Bank of Albania

GROSS EXTERNAL DEBT ANALYSIS

2018 H1

ENIAN ÇELA
MONETARY POLICY DEPARTMENT

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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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MAIN CONCLUSIONS

- At the end of June 2018, Albania's gross external debt stock totalled EUR 8,111.4 million, up by 3.2% in annual terms. The growth of stock was mainly a result of the expansion of the stock of "general government" and "other sectors". In the second case, this has happened as a result of the increased guaranteed debt. The stock to nominal GDP ratio stood at 66.8%, around 3.4 percentage points lower compared with the previous year.

    - Broken down by sectors of the external debt stock, the general government debt accounts for around 43.4% of the total, depository corporations 17.5%, other sectors 17.3%, inter-company FDIs 21.1%, and the monetary authority 0.7%.
    - Broken down by investment instruments, loans and investments in currencies and deposits dominate the external debt stock.
    - Broken down by maturity, the external debt stock is mainly composed by long-term debt, around 80.0% to the total. This share increased by around 0.4 percentage point compared with the same period a year earlier. On the other hand, the share of short-term debt decreased.

- The external debt long-term repaying capacitiesimproved during the last quarters.

    - The ratio of gross external debt to the annual export of goods and services was assessed at 167.9%, decreasing by around 15.9 percentage points in annual terms.

- Liquidity adequacy indicators pointed to weak short-term pressures arising from the repayment of gross external debt obligations.

    - Albania's foreign exchange reserve level is sufficient to withstand potential external negative shocks. This reserve covers 6.4 months of goods and services imports and is as much as 182.6 of short-term external debt at the end of 2018 Q2.

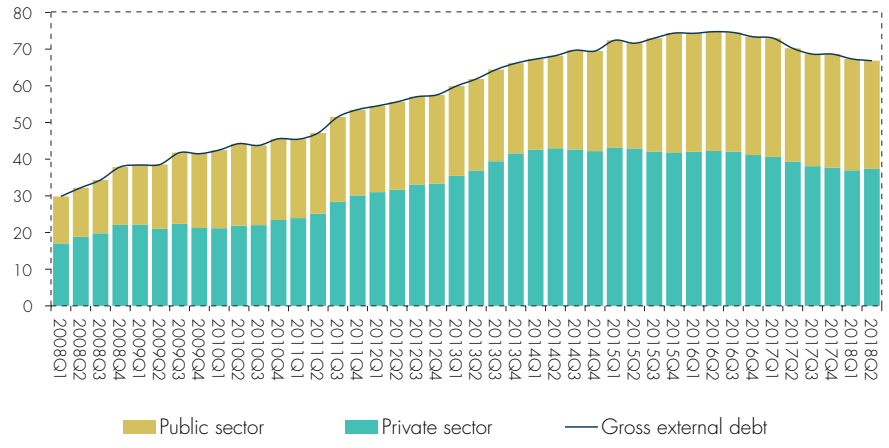
1. A DETAILED ANALYSIS OF GROSS EXTERNAL DEBT[1]

At the end of 2018 H1, Albania's gross external debt stock registered EUR 8,111.4 million, up by around 3.2% in annual terms. The growth of stock was mainly a result of the expansion of the stock of "general government" and "other sectors". Current stock is assessed at 66.8% to nominal GDP[2], a ratio around 3.4 percentage points lower compared with the same period a year earlier. The general government sector has the largest share in total external debt stock, at around 43.4%. The relevant stock increased by around 3.6% in annual terms, reaching EUR 3,521.1 million. The stock to nominal GDP ratio was assessed at 29.0%, around 1.4 percentage points lower compared with the previous year.

The gross external debt stock of depository corporations (except the central bank) amounted to around EUR 1,422.9 million, up by around 4.9% compared with the previous year. The stock was estimated at 11.7% of nominal GDP, around 0.4 percentage point lower yoy. Other sectors' external debt stock was assessed at around EUR 1,296.5 million, down by 1.5% yoy. Its share in the total external debt stock was around 16.5%, down by around 0.3 percentage point compared with the previous year.

The foreign direct investments inter-company loans registered EUR 1,709.7 million - down by around 2.4% compared with 2017 H1. The stock to nominal GDP ratio was assessed at 14.1%, around 1.6 percentage points lower compared to 2017 H1. At the end of 2018 H1, 80.0% of debt stock is estimated to be long-term debt (including FDIs) mainly in the form of loans. Short-term debt accounted for around 20.0% of the total debt stock, mainly in the form of currencies and deposits by depository corporations (except the central bank).

