

BANK OF ALBANIA

GROSS EXTERNAL DEBT ANALYSIS H1-2023

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*The views expressed herein are solely of the authors and do not
necessarily reflect those of the Bank of Albania.*

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MAIN CONCLUSIONS

LEVEL AND STRUCTURE

At the end of 2023 H1, Albania's gross external debt stock stood at 52.4% of GDP. The ratio is 7.9 percentage lower from a year earlier. Its decline reflects mainly the increase of nominal GDP. The debt stock increased by 3.2%, driven mainly by the higher "General Government" debt during 2023 Q2, when the Eurobond was issued¹. Broken down by maturity, long-term debt accounts for around 90.8% of total, while short-term debt accounts for around 9.2%. Net external debt ratio to GDP is estimated at 4.7%, down by 5.3 percentage points.

In 2023 H1, the indicators of the external debt long-term repaying capacities have continued to improve. The growth in exports and fiscal revenues has mainly underpinned this development. Hence, the ratio of gross external debt to the annual export of goods and services was estimated at 115.1%, from 136.8% a year ago. Also, the ratio of external debt to fiscal revenues fell to 183.0%, from 213.9% a year earlier. The ratio of general government stock to fiscal revenues dropped to 91.7%, from 105.2% a year earlier.

The indicators of the adequacy of liquidity show improving trends as well. The foreign exchange reserve stock covers 333.8% of short-term external debt at the end of 2023 Q2, showing an adequacy in meeting the short-term liabilities².

1. A DETAILED ANALYSIS OF GROSS EXTERNAL DEBT³

At the end of 2023 H1, Albania's gross external debt stock totalled EUR 10,182.6 million, up by around 3.2%. The expansion of stock is mainly driven by the increase in the debt of "General Government", at the second quarter of 2023, as the Eurobond was issued. The external debt is estimated at 52.4% to nominal GDP⁴. This ratio is around 7.9 percentage points lower.

The general government remains the sector with the highest share in the total external debt stock, by around 50.1%. The specific stock increased by 5.2%. The stock to nominal GDP ratio was assessed at 26.2%, around 3.4 percentage points lower compared with the previous year.

The gross external debt stock of depository corporations (except the central bank) amounted to EUR 1,675.9 million, up by around 5.7%. The stock was

¹ In June 2023, the Albanian Government issued a 5-year Eurobond worth EUR 600 million, with 6,125% interest rate.

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

³ The external debt data that were applied in this analysis belong to 2023 Q2.

⁴ Four-quarter moving amount of GDP.

estimated at 8.6% of nominal GDP, around 1.1 percentage points lower yoy. Other sectors stock was EUR 1,499.0 million, declining by 0.1%. The stock to GDP ratio was assessed at 7.7%, around 1.5 percentage lower compared with a year ago.

The stock of foreign direct investments inter-company lending registered EUR 1,683.4 million, down by around 0.9%. The stock to nominal GDP ratio was assessed at 8.7%, around 1.7 percentage points lower.

