



Bank of Albania
Monetary Policy Department

ANALYSIS OF DEVELOPMENTS IN THE EXTERNAL SECTOR OF THE ECONOMY 2023 Q3

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

I. BALANCE OF PAYMENTS HIGHLIGHTS

Data of the Balance of Payments showed positive developments in 2023 Q3. For the first time ever, a surplus was recorded in both the current account and the trade balance. The great flows of tourism services was the main reason behind this development.

The current account recorded a surplus of EUR 354.3 million¹, or about 6.4% of GDP. The current balance improved significantly mainly on the back of the growth in the export of services (48.0%). The expansion of tourist flows by 56.5% mainly determined this dynamic.

On the other hand, **the export of goods decreased by 11.9%, likewise in the previous quarter.** The performance is related to the drop in both international prices and in exported quantities across some main categories of goods.

Total imports grew at 9.6%, mainly as import of services picked up by 40.3%. The tourism outflows have been the determinant of this dynamic. On the other hand, import of goods decreased by 3.8%.

The trade balance of goods and services shows a surplus of EUR 115.0 million. This surplus is 2.1% as a ratio of GDP.

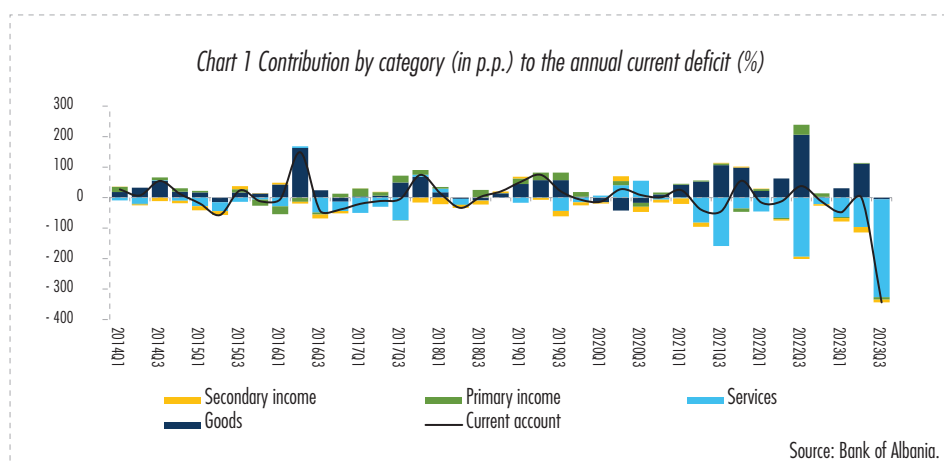
The primary income account recorded a deficit of EUR 64.5 million, down by 15.5%. The main positive impacts derived from the work-related income inflows. **The positive surplus in secondary income rose by 4.4% mainly as a result of the growth in remittances by 7.8%.**

In the financial account, direct investment inflows expanded by 17.4%, higher compared to the previous quarter. The developments in the balance of payments are reflected in an increase of reserve assets by EUR 160.2 million. As at end of September, the stock of international reserve is sufficient to cover 7.4 months of imports of goods and services, or over 300% of the short-term gross external debt.

¹ At the end of this material there is a summarizing table of the main developments of the Balance of Payments during the latest periods including the quarter under review.

II. CURRENT ACCOUNT

The current account recorded for the very first time a surplus of EUR 354.3 million in 2023 Q3. This surplus was assessed at 6.4% of GDP. The improvement of the current account is mainly related to the sharp growth in the export of services, impacted also by remittances.



The total growth of exports was 34.2%, driven by the expansion in the export of services by 48.0%.

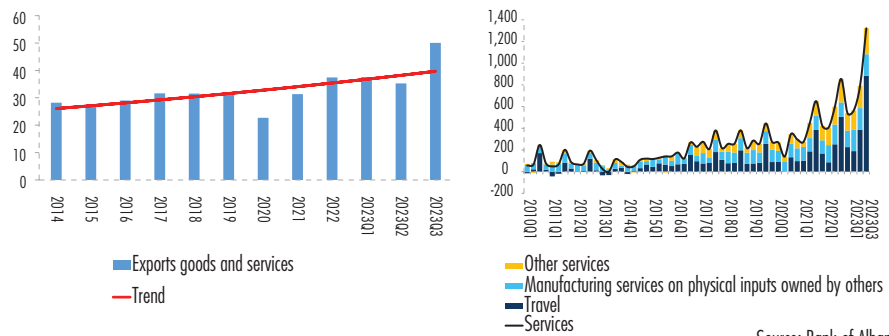
The export of services grew mainly as tourism inflows expanded by 56.5%. The total of these flows for the third quarter amounted around EUR 1.6 billion and the aggregate value for the first 9 months of 2023 is higher than the total for the entire year of 2022.