Chart 1 Gross external debt by sectors (% of nominal GDP)



Source: Bank of Albania.

[1] The external debt data that were applied in this analysis belong to 2018 Q2.
[2] Four-quarter moving amount of GDP.

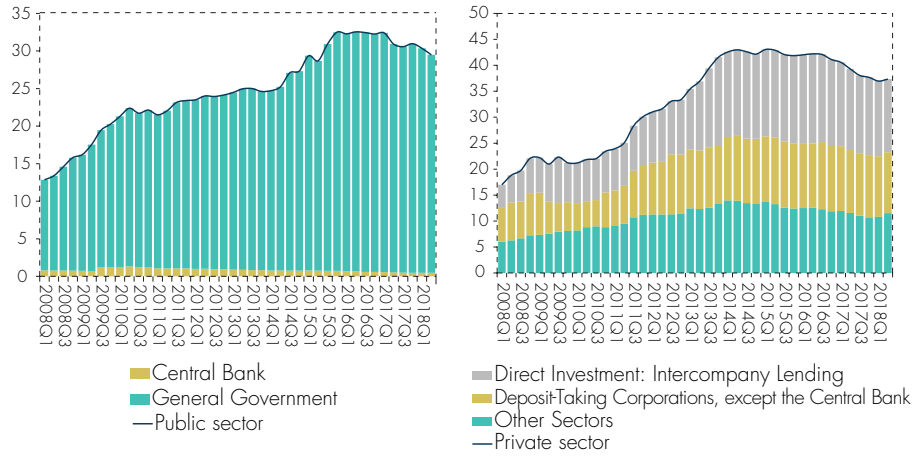
A) EXTERNAL DEBT BY SECTORS[3]

The public sector's debt stock (except of the guaranteed debt included in other sectors) increased by around 3.4% in annual terms, and contributed by 1.5 percentage points in the annual growth of the gross external debt. The general government continued to drive the expansion of debt in the public sector, whereas the central bank decreased its exposure in terms of external debt.

The private sector generated a positive contribution of 1.7 percentage points in the external debt annual growth during the period under review. The main contribution came from "other sectors" and "deposit-taking corporations".

On the other hand, the stock of "FDI-Inter-company Loans" declined compared to the previous year.

Chart 2. Disaggregated public and private sectors' debt (% of nominal GDP)

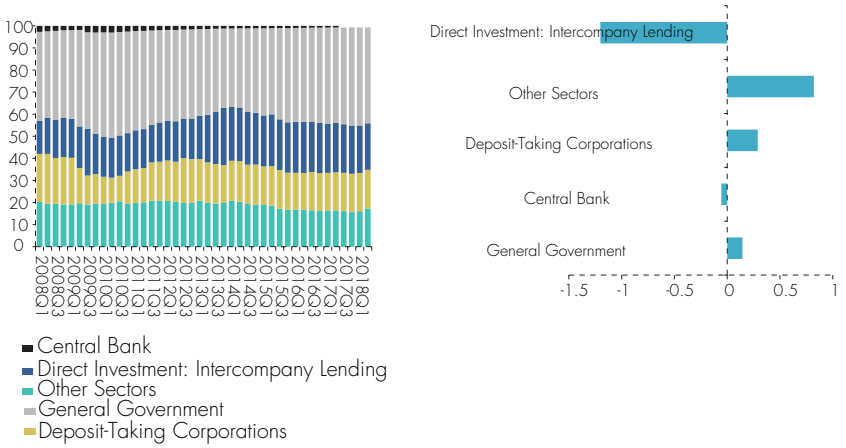


Source: Bank of Albania.

In a more detailed sector breakdown, historically the external debt stock of general government has the main share in the total debt stock. The rest of the debt stock has been allocated between: depository corporations (except the central bank) 17.3%, other sectors of the economy 16.5%, FDIs (inter-company loans) 22.3%, and the monetary authority 0.8%.

[3] According to M6BP, the sectors of the economy include: 1. general government; 2. central bank; 3. depository corporations except the central bank; 4. other sectors; 5. foreign direct investments (FDIs).

