

Bank of Albania

ANALYSIS OF DEVELOPMENTS IN THE EXTERNAL SECTOR OF THE ECONOMY

2024 Q3

Krista Kozmai

Monetary Policy Department, Bank of Albania

JANUARY 2025

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

I. BALANCE OF PAYMENTS HIGHLIGHTS

The Balance of Payments showed positive surpluses in the current account and the trade balance during the third quarter of 2024.

The current account recorded a surplus of EUR 349.9 million¹, slightly down by 1.3% compared to the same period in the previous year. It is estimated at 5.4% of GDP, or around 0.7 percentage points lower than the same quarter last year. The increase in the imports of goods drove the narrowing of the current account surplus.

The annual growth of total exports was 8.2% in the quarter under review, a slower rate compared to the previous quarter (16.5%). This performance reflected a 2.9% contraction in the exports of goods, as well as a slower growth in the export of services (10.2% compared to 17% in the previous quarter).

Total imports expanded by 10.9%, a slightly lower rate than the previous quarter. The slowdown in the growth of imports of services (5.3% compared to 19.8% in the previous quarter) was the main driver of this performance, while the growth in the imports of goods appears stable at 14.5%.

The total trade surplus decreased by around EUR 62.6 million, due to the strong impact of increased imports of goods. A quarter ago, the trade balance showed deficit values, expanded by 5.8% in annual terms. The trade surplus stands at 0.6% of GDP, narrowed by 1.2 percentage points compared to the same quarter in the previous year.

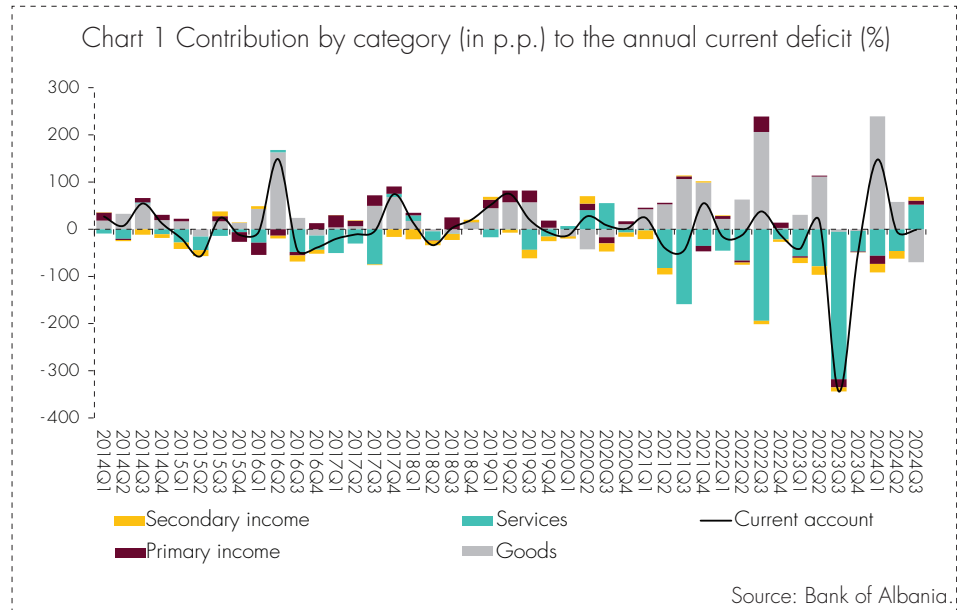
The primary income account recorded a deficit of EUR 21.1 million, considerably narrowing compared to the previous year. For several quarters, the primary income account has consistently shown declining deficits, as a result of the rapid growth in work-related income inflows, compared to the growth of investment income outflows. The positive surplus in secondary income expanded by 9%, as remittances went up by 12.7%.

In the financial account net outflows amounted to EUR 401.1 million. Direct investment inflows grew at a slower pace, while portfolio and other investments showed an increase in assets and a decrease in liabilities. Reserve assets grew by EUR 367.2 million. Their stock at the end of the third quarter of 2024 is estimated to be sufficient to cover 6.7 months of imports of goods and services or 339% of gross short-term 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 balance recorded a surplus of EUR 349.9 million in the third quarter of 2024, slightly decreasing by 1.3% compared to the previous year. The surplus is assessed at 5.4% of GDP or about 0.7 percentage points lower than in the same quarter of the previous year. Increased tourism export flows have led to the current account surplus during this quarter, while the increase in the imports of goods has had an opposite effect.



