

The Impact of Tourism on the Balance of Payments

Rakela THANO*

Department of Economics, Faculty of Economics, University of Tirana, Saranda Branch, Saranda, Albania

Abstract

Today the majority of countries are facing serious problems due to the deficit in the balance of payments. That is why the governments of these countries try to stimulate those sectors of the economy which can help in bringing foreign currency in the economy, which they need so as to reduce the negative balance of payments as much as possible. This is especially important for the developing countries, whose domestic currency is not very strong. The aim of this article is to analyze the role that tourism plays on the balance of payments in the case of Albania. To do this we will take into consideration the data regarding this activity which were taken from INSTAT and Bank of Albania and include the 2004-2013 time period. Making a quantitative comparative analysis between the balance of payments indicators and indices representing the tourism sector, the number of tourists and tourist receipts, for various years, we reached the conclusions that, in Albania, firstly, the tourist sector has a positive impact on the balance of payments and secondly, exports of services in Albania are mostly supported in tourism exports. In 2012 compared with 2005 the number of tourists has increased by 370% and receipts account "travel" have increased by 65%. As for 2013 compared with 2012 the number of tourists has been decreased by 7.4% and revenues account "travel" has been declined by 3.3%.

Keywords

Balance of Payments, Export of Tourism, Current Account, Export of Services

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1. Introduction

Tourism has a great potential and plays a very important role in reaching the main macroeconomic goals which regard economic growth, employment, sustainable economic and social development.

Usually least developed or developing countries are characterized by a shortage of reserve currency and face difficulties finding the necessary funds to buy capital goods and secure services which are necessary for their economic development. Tourism is a good alternative to improve the reserve currency. It has a positive impact on the balance of payments through the foreign currency which enters the economy. Tourism has become, on a global scale, one of the main sectors in international trade which generates income

and consequently affects positively the balance of payments.

It is considered an exporting sector which can help the improvement of the balance of payments, since international tourism represents consumption of goods and services outside of the source country of tourists. Nowak, Sali, and Cort'es-Jim'enez (2007) provide a theoretical explanation of economic growth where the main point is the import of capitals financed through tourism receipts. The fast economic growth of the developed economies attracts foreigners to visit those countries and this thing leads to an increase in reserve currency of such countries. With more and more foreign visitors coming to Albania tourist attractions are trying to maximize their profit; consequently tourism sector in Albania is trying to function along the lines of tourism industry in the world. Various efforts for the development of tourism in

* Corresponding author

E-mail address: mrkelsr@yahoo.com

Albania at the beginning of 90s met with different difficulties mainly due to the lack of necessary funds which are disproportionate to the potential the country has. Nevertheless the number of visitors to Albania kept growing and the positive impact of tourism on the development of the Albanian economy is stronger. Income from tourism indirectly increases the demand for factors of production and consequently its contribution to national income increases, transforming it into a factor of high productivity. Despite the strong competition from countries of the region, such as, Croatia, Greece, etc., the tourism sector in Albania has the potential to affect positively the economic growth. The main goal of the policy of tourism development in Albania is to benefit as much as possible from the current trend in global tourism, that is to say more tourists should come to our country and make use of our touristic attractions and while doing so more money will be spent here. Tourism sector in Albania is estimated as one of the sectors with the greatest growth especially during the second and the third quarter of the year.

2. Review of Literature

Tourism is considered as an exporting sector which can help in the improvement of the balance of payments, since international trade represents consumption of goods and services outside the source country of the tourists. Mihalić (2002) talks about some priorities of tourism as a strategy of development compared with the export of goods and traditional services. Cortés-Jiménez et al, (2009) consider exports and tourism as potential factors which affect the economic growth. The empirical studies which have been published in this field show a positive relationship between exports and economic growth. Balaguer and Cantavella-Jorda (2001) on Spain; Awokuse, T. O. (2005) on Japan; Tang, T. C. (2006) on China. Whereas Nowak, J. J. and Sahli, M. (2008) analyse the relationship which exists between exports of tourism, import of capital goods and economic growth for economies such as, Tunisia, Morocco, Turkey and Egypt, whose long –term economic growth has been strongly affected by the import of foreign capital financed through export of tourism. Exports contribute positively to the economic growth, by facilitating the restrictions of foreign exchange or by increasing efficiency through the increase in competition (Krueger 1980).