Chart 3. Share of sectors in total external debt stock (left chart); debt stock changes during 2018 Q2 against 2018 Q2 (in percentage points, right chart)



Source: Bank of Albania

B) EXTERNAL DEBT BY INSTRUMENTS USED

Broken-down by instruments used, investments in the form of other investments[4] have the main share to the total external debt stock, by around 71.6% of the total (47.8% of nominal GDP) at the end of 2018 H1. This ratio is slightly higher compared with the previous year. Long and short-term loans have the main share within this item.

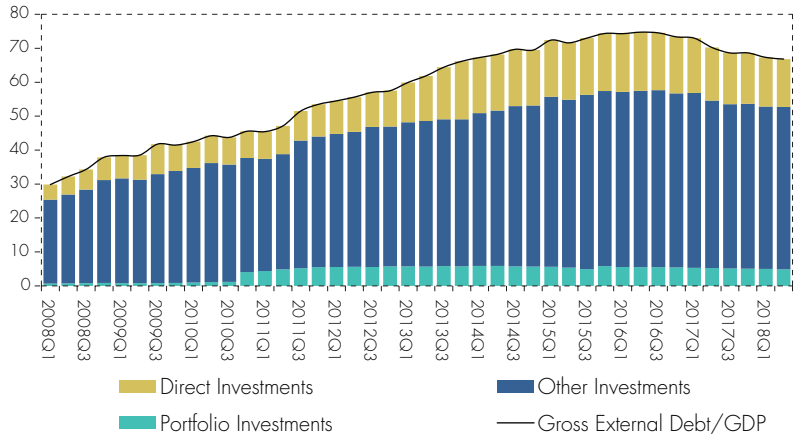
Since 2008 until the end of 2013, the share of this instrument in the total of other investments has trended down in favour of other investment instruments. During the period under review, investments in the form of short-term and long-term loans accounted for around 71.8% of the total of other investments.

Over the years, the stock of FDIs - inter-company loans showed an accelerating trend, in particular starting since 2010 Q3. The ratio later stabilised around 22-24% in 2014 and 2015. At the end of the period under review, the share of FDIs - inter-company loans to total external debt resulted around 21.1%, or around 1.2 percentage points lower compared with the previous year.

Portfolio investments accounted for around 7.3% of the total gross external debt and were assessed at around 4.9% of nominal GDP.

[4] These include: long and short-term loans, currency and deposits, trade credits and other unspecified debt liabilities.

Chart 4 Gross external debt by instruments



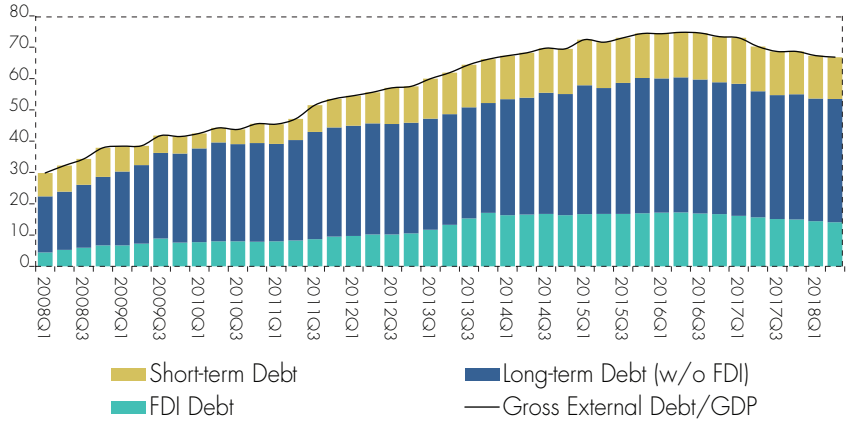
Source: Bank of Albania

C) EXTERNAL DEBT BY MATURITY

By maturity, the external debt stock is mainly composed by long-term debt (around EUR 6,491.9 million). Long-term debt (which methodologically includes FDIs) accounted for around 80.0% of the total gross external debt. Its share increased by around 0.4 percentage points in annual terms. Since 2014 Q1, the increase of long-term external debt has driven the upward trend of gross external debt.

At the end of 2018 H1, short-term debt amounted to around EUR 1,619.5 million, up by around 1.1% in annual terms. Short-term debt to total external debt stood at 20.0%, and was assessed around 13.3% of nominal GDP. Only the depository corporations sector and other sectors of the economy hold a short-term debt portfolio. These two sectors' short-term debt consists largely of currency and deposits, as well as of the instruments of trade credits.