On the other hand, the export of goods continue to contract, similarly to the previous quarter. Annual decline was 11.9%. This trend continues to reflect both the drop in international prices and the drop in exported quantities for the main categories of goods.

The increase in imports of goods and services was 9.6%. The reason behind this was the increase in the import of services (40.3%) driven by the increase in tourism outflows (39.6%). On the other hand, the imports of goods decreased by 3.8%, mainly as a result of the effect of the drop in international prices.

The trade balance in goods and services has resulted in a surplus of EUR 115.0 million as a result of the prevailing effect from the growth in exports. The surplus stands at 2.1% as a ratio to GDP.

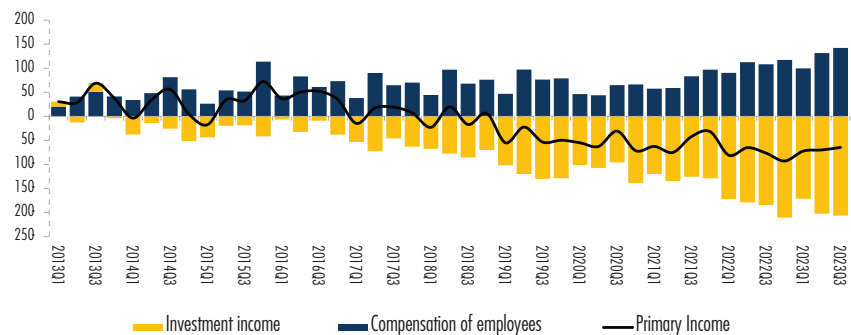
Chart 2 The ratio of the export of goods and services to GDP (%), left) and the main items in the services account (net flows in EUR million, right)



Source: Bank of Albania.

Primary income account recorded a deficit of EUR 64.5 million, down by 15.5%. The increase in work-related income inflows has given a stronger effect compared to the investment income outflows.

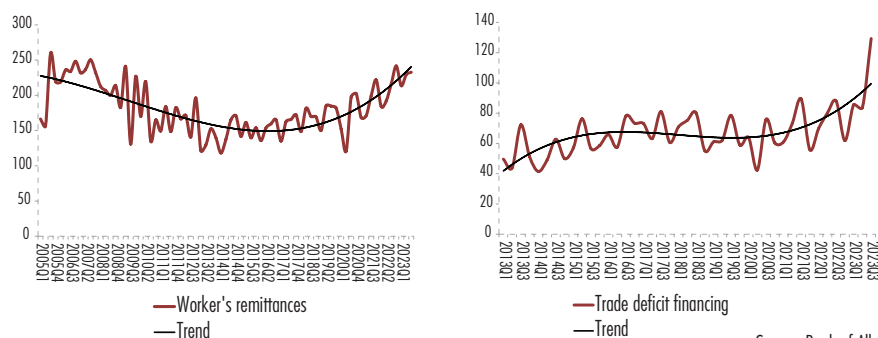
Chart 3 Primary income balance (net flows, in EUR million)



Source: Bank of Albania.

The surplus of the **secondary income account** expanded by around 4.4%, lower compared with the previous quarter. Remittances continue to expand (7.8%), though at a lower magnitude compared to 2023 Q2 (19.5%).

Chart 4 Remittances (net flows, in EUR million, left) and financing of trade deficit from net primary and secondary income and from services (right)



Source: Bank of Albania.