In fact, Sinclair and Bote Gómez (1996), stress the fact that an increase in tourism receipts was a distinguishing feature of the Spanish model. A special characteristic is that due to its unstoppable growth the economy benefitted greatly from it as regards the financing of capital imports, thereby aiding the process of industrialisation.

Hazari and Sgro (2004) analyse the tourism demand depending on the prices of tourism-related services and on tourists' expenditure, where income from tourism have been used exclusively to acquire foreign capital. Chen and Devereux (1999) argue that tourism might actually affect negatively the welfare of the population for import-and-taxes-dominated economies.

Júlíusdóttir. H.V. (2012) analyzes the development of tourism in Iceland and its important role in the economy. The data shows that the tourism sector is the sector with the fastest growth in Iceland. According to Ardahaey.T.F.(2011), developing countries suffer from problems such as unemployment, inflation, currency flow, etc. But through a short - and long-term strategic planning of tourism industry, the majority of these economic problems can be resolved. For Zaei and Zaei (2013), the tourism industry can play an important role in economic development in a developing country like India, helping to improve the balance of payments, as the tourism industry is the industry's second largest export of this country. Surugiu.et al (2009) using the input-output model for non-monetary indicators of tourism in Romania shows how output growth in the tourism sector generates a growing demand for inputs from other sectors of the economy and how the tourism sector can support economic growth in Romania.

3. International Tourism, a Non-Traditional Export as Part of the Balance of Payments

The balance of payments is a statement that summarizes an economy's transactions with the rest of the world for a specified time period. The balance of payments classifies these transactions in two accounts – the current account and the capital account. The current account includes transactions in goods, services, investment income and current transfers, while the capital account mainly includes transactions in financial instruments. An economy's balance of payments transactions and international investment position (IIP) together constitute its set of international accounts.

According to Samuelson (1972) the activity of export of tourism sector centers on the selling of goods and services on the part of the citizens of the host country to the international tourists. On the credit side of the "travel" item are recorded the expenses which the international tourists make for acquiring various goods and services in the host country, whereas on the debit side are recorded the expenses which the citizens of source country make for buying goods and services when they travel abroad. The net result of this

transaction represents the difference between the two sides. That is why, the evaluation of the tourism sector based on the credit or debit surplus of the “travel” item is not seen as reliable. The calculation of the net tourism receipts would yield different results, because they do not include the expenses made by the citizens of the source country, but the expenses made by the citizens of the host country regarding currency exchange which affect directly tourism receipts. This category of expenses related to currency exchange is included on the debit side of the balance of payments through the various headings except for the one related to “travel” item.

International tourism generates a series of transactions included in the current account and also in the capital account. However, these transactions are not present in an obvious way on the balance of payments. Tourism transactions affect other categories of the balance of payments. According to Βαρβαρεσος(2000) these are:

- **Goods:** This category includes on the debit side all the expenses made for the imported products which are destined to meet the tourism demands. Their partial or complete substitution with domestic products is directly related to the policy of development of a country, whereas on the credit side are included all the products which are sold to the tourists like food, souvenirs, handicrafts, etc.,
- **Services:** Usually the tourism receipts and tourism expenditure are recorded in the “travel” category. But, services, apart from travels, include also transport, receipts deriving from work and capital. Transport costs of international travel are not included in the “travel” category. Transport expenses of international tourists (domestic and foreign) from the source country to the host country are listed in the transport (national and international) account.
- **Income:** Tourism at least in the first stages of its development needs qualified personnel especially in the least developed and developing countries. The need for qualified members is constant also in the later stages; such a thing is more pronounced due to the functioning of multinational enterprises which may be of different natures either those who employ senior executives from many countries and try to make decisions from a global perspective or those which have one centralized headquarters. These needs cause considerable foreign currency expenses, which are recorded on the debit side of the balance of payments.
- **Capital movement:** Capital movements are related to the financing of tourism infrastructure and superstructure of the host countries. These payments are listed as credit in the balance, because they have to do with foreign currency

flowing into the host country which will be used to finance projects of tourism infrastructure and superstructure. Their effects are considered are long-term ones as far as their credit and debit character on the balance of payments is concerned, because their main goal is the periodic return of borrowed capital.

