

Bank of Albania

# ANALYSIS OF DEVELOPMENTS IN THE EXTERNAL SECTOR OF THE ECONOMY

## 2020 Q4

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



# C O N T E N T

I.	<i>BALANCE OF PAYMENTS HIGHLIGHTS</i>	4
II.	<i>CURRENT ACCOUNT</i>	5
III.	<i>CAPITAL ACCOUNT</i>	8
IV.	<i>FINANCIAL ACCOUNT</i>	8
V.	<i>PROFILE OF CURRENT DEFICIT FINANCING</i>	10

## I. BALANCE OF PAYMENTS HIGHLIGHTS

The data of the Balance of Payments in 2020 Q4 reflected the overall recovery of the economic activity. Nevertheless, the effects of the COVID-19 pandemic remain present in sub-accounts.

The current account recorded a deficit of EUR 351.9 million<sup>1</sup>, expanding by around 1.8% in annual terms. The expansion of the deficit was mainly driven by the sub-accounts of goods and primary income. Meanwhile, the sub-accounts of services, and secondary income have affected on the tightening side. The current account deficit was assessed at 10.0% of GDP, or 0.1 percentage point lower than in the same quarter a year earlier.

Trade deficit in goods and services expanded by around 1.3% in annual terms, determined by the expansion of the goods deficit by 4.3%. The increase in the import of goods was 3.9% equal to the increase in export of goods. In case of services, flows of both exports and imports reduced in annual terms by 23.7% and 41.9%, respectively. In both cases, the annual fall was driven by the reduction in the flow of travel services (tourism), but the decline in imports provided a higher impact. Thus the surplus of services account expanded by 10.6%.

The primary income account reflected a deficit of EUR 79.7 million, which is around EUR 30.1 million higher than a year earlier. Both the fall in income inflows and the increase in the investments' income outflows drove to the expansion of deficit. On the other side, the surplus of the secondary income account expanded by 11.6% in annual terms, mainly driven by the growth of inward remittances by 11.6%. Net inflows in the capital account recorded EUR 55.4 million, standing around EUR 29.2 million higher than in the same quarter a year earlier.

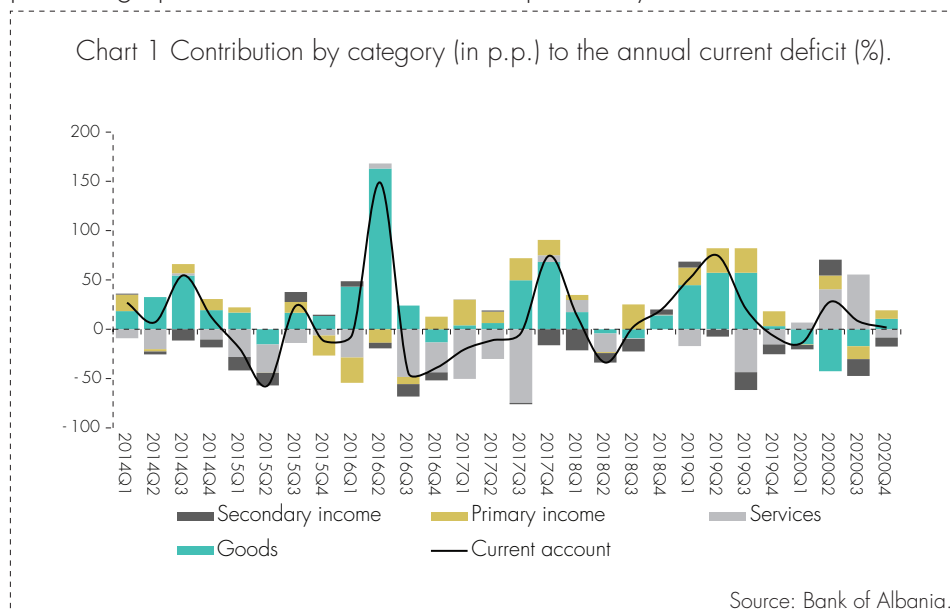
In the financial account, net liabilities recorded a value of EUR 183.5 million, around EUR 33.0 million higher compared with a year earlier. Direct investments inflows decreased by around 11.2%. This reduction is also noted in portfolio investments, which is related to the repayment of Eurobond. Net inflows in the capital and financial account managed to cover 67.9% of the current account deficit. The overall balance of payments resulted in a reduction of reserve assets by around EUR 142.7 million, driven also by the payment of Eurobond of 2015. The foreign exchange reserve stock, at the end of 2020 Q4, is sufficient to cover 9.6 months of import of goods and services, or 330%2 of short-term gross external debt.

