Bank of Albania

ANALYSIS OF DEVELOPMENTS IN THE EXTERNAL SECTOR OF THE ECONOMY

2025 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.

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I. BALANCE OF PAYMENTS HIGHLIGHTS

The Balance of Payments data for the fourth quarter of 2025 indicate a significant narrowing of the current account deficit. This improvement was primarily driven by the growth of exports and inflows of income, which continued to underpin the appreciation trend of the lek.

The current account recorded a deficit of EUR 254.2 million, narrowing by 32.5% on an annual basis. As a share of GDP, the current account deficit declined to 3.6%, from 5.7% in the fourth quarter of 2024. For the year 2025 as a whole, the current account deficit is estimated at 0.7% of GDP, marking the lowest level ever recorded to date.

Total exports of goods and services increased by 12.0% in the fourth quarter, driven primarily by a 14.1% rise in service exports. Inflows from tourism-related services reached EUR 1.3 billion, representing an increase of 15.1%, although this growth was lower than the 21.6% recorded in the previous quarter. Goods exports expanded by 3.0%, marking a notable improvement compared with the 18.2% decline registered in the preceding quarter.

Total imports of goods and services increased by 7.9%, broadly unchanged from the growth rate recorded in the previous quarter. This growth was driven by both a 19.5% increase in services imports and a 3.0% rise in goods imports.

The trade deficit narrowed by EUR 34.5 million, whereas in the previous quarter the trade surplus had expanded by approximately EUR 267 million. As a share of GDP, the trade deficit is estimated at 8.8%, representing a decline of 0.9 percentage points compared with the same period a year earlier.

The primary income account continued to appear in surplus during this quarter as well, following the shift to positive territory in the previous quarter. This performance was mainly driven by the accelerated growth rate in work-related income, by 18.7%. Secondary income account improved further, as remittances accelerated the growth pace at 10.8%.

In the financial account, net inflows amounted to EUR 214.8 million.

Foreign Direct Investment (FDI) inflows reached at EUR 426.5 million, while portfolio investments recorded around EUR 668 million in outflows, and other investments recorded EUR 521 million inflows.

The stock of foreign exchange reserves reached at around EUR 7.3 billion as at end of December 2025. This level is sufficient to cover 7.6 months of imports of goods and services or around 301% of gross short-term external debt, in turn continuing to provide an elevated level of cushion to the economy of Albania to withstand the possible shocks from the external sector.

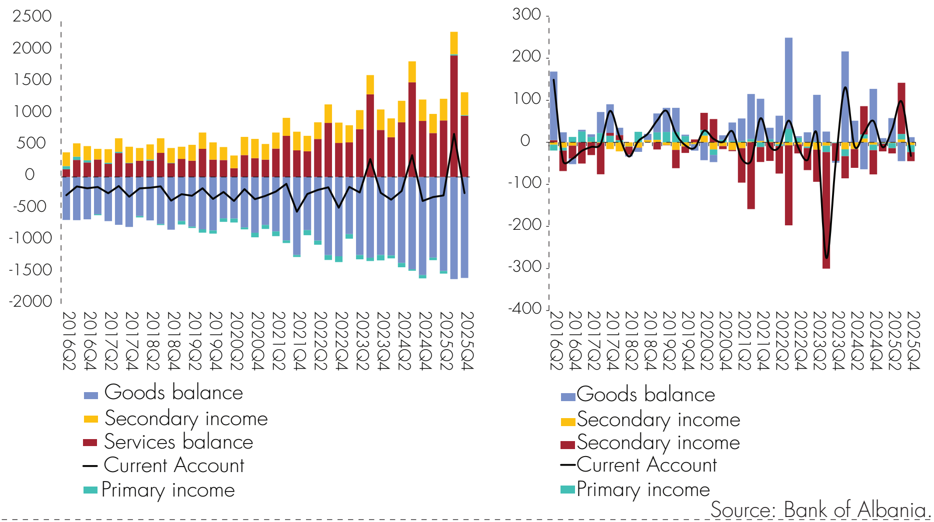
II. CURRENT ACCOUNT

The current account recorded a deficit of EUR 254.2 million in the fourth quarter of 2025, narrowing by 32.5% on an annual basis. As a share of Gross Domestic Product (GDP), the deficit declined to 3.6%, down from 5.7% in the same period a year earlier.

