

Bank of Albania

# ANALYSIS OF DEVELOPMENTS IN THE EXTERNAL SECTOR OF THE ECONOMY

## 2022 Q4

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*The views expressed herein are solely of the author and do not  
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## I. BALANCE OF PAYMENTS HIGHLIGHTS

Data of the Balance of Payments 2022 Q4 witnessed a contraction of the current deficit, as a result of the increase in both tourism inflows and remittances.

The current account recorded a deficit of EUR 477.3 million<sup>1</sup>, decreasing by around 11.7% in annual terms. It was assessed at 9.9% of GDP, or 3.6 percentage points lower than a year ago. The increase in the export of services (32.7%) has given the main contribution on this performance, dictated again by the significant expansion in the export of tourist services by 47.7%. The export of goods (29.8%) and remittances (8.9%) picked up as well.

On the other hand, imports, have been edging up, thus affecting the increase of the current deficit. They grew 31.9%, driven mainly by the increase in the import of services by 37.5%. Tourism outflows grew significantly during this quarter (38.3%). Regarding the import of goods, the annual growth rates have significantly slowed down. Import of goods grew 7.7% in 2022 Q4, from 29.8% in the previous quarter.

The overall trade deficit narrowed by 12.7% due to the stronger exporting impact. The deficit ratio to GDP stands at 14.5%, down by 5.5 points in annual terms.

The primary income account recorded a deficit of EUR 97.0 million, around three times higher compared to a year ago. Investment income outflows continue to prevail in determining the performance of this account. Work-related income inflows, albeit their continuous growth, were not able to offset the effect of income outflows.

In the financial account, net liabilities amounted to EUR 311.0 million. Direct investments inflows continue to increase at a high pace (28.5%). The foreign exchange reserve stock at the end of 2022 Q4 is sufficient to cover 6.9 months of import of goods and services or 331.9% of short-term gross external debt.

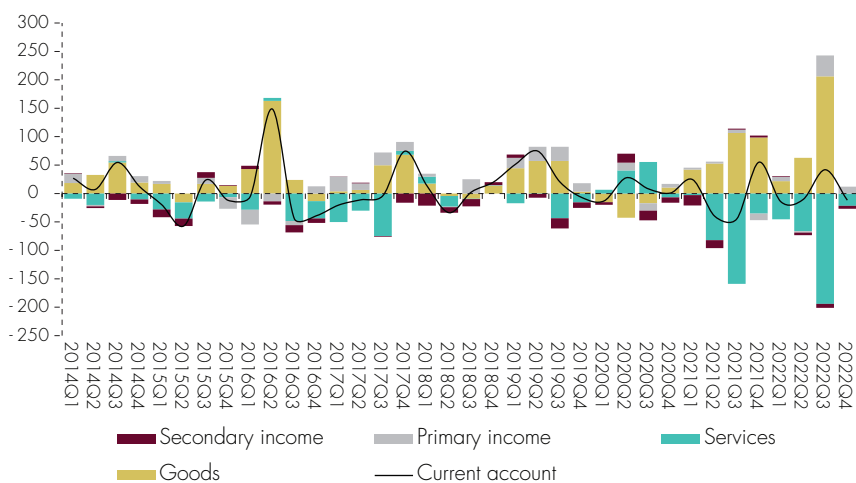
## II. CURRENT ACCOUNT

The current account recorded a deficit of EUR 477.3 million, in 2022 Q4, decreasing by around 11.7% compared to a year ago. It was assessed at 9.9% of GDP, or around 3.6 percentage points lower compared to 2021 Q4. The sharp growth in exports and remittances mainly determined this performance.

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<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.