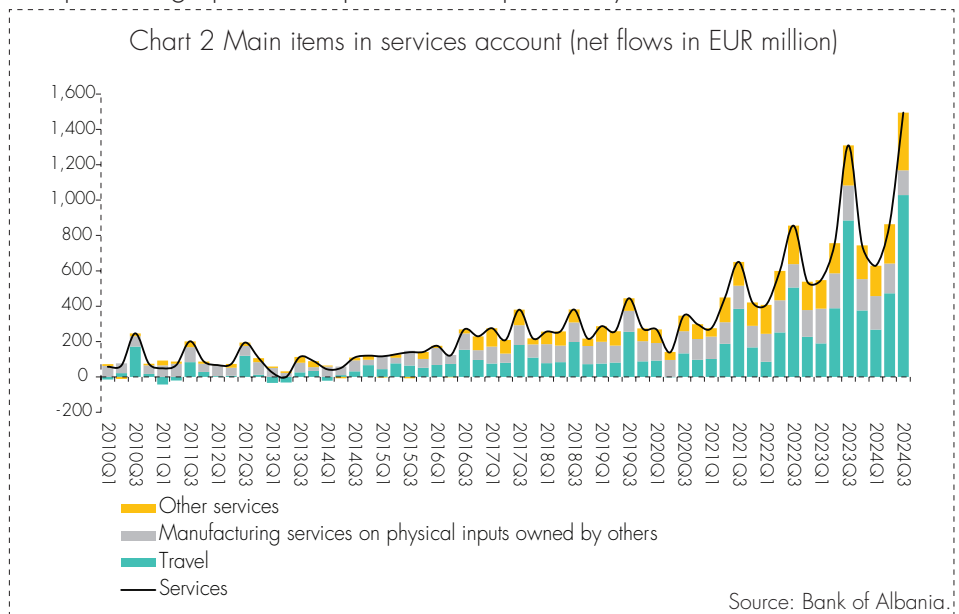
Total exports grew by 8.2% in annual terms, a slower rate compared to the previous quarter, where the value stood at 16.5%. The fall by 2.9% in the exports of goods due to the reduction in the exports of the “Minerals, fuels, and electricity” category, was the key factor backing this trend.

On the other hand, exports of services continued to grow, reaching 10.2% in the quarter under review. The expansion in the export of services was primarily driven by a 14.8% annual increase in tourism services inflows, a slower growth compared with the previous quarter (24.7%), but still significant given the high base effect from last year. Additionally, exports in transport services, continued to grow impacted by developments in the tourism sector, reaching EUR 308 million in this quarter, up by 14.2% in annual terms.