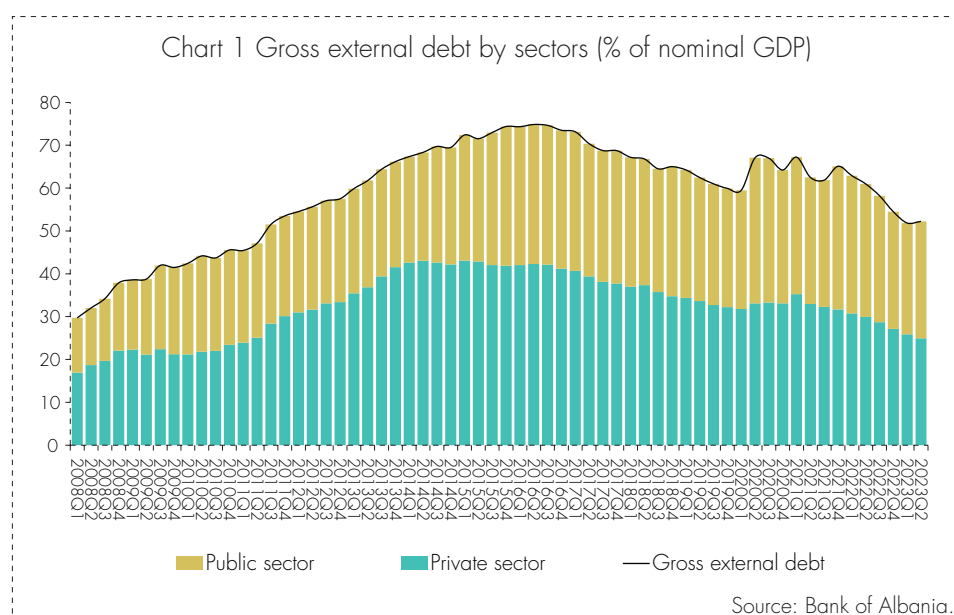
The debt stock of Monetary Authority to GDP has decreased by around 3.2% in annual terms. The stock to nominal GDP ratio was assessed at 1.1%, around 0.3 percentage point lower.

At the end 2023 H1, 90.8% of external debt is estimated to be long-term debt (including inter-company FDIs) mainly in the form of loans. Short-term debt accounted for around 9.2% of the total debt stock, mainly in the form of currencies and deposit-taking corporations (except the central bank).

A) EXTERNAL DEBT BY SECTORS⁵

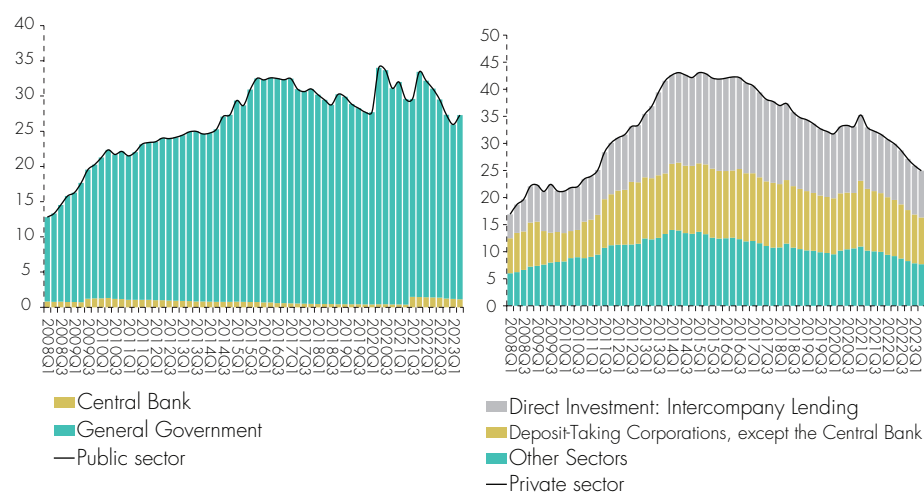
The public sector's debt stock (except of the guaranteed debt included in other sectors) expanded by around 4.8%, and contributed by 2.5 percentage points in the annual growth of the gross external debt. The stock expanded on the back of the "General Government" Eurobond issue carried out during 2023 Q2.

The private sector's debt stock expanded by 1.6%, thus generating an increased contribution of 0.8 percentage point in the total external debt.



⁵ According to BPM6, the sectors of the economy include: 1. general government; 2. central bank; 3. deposit-taking corporations except the central bank; 4. other sectors; 5. foreign direct investments (FDIs).