Thus, the “travel” item constitutes a more traditional approach to the economic analysis of tourism.

4. The Role of Tourism on the Balance of Payments in Albania

Developing countries promote and support the development of tourism, because it can transform their economies from mainly traditional agricultural economies to industries ones and thus set in motion the process of development. This transformation requires expenses for big capital investments. For many developing countries the necessary investment-related expenses are financed by the export of goods of the primary sector or the export of tourism-related services. Thus many governments of the developing countries are systematically oriented towards the development of tourism, because if their countries cannot produce certain products due to the lack of the necessary factors of production, then they can secure these products from other countries, in exchange for their products which are in demand abroad. So Albania as a developing country uses tourism-related exports to import raw material as well as machinery and equipment. By analyzing the data of tourism-related exports and of the import of machinery and equipment we see that tourism-related exports cover the import of machinery and equipment. By analysing the year 2009 (which is also the maximum value of imports and exports) with the year 2004 we notice that tourism-related exports increased 120% and the import of machinery and equipment by 72%. Whereas if we compare 2012 with 2009 we see that tourism-related exports decreased by 14%, whereas the import of machinery decreased by 6%.

Anderla (1971) emphasizes that tourism is one of the most important sectors of the balance of payments. Celik, et al (2013) analyzing the effect of tourism revenues in the balance of payments for the years 1984 to 2012 in Turkey, reaching the conclusion that tourism revenues at this period have contributed to the reduction of the balance of payments deficit by 14%. Exports are a source of foreign currency and thus a means of financing the imports of foreign capital goods which affect the growth of the level of capital. The balance of payments in the last ten years has been positive except for 2009 and 2011 where this balance was negative (-

29). In 2013 the balance of payments resulted in € + 104 million and increased by 35% compared with the previous year, whereas the deficit in the current account increased by 5.8% and the capital account increased by 7.6%. (Figure 1)



Figure 1. Balance of payments (million euro).

Source: Bank of Albania.2014

In the last ten years the number of tourists visiting Albania has increased. In 2007 compared with 2004 the number of tourists increased by 74.7%, whereas during the financial global crisis 2007-2010 the number of tourists increased by

114%. This trend did not continue in the following years because in 2010-2013 the number of tourists increased by 34.7%. (Figure 2)

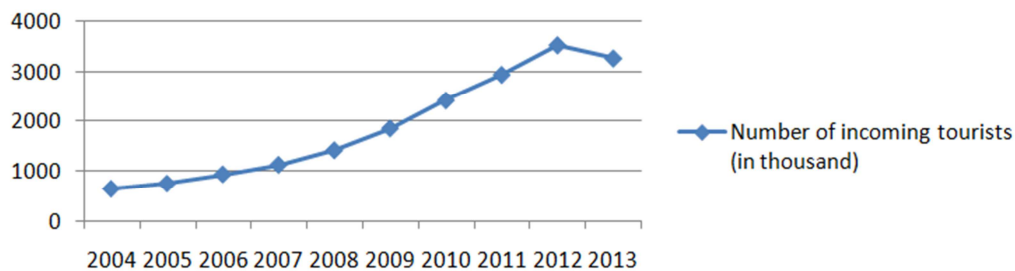


Figure 2. Number of incoming tourists (Thousand tourists).