<sup>1</sup> 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.

<sup>2</sup> External debt statistics are reviewed in terms of maturity (publication of 2020 Q3). Total debt remained unchanged, but the share of short-term debt decreased and that of long-term debt increased. For this reason, the share of the reserve to short-term debt has increased significantly. For more details see: [https://www.bankofalbania.org/rc/doc/Deklarata\\_BJB\\_Q3\\_2020\\_18025.pdf](https://www.bankofalbania.org/rc/doc/Deklarata_BJB_Q3_2020_18025.pdf)

## II. CURRENT ACCOUNT

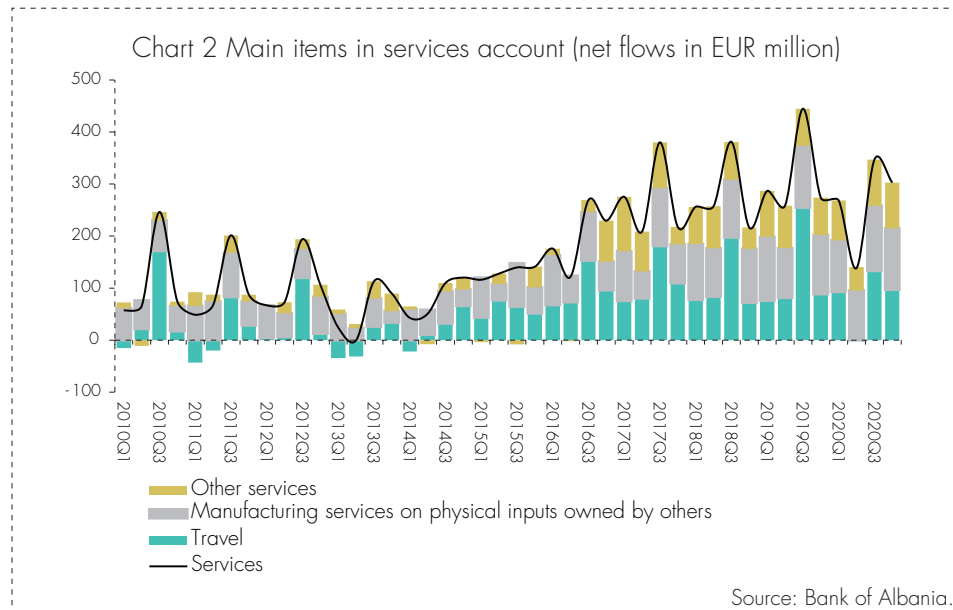
The current account recorded a deficit of EUR 351.9 million, in 2020 Q4, expanding by around 1.8% in annual terms, a decelerating rates compared to the previous quarters. It was assessed at 10.0% of nominal GDP, or 0.1 percentage point lower than in the same quarter a year earlier.



