BANK OF ALBANIA

GROSS EXTERNAL DEBT ANALYSIS H1-2019

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C O N T E N T S

MAIN CONCLUSIONS

LEVEL AND STRUCTURE

- At the end of June 2019, Albania's gross external debt stock stood at 62.7% of GDP, around 4.2 percentage points lower compared with the previous year. This ratio has continuously trended downward since the middle of 2016, when it stood at 74.8%.
- The fall of gross external debt ratio to GDP was mainly driven by the drop of debt ratio of "other sectors" and "FDI-Inter-company Loans", by 1.3 percentage points, respectively each.
- In parallel, the debt ratios of "Deposit-taking corporations" and "General Government" have decreased by 1.0 and 0.5 percentage points, respectively.
- Broken down by maturity, long-term debt accounts for about 80% of total, while short-term debt accounts for about 20%.

LONG-TERM STABILITY INDICATORS

- The external debt long-term repaying capacities improved during the last quarters.
- The ratio of gross external debt to the annual export of goods and services was assessed at 160.1%, decreasing by around 7.7 percentage points in annual terms.

LIQUIDITY INDICATORS

- Liquidity adequacy indicators show good repaying capacities in short terms.
- Foreign exchange reserve stock covers 198.3% of short-term external debt at the end of 2019 Q2.

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

At the end of 2019 H1, Albania's **gross external debt** stock totalled EUR 8,339.4 million, up by around 2.8% in annual terms. The growth of stock was driven by the expansion of the stock of "general government". Current stock is assessed at 62.7% to nominal GDP[2], a ratio around 4.2 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 45.5%. The relevant stock increased by around 7.8% in annual terms, reaching EUR 3,793.7 million. The stock to nominal GDP ratio was assessed at 28.5%, around 0.5 percentage points lower compared with the previous year.

The gross external debt stock of depository corporations (except the central bank) amounted to EUR 1,428.1 million, up by around 0.4% compared with the previous year. The stock was estimated at 10.7% of nominal GDP, around 1.0 percentage point lower yoy. Other sectors' external debt stock was assessed at around EUR 1,355.3 million, down by 3.0% yoy. Its share in the total external debt stock was around 16.3%, lower by around 1.0 percentage point compared with the previous year.

The **foreign direct investments inter-company loans** registered EUR 1,705.3 million - down by around 10.6% compared with 2018 H1. The stock to nominal GDP ratio was assessed at 12.8%, around 1.3 percentage points lower compared with the first half of the previous year.

At the end 2019 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).

A) EXTERNAL DEBT BY SECTORS[3]

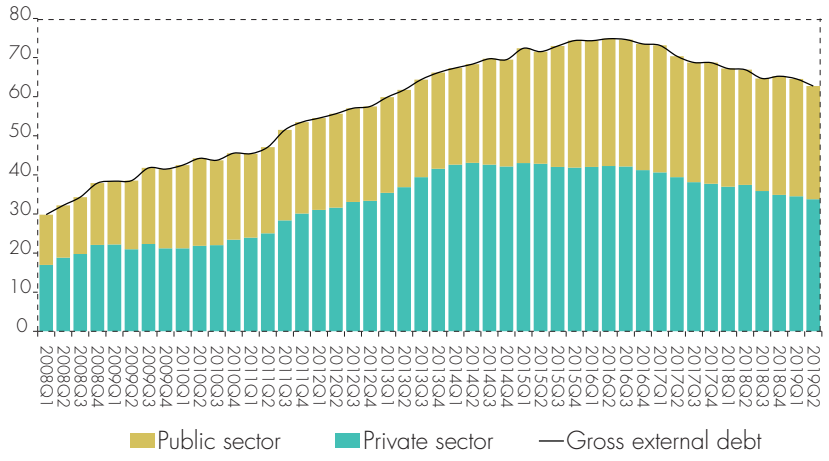
The public sector's debt stock (except of the guaranteed debt included in other sectors) expanded by around 7.7% in annual terms, and contributed by 3.4 percentage points in the annual growth of the gross external debt. The general government continued to drive the expansion of gross external debt, whereas the monetary authority decreased its exposure in terms of external debt.