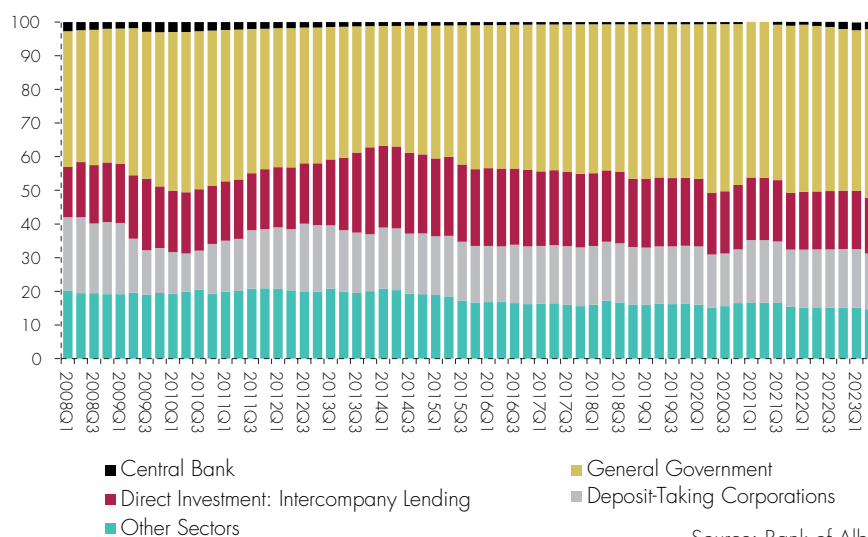
Chart 2 Disaggregated public and private sectors' debt (% of nominal GDP)



Source: Bank of Albania.

In a more detailed sector breakdown, the “General Government” has the main share in the external debt (around 50.1%). The rest of the debt stock has been allocated between: deposit-taking corporations (except of the central bank) 16.5%, other sectors of the economy 14.7%, FDIs (intercompany lending) 16.5%, and the monetary authority 2.2%.

Chart 3 Share of sectors in total external debt stock



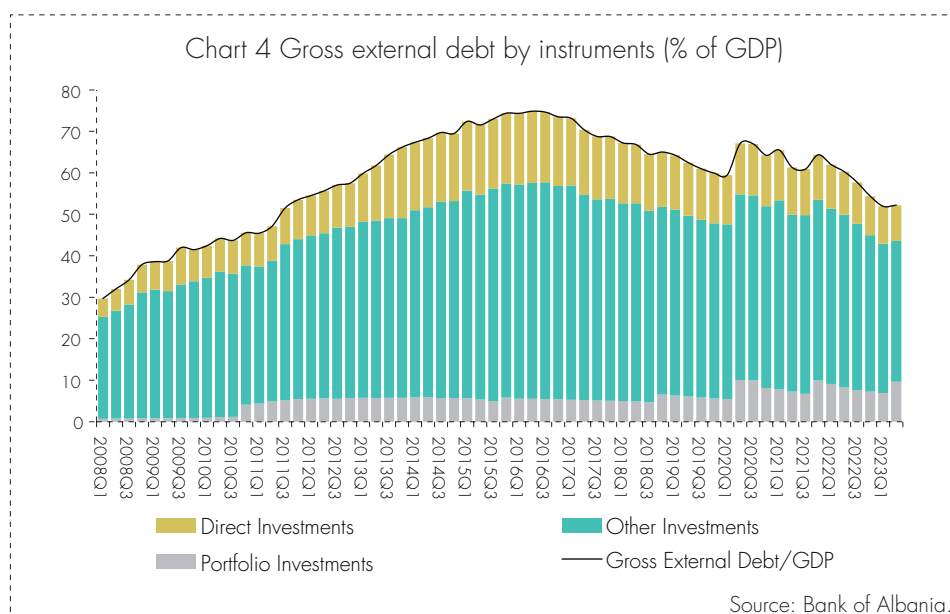
Source: Bank of Albania.

B) EXTERNAL DEBT BY INSTRUMENTS USED

Broken-down by instruments used, investments in the form of loans, currency and deposits and trade credit have the main share to the total external debt stock⁶, by around 65.1% of the total (34.0% of nominal GDP). This ratio is 4.0 percentage points lower compared with the previous year. Loans have the main share within this item.

The issue of Eurobond, in 2023 Q2, drove to the expanded share of "portfolio liabilities". This category accounted for around 18.4% of the total external debt, up by 4.7 percentage points.