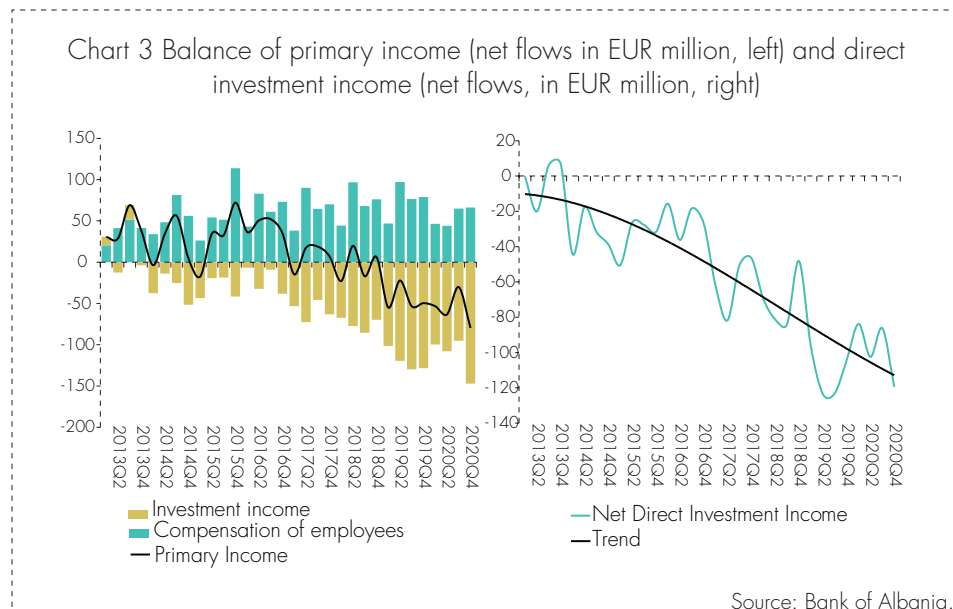
The expansion of the deficit is mainly determined by the increase in the deficit of goods by 4.3%. The latter was caused by the increase in the import of goods by 3.9%, at the same time, the export of goods rose by 2.2%.

The “services” sub-account surplus expanded by 10.6% in annual terms. Both exports and imports reduced by 23.7% and 41.9%, respectively. The impact of imports was higher, driving to the expansion of positive surplus. Flows of travel services (tourism) have determined both dynamics. Respective exports reduced by 42.6%, while imports by 55.5%. Differently from the third quarter, the decline of the flow of exports was lower compared to imports, suggesting a lesser negative impact of incoming foreign tourists against the outgoing Albanian tourists. The citizen movement data suggest that this is related to the higher tourist flows from Kosovo.

The overall trade deficit in goods and services expanded by around 1.3%, due to the stronger impact from “goods” sub-account. Similar to the previous quarter, the recovery is more rapid in the case of goods (reflecting growth in annual terms), as a result of a faster recovery of domestic demand, and it is slower in the case of services (continues to record a decline in annual terms, but at a more mitigated pace), as a reflection of the slower recovery of foreign demand.

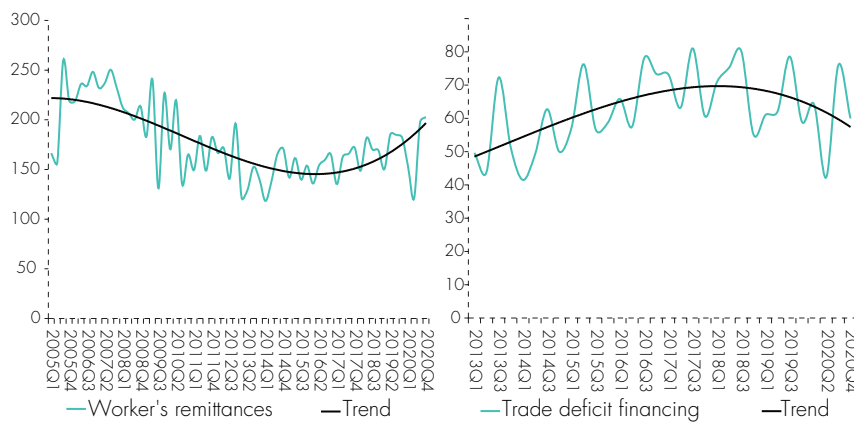


The net balance in the **primary income account**, registered a deficit of EUR 79.7 million, from EUR 49.6 million a year earlier. This outcome was defined by the expansion of direct investments outflow income, which have returned to the expansionary trend. On the other hand, the employees income inflows continue to contract compared to the previous year, as a result of the constant effect of the pandemic on the movement of seasonal workers.