The reduction in the current account deficit points to a further strengthening of the economy's external position, supported by robust growth in services exports, as well as higher work-related income and remittances.

The narrowing of the current account deficit in this quarter was primarily driven by the services account, followed by the primary income account and the secondary income account. Together, they have offset the adverse impact arising from the widening deficit in the goods account (Chart 1, right). In this context, a notable development has been the maintenance of surplus values in the primary income account, following its shift into surplus in the previous quarter, for the first time since the end of 2018 (Chart 1, left).

Chart 1 Components of the current account (EUR million, left) and their contributions to the annual change in the current account balance (percentage points, right).



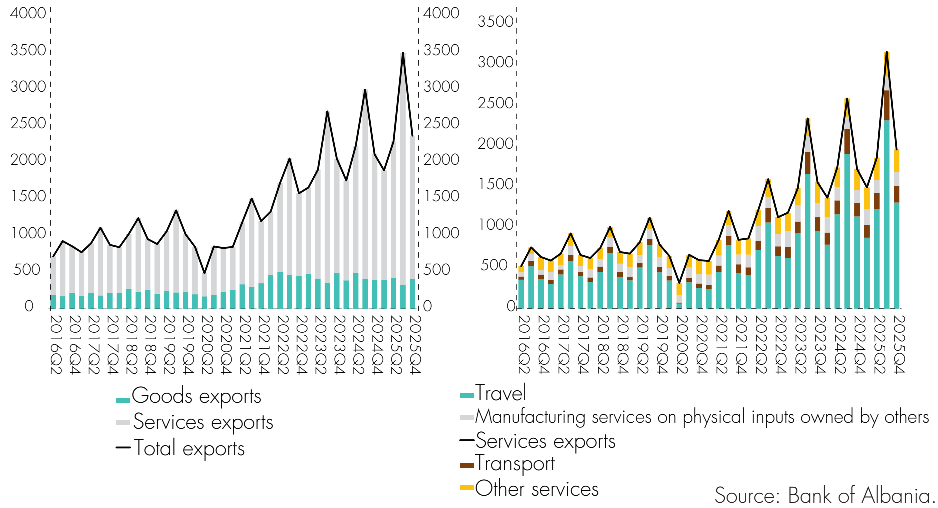
Source: Bank of Albania.

The surplus in the services account increased by 9.1%, primarily driven by a 14.4% rise in services exports, particularly those related to tourism. Exports of travel services grew by 15.1% and reached EUR 1.3 billion. The pace of growth moderated compared with the 21.6% increase recorded in the third quarter, which coincided with the peak of the tourist season (Chart 2, right). Despite quarterly fluctuations, the sustained upward trend in tourism exports over recent years has continued to support Albania's economic growth. This is also reflected in the increased contributions of the "Accommodation and food service" sector in GDP growth.

At the same time, the expansion of tourism activity continued to generate positive spillover effects in the exports of transport services, which accelerated the growth rate to 23.9%, from 19.8% in the previous quarter. Other exports of services also maintained a positive growth trajectory (Chart 2, left).

On the other hand, imports of services increased by 19.5%, largely reflecting the accelerated growth in travel service imports. Travel service imports rose by 20.5%, compared with 13.9% in the previous quarter.

Chart 2 Composition of exports (EUR million, left) and main components of services exports (EUR million, right panel)



Source: Bank of Albania.

The goods account recorded a pronounced slowdown in the pace of deficit expansion, expanding by 3.0% in the fourth quarter, compared with 10.6% in the preceding quarter.

This development largely reflects a 3.0% increase in the exports of goods, following a decline of 18.2% in the previous quarter, driven by the normalisation of exports in the category "Construction materials and metals" as well as the continued expansion of exports of "Machinery, equipment and spare parts". Exports of "Construction materials and metals" returned to growth rates in the fourth quarter, increasing by 19.8%. In the previous quarter, this category had recorded a contraction of 18.2%, partly reflecting the base effect associated with the robust performance observed a year earlier. Meanwhile, exports of "Machinery, equipment and spare parts" linked to the automotive industry in Albania, increased by 9.2% in the reporting quarter, continuing their upward trend observed over the past year.