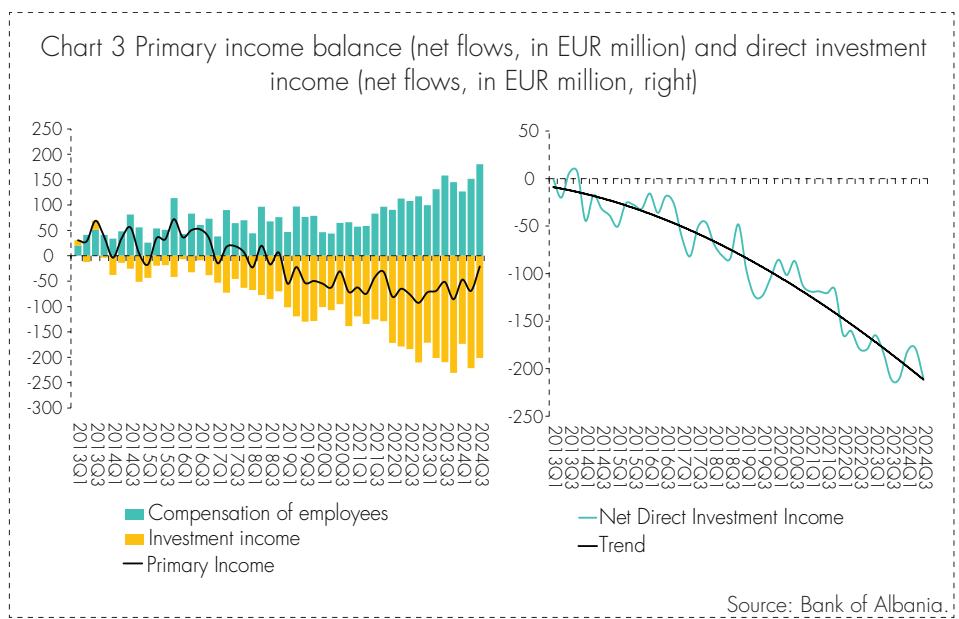
Total imports grew by 10.9% during 2024 Q3, remaining at similar levels to those in the previous quarter (14.4%). The increase in the imports of goods by 14.5% and a rise by 5.3% in import of services were the main drivers to this growth. Imports in service grew at a slower pace compared to the previous quarter which was 19.8%. The main driver of this trend was the slower growth tourism outflows, which increased by 13.2% this quarter (compared to 26.8% in the previous quarter). A significant impact also came from the decline by 17.4% in the imports of transport services which contracted for the second

quarter in row. Meanwhile, the increase in imports of goods was driven by imports of “Machinery, equipment, and spare parts”, and was supported by a continuous expansion in the quantities of other categories of goods.

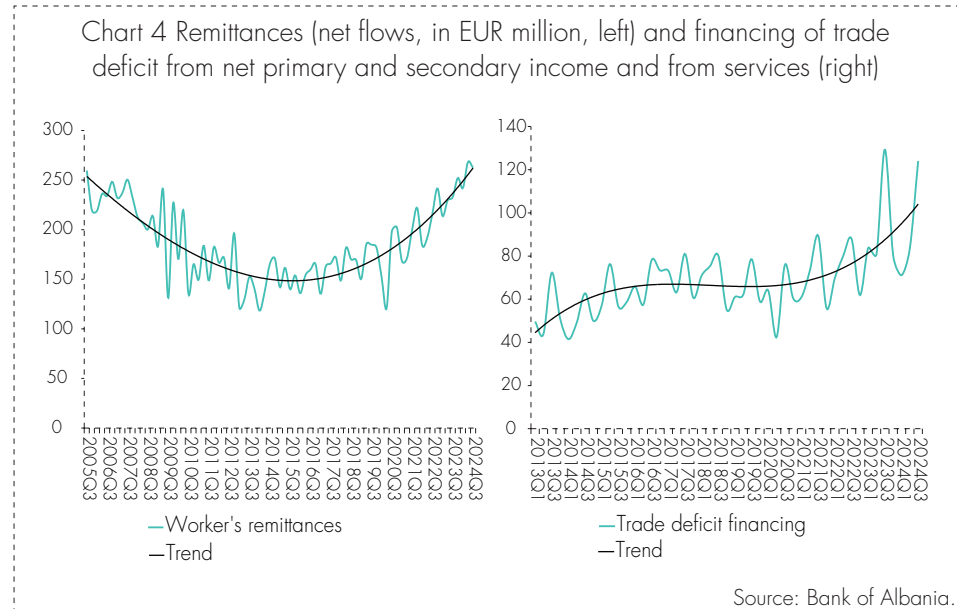
The trade balance in goods and services has resulted in a surplus of EUR 39.8 million, down by EUR 62.6 million, due to declining exports of goods and rising of total imports. The surplus is assessed at 0.6% of GDP, down by 1.2 percentage point, compared to the previous year.



Primary income recorded a low deficit of EUR 21.1 million in the third quarter of this year, down by 59% in annual terms. For several consecutive quarters, the primary account has shown declining deficits, as a result of the rapid growth of work-related income inflows compared to the growth of the investment income outflows. On the other hand, income inflows from investments edged up, thereby providing additional contributions to the reduction of the primary income account deficit.