The surplus of the sub-account of secondary income, expanded by around 11.6% in annual terms. This is related with the expansion of remittance inflows by 11.6%, an accelerated rate compared to the previous quarter. Net cumulative inflows from services, primary income and secondary income accounts financed around 60.0% of the trade deficit in goods. This ratio is around 1.0 percentage points higher than a year earlier. Long and short-term loans have the main share within this item.

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.

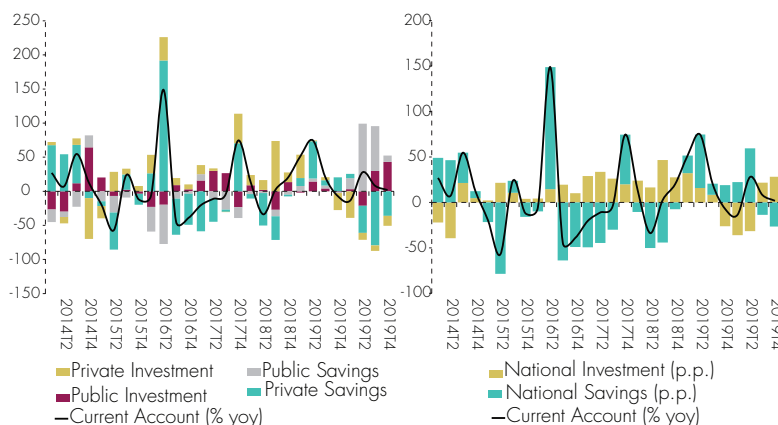
### BOX 1 DEVELOPMENTS IN THE SAVING-INVESTMENT GAP

The saving-investment gap of the private sector was assessed at 1.7% of nominal GDP for 2020 Q4, improving by 5.1 percentage points compared with a year ago. The ratio of private investments to nominal GDP was assessed at 15.9%, around 1.8 percentage points lower than the previous year. On the other hand, private savings to nominal GDP were assessed at 16.8%, or 4.3 percentage points higher than a year earlier.

In regard to the public sector, the gap is -11.7% of GDP, deepening by 5.0 percentage points, compared to the previous year. Public savings were estimated at 0.9% of nominal GDP, down by 1.0 percentage points in annual terms. Public investments were estimated at 12.6% of nominal GDP, around 4.0 percentage point higher compared to the previous year. The high increase in public investments was determinant in the deepening of the public gap.

The ratio of national investments to GDP increased by 2.2 percentage points in annual terms. The ratio of national savings to nominal GDP increased by 2.3 percentage point. The slightly lower contribution of the national savings has caused the decrease of the current deficit to GDP by 0.1%, compared to the previous year.