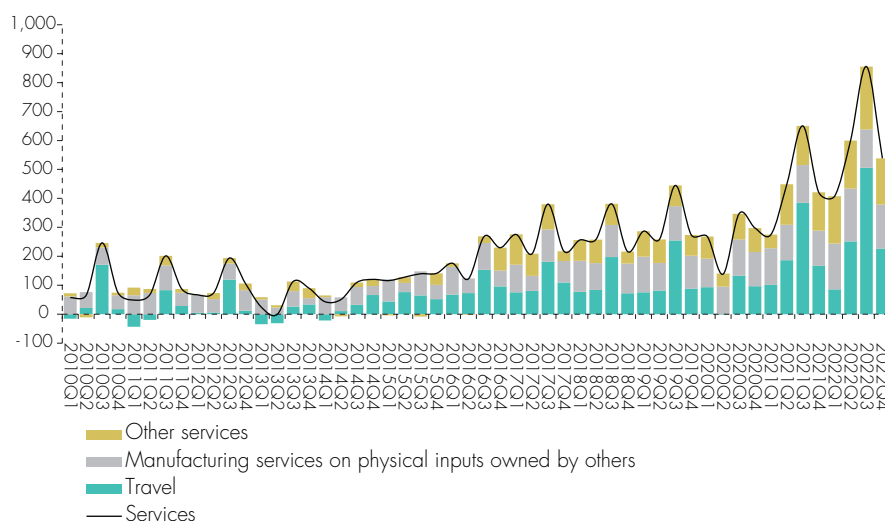
Chart 1 Contribution by category (in p.p.) to the annual current deficit (%)



Source: Bank of Albania.

The growth of exports was 31.9%, driven by the expansion in the export of services by 32.7%. The services inflows of tourism increased by 47.7% continuing the upward trend of the last years. The increase in the export of goods added to this impact, standing at 29.8% in the fourth quarter of last year. According to trade statistics, the categories that have the most increase in exports are "Minerals, fuel and electricity", "Machinery and equipment" and "Food, beverages, tobacco".

Chart 2 Main items in services account (net flows in EUR million)

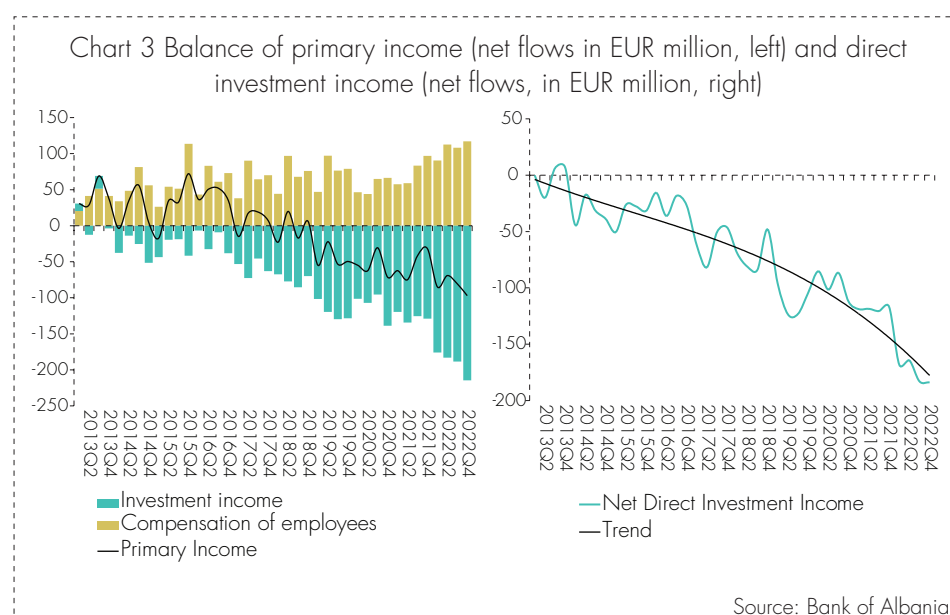


Source: Bank of Albania.