The share of FDIs stock - intercompany lending reduced by 0.7 percentage point.

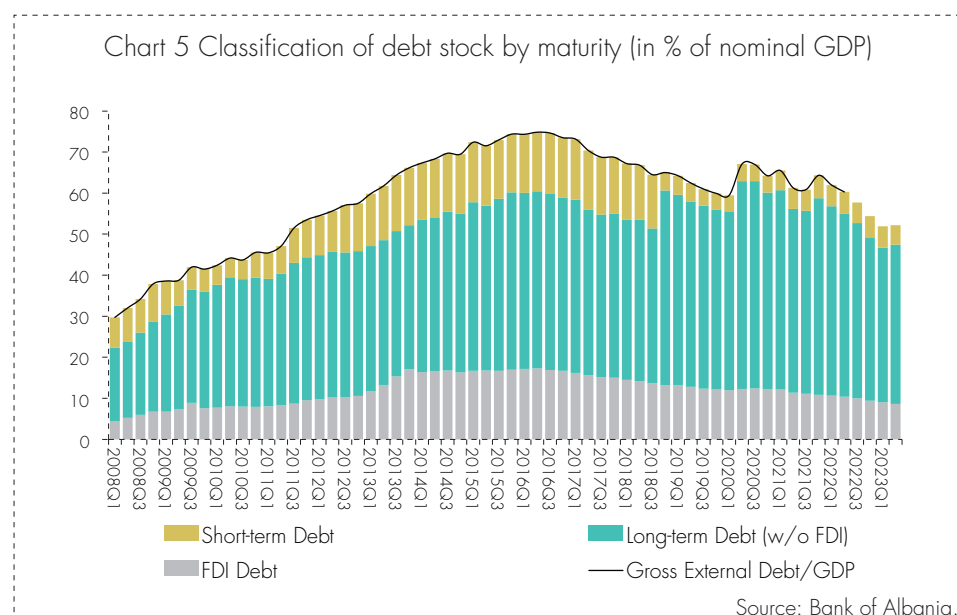


C) EXTERNAL DEBT BY MATURITY

By maturity, the external debt stock is mainly composed by long-term debt (which methodologically includes FDIs inter-company lending) accounting for around 90.8% of the total.

At the end of 2023 H1, the short-term debt amounted to around EUR 936.0 million, up by around 9.5%. The expansion of the short-term debt stock was mainly driven by the increase of "commercial lending" and the relevant stock of "deposit-taking corporations", as short-term liabilities in the form of "debt" and "currency and deposits" were up. Short-term debt is estimated at 4.8% to nominal GDP, down by 0.4 percentage point.

⁶ Grouped in the "other investments" category.



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 lenders⁷; (b) indicators that measure the adequacy of liquidity in case of obligation to repay short-term liabilities⁸.

Table 1 Indicators of repayment capacity and indicators of the adequacy of liquidity over the years.

	2014	2015	2016	2017	2018	2019	2020	2021	2022Q2
Repayment capacity indicators									
Gross external debt/Exports (goods and services)	197.4	216.5	203.5	174.2	164.0	153.2	214.3	162.6	137.1
Gross external debt/Fiscal revenues	264.4	281.3	266.0	247.8	236.9	220.3	243.0	230.5	214.4
Central government gross external debt/Fiscal revenues	101.1	120.1	114.8	110.0	108.6	100.4	116.1	114.5	105.0
Liquidity adequacy indicators									
Short-term external debt to total	20.7	19.1	19.8	19.9	6.7	6.6	6.4	8.7	9.2
Exports (goods and services)/Short-term external debt	244.2	242.4	248.2	288.6	906.9	993.5	729.5	710.5	795.1
Net external debt/GDP	26.7	25.0	22.2	20.3	16.5	13.8	13.3	9.4	10.0
Net external debt/Exports (goods and services)	76.0	72.8	61.4	51.4	41.6	35.3	44.3	24.3	23.1
External debt service/Exports (goods and services)*	9.7	10.6	9.4	8.6	9.9	9.9	14.1	12.9	9.2
External debt service/New debt disbursements*	65.6	67.4	88.6	82.9	123.7	126.0	109.8	84.6	83.9

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

*Annual cumulative average.