The private sector generated a negative contribution of 0.6 percentage points in the external debt annual growth. The main contribution came from the

[1] *The external debt data that were applied in this analysis belong to 2019 Q2.*
[2] *Four-quarter moving amount of GDP.*
[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).*

decrease in the stock of "other sectors" and "FDI-Inter-company Loans". On the other hand, the stock of "deposit-taking corporations" expanded compared with the previous year.

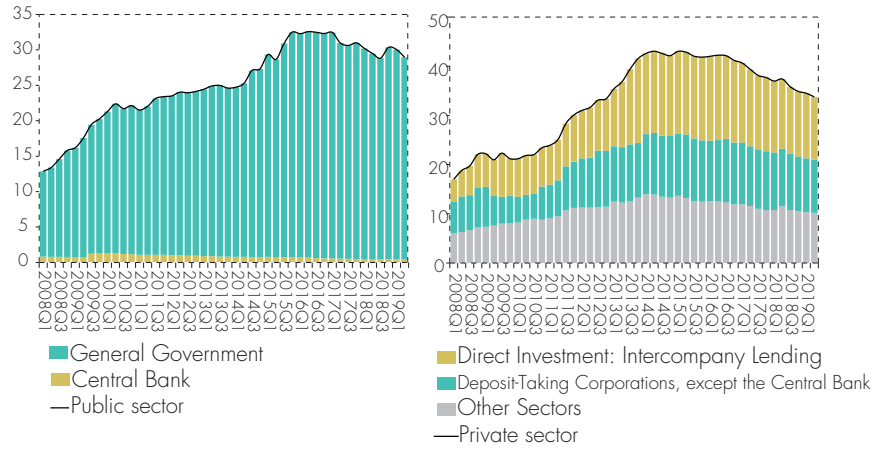
Chart 1 Gross external debt by sectors (% of nominal GDP)



Source: Bank of Albania.

The private sector generated a positive contribution of 0.6 in the external debt annual growth. The main contribution came from the decrease in the stock of "other sectors" and "FDI-Inter-company Loans". On the other hand, the stock of "deposit-taking corporations" expanded compared with the previous year.

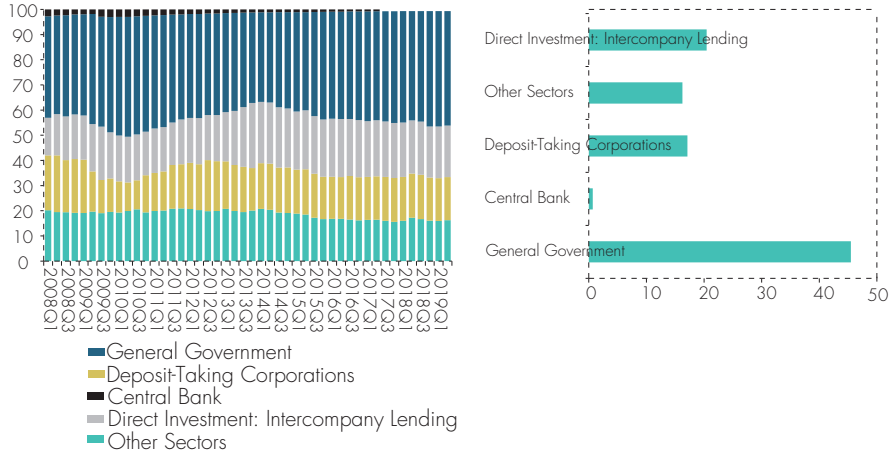
Chart 2 Disaggregated public and private sectors' debt (% of nominal GDP)



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) 17.1%, other sectors of the economy 16.3%, FDIs (inter-company loans) 20.4%, and the monetary authority 0.7%.

Chart 3 Share of sectors in total external debt stock (left chart); debt stock changes during 2018 Q2 against 2019 Q2 (in percentage points, right chart)