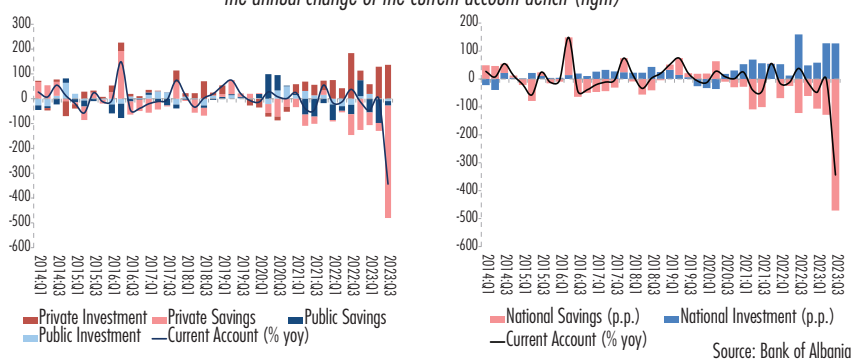
BOX: DEVELOPMENTS IN NATIONAL SAVINGS AND INVESTMENTS

The significant improvement in the current account balance to GDP is mainly a result of the rapid expansion of national savings. Total savings in the economy are assessed at 28.8% of GDP, up by 9.1 percentage points. On the other hand, the ratio of investments to GDP stands at 22.4%, down by 0.5 percentage point. As a result of the stronger impact from the increase in savings, the current balance has shifted from a deficit of 3.1% to GDP, to a surplus of 6.4% to GDP.

The savings-investment gap of the private sector was assessed at 5.5% of GDP, improved by around 8.8 percentage points. This was mainly caused by the growth in private savings by around 9.3 percentage points. On the other hand, private investments expanded by about 0.5 percentage point during the same period.

The savings-investment gap of the public sector was estimated at 0.9% of GDP, improved by around 0.7 percentage points. The decrease in public investments by 1.0 percentage point determined this dynamics. Public savings also decreased by 0.3 percentage point.

Chart 5 Contribution of investments and savings indicators in the deficit dynamic (left) and their contribution to the annual change of the current account deficit (right)

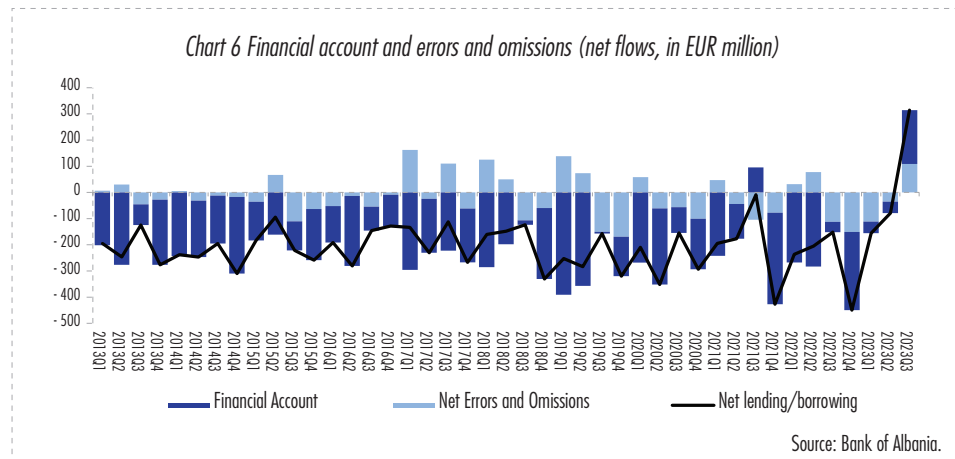


III. CAPITAL ACCOUNT

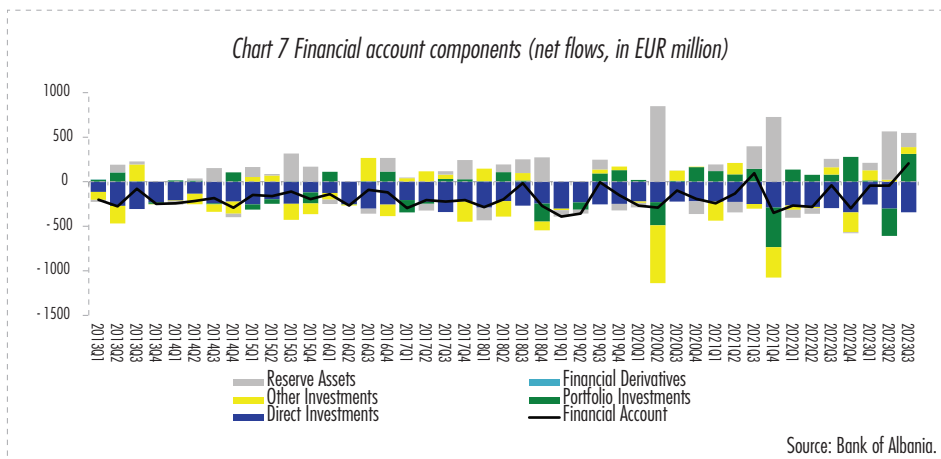
Capital account closed with a negative balance of EUR 40.2 million, up by EUR 33.6 million. The surplus of the public sector gave the main impact to this increase. In 2023 Q3, our economy reflects, for the very first time, a net lending position of EUR 314.1 million.