Chart 5 Classification of debt stock by maturity (in % of nominal GDP)



Source: Bank of Albania

D) GROSS EXTERNAL DEBT SERVICE BY SECTOR

During 2018 H1, the total external debt service (principal and interest) by all sectors of the economy amounted to EUR 179.4 million, around 2.9% of nominal aggregate half-year GDP. This ratio is slightly lower compared to 2017 H1. In debt service by sector, principal payments make up the largest portion of payments.

Table 1. External debt service and new gross external debt service by sectors

		2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2
General Government	Principal payments	18.8	61.9	18.8	44.2	24.5	66.5	34.7	46.4	23.2	68.7
	Inters payments	12.5	10.5	12.1	11.7	13.0	10.6	11.8	11.6	13.9	10.9
	New debt	104.4	80.6	61.2	44.2	108.7	62.6	105.3	161.5	23.7	25.7
Private (long-term and short-term)											
	Principal payments	24.4	18.9	9.6	52.7	11.2	22.2	40.0	31.2	15.3	19.1
	Inters payments	1.5	2.5	1.3	2.0	2.2	1.7	1.6	1.7	1.6	1.8
	New debt	30.5	16.0	5.8	22.9	8.1	2.4	5.4	12.4	8.5	130.5
Banks (long-term and short-term)											
	Principal payments	11.9	9.2	23.2	11.2	21.3	11.7	17.0	5.1	9.5	12.4
	Inters payments	0.8	0.2	0.2	0.2	1.6	1.4	1.5	1.6	1.6	1.3
	New debt	7.9	6.6	37.8	18.1	13.2	20.0	10.2	21.7	27.8	34.0
External debt service		69.8	103.2	65.2	122.0	73.8	114.2	106.6	97.7	65.2	114.2
New debt in total		142.8	103.2	104.8	85.2	130.0	85.0	121.0	195.6	59.9	190.2

Source: Bank of Albania.

New debt disbursement undertaken by all the economy during 2018 H1 amounted to EUR 250.2 million. The debt of other sectors dominated the debt disbursements, accounting for around 55.8% of the total new disbursed debt. They are followed by "deposit taking corporates" by about 24.7% of the total and after that by the "general government" with 19.8% of the total.

2. EXTERNAL DEBT SUSTAINABILITY INDICATORS

The monitoring of the gross external debt sustainability over time, is based on two categories: (a) indicators that measure a country's continuous and uninterrupted repayment capacity to its international lenders; and (b) indicators that measure the adequacy of liquidity in case of obligation to repay short-term liabilities.

Table 2. Indicators of repayment capacity and indicators of the adequacy of liquidity over the years.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018Q2
Repayment capacity indicators											
Gross external debt/Exports (goods and services)	128.2	142.4	140.3	157.3	172.4	190.9	197.4	216.5	203.5	174.4	167.9
Gross external debt/Fiscal revenues	140.6	158.7	174.0	210.5	232.2	273.0	264.4	281.3	266.0	247.8	245.3
Central government gross external debt/Fiscal revenues	55.8	72.7	80.0	87.9	93.7	98.2	101.1	120.1	114.8	110.0	106.5
Liquidity adequacy indicators											
Short-term external debt to total	24.5	13.2	13.6	17.0	20.2	21.1	20.7	19.1	19.8	19.9	20.0
Exports (goods and services)/Short-term external debt	318.5	533.6	524.5	373.1	287.0	248.1	244.2	242.4	248.2	288.3	298.3
International reserves/Short Term external debt	205.2	348.3	342.0	226.3	177.0	149.9	153.8	199.2	188.7	189.5	182.6
Net external debt/GDP	11.9	12.1	11.7	19.0	19.5	25.6	26.7	25.0	22.0	20.0	19.2
Net external debt/Exports (goods and services)	40.3	41.5	36.1	56.0	58.5	73.8	76.0	72.8	61.0	50.9	48.2
External debt service/Exports (goods and services)*	3.9	5.3	11.9	7.0	8.9	8.5	9.7	10.6	9.4	8.7	9.7
External debt service/New debt disbursements*	30.8	49.0	187.1	66.0	91.3	102.7	65.6	67.4	88.6	82.9	60.1