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



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

### III. CAPITAL ACCOUNT

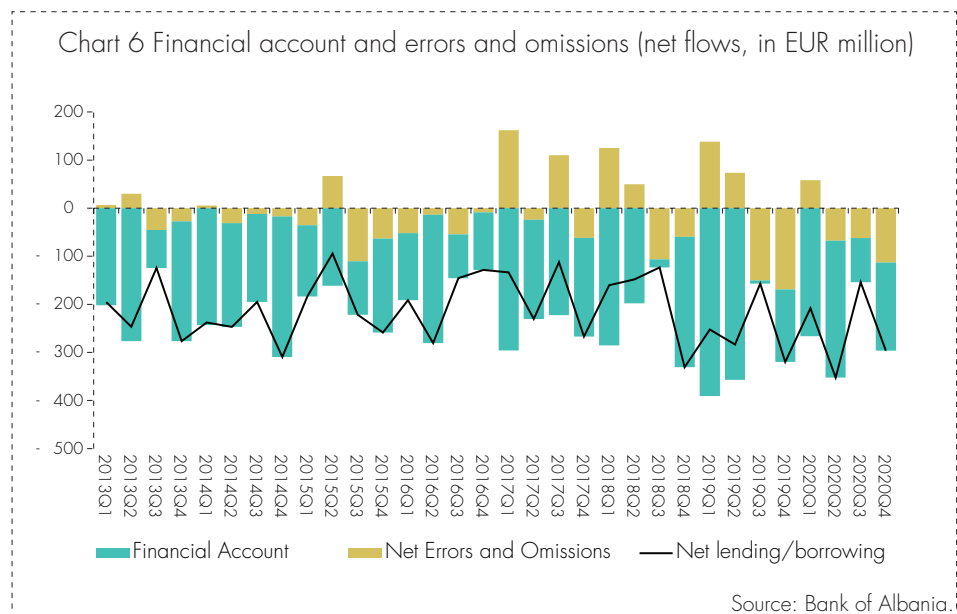
The capital account's surplus was around EUR 55.4 million, around EUR 29.2 million higher compared with a year ago. Net capital flows in this account are estimated at 1.6% of nominal GDP. Net capital transfers for the account of "general government" resulted with a surplus of EUR 13.9 million, while those in "financial and non-financial corporations, households and non-profit institutions serving household", were EUR 41.1 million.

The combination of net transactions of the current and capital accounts provides the net position of the domestic economy, as net lender (surplus), or net borrower (deficit) against non-resident economies. In 2020 Q4, our economy reflects a net borrowing position of EUR 296.5 million. This ratio is about 7.2% lower than in the same period a year earlier.

### IV. FINANCIAL ACCOUNT

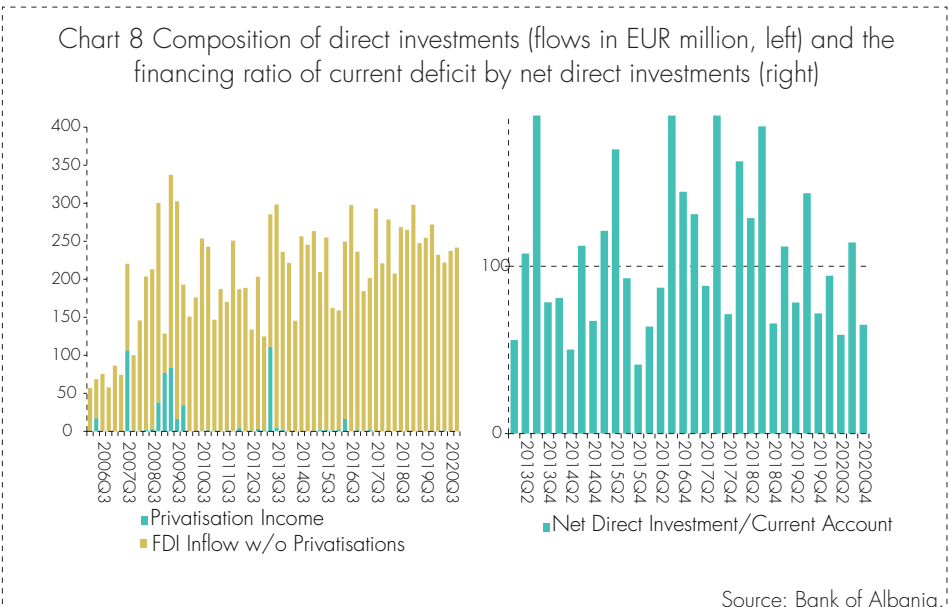
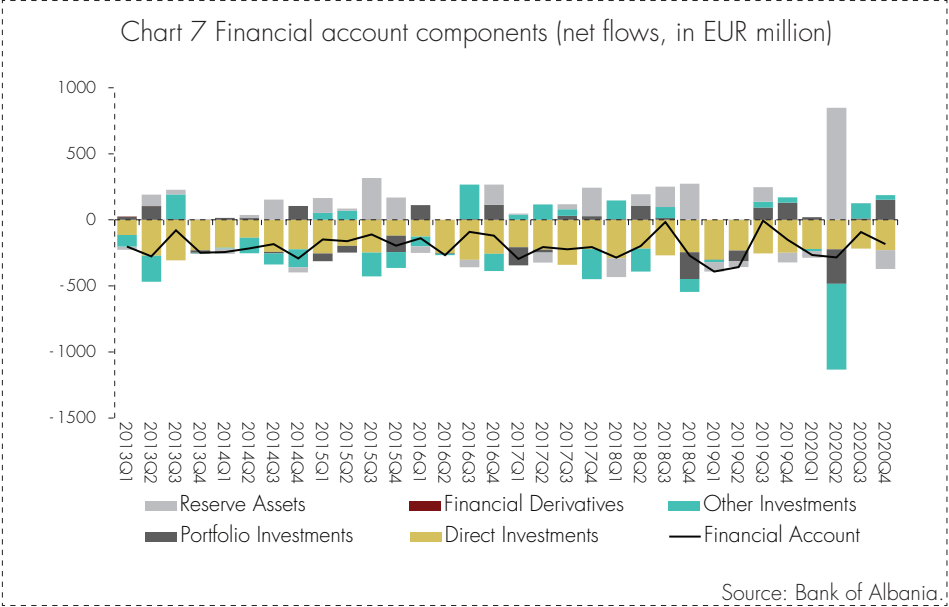
The financial account registered net liabilities of EUR 183.5 million, around EUR 33.0 million higher compared to a year ago. Net liabilities of this account were estimated at about 5.2% of nominal GDP and financed 52.1% of current account deficit during this period.