Source: INSTAT.2014

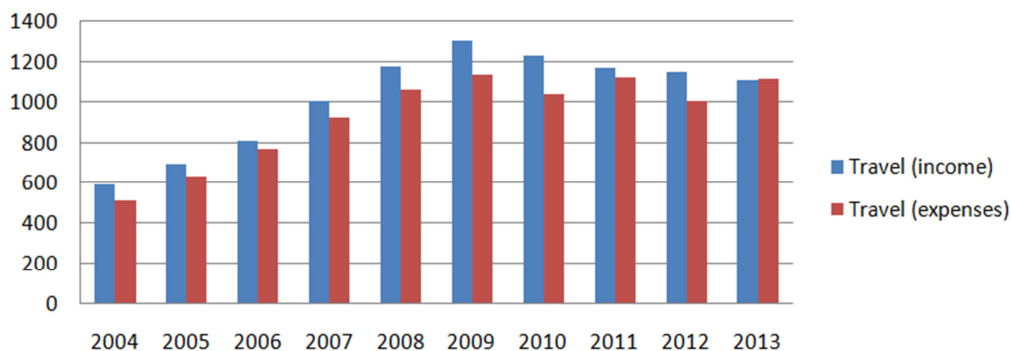


Figure 3. Travel (income, expenses in million euro).

Source: Bank of Albania.2014

The “travel” item includes expenses made by tourists in our country. These expenses for us represent income in foreign currency. Tourism-related income up to 2009 was on the increase, but after this year it decreased. In 2007 compared

with 2004 tourism-related income increased by 69%, whereas in 2010 compared with 2007 it increased by 22%. This trend did not continue in the following years where in 2013 compared with 2010 tourism-related income decreased by

10.8%. (figure 3)

The expenses which Albanians make abroad while on vacations are also included in the travel item. These expenses have been on the increase the last ten years. This shows that Albanians are more and more travelling abroad. In 2013 compared with 2004 these expenses increased by 115.7%. The result was positive for 2004-2012 as far as the travel item is concerned, whereas for 2013 it was negative € - 6 million. The highest positive result was in 2009, 2010, where income surpassed expenses by € 168 and 195 million.

Tourism is more and more transforming into one of the biggest supplier of Albanian economy. For the first time it

rose to the top of the classification as the greatest source of income for the Albanian economy in 2000. The history of the inflow of foreign currency in Albania shows the superiority of the export of tourism services over the export of goods.

From 2004 until 2012 the export of services surpassed the export of goods. The biggest such occurrence happened in 2009 with € 1020 million. In 2009 compared with 2004 the export of services increased by 119% whereas the export of goods increased by 55%. During 2009-2013, the export of services experienced a decrease of 7% whereas the export of goods increased by 134%. (Figure 4)

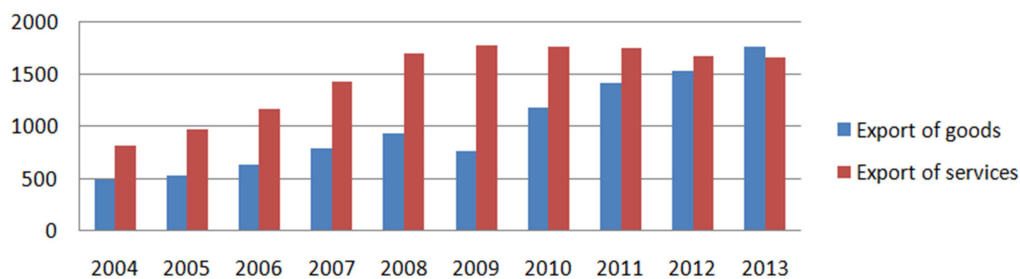


Figure 4. Exports of goods and services (million euro).

Source: Bank of Albania.2014

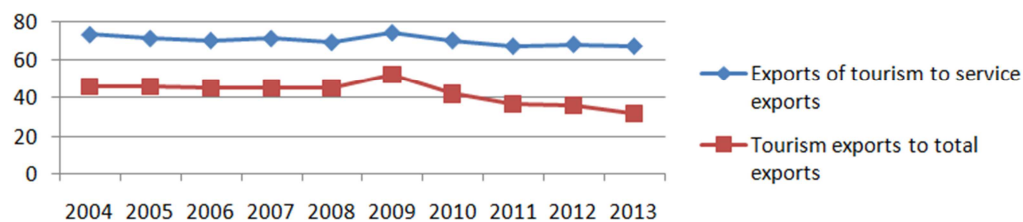


Figure 5. Tourism exports to total exports in % and tourism exports to services exports in %.

