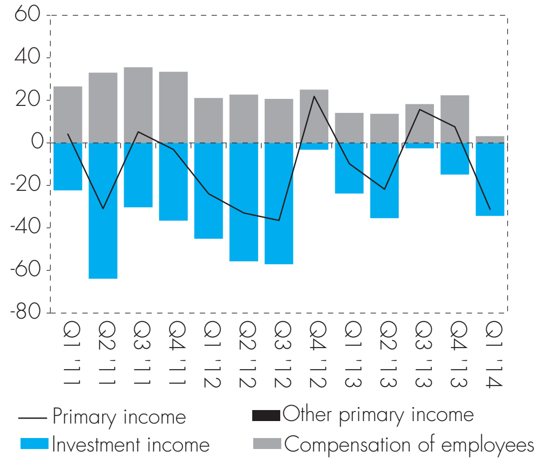


Source: Bank of Albania.

During 2014 Q1, services account performed weakly. Net income balance of this account recorded a net deficit of EUR 52.4 million, mainly due to the decrease in foreign currency flows in this account. Net income balance from services continuous to be considerably affected by the development in the sub-items with the highest share in this account: "manufacturing services on physical inputs owned by others", "transport services", "travel services (personal and business)", "insurance and pension services", "telecommunication, computer and information services". Net income of these sub-items of services account decreased during the considered period, providing contribution to the deepening of net services account deficit.

Net income from "travel services" for tourism and personal purposes, recorded a negative balance after two positive quarters. Net income deficit from travelling for business and personal purposes narrowed by 36.9%, compared to the same period a year earlier, standing at EUR 21.8 million. Foreign currency inflows from travel services of non-residents to Albania increased by 35.2%, in annual terms. Foreign currency outflows in the form of Albanian residents' expenses for personal and business travel services abroad increased by 23.1%, albeit they did not completely cancel out the positive effect of inflows.

Chart 4 Income balance (net flows, in EUR million)



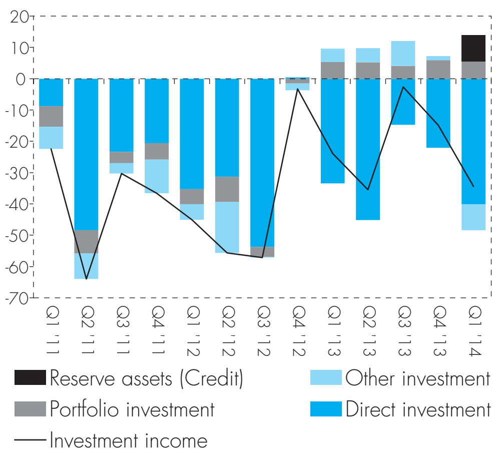
Source: Bank of Albania.

Net balance of primary income account closed in negative territory in 2014 Q1. Net foreign-currency inflows in this account resulted in deficit by about EUR 31.3 million, from about Euro 9.8 million deficit in the same period a year earlier. The widening of deficit in "investment income" determined the direction of developments in this account during the considered period. Net "income from work" resulted considerably lower, compared to a year earlier, providing a negative contribution to the total balance of this account.

"Investment income" sub-item recorded a considerable widening of deficit in 2014 Q1, by EUR 34.4 million, from EUR 23.9 million in the same period a year earlier. The increase in FDI income outflows determined the direction of developments in this account during the period under review.

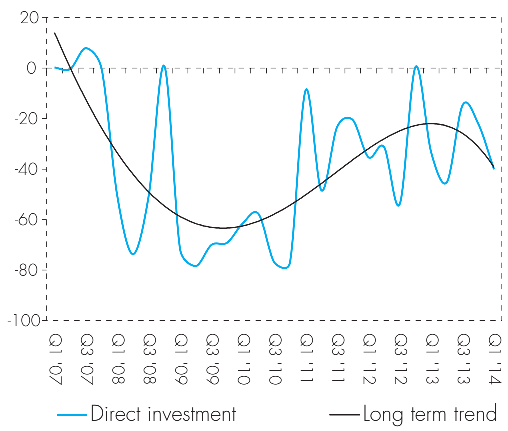
In 2014 Q1, net income from "foreign direct investment" decreased by 19.9% in annual terms, standing at about EUR 40.1 million, mainly due to income repatriation from investments in capital and equities in investments funds. Interest income recorded a net negative balance of EUR 0.3 million, from the surplus of EUR 1.6 million in the same period a year earlier.