The surplus of the secondary income account expanded by around 10%, down compared with the previous quarter (13%). Remittances continue to expand (12.7%), though at a lower magnitude compared to the previous quarter (16.8%).

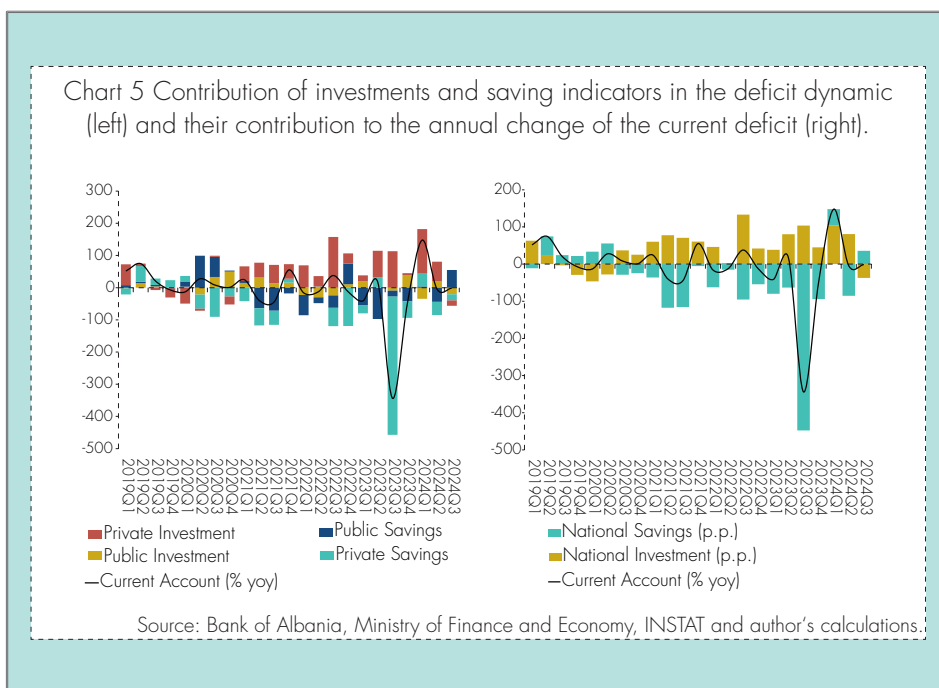


BOX: DEVELOPMENTS IN NATIONAL SAVINGS AND INVESTMENTS

The contraction in the current account balance to GDP is mainly a result of the decrease of national savings. Total savings in the economy are assessed at 27.8% of GDP, down by 1.2 percentage points. Meanwhile, the ratio of investments to GDP stands at 22.4%, down by 0.5 percentage points. As a result of the stronger impact from the decline in savings, the current balance narrowed by 0.7 percentage points as a ratio to GDP.

The savings-investment balance of the public sector was assessed at 2.6% of GDP, improved by about 1.8 percentage points. This dynamic is determined by the growth in public savings by 2.5 percentage points. Meanwhile, public investments affected the balance in the opposite direction, increasing by 0.8 percentage points. Public savings remained at 6.7% of GDP in 2024 Q3, while public investments stood at 4.1% of GDP.

The savings-investment balance of the private sector was assessed at 2.8% of GDP, decreased by 2.5 percentage points. The decline in private savings by around 3.8 percentage points mainly determined this performance by. On the other hand, private investments declined by 1.2 percentage point, causing the gap to expand. For the quarter under review, private savings stood at 21.1%, while private investments were at 18.3% of GDP.