**Direct investments inflows decreased by 11.2%.** The driving impacts came from the "Mining" and "Energy" sectors. Also, the "Real Estate" sector, which provided a positive contribution to DII's during 2018-2019, continued to show a negative performance as in 2020. Positive growth rates were noted particularly in the sectors of "Trade" and "Information communication". Foreign investments are concentrated in the "Energy" sector, whereas the share of the "Mining" sector has declined significantly.





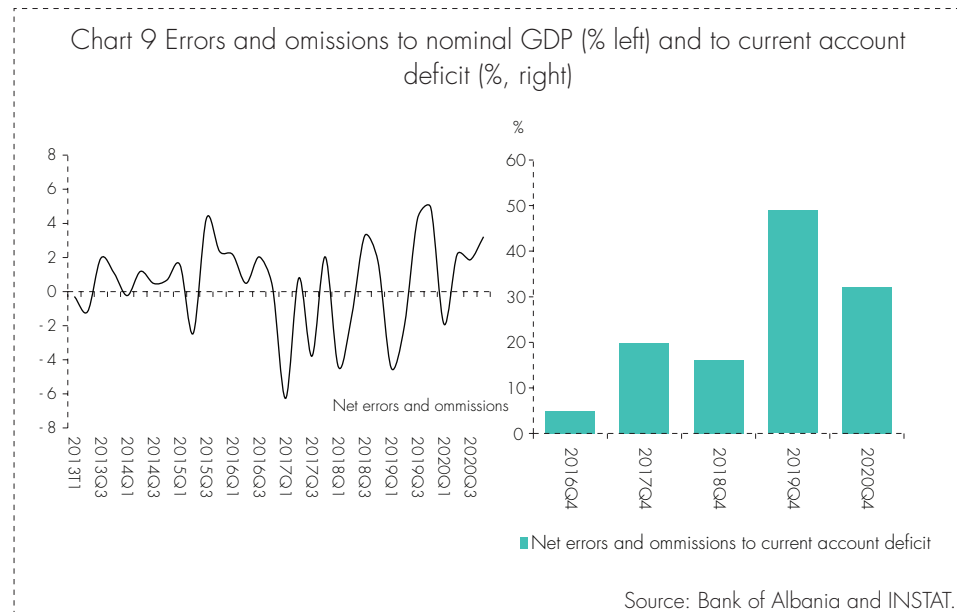
Portfolio investments reported net assets amounting to EUR 152.3 million, from EUR 129.8 million a year ago. This performance was driven by the reduction of debt liabilities related to paying off the Eurobond. Other investments reported net liabilities amounting to EUR 35.8 million, down by EUR 5.4 million compared to the previous year.