Chart 5 Balance of Investment income (net flows, in EUR million)



Source: Bank of Albania.

Chart 6 FDI income (net flows, in EUR million)

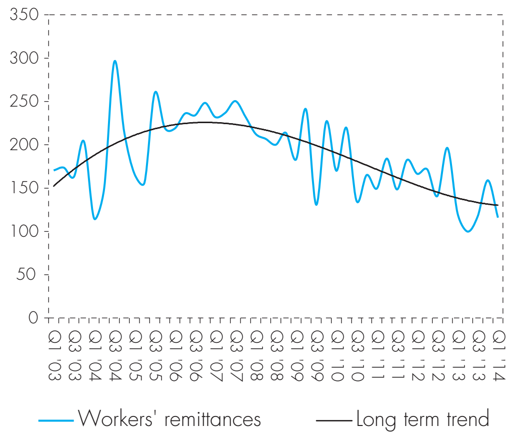


Source: Bank of Albania.

The balance of "Portfolio investment" income continued to record positive values for the fifth successive quarter, at about EUR 5.6 million during the period under review. In this sub-item of income account, income represents mainly interests arising from debt instruments. In contrast, net income balance from "other investment" recorded a deficit of about EUR 8.3 million, from a surplus of about EUR 4.3 million in the same period a year earlier. Income from the investment in foreign exchange reserve assets[7] stood at EUR 8.4 million in 2014 Q1.

Net balance of secondary income account, similarly to the previous year, continued to record shrinkage in financial flows in 2014 Q1. The total net balance of this account, during the period under review, recorded a surplus of about EUR 140.3 million, down by about 13.1% in annual terms. Foreign-currency flows in the secondary income accounted for about 6.1% of nominal GDP. This ratio is about 1.1 percentage points lower compared to the same period a year earlier.

Chart 7 Remittances (net flows, in EUR million)



Source: Bank of Albania.

The main sub-item of this account, net secondary income from "financial and non-financial corporates, households, and non-profit institutions serving households", recorded a surplus of about EUR 141.8 million, down by about 11.3% in annual terms.

The sub-item with the largest share in secondary flow income from "financial and non-financial corporates, households and NPISH[8]", "remittances[9]", pursued the downward trend even during the beginning of 2014. Remittances stood at EUR 115.9 million, down by 4.1% in annual terms. They were estimated at about 5.0% of nominal GDP, or 0.4 percentage points lower than the corresponding quarter in 2013.

[7] *In accordance with standards laid down in Sixth IMF's Balance of Payments Manual in the primary income account, the item "investment income" includes the income from "foreign currency reserve" investment.*

[8] *Non-profit institutions serving households.*

[9] *From 2014 Q1, remittances are calculated based on the survey on remittances carried out by the Bank of Albania, and data on remittances transmitted through formal channels (money transfer operators and banking system).*

3. CAPITAL ACCOUNT

Capital account debits and credits all the transactions on the acquisition and disposal of non-produced, non-financial assets/goods[10] and the capital transfers[11] between residents and non-residents (on which there is no economic value in the exchange). In 2014 Q1, capital account recorded a surplus of about EUR 22.5 million, up about EUR 9.7 million, compared to the same period a year earlier. This account's net capital flows accounted for about 1.0% of nominal GDP during the period under review. Incoming capital transfers were EUR 49.0 million, from EUR 9.7 million in the same period a year earlier, whereas capital outflow transfers amounted about EUR 26.4 million in 2014 Q1. Net capital transfer for the account of "central government" were EUR 19.6 million, while those in "financial and non-financial corporates", "households and non-profit institutions serving households" were about EUR 3.0 million.