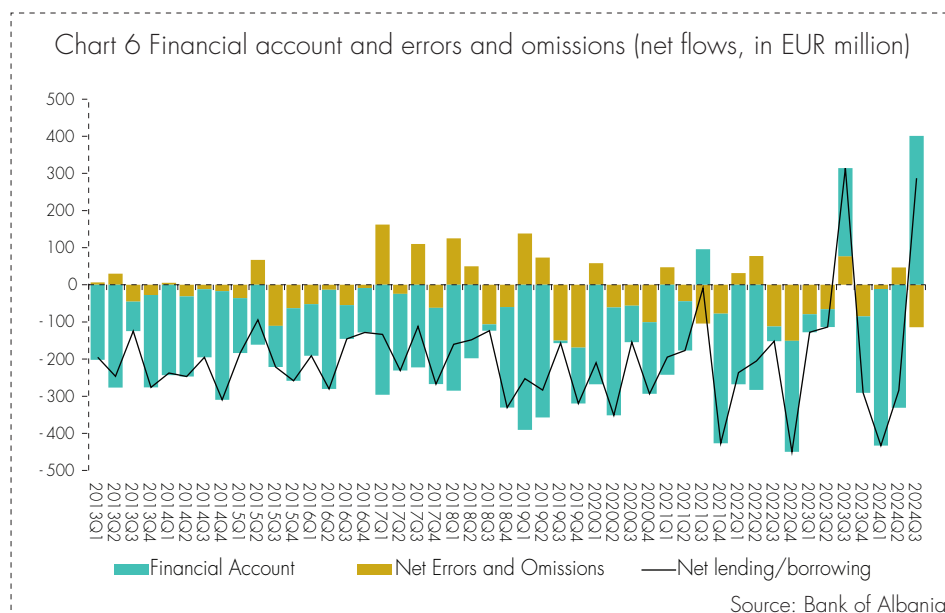
II. CAPITAL ACCOUNT

Capital account recorded a deficit of EUR 63 million, up by 2.3% compared to the previous quarter. This account has shown negative balances over the last five quarters, whereas in the past, it maintained significant positive balances. The rapid increase in private outflows, combined with the decline in both private and public inflows, has been the main driver of this trend. For the quarter under review, net capital flows in this account are assessed at -1% of GDP.

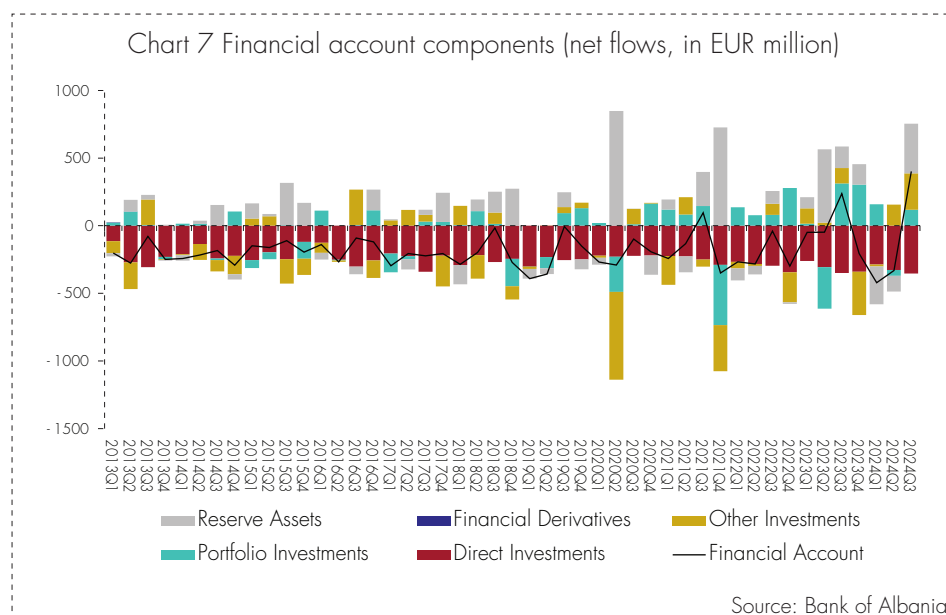
In 2024 Q3, our economy reflects a net lending position of EUR 286.9 million, 8.8% lower than in the previous year.

III. FINANCIAL ACCOUNT

The financial account recorded net outflows amounting to EUR 400.1 million, around EUR 164 million higher compared to the previous year. Direct Investment inflows were stable, increasing by 4.1% compared to the previous quarter and by 0.1% compared to the previous year. Direct investment inflows are concentrated in the sectors of "Real estate activities", "Financial and insurance activities", "Mining", and "Energy".