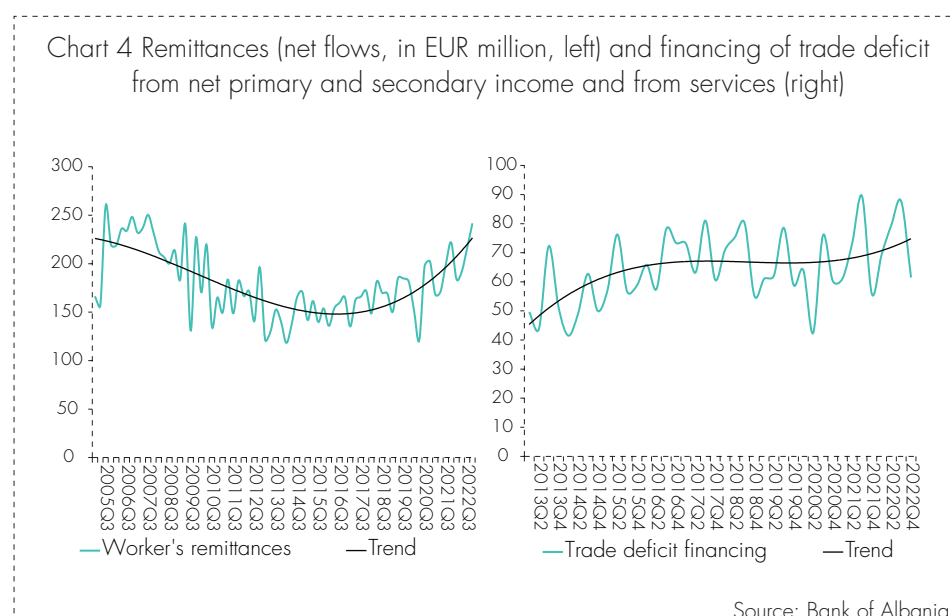
The growth of imports was 14.1%, fuelled by the expansion in the imports of services by 37.5%. Even in this case, high growth rates were noted in tourism activity, where outflows increased by 38.3%. On the other hand, the surge in the import of goods has slowed down considerably. For the fourth quarter, imports of goods rose 7.7% from 29.8% in the previous quarter.

The overall trade deficit in goods and services narrowed by around 12.7%, due to the stronger impact from the increase of exports. The trade deficit was assessed at 14.5% of GDP, downwards by 5.5 percentage points, compared to a year ago.

The net balance in the primary income account, registered a deficit of EUR 97.0 million, which is around three times higher than a year ago. Investment income outflows (mainly direct ones) continue to drive the sub-account deficit, testifying to the good performance of FDI's companies in Albania. The work-related income inflows also show high growth rates, but again they are not able to offset the effect of income outflows.



The surplus of the secondary income sub-account, expanded by around 9.2%, mainly due to the high growth of remittances, by 8.9% in this quarter.



## BOX 1 DEVELOPMENTS IN NATIONAL SAVINGS AND INVESTMENTS

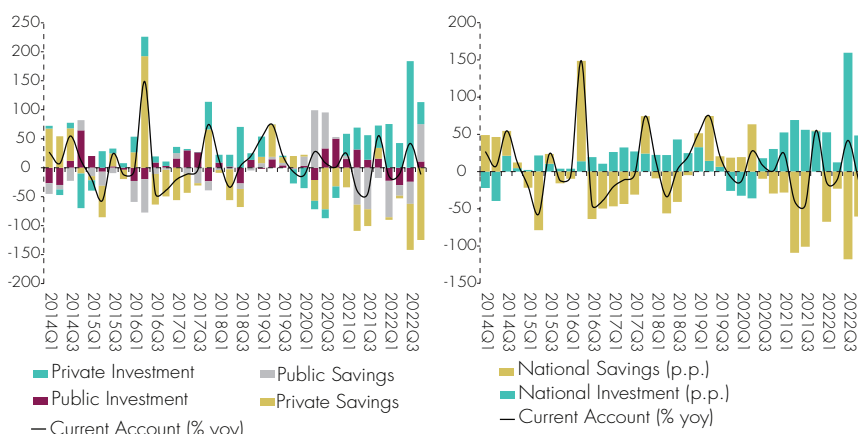
The decrease in the current deficit ratio to the GDP is mainly a result of the increase in savings in the private sector of the economy, which has also caused a narrowing of the savings-investment gap in this sector. On the other hand, there is a decrease in public savings that has also caused the expansion of the relevant gap.