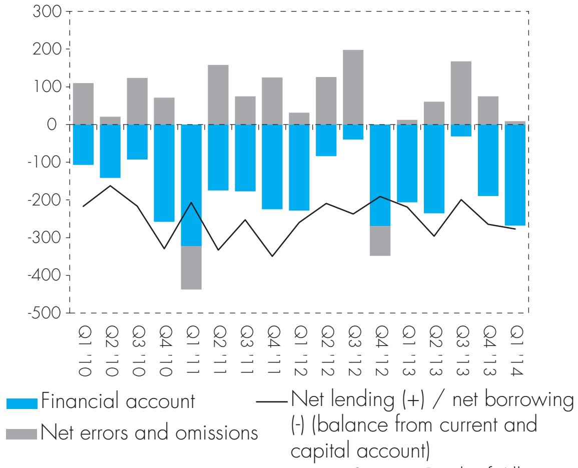
The combination of net non-financial transactions of current account and capital account provides the net position of the domestic economy, as net lender (surplus) and net borrower (deficit) versus the non-resident economies. Conceptually, this result is equal to the net balance of the financial account, which reflects how the net lending or net borrowing by non-residents is being financed. In quantitative terms, our economy reveals a net borrowing position, about EUR 277.0 million, which is financed by the income in the financial account (minus errors and omissions).

[10] *Acquisition and disposal of non-produced, non-financial asset include: 1. Natural resources (land, mineral rights, forestry rights, water, fishing rights, air space, and electromagnetic spectrum); 2. Contracts, leases, and licenses covers those contracts, leases, and licenses that are recognized as economic assets; 3. Marketing assets (brand names, mastheads, trademarks, logos, and domain names.*

[11] *Capital transfers consist in: 1. debt forgiveness; 2. Nonlife insurance claims; 3. grants; 4. guarantees; 5. taxes (inheritance taxes, gifts, etc.); 6. Other capital transfers.*

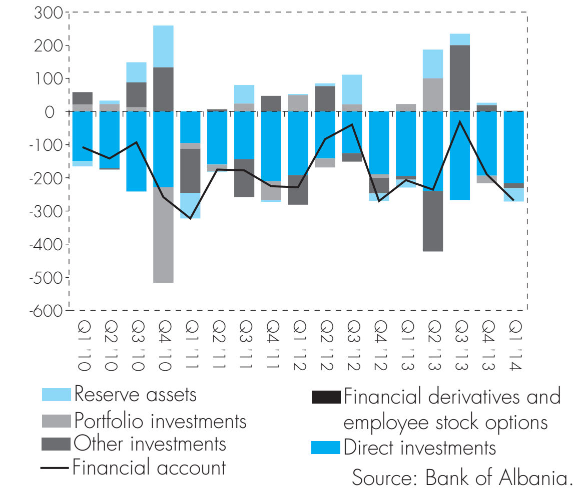
4. FINANCIAL ACCOUNT[12]

Chart 8 Financial account, errors and omissions (net flows, in EUR million)



Source: Bank of Albania.

Chart 9 Financial account components (net flows, in EUR million)



Source: Bank of Albania.

Net flows in the financial account recorded a positive balance of EUR 268.1 million in 2014 Q1, financing 89.5% of the current account deficit recorded in this period. Financial flows rose about 29.8%, accounting for about 11.6% of nominal GDP, relative to the same period a year ago. The increase in annual terms in foreign currency flows in this account was mainly attributable to the increase in net flows by about 11.7% in annual terms, in the form of direct investments. Net borrowing in domestic economy grew by 26.5% in annual terms in 2014 Q1.

Residents' financial liabilities to non-residents increased by 43.8% in annual terms, due to higher FDI and other investment inflows. Albanian assets invested in non-resident economies increased by about EUR 38.6 million during the period under review[13]. Increase in assets in the form of other investment was the main determinant of developments in Albanian assets invested abroad.

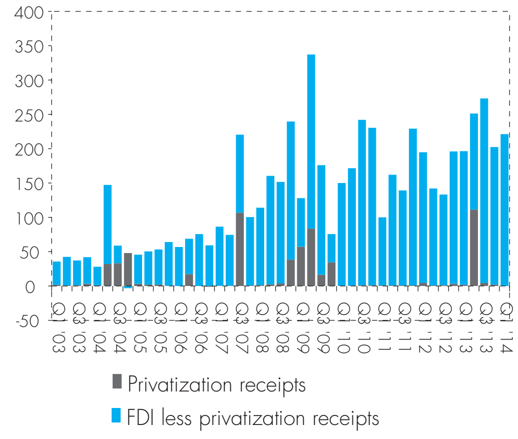
Net FDI increased by about 11.7% from 2013 Q1. Inflows in net foreign direct investment determined the direction in their development, amounting about EUR 221.3 million, in 2014 Q1. Domestic assets as foreign direct investment increased, albeit their level remains low (only EUR 4.5 million at the beginning of 2014). Net FDI was estimated at about 9.4% of nominal GDP, or 0.7 percentage points higher, compared to the same period a year earlier. As an important financing source of the external sector deficit, in 2014 Q1 FDI inflows financed about 73.9% of the current deficit recorded during this period.