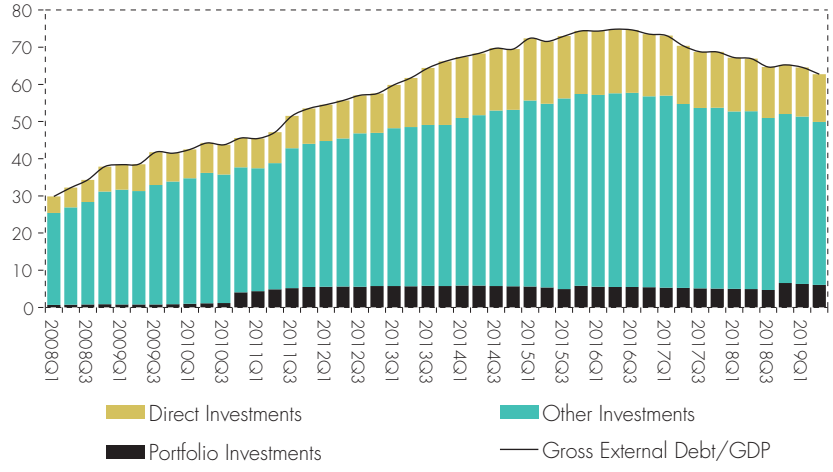
Source: Bank of Albania.

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 69.9% of the total (43.8% of nominal GDP) at the end of 2019 H1. This ratio is 4.0 percentage points lower compared with the previous year. Long and short-term loans have the main share within this item.

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. After that it pursed a downward trend. At the end of the period under review, the share of FDIs - inter-company loans to total external debt resulted around 20.4%, around 0.7 percentage point lower compared with the previous year.

Chart 4 Gross external debt by instruments (% of GDP)



Source: Bank of Albania.

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

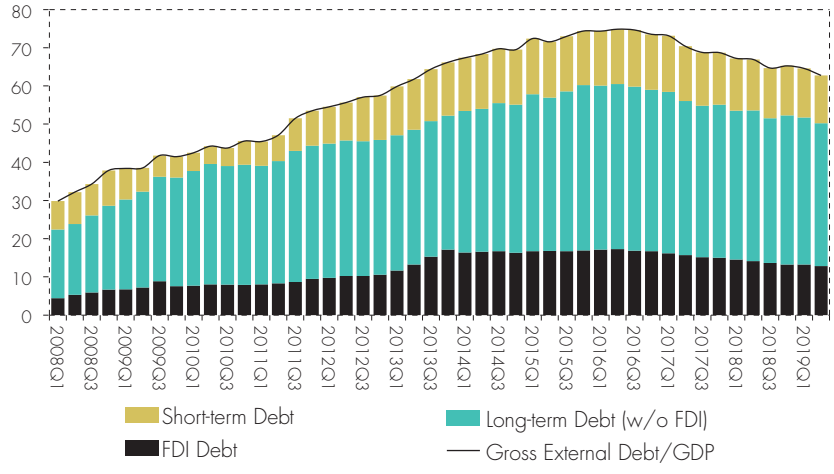
Portfolio investments accounted for 9.7% of the total gross external debt and were assessed at around 6.1% of nominal GDP. The annual growth was around 36.2%, driven by the issue of Eurobond during 2018 Q4.

C) EXTERNAL DEBT BY MATURITY

By maturity, the external debt stock is mainly composed by long-term debt (around EUR 6,676.9 million). Long-term debt (which methodologically includes FDIs) accounted for around 80.0% of the total gross external debt. This ratio is almost unchanged compared with the previous year. Since 2014 Q1, the expansion of long-term external debt has driven the upward trend of gross external debt.

At the end of 2019 H1, short-term debt amounted to around EUR 1,662.4 million, up by around 2.6% in annual basis. Short-term debt to total external debt stood at 20.0%, and was assessed around 12.5% 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 2019 H1, the total external debt service (principal and interest) by all sectors of the economy amounted to EUR 224.6 million, around 3.4% of nominal aggregate half-year GDP. This ratio is slightly higher compared to 2018 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

		2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
General Government	Principal payments	18.8	61.9	18.8	44.2	24.5	66.5	34.7	46.4	23.2	68.7	37.3	58.8	29.7	76.8
	Inters payments	12.5	10.5	12.1	11.7	13.0	10.6	11.8	11.6	13.9	10.9	14.9	16.2	19.5	11.6
	New debt	104.4	80.6	61.2	44.2	108.7	62.6	105.3	161.5	23.7	26.4	54.3	49.7	35.3	45.3
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	41.4	26.0	28.6	23.5
	Inters payments	1.5	2.5	1.3	2.0	2.2	1.7	1.6	1.7	1.6	1.8	1.8	2.7	2.4	2.3
	New debt	30.5	16.0	5.8	22.9	8.1	2.4	5.4	12.4	8.5	130.5	17.7	22.4	21.2	34.9
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	69.0	16.8	7.4	20.4
	Inters payments	0.8	0.2	0.2	0.2	1.6	1.4	1.5	1.6	1.6	1.3	1.4	1.0	1.0	0.8
	New debt	7.9	6.6	37.8	18.1	13.2	20.0	10.2	21.7	27.8	34.0	14.6	19.8	20.5	46.9
External debt service		69.8	103.2	65.2	122.0	73.8	114.2	106.6	97.7	65.2	114.2	165.9	121.3	88.8	135.5
New debt in total		142.8	103.2	104.8	85.2	130.0	85.0	121.0	195.6	59.9	190.9	86.6	91.8	77.0	127.1