The savings-investment gap of the private sector was assessed at 6.9% of GDP, improved by around 10.3 percentage points from a year ago. This was caused by the expansion of private savings by around 11.7 percentage points. On the other hand, private investments expanded by around 1.4 percentage points as a ratio to GDP.

In regard to the saving-investment gap of the public sector, the gap is assessed at -16.8% of GDP, deepened by 6.7 percentage points compared to a year ago. The decrease in public savings by 7.7 percentage points, compared to a year ago, was a factor that impacted this trend. On the other hand, private investments decreased by 1.0 percentage points as a ratio to GDP.

In aggregate terms, the improvement of the savings-investment gap of the private sector has had the main impact on the reduction of the current deficit by 3.6 percentage points as a ratio to GDP.

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 calculations.

## III. CAPITAL ACCOUNT

Capital account closed with a positive balance of EUR 23.1 million, down by around EUR 90.7 million compared to a year ago. The decrease in private outflows gave the main impact in this trend. Net capital flows in this account are estimated at 0.5% of nominal GDP.

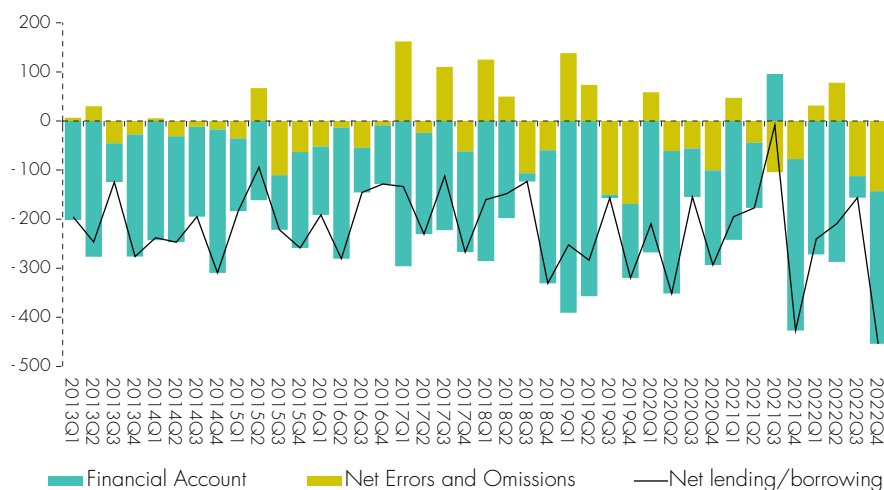
In 2022 Q4, our economy reflects a net borrowing position of EUR 454.1 million. This ratio is EUR 27.0 million higher compared to a year ago. The expansion of the borrower's position comes mainly as a result of the deterioration of the balance in the capital account, while the improvement of the current deficit has influenced in the opposite direction.

## IV. FINANCIAL ACCOUNT

In the financial account net liabilities amounted to EUR 311.0 million, around EUR 38.4 million lower compared to a year ago.