[12] *In accordance with standards laid down in the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual, increase in assets and liabilities is shown with a positive sign; decrease in assets and liabilities with a negative sign. Net financial account balance is calculated as a difference between assets and liabilities. Also, main items in financial account are: 1. Direct investment; 2. Portfolio investment; 3. Other investment; 4. Financial derivatives and employee stock options; 5. Reserve assets.*

[13] *In addition to methodical amendments stipulated in BPM6, total domestic financial assets invested in foreign economies include also the foreign assets (reserve assets).*

In accordance with the instruments used for investments[14], net direct investments as "capital and stocks as investments fund" increased by about 16.7% in annual terms. Net FDI as "re-invested" profits" in Albania increased by about EUR 17.6 million at the beginning of 2014. The increase in investments in the form of both instruments is a positive signal in relation to forming foreign investors' expectations on the performance of the domestic economy and profit investment in future. At the same time, foreign investors reduced their net investments as "debt instruments" in undertaking direct investments, about EUR 21.8 million. In the quarter under review, privatisation receipts[15] with foreign capital provided a modest contribution to total foreign direct investments.

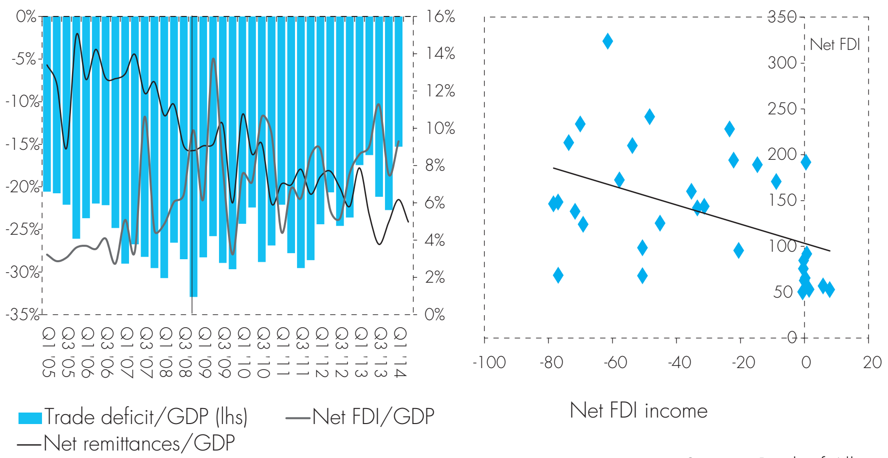
Chart 10 FDI components (flows, in EUR million)



Source: Bank of Albania.

In the long run, FDIs are an important foreign-currency inflow in financing trade and current deficit in Albania. This trend was dominant especially at beginning of 2009, when the importance of other foreign-currency flows in the form of remittances, begun to progressively contract. Similarly to the economies in other countries, in Albania, the attraction of foreign-direct investment is an important element for the long-term stability of the current account deficit and of the stable economic development. In addition to the benefit of creating new jobs, and transferring technology, new management practices and know-how, FDIs are considered as non-debt creating foreign-currency flows, difficult and costly to be withdrawn. Since 2013, FDIs have been the main financing source of external sector deficit in Albania. In 2014 Q1, the ratio of net FDI flows to recorded current deficit was estimated at 72.4%.

Chart 11 Financing sources of trade deficit (left) and FDI income to net FDI (right)