Source: Bank of Albania.

New debt disbursement undertaken by all the economy during 2019 H1 amounted to EUR 204.2 million. The debt of "general government" dominated the debt disbursements, accounting for around 39.5% of the total. They are followed by "deposit taking corporates" by about 33.0% of the total and after that by the "other sectors" with 27.5% of the total.

2. EXTERNAL DEBT SUSTAINABILITY INDICATORS

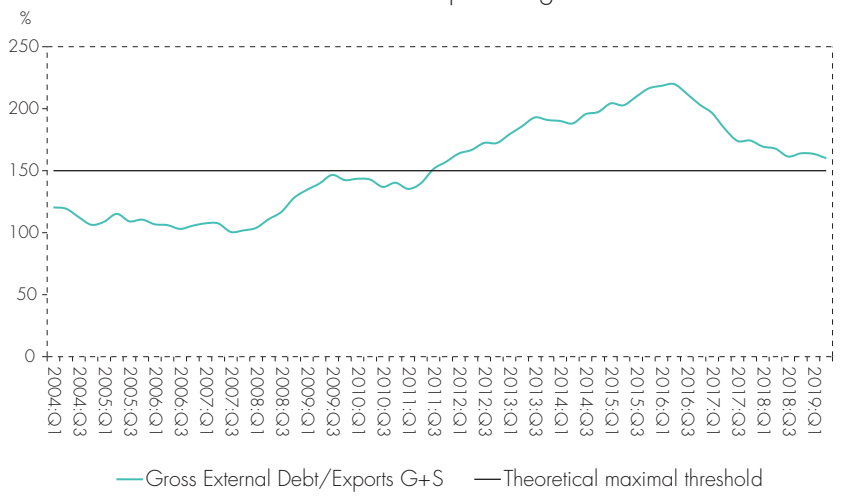
The monitoring of the gross external debt sustainability over time, is based on two categories: (a) indicators that measure a country's continuous and uninterrupted repayment capacity to its international lenders; and (b) indicators that measure the adequacy of liquidity in case of obligation to repay 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	2018	2019Q2
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	164.1	160.1
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	236.9	226.7
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	108.6	103.1
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	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	306.2	313.3
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	204.4	198.3
Net external debt/GDP	11.9	12.1	11.7	19.0	19.5	25.6	26.7	25.0	22.0	20.0	16.5	17.5
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	41.6	44.6
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	9.9	9.9
External debt service/New debt disbursements*	20.6	28.8	142.3	60.7	91.3	98.0	58.2	55.1	82.6	74.3	109.2	133.9

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

Chart 6 Gross external debt to exports of goods and services



Source: Bank of Albania

A) INDICATORS OF REPAYMENT CAPACITY

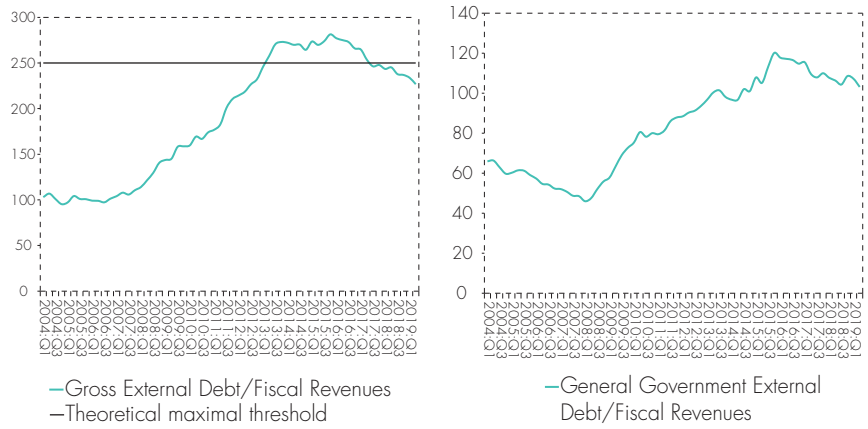
The gross external debt indicator against the export of goods and services[5] has reflected an improving trend since 2016 Q3. In the end of 2019 Q2, this