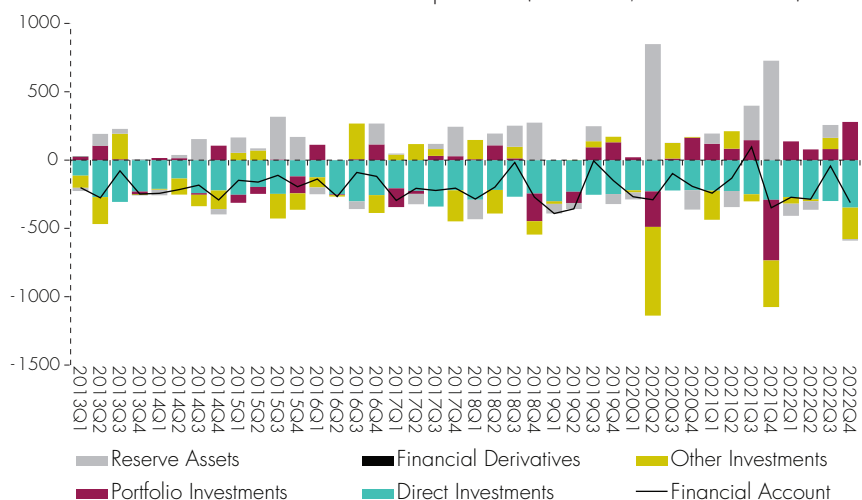
**Direct Investment inflows continue to show high growth rates, as well as throughout 2022.** They were up by 28.5% compared to a year ago. The reinvestment of profits – as in the previous quarters – provided an important contribution to this performance. It testifies that the growth of FDIs in the country is accompanied by the repatriation of profits (as reflected in the primary income outflows), coupled with their reinvestment in the country. By sectors, the growth of FDIs was mainly supported by “Information and communications”, “Financial activities”, “Energy” and “Real estate”. “Mining” provided a negative contribution.

Chart 6 Financial account and errors and omissions (net flows, in EUR million)



Source: Bank of Albania.

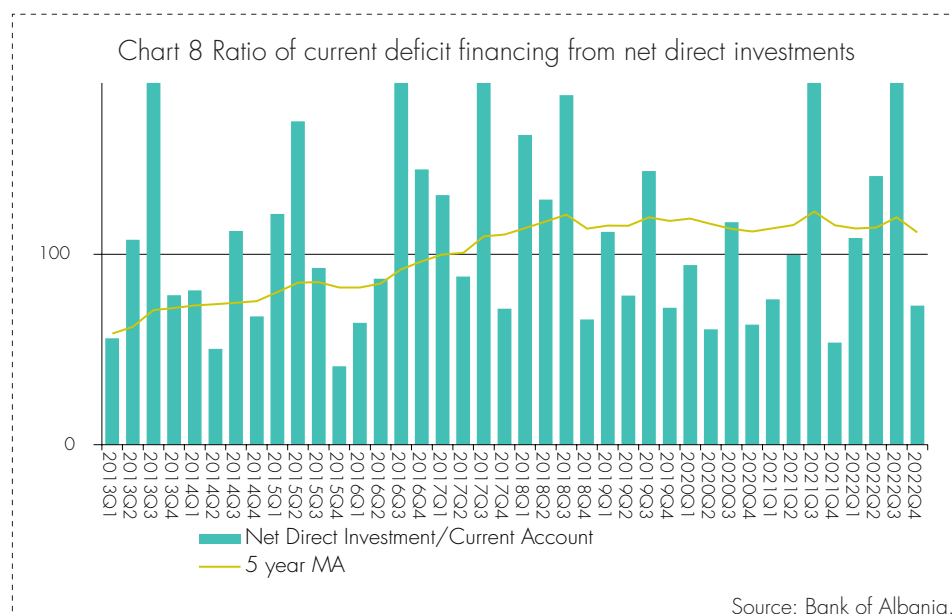
Chart 7 Financial account components (net flows, in EUR million)