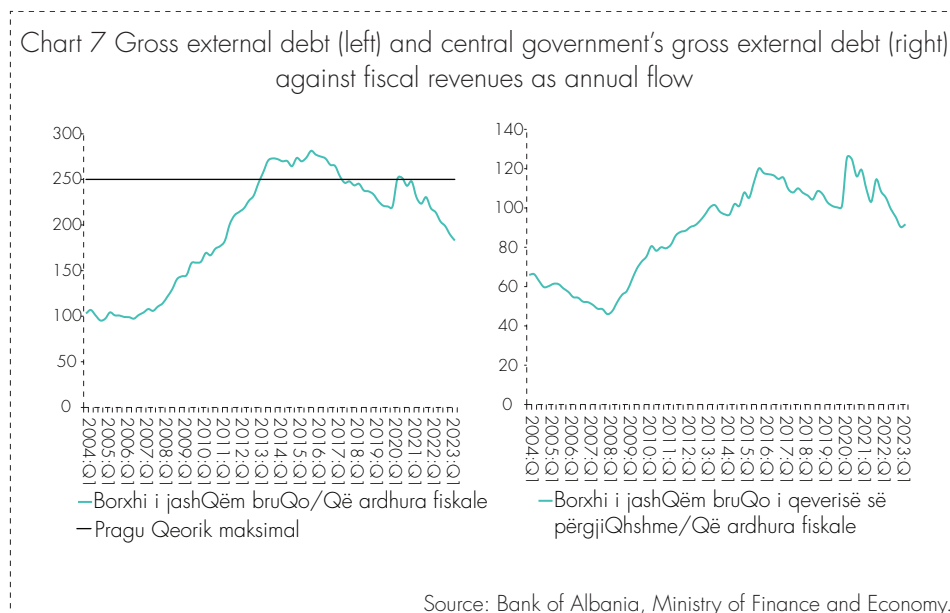
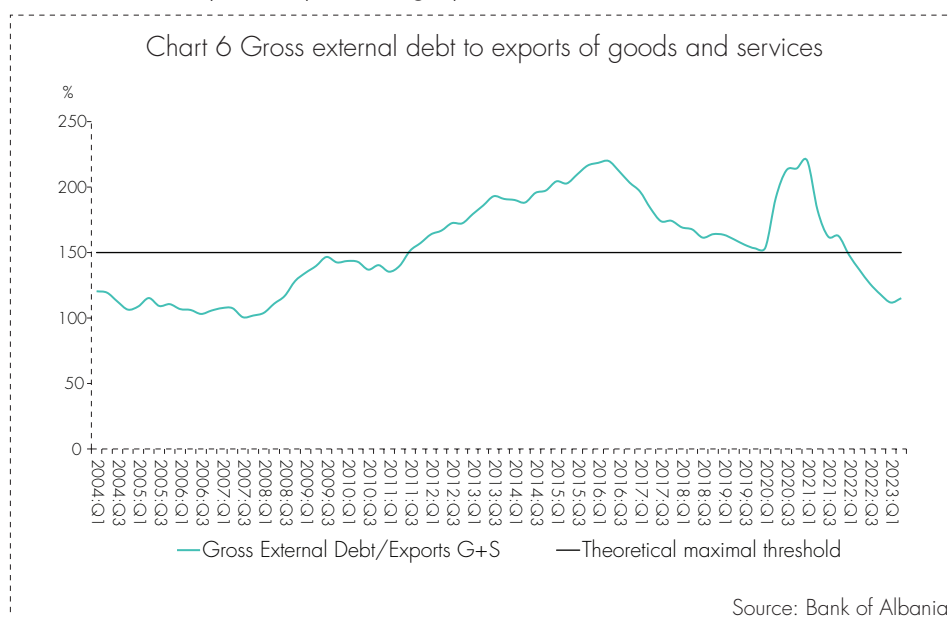
⁷ Mainly expressed as "general debt" and "general government" debt ratio to "export of goods and services" and to "fiscal revenues".