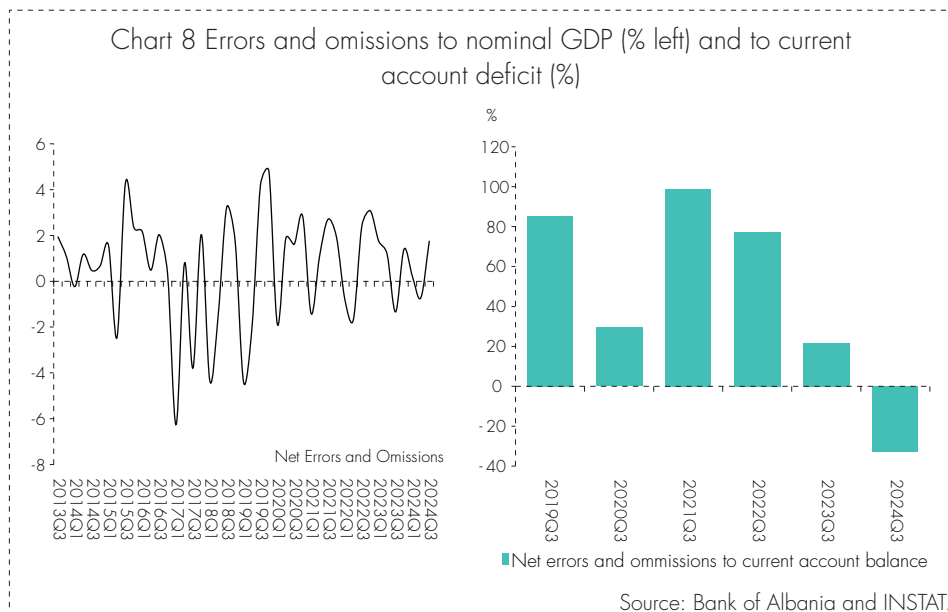


Portfolio investments reflected a growth in assets by EUR 97.9 million and a decrease in debt securities by EUR 20.3 million, resulting in a net outflow of EUR 118.2 million due to outflows only. Other investments followed a similar trend, leading to a net outflow of EUR 269.7 million. Liabilities from other investments showed a reduction in the form of loans to “General Government.”



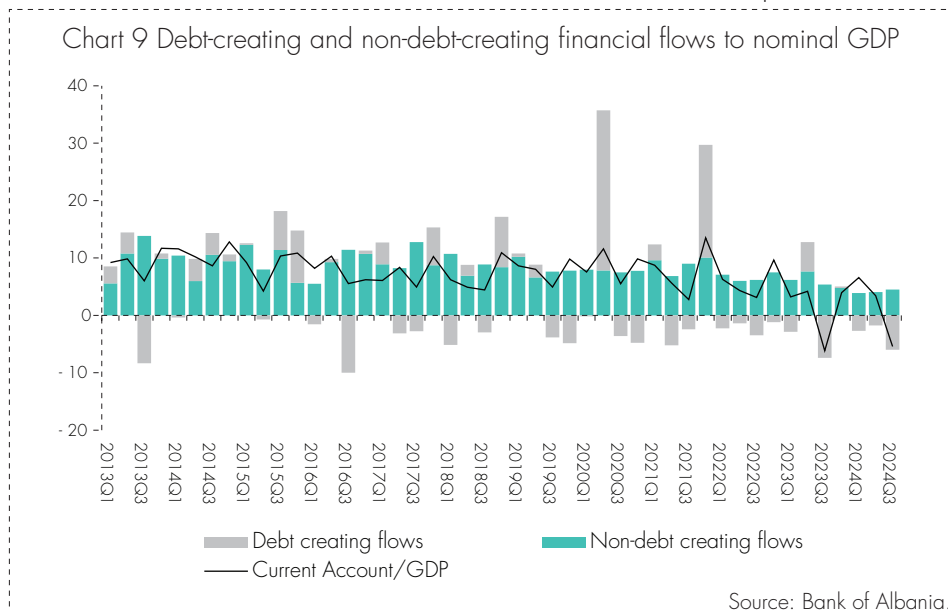
The overall balance of payments resulted in an increase of reserve assets by EUR 367.2 million. As at end of September 2024, the foreign exchange reserve stock was EUR 5.86 billion and is considered sufficient to cover 6.7 months of imports of goods and services or 339% of short-term gross external debt.² Finally, the “net errors and omissions” item resulted in an inflow of EUR 114.2 million, and was estimated at 1.8% of nominal GDP.