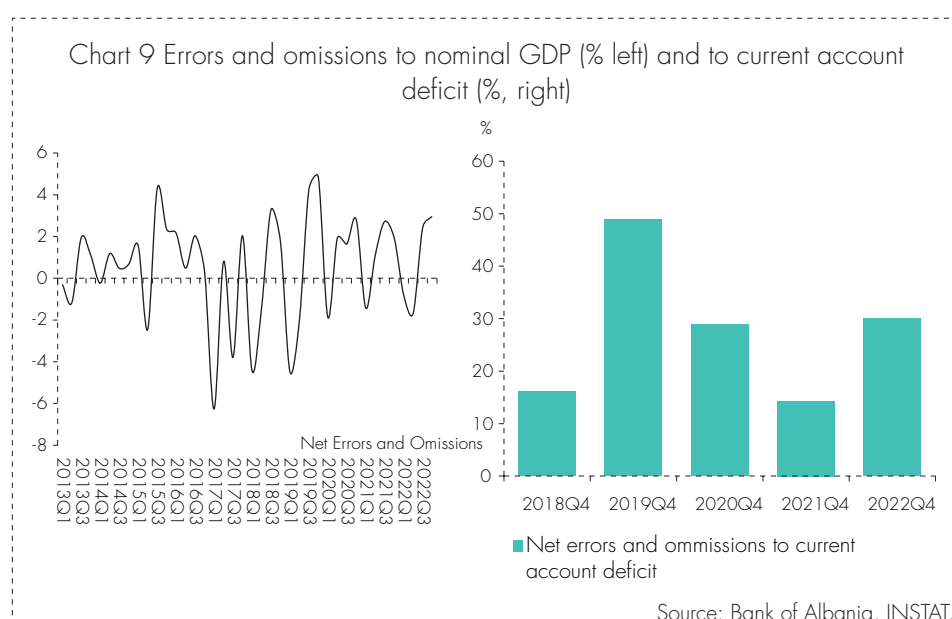
Source: Bank of Albania.



The performance of portfolio investments and other investments indicates a different configuration of their profile. "Deposit-taking corporations" reduced their assets in the form of "Currencies and deposits" and "Loans" (which are part of other investments) to increase those in the form of securities (which are part of portfolio investments). **Liabilities in the form of "Deposits"** of non-residents and "commercial credit", increased. On the other hand, liabilities in the form of "loans" decreased across all sectors.



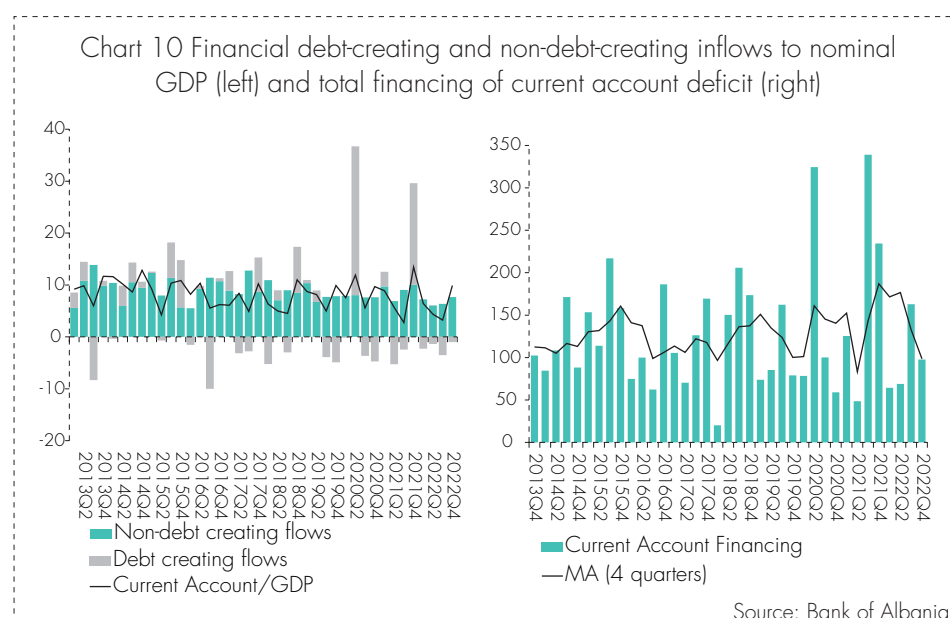
The overall balance of payments resulted in a decrease of reserve assets by EUR 11.6 million. At the end of December 2022, the foreign exchange reserve stock was EUR 4.95 billion. This level is considered sufficient to cover 6.9 months of import of goods and services or 331.9% of short-term gross external debt. Finally, the "Net errors and omissions" item resulted in an inflow of EUR 143.1 million, and was estimated at 3.0% 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 inflows<sup>2</sup>. Non-debt-creating financial flows from net direct investments and from the capital account were assessed at 7.7% of nominal GDP, as a result of decreasing flows in the capital account. These were around 2.4 percentage points lower than a year earlier. The debt-creating financial flows were estimated at -1.0% of nominal GDP, around 20.6 percentage points lower compared to a year ago.