[5] *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.*

indicator stood at around 160.1%, down by 7.7 percentage points in annual level. Notwithstanding this significant improvement, the index is still slightly over the theoretical maximal threshold of 150%[6].

Debt indicators against fiscal revenues have been improved continuously. The ratio of gross external debt to fiscal revenues is estimated at 226.7%[7]. This indicator contracted by 18.5 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 103.1% resulted around 3.2 percentage points lower compared with the previous year.

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

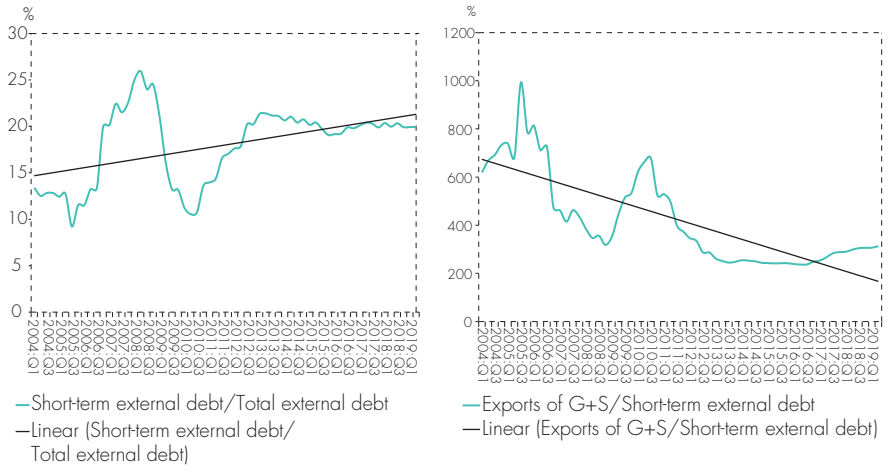
Liquidity adequacy indicators show short-term low pressures. The annual inflows from the exports of goods and services[8] managed to cover entirely the short-term external debt. The ratio between the export of goods and services and the short-term external debt showed a continuous upward trend. Their ratio was estimated at 313.3% at the end of 2019 H1, around 14.7 percentage points higher compared with the previous year.

[6] *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.*

[7] *Quarterly fiscal revenues have been annualised through a four-quarter moving sum.*

[8] *Stated through a four-quarter moving amount.*

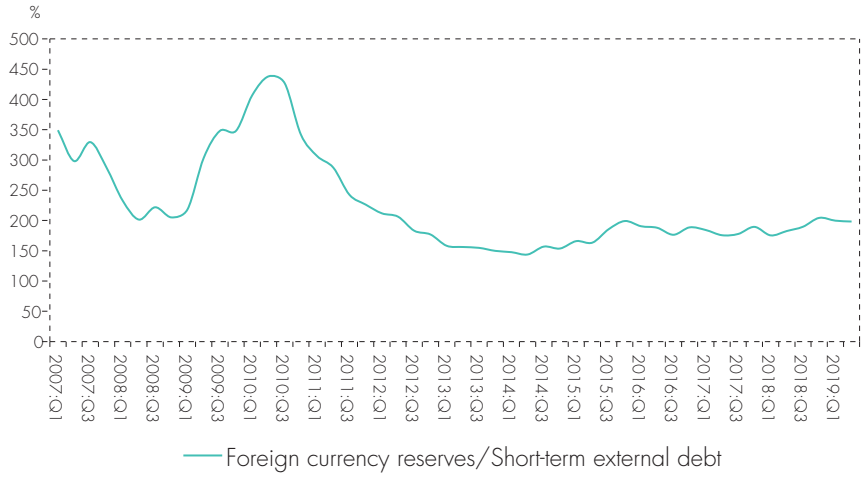
Chart 8 Short-term gross external debt to the total (left) and exports of goods and services (right)



Source: Bank of Albania.