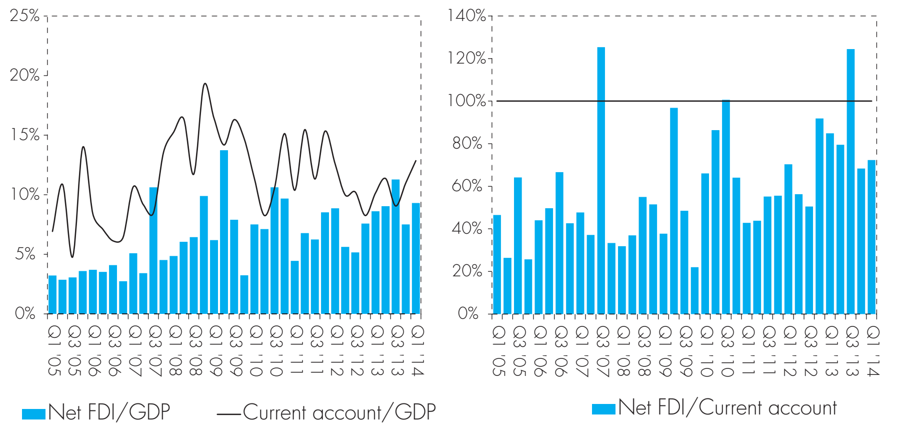
Source: Bank of Albania.

[14] *In accordance with standards laid down in BPM6, direct investments are realised through three main instruments: 1. Capital and shares in investment fund; 2.New invested profit; 3. Debt instruments.*

[15] *Based on the Ministry of Finance data.*

Related to their profitability, the presence of a considerable and stable outflow in FDI income following the accomplishment of the initial investments and the beginning of profit realisation, serves as a signal for other foreign investors and for a positive and increasing development in future (See Chart 11 (right)). In certain periods (year 2009 and the second quarter in 2013), direct investments increased considerably, due to the realised privatisation receipts of public assets and enterprises (See Chart 11).

Chart 12 Current account and net FDI to GDP (left-hand) and the covering of current account from FDI (right-hand)



Source: Bank of Albania.

Net portfolio investments in 2014 Q1 recorded a positive balance of EUR 3.1 million. Residents' assets (depositing corporates, excluding the Bank of Albania) invested abroad increased by about EUR 8.6 million, mainly in the form of debt securities. Liabilities as portfolio investments stood at EUR 5.5 million, during the period under review, from EUR 6.2 million in the same period a year earlier.

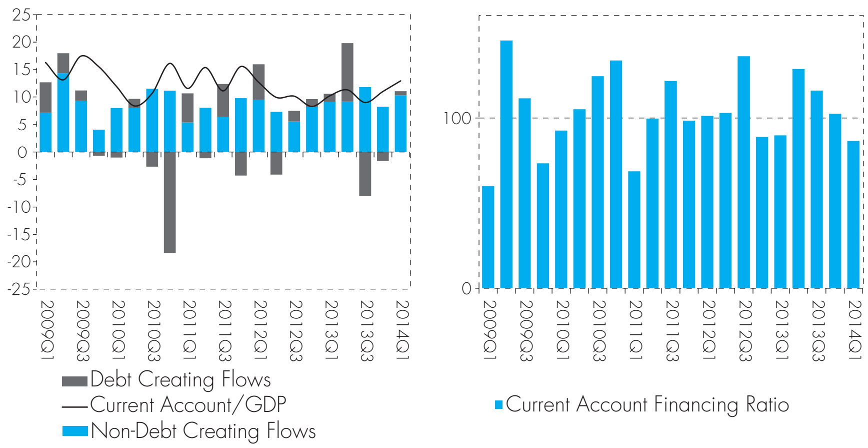
In 2014 Q1, other investment account closed with an increase in liabilities of the domestic economy to non-residents, about EUR 14.1 million. In other investment account, Albanian assets invested abroad increased by about EUR 65.9 million, from the decrease by EUR 0.6 million in the same period a year earlier. On the side of liabilities, non-residents invested in our country about EUR 80 million, from 10.8 million a year earlier. Volatilities in assets and liabilities determined a net negative balance of EUR 14.1 million.

Loans were the main contributors to the performance of net other investments. The main borrower was "other sectors"[16], followed by "general government" and "depositing corporates". The good liquidity situation in the domestic banking sector was reflected in a net positive balance in "currency and deposits". In net terms, banking system invested about EUR 89.5 million in the form of currencies and deposits abroad.

[16] *Here are included the liabilities in non-financial private or public companies (including the debt guaranteed by the Government), non-bank financial institutions, and household's liabilities.*

As regards the profile of external debt financing, it is important to monitor the reliance on debt-creating inflows versus more desirable non debt-creating inflows[17]. Thus, in 2014 Q1, non-debt-creating inflows accounted for 10.3% of nominal GDP, about 1.2 percentage points higher than in the same period a year earlier. On the other hand, net debt-creating inflows provided a low impact on financing the current deficit, about 0.7% of nominal GDP. This ratio is about 0.8 percentage point lower, compared to 2013 Q1. The overall financing of the current account deficit is estimated by adding net errors and omissions to net debt-creating and non-debt creating foreign-currency flows. After a complete covering of current account deficit, during the quarter under review, the ratio of current account financing stood at 86.5%, implying a decrease in foreign exchange reserve stock.