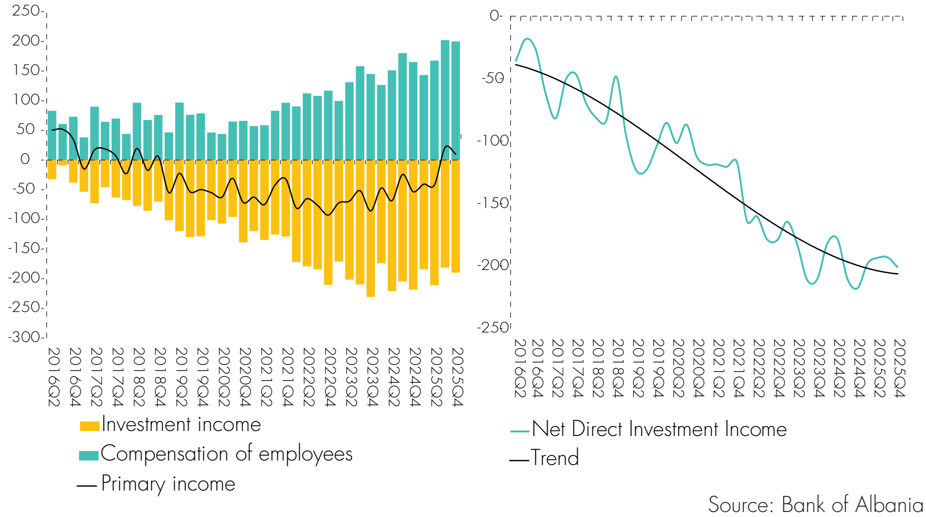
On the other hand, exports of "Minerals, fuels, and electrical energy" declined, reflecting both lower export volumes and the accelerated decline in international oil prices. The latter fell by 14.7% in the fourth quarter, compared with a decline of 13.9% in the previous quarter. Within this export category, electricity exports increased, supported by higher domestic production due to favourable hydrological conditions.

Imports of goods increased by 3.0%, from 4.3% in the previous quarter. Similar to the previous quarter, import growth was driven primarily by the "Minerals, fuels and electricity" and "Food, beverages and tobacco" categories, both of which recorded increases in import volumes.

In total, exports of goods and services rose by 12.0% in the fourth quarter, down from 16.8% in the previous quarter, while imports of goods and services increased by 7.9%, compared with 8.0% in the preceding period. The faster increase in exports contributed to a 5.2% narrowing of the trade deficit.

The primary income account continued to improve in the fourth quarter, recording a surplus for a second consecutive quarter (Chart 3, left). This was mainly driven by a stronger increase in work-related income inflows, which grew by 18.7% in annual terms, compared with 11.8% in the previous quarter. In addition, investment income outflows declined at a slower pace, with the rate of decrease easing to 4.3% from 9.2% in the third quarter.

Chart 3 Primary income balance (net flows, in EUR million) and direct investment income (net flows, in EUR million, right)

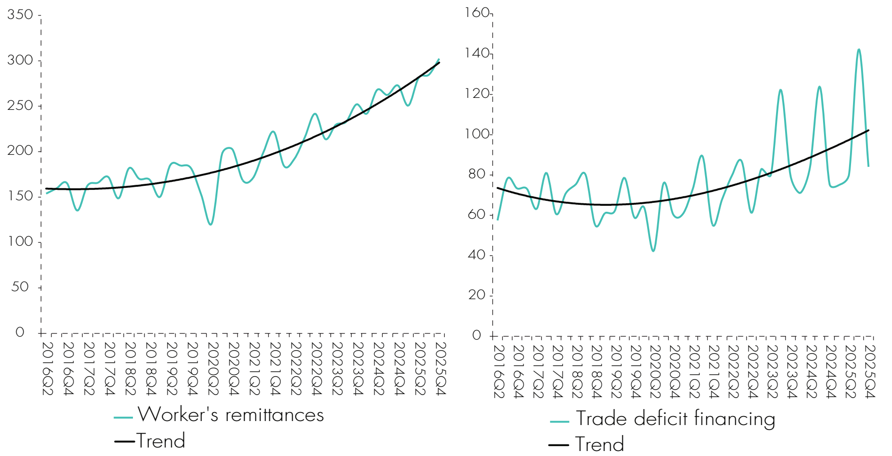


Source: Bank of Albania.