The overall balance of payments resulted in a decrease of reserve assets at EUR 142.7 million, also driven by the payment of the Eurobond. At end-December 2020, the foreign exchange reserve stock is considered sufficient to cover 9.6 months of import of goods and services or 350%<sup>3</sup> of short-term gross external debt and to withstand short-term pressures. Finally, "net errors

<sup>3</sup> External debt statistics are reviewed in terms of maturity (publication of 2020 Q3). Total debt remained unchanged, but the share of short-term debt decreased and that of long-term debt increased. For this reason, the share of the reserve to short-term debt has increased significantly. For more information, refer to the following website: [https://www.bankofalbania.org/rc/doc/Deklarata\\_BJB\\_Q3\\_2020\\_18025.pdf](https://www.bankofalbania.org/rc/doc/Deklarata_BJB_Q3_2020_18025.pdf)

and omissions” account resulted in an inflow of EUR 113.0 million which is assessed at 3.2% of nominal GDP.



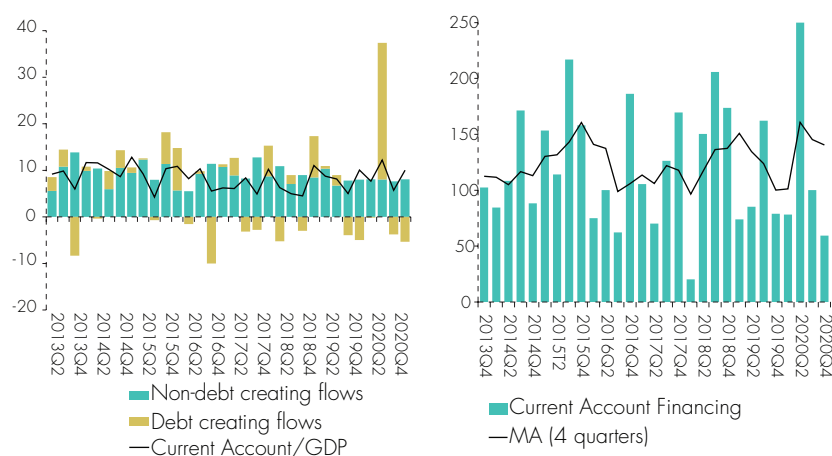
## V. PROFILE OF CURRENT DEFICIT FINANCING

The sustainability of current deficit financing is determined by the performance of debt-creating inflows against the most desirable non-debt-creating inflows<sup>4</sup>. Non-debt-creating financial flows from net direct investments and from the capital account were assessed at 8.1% of nominal GDP. These were around 0.1 percentage points higher than a year earlier. The debt-creating financial flows were estimated at -5.4% of nominal GDP, around 0.4 percentage points lower in annual terms.

By adding to foreign currency net debt-creating and non-debt-creating flows also the net errors and omissions, we obtain the overall financing of the current deficit. During the quarter under review, the current account financing ratio stood at 59.5%, translating into a reduction in reserves. The financing ratio was around 19.4 percentage points lower compared with the previous year.

<sup>4</sup> 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 flows of the capital account, whilst debt-creating flows include portfolio investments and other net investments.