IV. FINANCIAL ACCOUNT

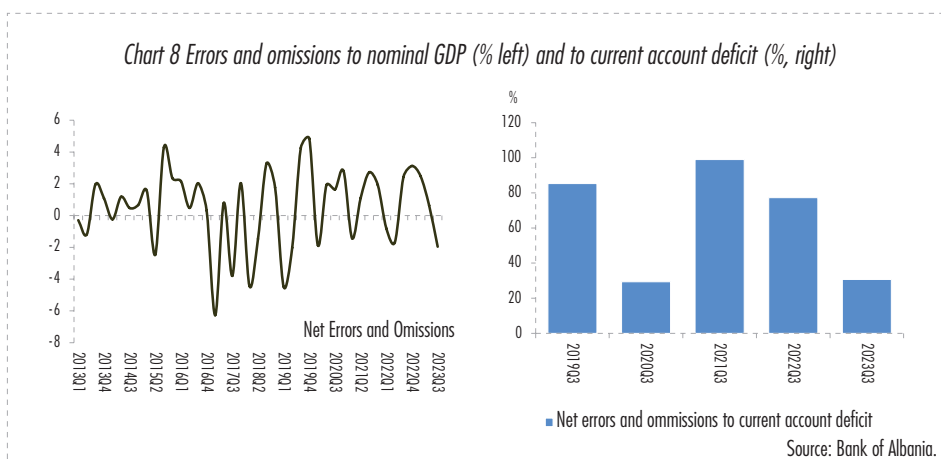
The financial account recorded net outflows amounting to EUR 205.3 million. The expansion of portfolio assets and other investments determined this performance. On the other hand, **Direct Investment inflows continue to grow at an accelerated pace**. The annual growth for the third quarter was 17.4%. In sectoral terms, the main contributions to growth have stemmed from “Electricity and Gas” and “Real Estate” branches.



Portfolio investments reflected the strong asset growth. This is related to the higher exposure of banks and other financial institutions to securities of non-residents. **An increase in assets is observed even in the case of other investments**. Again, banks and other financial institutions have expanded assets in the form of “Currencies and deposits”. On the other hand, liabilities expanded in the form of currencies and deposits, due to the expansion of deposits of the non-residents in the country. On the other hand, a decrease in liabilities in the form of “loans” is observed across all sectors.



The overall balance of payments resulted in an expansion of reserve assets by EUR 160.2 million reflecting mainly the significant improvement in the current account. As at end of September 2023, the foreign exchange reserve stock was EUR 5.7 billion and is considered sufficient to cover 7.4 months of imports of goods and services or 300% of short-term gross external debt. Finally, the “net errors and omissions” item resulted in an outflow of EUR 108.8 million, and was estimated at 2.0% of nominal GDP.



V. PROFILE OF CURRENT DEFICIT FINANCING

The profile of current deficit financing is determined by the performance of debt-creating inflows against the non-debt-creating inflows². Non-debt-creating financial flows from net direct investments and from the capital account were assessed at 5.4% of nominal GDP. These were around 0.8 percentage points lower than the previous year. The debt-creating financial flows were estimated at -7.0% of GDP, around 3.5 percentage points lower than the previous year.

² This breakdown serves to monitor the impact of financial and capital flows on Albanian’s external debt. Non-debt creating flows include Direct Investments and net inflows of the capital account, whilst debt-creating flows include portfolio investments and other net investment.