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[9]. Since 2015 Q1, this indicator expanded at an accelerated annual pace due to higher foreign exchange assets. At the end of 2019 H2, the foreign exchange reserve stock covered around 198.3% of the short-term external debt[10].

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



Source: Bank of Albania.

At the end of 2019 H1[11], net external debt-to-nominal GDP ratio was assessed at 17.5%, around 1.7 percentage points higher compared with the previous

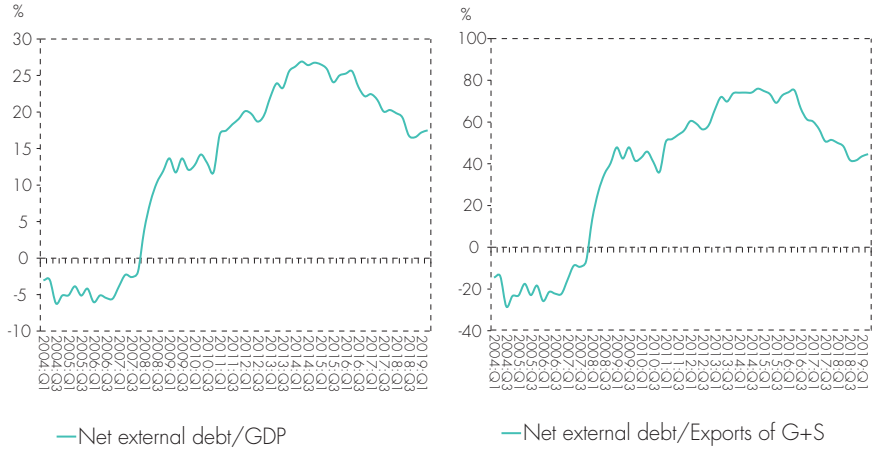
[9] *According to Guidotti–Greenspan rule. For more information: IMF, "Assessing reserve adequacy", 2011.*

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

[11] *Net external debt helps in monitoring short-term pressures as a result of expectable obligations within the year. The cumulative amount of banks' foreign assets and foreign exchange reserves is subtracted from the gross external debt.*

year. The indicator of net external debt to the export of goods and services was assessed at 44.6% as at the end of the first half of the year, decreasing by around 3.6 percentage points in annual terms.

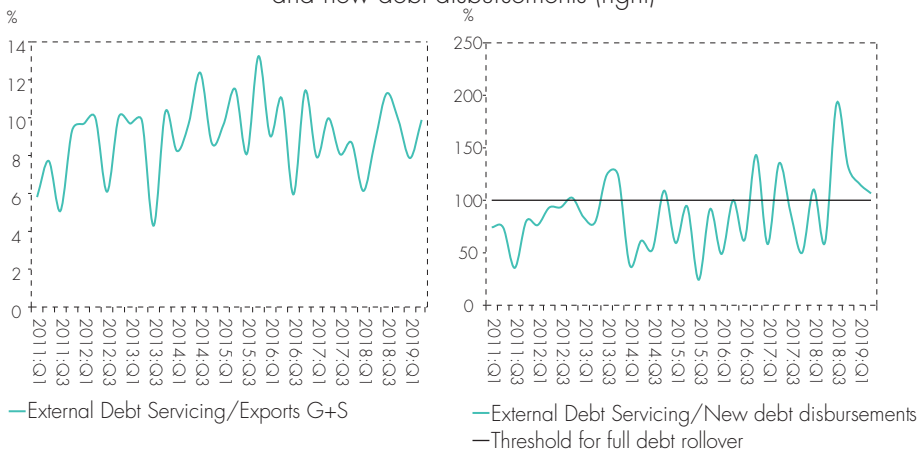
Chart 10 Net external debt to nominal GDP (left) and to exports of goods and services (right)



Source: Bank of Albania.

External debt service ratio to the export of goods and services12 stood at 9.7% at the end of the first half of the year, expanding by around 1.8 percentage points in annual terms. The registered ratio of this indicator stands significantly below the critical threshold of 20% suggested by international financial organisations.[13]

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



Source: Bank of Albania.

[12] *A monitored indicator is the ratio of the relative size of external debt service against foreign currency inflows from exports of goods and services.*

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

[14] *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.*