Chart 10 Financial debt-creating and non-debt-creating inflows to nominal GDP (left) and total financing of current account deficit (right)



Source: Bank of Albania.

Table 1. Balance of payments indicators (in EUR mln)

	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Current account (in EUR million)	-296.0	-176.5	-345.8	-233.6	-378.6	-190.7	-351.9
yoy (%)	74.7	20.6	-7.1	-13.6	27.9	8.0	1.8
/ GDP (%)	-8.2	-5.0	-10.1	-7.7	-12.2	-5.7	-10.0
<b>Goods and services</b>	<b>-523.0</b>	<b>-379.9</b>	<b>-569.3</b>	<b>-384.4</b>	<b>-517.0</b>	<b>-447.4</b>	<b>-576.9</b>
yoy (%)	22.4	5.6	-7.4	-5.7	-1.2	17.8	1.3
Exports, f.o.b.	1059.2	1346.0	1019.1	847.3	488.2	852.6	836.5
yoy (%)	3.4	8.5	7.0	-4.5	-53.9	-36.7	-17.9
Imports, f.o.b.	1582.2	1725.8	1588.5	1231.7	1005.2	1299.9	1413.4
yoy (%)	9.0	7.9	1.3	-4.9	-36.5	-24.7	-11.0
Net travels	81.5	254.9	88.2	93.0	-1.9	133.1	96.9
<b>Primary income</b>	<b>-22.2</b>	<b>-53.4</b>	<b>-49.6</b>	<b>-53.4</b>	<b>-63.3</b>	<b>-30.2</b>	<b>-79.7</b>
Credit	129.7	106.0	108.5	74.1	77.4	96.6	89.3
Debit	151.9	159.4	158.1	127.5	140.7	126.8	169.0
Net income from Direct Investments	-123.4	-123.1	-104.5	-83.8	-102.5	-86.2	-119.4
<b>Secondary income</b>	<b>249.3</b>	<b>256.7</b>	<b>273.1</b>	<b>204.2</b>	<b>201.7</b>	<b>286.9</b>	<b>304.7</b>
Credit	281.0	288.4	310.4	244.1	241.9	333.5	350.0
Debit	31.7	31.7	37.3	39.9	40.2	46.6	45.3
Net Remittances	185.2	184.6	181.9	152.4	120.9	197.4	202.7
yoy (%)	1.9	8.6	7.5	1.5	-34.7	6.9	11.4
<b>Capital account</b>	<b>12.3</b>	<b>19.7</b>	<b>26.2</b>	<b>25.4</b>	<b>26.1</b>	<b>36.6</b>	<b>55.4</b>
Net borrowing/net lending	-283.6	-156.8	-319.6	-208.1	-352.5	-154.1	-296.5
<b>Financial account</b>	<b>-357.1</b>	<b>-6.3</b>	<b>-150.5</b>	<b>-266.3</b>	<b>-284.8</b>	<b>-92.0</b>	<b>-183.5</b>
yoy (%)	80.4	-62.5	-44.5	-31.9	-20.3	1349.6	21.9
/ GDP (%)	-9.8	-0.2	-4.4	-8.8	-9.2	-2.8	-5.2
Direct investments	-231.9	-253.6	-248.5	-220.4	-223.3	-217.8	-228.8
yoy (%)	6.3	-5.6	1.4	-27.1	-3.7	-14.1	-7.9
Portfolio investments	-82.4	93.4	129.8	20.1	-260.5	10.6	152.3
Financial derivatives	0.0	0.0	0.0	0.0	1.0	0.7	1.7
Other investments	0.8	44.2	41.2	-14.8	-649.1	115.0	35.8
Reserve assets	-43.6	109.7	-73.0	-51.1	848.2	0.3	-142.7
<b>Errors and omissions</b>	<b>-73.5</b>	<b>150.5</b>	<b>169.1</b>	<b>-58.1</b>	<b>67.7</b>	<b>62.1</b>	<b>113.0</b>

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