⁸ Indicators of "net debt" and of "debt servicing" to "export of goods and services"; "international reserve" ratio to "short-term debt".

A) INDICATORS OF REPAYMENT CAPACITY

Long-term repayment capacity continued to improve during 2023 H1. The improved economic activity, reflected in the form of increased exports and fiscal revenues, has given the main impact in this regard.

Hence, gross external debt ratio to the export of goods and services⁹ stood at 115.1%, down by 21.6 percentage points. The ratio of gross external debt to fiscal revenues fell to 183.0%¹⁰, reducing by 30.9 percentage points. Also, the ratio of the "General Government" stock to fiscal revenues decreased to 91.7%, down by 13.5 percentage points.

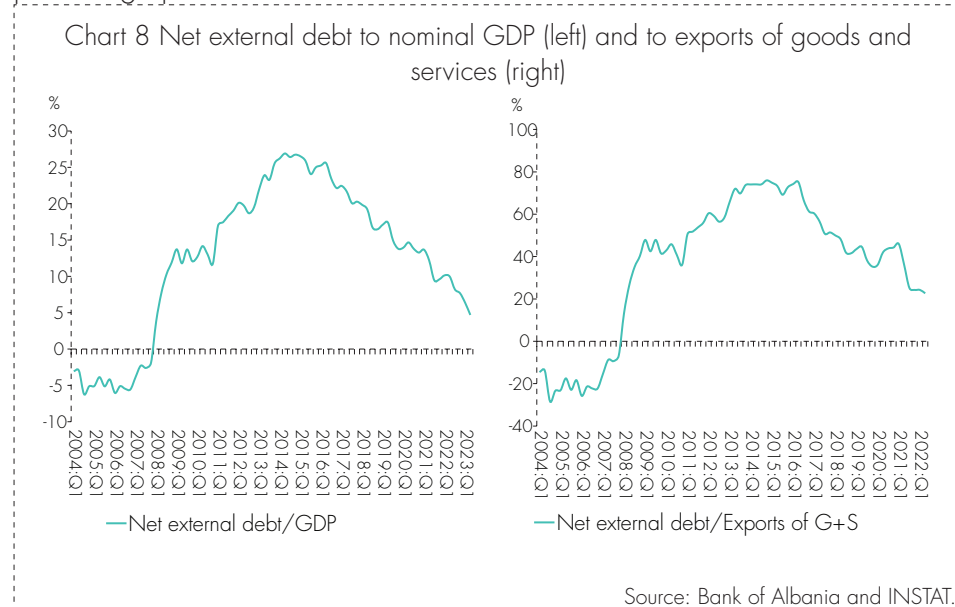


⁹ The export of goods and services represents a direct and continuous source of foreign currency inflows into an economy. The ratio that combines the latter with the gross external debt in foreign currency helps to analyse the capacity and the long-term repayment potential of a country. The deterioration of this indicator signals a reduction of the long-term repayment capacity of a country.