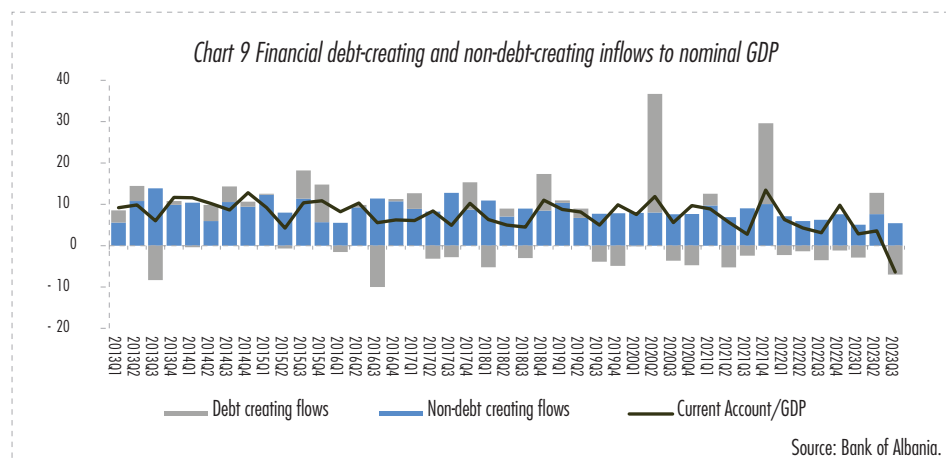


Table 1 Balance of payments indicators (in EUR million)

	22 Q1	22 Q2	22 Q3	22 Q4	23 Q2	23 Q2	23 Q3
Current account (in EUR million)	-245.8	-199.2	-145.4	-472.8	-128.1	-198.1	354.3
y-o-y (%)	-16.0	-12.4	37.8	-12.5	-47.9	-0.6	-343.6
/GDP (%)	-6.3	-4.3	-3.1	-9.8	-2.9	-3.6	6.4
Goods and services	-408.4	-398.1	-360.2	-700.9	-326.7	-428.1	115.0
y-o-y (%)	-14.5	-2.0	3.7	-12.7	-20.0	7.5	-131.9
Exports, f.o.b.	1348.3	1724.5	2071.6	1589.5	1684.9	1946.8	2779.5
y-o-y (%)	58.5	45.5	37.3	31.9	25.0	12.9	34.2
Imports, f.o.b.	1756.7	2122.6	2431.7	2290.5	2011.6	2375.0	2664.6
y-o-y (%)	32.2	33.4	31.0	14.1	14.5	11.9	9.6
Net Travel	85.8	251.7	505.4	226.3	189.5	388.1	884.7
Primary income	-80.7	-65.0	-76.3	-92.7	-72.1	-69.7	-64.5
Credit	122.7	147.5	153.2	173.4	155.4	186.0	198.5
Debit	203.4	212.4	229.5	266.2	227.5	255.7	263.0
Net income from Direct Investments	-164.1	-160.1	-178.7	-179.4	-164.6	-182.6	-209.4
Secondary income	243.3	263.8	291.1	320.9	270.7	299.7	303.8
Credit	284.1	303.9	330.4	361.8	309.7	342.2	347.7
Debit	40.8	40.0	39.4	40.9	39.0	42.4	43.8
Net Remittances	184.1	192.0	215.9	241.7	213.7	229.5	232.8
y-o-y (%)	9.2	12.2	8.3	8.9	16.0	19.5	7.8
Capital account	9.5	-5.9	-6.6	23.1	-27.5	119.3	-40.2
Net borrowing/net lending	-236.3	-205.2	-152.0	-449.7	-155.6	-78.8	314.1
Financial Account	-267.7	-282.9	-39.7	-298.7	-44.2	-43.4	205.3
y-o-y (%)	10.6	113.2	-141.5	-14.5	-83.5	-84.7	-616.7
/GDP (%)	-6.9	-6.1	-0.9	-6.2	-1.0	-0.8	3.7
Direct investments	-267.1	-282.8	-296.0	-344.0	-255.8	-301.3	-343.0
y-o-y (%)	19.5	24.9	18.5	18.6	-4.2	6.6	15.9
Portfolio investments	136.7	77.4	79.8	279.2	15.0	-307.0	312.7
Financial derivatives	2.0	3.0	4.0	5.0	6.0	7.0	8.0
Other investments	-48.3	-14.1	82.3	-222.3	113.3	22.3	75.4
Reserve assets	-88.9	-63.3	94.1	-11.6	83.3	542.6	160.2
Errors and omissions	-31.4	-77.7	112.3	150.9	111.4	35.4	-108.8

Source: Bank of Albania, INSTAT and author's estimations.