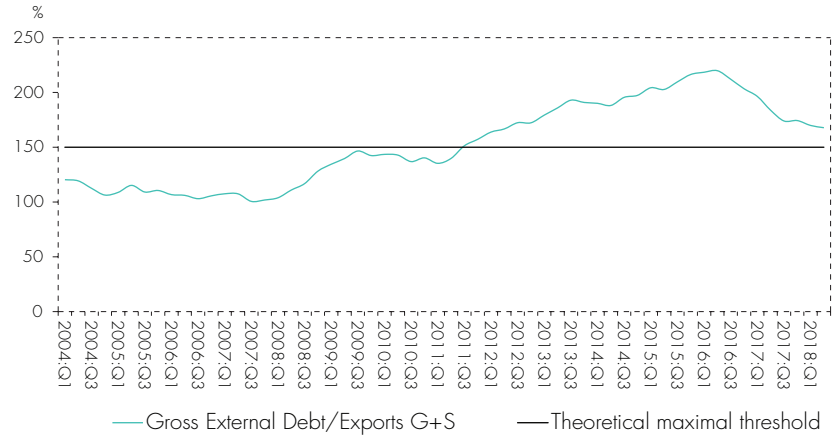
Source: Bank of Albania, Ministry of Finance and Economy.
* Annual cumulative average

A) INDICATORS OF REPAYMENT CAPACITY

The export of goods and services represents a direct and continuous source of foreign currency inflows into an economy. The ratio that combines the latter with the gross external debt in foreign currency helps to analyse the long-term repayment capacity and potentiality of a country. The deterioration of this indicator signals a reduction of the long-term repayment capacity of a country.

The gross external debt indicator against the export of goods and services has reflected an improving trend since 2016 Q3. In the end of 2018 Q2, this indicator stood at around 167.9%, down by 15.9 percentage points in annual terms. Notwithstanding this significant improvement, the index is still slightly over the theoretical maximal threshold of 150%.[5]

Chart 6 Gross external debt to exports of goods and services



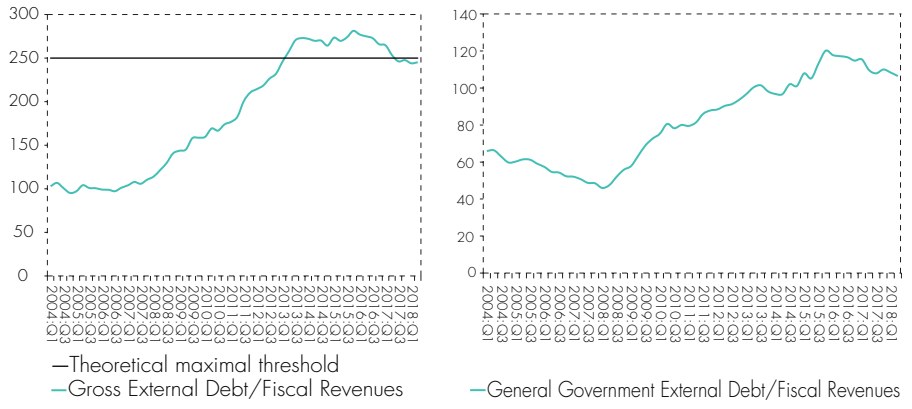
Source: Bank of Albania

Fiscal revenues flow helps to construct the two other indicators that measure the country's solvency. The flows should be sufficient to cover a certain ratio of the external debt and the central government's external debt stock. The first indicator monitors the space that the central government has to avoid the loss of the country confidence among foreign investors during crises. The second indicator monitors the risk that fiscal revenue can be allocated from public expenses in funds for the amortisation of the external public debt. The ratio of gross external debt to fiscal revenues is estimated at 245.3%[6]. This indicator contracted by 8.2 percentage points compared with a year earlier. The indicator of central government's gross external debt to fiscal revenues registered a similar dynamic. The registered ratio of 106.5% resulted around 3.2 percentage points lower compared with the previous year.

5 IMF (2003), "External Debt Statistics: Guide for Compilers and Users", International Monetary Fund, Washington D.C. The maximal theoretical threshold changes according to the institutional development of a country.

6 Quarterly fiscal revenues have been annualised through a four-quarter moving sum.

Chart 7 Gross external debt (left) and central government's gross external debt (right) against fiscal revenues as annual flow.