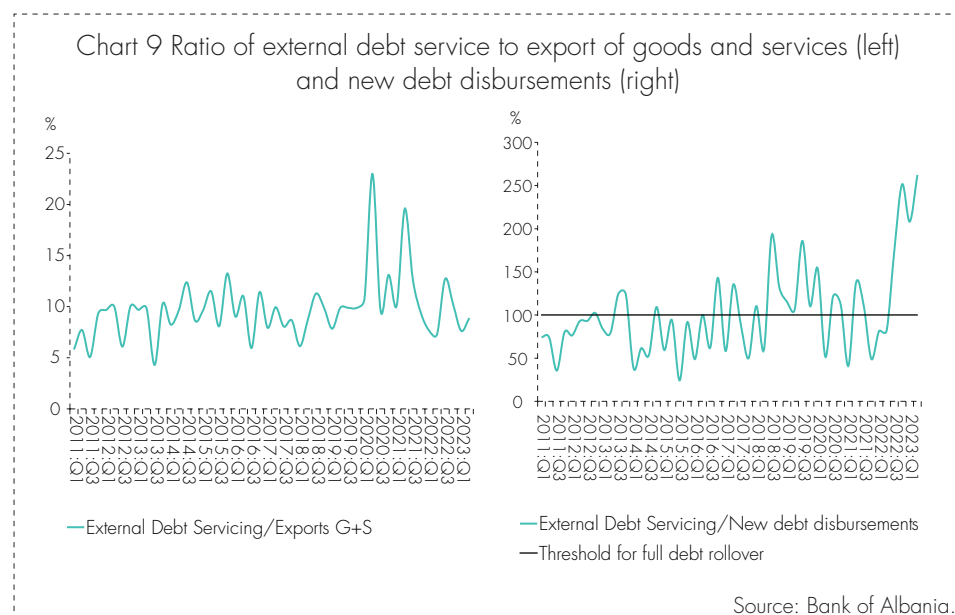
¹⁰ Quarterly fiscal revenues have been annualised through a four-quarter moving sum.

B) LIQUIDITY ADEQUACY INDICATORS

Liquidity adequacy indicators also reflect an improvement of indicators. Thus, the net debt stock to nominal GDP ratio fell to 4.7%, down by 5.3 percentage points. Also, the ratio of net debt to exports was 10.3%, down by 12.3 percentage points.

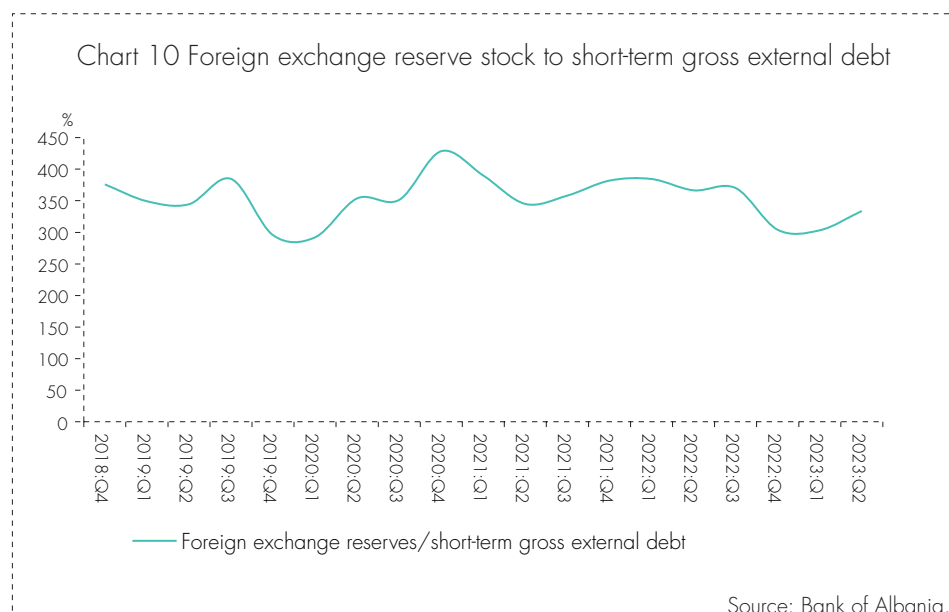


In terms of debt servicing, indicators point to rising repayment rates. The ratio of external debt servicing to the export of goods and services increased to 8.9% at the end of 2023 H1, up by 1.6 percentage points. Also, the ratio of external debt replacement ¹¹ stood at 262.4%, compared to 82.5% in the previous year.



¹¹ 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.

Last, data on foreign exchange reserve stock show adequacy in terms of covering the short-term liabilities. This ratio stands at 333.8%, notably above the critical threshold of 100%¹².



¹² Short-term debt stock includes the "General Government" debt by remaining maturity.