The secondary income account reflected an accelerated growth of remittances which reached EUR 302.3 million. The annual growth rate of remittance inflows accelerated to 10.8% in the fourth quarter, up from 8.5% in the previous quarter (Chart 4, left panel). This development was supported, in part, by the country's participation in the Single Euro Payments Area (SEPA) since October 2025, by reducing the cost of cross-border transfers and facilitating the remittance flows.

The coverage ratio of the trade deficit in goods by the combined surplus in services and the primary and secondary income accounts is estimated at 84.0%. This ratio is around 11.1% higher compared with the corresponding quarter of the previous year, reflecting higher foreign exchange inflows during this period (Chart 4, right).

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.

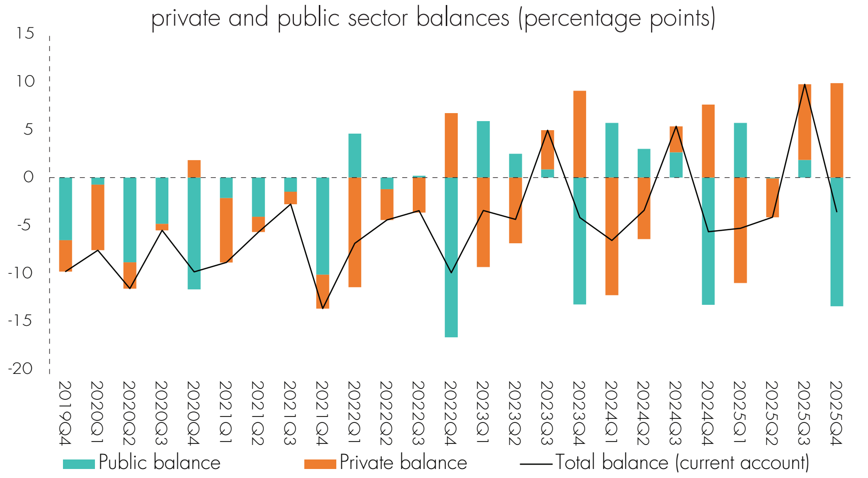
BOX: DEVELOPMENTS IN NATIONAL SAVINGS AND INVESTMENTS

In 2025 Q4, the current account deficit was assessed at 3.6% of GDP, down by around 2.1 percentage points compared to the same quarter last year. From the perspective of national savings and investments, this development reflected a strengthening of the private sector balance, driven by higher private savings. By contrast, developments in the public sector balance exerted a moderated offsetting effect, widening slightly by 0.2 percentage points.

The savings-investment balance of private sector is estimated at 9.9% of GDP, improving by 2.2 percentage points compared with a year earlier. This improvement was attributable to an increase in private savings of around 2.5 percentage points, while the rise in private investment, by 0.2 percentage points of GDP, offset the improvement in the private sector balance. In the quarter under review, private savings and private investment are estimated at 27.9% and 18.1% of GDP, respectively.

The savings-investment balance of the public sector is estimated at -13.4% of GDP, expanding by 0.2 percentage points compared with the previous year. Public savings reduced by 0.1 percentage points of GDP, while public investment were up by 0.1 percentage point, contributing to the expansion of the public sector balance. In the quarter under review, public savings are estimated at -1.8% of GDP, while public investments are estimated at 11.6% of GDP.

Chart 1 BI Contributions to the annual change in the current account balance: private and public sector balances (percentage points)



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

Table 1 B1 National savings and investments (in % of GDP).

C	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	Δ* in p.p
Public savings	-0.4	7.2	6.8	6.7	-1.8	7.4	4.2	6.6	-1.8	-0.1
Private investment	25.8	7.4	12.7	22.2	25.5	8.4	14.3	26.3	27.9	2.5
Public investment	12.8	1.5	3.8	4.1	11.5	1.7	4.3	4.7	11.6	0.1
Private investment	16.7	19.7	19.1	19.5	17.8	19.4	18.3	18.4	18.1	0.2
Public balance	-13.2	5.7	3.0	2.6	-13.3	5.7	-0.1	1.8	-13.4	-0.2
Private balance	9.1	-12.3	-6.4	2.7	7.6	-11.0	-4.0	7.9	9.9	2.2
Total Balance (current account)	-4.2	-6.6	-3.4	5.4	-5.7	-5.3	-4.1	9.7	-3.6	2.1