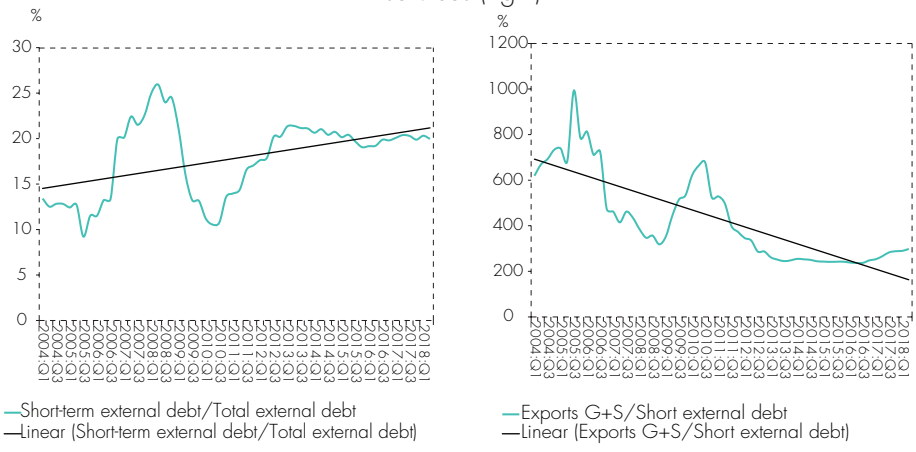


Source: Bank of Albania, Ministry of Finance and Economy.

B) LIQUIDITY ADEQUACY INDICATORS

An economy's liquidity adequacy, which serves to repay external debt obligations, is affected by the reliance on short-term external financing. Albania's external financing profile has been mainly oriented towards long-term debt. The annual inflows from the exports of goods and services[7] managed to cover entirely the short-term external debt. The ratio between the export of goods and services and the short-term external debt showed a continuous upward trend. Their ratio was estimated at 298.3% at the end of 2018 H1, or around 31.5 percentage points higher compared with the previous year. The registered ratio evidences the availability of regular foreign currency inflows in covering the short-term external debt.

Chart 8 Short-term gross external debt to the total (left) and exports of goods and services (right)



Source: Bank of Albania.

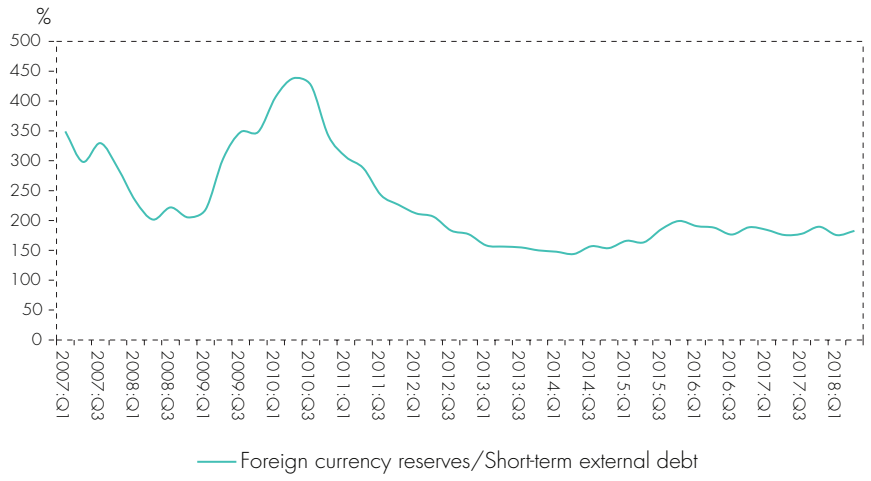
[7] Stated through a four-quarter moving amount.

Another important indicator is the level of hedging of the stock of short-term external debt by the stocks of the foreign exchange reserves. In the conditions of an imperfect access to international capital markets, the foreign exchange reserves may help cover short-term external debt obligations in cases of unexpected economic shocks.

Albania's foreign exchange reserve stock is sufficient to cover the short-term external debt. The critical threshold of this indicator is 100%, and ratios below this threshold provide evidence of insufficient foreign exchange reserve stock[8]. Since 2015 Q1, this indicator expanded at an accelerated annual pace due to higher foreign exchange assets. At the end of 2018 H2, the foreign exchange reserve stock covered around 182.6% of the short-term external debt[9].