² Short-term debt stock used in this report includes the debt of “General Government” by remaining maturity.



IV. 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 inflows³. For the quarter under review, the current account had no financing, as it showed a surplus. Meanwhile, non-debt-creating financial flows from net direct investment and from the capital account were assessed at 4.5% of GDP, around 0.9 percentage point lower than the previous year. The debt-creating financial flows were estimated at -6% of GDP, around 1.4 percentage point lower than the previous year. Their negative ratio indicates net outflows of debt-creating flows and implies that the repayment of existing liabilities has surpassed the inflows of new borrowing, reflecting a consistent decline in the external debt-to-GDP ratio for the same period.



³ 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 investments.

Table 1 Balance of payments indicators (in EUR million)

	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3
Current account (in EUR million)	-144.3	-233.0	354.7	-241.1	-357.5	-222.5	349.9
γ-oγ (%)	-41.3	17.0	-343.9	-49.0	147.8	-4.5	-1.3
/GDP (%)	-3.2	-4.2	6.2	-4.0	-6.6	-3.4	5.4
Goods and services	-342.9	-463.6	102.4	-477.9	-607.0	-490.7	39.8
γ-oγ (%)	-16.0	16.5	-128.4	-31.8	77.0	5.8	-61.1
Exports, f.o.b.	1668.7	1911.4	2767.0	2060.7	1754.7	2226.2	2995.1
γ-oγ (%)	23.8	10.8	33.6	29.6	5.2	16.5	8.2
Imports, f.o.b.	2011.6	2375.0	2664.6	2538.6	2361.7	2716.9	2955.3
γ-oγ (%)	14.5	11.9	9.6	10.8	17.4	14.4	10.9
Net Travel	189.5	388.1	884.7	376.1	267.1	472.8	1028.5
Primary income	-72.1	-69.1	-51.5	-85.7	-47.0	-69.1	-21.1
Credit	155.4	186.0	214.8	215.2	217.9	240.8	264.2
Debit	227.5	255.1	266.3	300.8	264.9	309.9	285.3
Net income from Direct Investments	-164.6	-182.6	-211.3	-210.3	-181.7	-178.7	-210.5
Secondary income	270.7	299.7	303.8	322.5	296.5	337.4	331.2
Credit	309.7	342.2	347.7	368.4	344.2	386.8	382.5
Debit	39.0	42.4	43.8	45.9	47.8	49.4	51.3
Net Remittances	213.7	229.5	232.8	252.1	241.9	268.0	262.4
γ-oγ (%)	16.0	19.5	7.8	4.3	13.2	16.8	12.7
Capital account	16.5	119.3	-40.2	-49.8	-75.5	-61.6	-63.0
Net borrowing/net lending	-127.8	-113.7	314.5	-290.9	-433.0	-284.1	286.9
Financial Account	-48.8	-48.1	237.2	-205.8	-421.7	-330.9	401.1
γ-oγ (%)	-81.8	-83.0	-697.3	-31.1	763.3	588.2	69.1
/GDP (%)	-1.1	-0.9	4.1	-3.4	-7.8	-5.1	6.2
Direct investments	-260.4	-306.0	-349.1	-340.2	-287.3	-327.4	-353.9
γ-oγ (%)	-2.5	8.2	17.9	-1.1	10.3	7.0	1.4
Portfolio investments	15.0	-307.0	312.7	304.3	159.3	-42.8	118.2
Financial derivatives	0.0	0.0	0.0	1.0	2.0	3.0	4.0
Other investments	113.3	22.2	113.5	-320.7	-13.6	156.1	269.7
Reserve assets	83.3	542.6	160.2	150.7	-280.1	-116.8	367.2
Errors and omissions	79.0	65.6	-77.2	85.1	11.3	-46.8	114.2

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