Source: Bank of Albania, Ministry of Finance and Economy, INSTAT and author 's calculations.
*Δ *: indicates the annual change of 2025 Q4, in percentage points.*

III. CAPITAL ACCOUNT

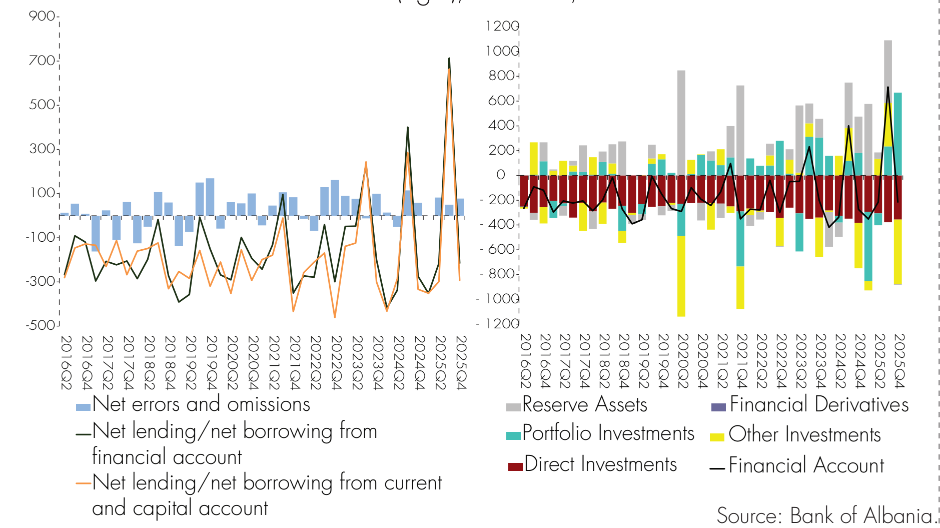
The capital account recorded a deficit of EUR 38.5 million in the quarter under review, differently from the surplus of EUR 43.7 million recorded in the same quarter of the previous year. This development reflected a decline in capital transfer inflows to both the public and private sectors, together with an increase in capital transfer outflows from the private sector. In the quarter under review, capital transfer inflows amounted to EUR 181.8 million, while capital transfer outflows reached EUR 219.8 million.

In 2025 Q4, the Albanian economy recorded a net borrowing position of EUR 292.7 million, representing a narrowing of 12.1%, resulting from the combined deficit in the current and capital accounts. Net borrowing amounted to 4.1% of GDP, around 0.9 percentage points lower than in the corresponding period a year earlier.

IV. FINANCIAL ACCOUNT

The financial account recorded net inflows of EUR 214.8 million in the quarter under review, representing a decrease of 21.7% compared with the previous year (Chart 5, left). Net borrowing measured through the financial account was lower than that implied by the combined current and capital account balance by around EUR 77.9 million. This discrepancy is reflected in the "Errors and omissions" item (Chart 5, left). In 2025 Q4, net inflows were driven by foreign direct investment, other investment, and reserve assets, while portfolio investment recorded net outflows (Chart 5, right).

Chart 5 Financial account and errors and omissions (left) and components of financial account (right), net flows, in EUR million



Source: Bank of Albania.

Foreign direct investment (FDI) inflows increased to EUR 426.5 million in the quarter under review, up by 0.9% The growth rate decelerated relative to the 10.4% increase recorded in the preceding quarter, reflecting slower inflows of new equity capital and a decline in reinvested earnings. In this quarter, the main sectors that contributed to the increase in FDI inflows were "Real estate activities", "Construction", and "Electricity, gas and water supply". In contrast, other sectors recorded a decline in FDI inflows in annual terms. In net terms, FDIs decreased by 6.7%, reflecting an expansion of residents' foreign direct investment abroad.

Portfolio investment recorded a marked increase in net outflows, driven by both higher asset acquisitions and a reduction in liabilities. Outflows amounted to EUR 668.5 million, of which EUR 373.3 million corresponded to the banking sector's investment in non-resident debt securities, while EUR 295.1 million were mainly related to repayments of general government liabilities under debt securities (Eurobond), in turn contributing to a decline in Albania's gross external debt stock.