Net external debt helps in monitoring short-term pressures as a result of

Chart 9 Foreign exchange reserve stock to short-term gross external debt



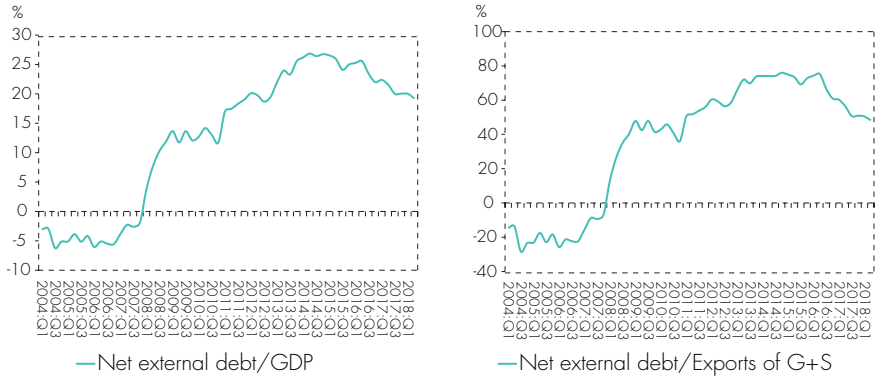
Source: Bank of Albania

expectable obligations within the year. The cumulative amount of banks' foreign assets and foreign exchange reserves is subtracted from the gross external debt. At the end of 2018 H1, net external debt-to-nominal GDP ratio was assessed at 19.2%, around 2.3 percentage points lower compared with the previous year. The indicator of net external debt to the export of goods and services was assessed at 48.2% as at the end of the first half of the year, decreasing by around 8.2 percentage points in annual terms.

[8] According to Guidotti–Greenspan rule. For more information: IMF, "Assessing reserve adequacy", 2011.

[9] Short-term debt stock does not include debt by the remaining maturity.

Chart 10 Net external debt to nominal GDP (left) and to exports of goods and services (right)

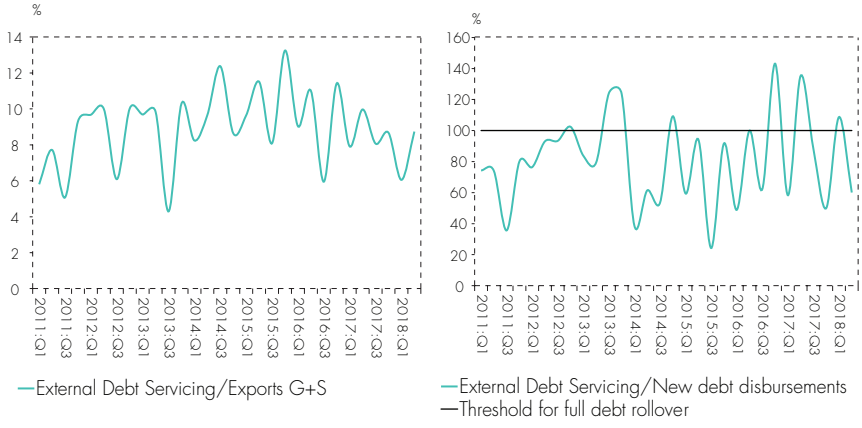


Source: Bank of Albania

Indicators based on regular principal and interest payments flow help to monitor the pressures on the country's finances coming from the external debt service. The level of amortization is closely linked to the maturity of external debt and to the duration of the period, during which, there exist temporary concessions regarding interest and principal payments of the debt.

A monitored indicator is the ratio of the relative size of external debt service against foreign currency inflows from exports of goods and services. This indicator stood at 8.7% at the end of the second half of the year, decreased by around 1.2 percentage points in annual terms. The registered ratio of this indicator stands significantly below the critical threshold of 20% suggested by international financial organisations.[10]

Chart 11 Ratio of external debt service to export of goods and services (left) and new debt disbursements (right)



Source: Bank of Albania

[10] IMF (2003), "External Debt Statistics: Guide for Compilers and Users", International Monetary Fund, Washington D.C.

The indicator of external debt amortization to new debt disbursements measures the extent of debt roll-over. For this indicator, the ratio below 100% indicates a more accelerated new external debt disbursements compared to repayments for its amortization. Roll-over ratio of external debt was at 60.1% at the end of the first half of the year and in average at 76.7% in in the last four quarters.