Source: Calculations of the author

The balance of services and balance of payments in the Albanian economy is based mainly on the tourism-related exports. Tourism-related exports in the last decade constituted 67%-74% of the export of services. The highest value was in 2009 with 74%. Tourism-related exports constitute 32% -52% of the total exports, where the highest value was in 2009. Up to 2012 the export of services constituted over 50% of the total exports, reaching a maximum value in 2009 with 70% of the total exports. In 2013 the export of services constituted 48.5% of the total exports, this shows that the Albanian economy for this year was mainly based on the export of goods (total exports increased whereas the export of services and tourism decreased). (Figure 5)

The increase in the export of goods mainly the minerals, fuels, electrical energy, textile and shoes gave a real boost to the total exports. Exports of these commodities for 2013

compared with 2009 grew respectively by 482% and 143%. In 2013 compared with 2012, the export of goods increased by 15%.

Tourism industry cannot be considered a major industry for the small economies since such economies have a very weak financial structure and suffer from a negative balance of payments. (Kim, S-H. and Kyo, K-H. 1998). As far as Albania is concerned even though the balance of travels results positive, in the first three years the balance of services results negative, because the value of imports outweighed the value of exports. (Figure 6)

Thus, imports represent an outflow of money which limits the positive influence of tourism-related expenses made in a tourist destination to bring foreign currency, which can be used to import capital goods in order to generate goods and services, which translate into economic growth (Balaguer, J. and Cantavella-Jordá, M. 2002).

The foreign currency acquired from international tourism in the developing countries gives them the possibility to cope with the deficit incurred on the balance of their current accounts from the high demand for imports concerning

industrial goods and raw material which cannot be procured in that country.

For Albania the export of services constitutes the main part of the foreign currency entering the current account. (Figure 7)

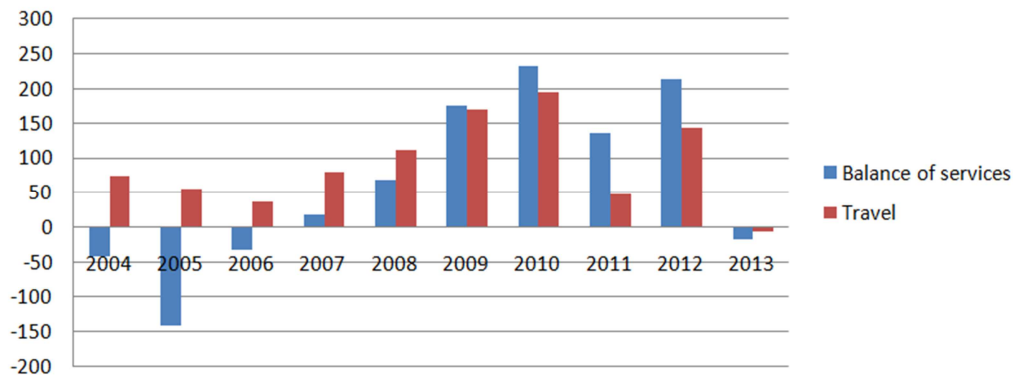


Figure 6. Balance of services and balance of travel (million euro).

Source: Bank of Albania.2014

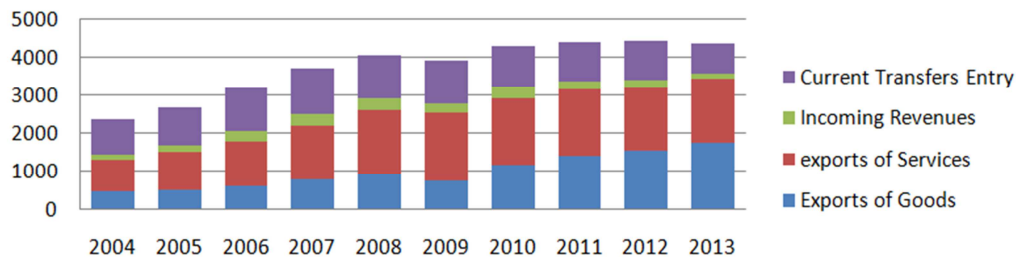


Figure 7. Revenues in the current account (million euro).