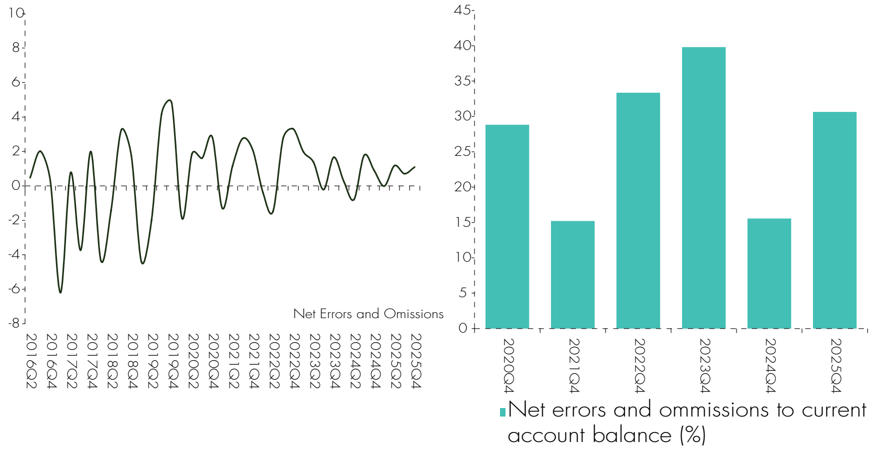
In contrast to the net outflows observed in portfolio investment, other investment recorded net inflows of EUR 521 million. This outcome reflected a reduction in assets of EUR 290.5 million, alongside an increase in liabilities of EUR 230.5 million. The decline in assets was concentrated in currency and deposits and largely reflected a reallocation into debt instruments, which are classified under portfolio investment. The increase in liabilities was primarily driven by loans to the general government and the banking sector.

In the period under review, the overall balance of payments resulted in a slight decrease in reserve assets of EUR 6.1 million. At the end of 2025 Q4, the stock of foreign exchange reserves amounted to approximately EUR 7.3 billion. This level was sufficient to cover around 7.6 months of imports of goods and services, or approximately 301% of the gross short-term external debt stock[1]. Both ratios remain above the minimum reserve requirements established by the Bank of Albania, providing robust protection for the domestic economy to withstand potential external shocks.

The "Net errors and omissions" item, which balances the borrowing level estimated through the financial account against the current and capital accounts, resulted in an inflow of EUR 77.9 million, at 1.1% of GDP (Chart 6, left).

[1] *Short-term debt stock includes General Government debt on a remaining-maturity basis.*

Chart 6 Errors and omissions to nominal GDP (%, left) and to current account deficit (%, right)



Source: Bank of Albania, INSTAT.

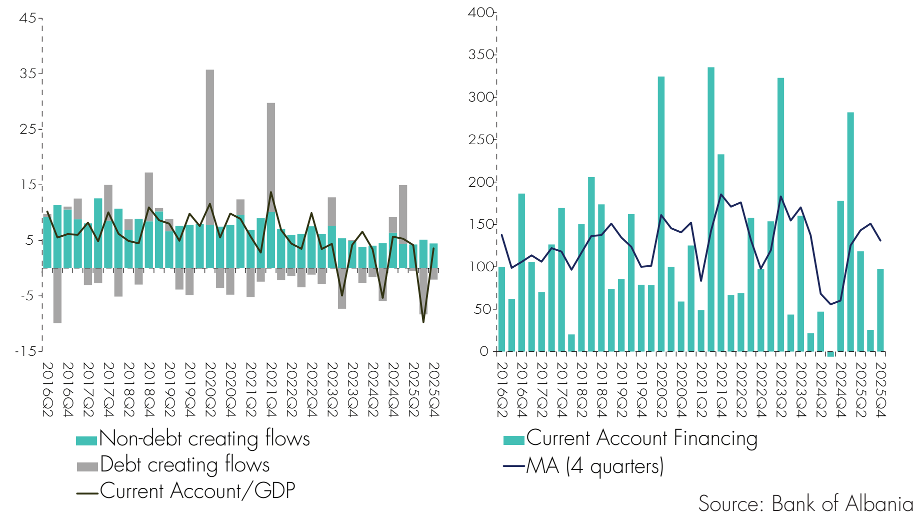
V. PROFILE OF CURRENT DEFICIT FINANCING

The profile of current account deficit financing allows for the classification of financing flows into debt-creating and non-debt-creating flows. Non-debt-creating flows, primarily in the form of foreign direct investment, are considered the most stable component of deficit financing, as they represent long-term commitments to the domestic economy and contribute to the expansion of productive capacity. In contrast, debt-creating flows, which include portfolio investment (equity and debt securities) and other investment (such as loans and deposits), are more volatile and sensitive to international financial market conditions.