Chart 13 Financial debt-creating and non-debt creating flows (to nominal GDP (left)) and the financing of current account deficit (right)

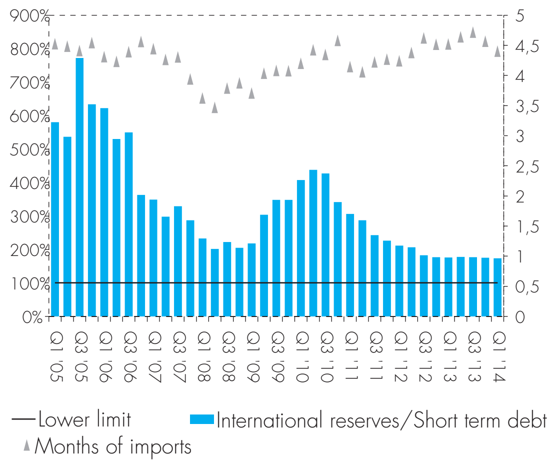


Source: Bank of Albania.

Foreign exchange reserve assets dropped by about EUR 40.3 million at the end of 2014 Q1. This fall was mainly due to the withdrawal of assets placed as "surplus reserves" by commercial banks with the Bank of Albania and partially to the appreciation in the exchange rate. As of end-March 2014, the foreign exchange reserve stock was about EUR 1,98 million, sufficient to cover 4.4[18] months of imports of goods and services. In terms of Guidotti

[17] *This breakdown serves to monitor the impact of financial and capital flows on Albanian's external debt. FDI and capital inflows are classified as non-debt-creating flows. Portfolio investment and other net investment are included in debt-creating flows.*

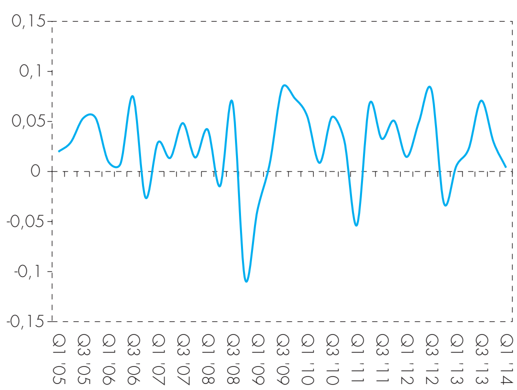
[18] *Based on "Monetary Policy Document for the period 2012-2014", as a guarantee to cope with the severe shocks on the real sector of the economy, and in order to safeguard the country's financial stability, the sufficient level of foreign reserve is based on the concurrent observance of these two quantitative criteria: (i) the maintenance, in the medium run, of foreign reserve levels sufficient to cover at least 4 months of imports of goods and services; and (ii) the maintenance, in the medium run, of foreign reserve levels sufficient to cover the short-term foreign debt of the Albanian economy. Source: Bank of Albania. http://www.bankofalbania.org/web/Monetary Policy Document for the period 2012_2014_6346_1.php?kc=0,2,9,0,0*



Source: Bank of Albania.

- Greenspan rule[19], the current foreign exchange reserve stock covers about 173.5% of the short-term debt in Albania.

5. ERRORS AND OMISSIONS



Source: Bank of Albania.

Due to the problems that may be faced in information sources and during the preparation of statistics in external sector, the balance of payments may have discrepancies. Thus, in the balance of payment statistics, they are summarised in the omissions and errors item, that is calculated as "the rest" (difference between the balance in financial account and the balance in current account plus the balance in capital account). Thus, In 2014 Q1 "omissions and errors" was EUR 8.9 million, about 0.4% of nominal GDP.

[19] *The Guidotti–Greenspan rule states that a country's reserves should maintain a foreign exchange reserve sufficient to cover the respective short-term debt. This implies this ratio should be 1:1 or 100%, to face a massive potential withdrawal of the short-term capital. For more about this rule visit: http://www.imf.org/external/np/pp/eng/2011/021411b.pdf*