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 ratio of current account financing stood at 97.6%, implying a reduction in the reserve assets.



<sup>2</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 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)

	2021 Q2	2021 Q3	2021 Q4	2022 Q2	22 Q2	2022 Q3	2021 Q4
Current account (in EUR million)	-227.5	-105.5	-540.6	-249.9	-203.4	-149.7	-477.3
y-o-y (%)	-39.8	-44.8	55.1	-14.7	-10.6	41.8	-11.7
/GDP (%)	-5.7	-2.8	-13.5	-6.4	-4.4	-3.2	-9.9
Goods and services	-406.0	-347.2	-802.7	-408.4	-398.1	-360.2	-701.1
y-o-y (%)	-21.5	-22.4	37.9	-14.5	-2.0	3.7	-12.7
Exports, f.o.b.	1184.9	1509.3	1205.5	1348.3	1724.5	2071.6	1589.5
y-o-y (%)	142.7	77.0	44.9	58.5	45.5	37.3	31.9
Imports, f.o.b.	1590.9	1856.5	2008.3	1756.7	2122.6	2431.7	2290.6
y-o-y (%)	58.3	42.8	42.0	32.2	33.4	31.0	14.1
Net Travel	186.8	384.6	167.2	85.8	251.7	505.4	226.3
Primary income	-74.9	-41.8	-31.8	-84.8	-69.2	-80.6	-97.0
Credit	85.0	105.4	123.0	118.6	143.3	148.9	169.1
Debit	160.0	147.2	154.9	203.4	212.4	229.5	266.2
Net income from Direct Investments	-118.6	-120.6	-116.8	-168.2	-164.3	-183.0	-183.7
Secondary income	253.5	283.5	293.9	243.3	263.8	291.1	320.9
Credit	293.8	327.3	336.5	284.1	303.9	330.4	361.8
Debit	40.3	43.8	42.6	40.8	40.0	39.4	40.9
Net Remittances	171.2	199.3	221.9	184.1	192.0	215.9	241.7
y-o-y (%)	41.6	1.0	9.5	9.2	12.2	8.3	8.9
Capital account	50.5	96.9	113.8	9.5	-5.9	-6.6	23.1
Net borrowing/net lending	-176.9	-8.6	-426.8	-240.4	-209.4	-156.3	-454.1
Financial Account	-132.7	95.8	-349.4	-271.8	-287.1	-44.0	-311.0
y-o-y (%)	-54.3	-197.3	81.3	12.3	116.3	-145.9	-11.0
/GDP (%)	-3.3	2.5	-8.7	-7.0	-6.2	-1.0	-6.4
Direct investments	-226.5	-249.8	-290.1	-271.2	-287.0	-300.3	-348.3
y-o-y (%)	-1.0	11.9	32.0	21.3	26.7	20.2	20.1
Portfolio investments	82.9	145.6	-444.9	136.7	77.4	79.8	278.9
Financial derivatives	0.0	0.0	1.0	2.0	3.0	4.0	5.0
Other investments	128.2	-52.3	-341.0	-48.3	-14.1	82.3	-230.0
Reserve assets	-117.3	252.4	726.6	-88.9	-63.3	94.1	-11.6
Errors and omissions	44.2	104.4	77.4	-31.4	-77.7	112.3	143.1

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