In the fourth quarter of 2025, the current account deficit was financed primarily through non-debt-creating flows, while debt-creating flows recorded a net outflow (Chart 7, left). Non-debt-creating flows were estimated at around 4.5% of GDP, up by 2.4 percentage points compared with the same quarter of the previous year. In contrast, net debt-creating flows recorded an outflow of 2.1% of GDP, compared with a net inflow of 2.8% of GDP a year earlier (Chart 7, left).

The ratio of current account deficit financing covered by net foreign currency flows—including debt-creating and non-debt-creating flows, as well as errors and omissions—was estimated at 97.6%, implying that the remaining deficit was financed using reserve assets (Chart 7, right).

Chart 7 Financial debt-creating and non-debt creating flows (to nominal GDP (left) and the financing of current account deficit (right)



Source: Bank of Albania.

Table 2 Balance of payments indicators (in EUR million)

	2022 Q2	2022 Q3	2024 Q4	2024 Q1	25' Q4	25' Q4	25' Q4
Current account (in EUR million)	-220.7	346.2	-376.7	-316.3	-289.9	681.8	-254.2
y-o-y (%)	-9.3	21.9	50.9	-11.5	31.3	96.9	-32.5
/GDP (%)	-3.4	5.4	-5.7	-5.3	-4.1	9.7	-3.6
Goods and services	-490.8	40.6	-660.1	-577.8	-590.3	307.2	-625.6
y-o-y (%)	3.5	28.2	35.7	-4.8	20.3	655.8	-5.2
Exports, f.o.b.	2227.0	2995.3	2111.6	1891.9	2285.3	3497.5	2365.6
y-o-y (%)	17.1	11.1	2.9	7.8	2.6	16.8	12.0
Imports, f.o.b.	2717.7	2954.6	2771.8	2469.7	2875.7	3190.3	2991.2
y-o-y (%)	14.4	10.9	9.2	4.6	5.8	8.0	7.9
Net Travel	472.8	1028.5	523.4	295.3	502.5	1317.7	568.8
Primary income	-68.4	-24.2	-53.2	-40.6	-41.9	21.3	10.5
Credit	240.9	264.2	235.8	228.9	259.1	285.2	285.6
Debit	309.3	288.4	289.0	269.4	301.0	263.9	275.1
Net income from Direct Investments	-178.6	-210.5	-217.8	-197.9	-193.4	-193.1	-201.4
Secondary income	338.4	329.7	336.6	302.1	342.3	353.4	360.8
Credit	386.9	382.1	394.1	357.5	399.1	411.9	420.7
Debit	48.5	52.3	57.5	55.4	56.8	58.5	59.8
Net Remittances	268.0	262.4	272.8	250.7	281.1	284.7	302.3
y-o-y (%)	16.8	12.7	8.2	3.6	4.9	8.5	10.8
Capital account	-65.2	-60.1	43.7	-35.0	-8.1	-17.8	-38.5
Net borrowing/net lending	-286.0	286.1	-333.0	-351.3	-298.0	664.0	-292.7
Financial Account	-337.3	400.7	-274.4	-351.7	-215.6	713.6	-214.8
y-o-y (%)	607.4	73.1	37.2	-15.8	-36.1	78.1	-21.7
/GDP (%)	-5.2	6.2	-4.1	-5.9	-3.1	10.2	-3.0
Direct investments	-326.8	-348.6	-382.0	-293.2	-305.6	-377.1	-356.3
y-o-y (%)	6.8	-0.1	12.3	3.7	-6.5	8.2	-6.7
Portfolio investments	-52.8	118.2	181.8	-561.0	-96.0	234.6	668.5
Financial derivatives	3.0	4.0	5.0	6.0	7.0	8.0	9.0
Other investments	159.1	264.0	-367.6	-73.9	133.1	349.0	-521.0
Reserve assets	-116.8	367.2	293.4	576.4	52.9	507.0	-6.1
Errors and omissions	-51.3	114.6	58.6	-0.4	82.4	49.5	77.9

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