Source: Bank of Albania.2014

This percentage has been on the increase from 34% in 2004 to 46% in 2009, decreasing again to 38% in 2013 (Figure 8)

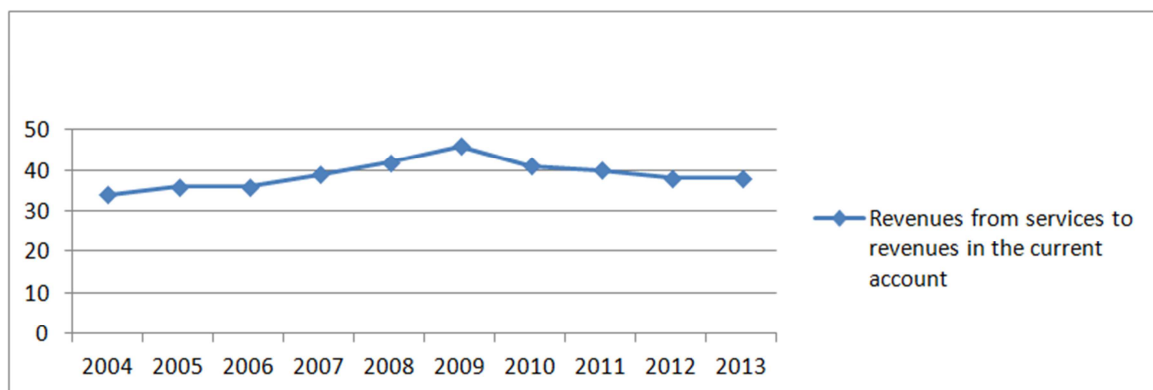


Figure 8. Revenues from services to revenues in the current account (%).

Source: Calculations of the author

Foreign currency deriving from tourism can be used to increase the import of capital goods which in turn can further boost the internal investments and consumption. (Nowak, J. J., et al. 2007; Sinclair and Gómez Bote 1996;).

In general it can be said that international tourism usually does not require high value imports for every single unit of foreign currency coming into the economies of developing countries. Thus, a large percentage of these transactions can be used for the realization of fruitful investments, whose aim

is to speed the development of industries, to further the development of agriculture, to limit the deficit of the balance of current transactions, etc.,

To the question how possible are these aims the response depends on the ability of a developing country to supply its tourism industry with domestic rather than imported factors of production, to minimize as much as possible the outflow of valuable currency which is extremely necessary to finance its economic development. (Mathieson, A. and Wall, G. 1987:45-45)

5. Conclusions

For many developing countries the necessary investment-related expenses are financed by the export of goods of the primary sector or the export of tourism-related services. In Albania the tourism-related exports cover the import of machinery and equipment.

For the year 2009 the tourism-related exports increased 120% and the import of machinery and equipment by 72%.

Albanian economy is based on the export of services and until 2012 the export of services occupied more than 50% of total exports

The positive effect of tourism on our country contributes to the solution of the problem of balance of payments. In Albania the contribution of tourism to the export of services and total exports for 2009 reached maximum value, 74% and 52% respectively.

Whereas for 2013 this contribution decreased to 67% of the export of services and 32% of the total export. The decrease in the contribution of the export of services can be explained by two main factors, first, the increase in the weight of the export of goods in this period and second the effects of the global economic crisis which brought about a drop in tourism expenditure.

The expenses which Albanians make abroad while on vacations have been on the increase the last ten years. This shows that Albanians are more and more travelling abroad. In 2013 compared with 2004 these expenses increased by 115.7%.

The result was positive for 2004-2012 as far as the travel item is concerned, whereas for 2013 it was negative € - 6 million.

Thus we can say that for the Albanian economy tourism-related exports constitute the majority of foreign currency entering the current account. Consequently tourism industry should be considered as an important sector and it should be a priority for all of us.

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