BANK OF ALBANIA

GROSS EXTERNAL DEBT ANALYSIS H1-2020

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MAIN CONCLUSIONS

LEVEL AND STRUCTURE

- At the end of June 2020, Albania's gross external debt stock stood at 68.1% of GDP, around 3.8 percentage points higher compared with a year earlier. This expansion was mainly verified in 2020 Q2, in one hand, **as a result of the issuance of Eurobond, and the fall of GDP in annual terms, on the other hand. These are reflections arising from COVID-19 impact.**
- The increase of gross external debt ratio to GDP was affected by "general government stock" related to Eurobond.
- Broken down by maturity, long-term debt accounts for about 82.0% of total, while short-term debt accounts for about 18.0%.
- Net external debt ratio to GDP is assessed at 14.7%, down by 2.7 percentage points compared with a year ago.

LONG-TERM STABILITY INDICATORS

- The external debt long-term repaying capacities **deteriorated mainly during 2020 Q2 (in reflection of the shock arisen from the pandemic),** after pursuing an improving trend for some years.
- This relates to both the growth of debt stock and the fall in the components of exports and fiscal revenues.
- The ratio of gross external debt to the annual export of goods and services was estimated at 191.1%, rapidly upwards to the level estimated in the previous quarter (153.7%).
- Also, the ratio of external debt to fiscal revenues grew at 249.5%, from 220.2% in 2020 Q1. The ratio of general government stock to fiscal revenues climbed to 124.8% from 101.1% in 2020 Q1.

LIQUIDITY INDICATORS

- Also, it is verified the worsening of liquidity adequacy indicators, for the ratios related to exports.
- On the other hand, foreign exchange reserve stock covers 257.8% of short-term external debt at the end of 2020 Q2, showing an adequacy in meeting the short-term liabilities.

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

At the end of 2020 H1, Albania's **gross external debt stock** totalled EUR 8,908.2 million, up by around 6.8% in annual terms. The considerable expansion was verified during 2020 Q2, driven by the issuance of Eurobond. The growth of stock is reflected in the debt of "General Government". The stock is estimated at 68.1% of nominal GDP[2]. This ratio is around 3.8 percentage points higher compared with the same period in the previous year, and 7.8 percentage points higher compared with 2020 Q1.

[1] *The external debt data that were applied in this analysis belong to 2020 Q2*
[2] *Four-quarter moving amount of GDP.*

The general government remains the sector with the highest share in the total external debt stock, by around 50.0%. The relevant stock expanded by around 17.4% in annual terms, and by 18.3% compared with 2020 Q1. The stock to nominal GDP ratio was assessed at 34.0%, around 4.6 percentage points higher compared with a year ago.

The gross external debt stock of deposit-taking corporations (except the central bank) amounted to EUR 1,410.8 million, down by around 1.2% compared with the previous year. The stock was estimated at 10.8% of nominal GDP, around 0.2 percentage point lower yoy. Other sectors' external debt stock was assessed at around EUR 1,358.0 million, recording an annual growth of 0.3%. The stock to GDP ratio was assessed at 10.4%, around 0.1 percentage point higher compared with a year ago.

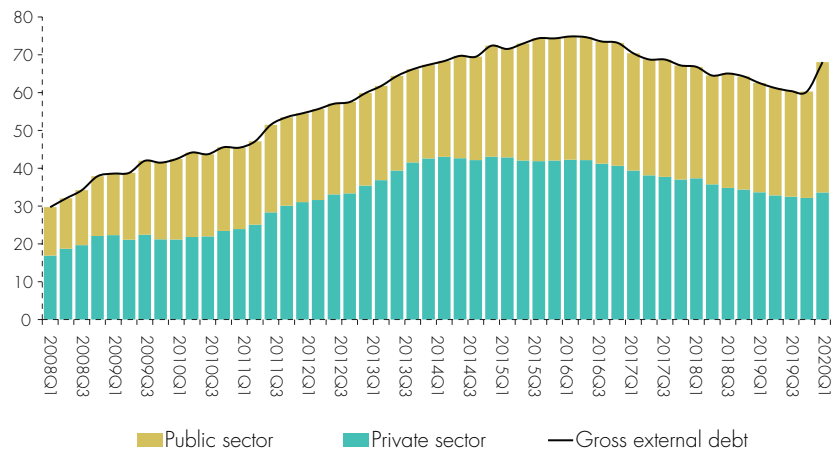
The **foreign direct investments inter-company lending** registered EUR 1,626.2 million - down by around 4.6% yoy. The stock to nominal GDP ratio was assessed at 12.4%, around 0.7 percentage point lower compared with 2019 H1.

At the end 2020 H1, 82.0% of debt stock is estimated to be long-term debt (including FDIs) mainly in the form of loans. **Portfolio liabilities increased the relative share due to the issuance of Eurobond.** Short-term debt accounted for around 18.0% of the total debt stock, mainly in the form of currencies and deposits of Deposit-taking 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 17.4% on an annual basis, and contributed by 7.9 percentage points in the annual growth of the gross external debt. The general government continued to drive the expansion of gross external debt, closely driven by the issuance of Eurobond.

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

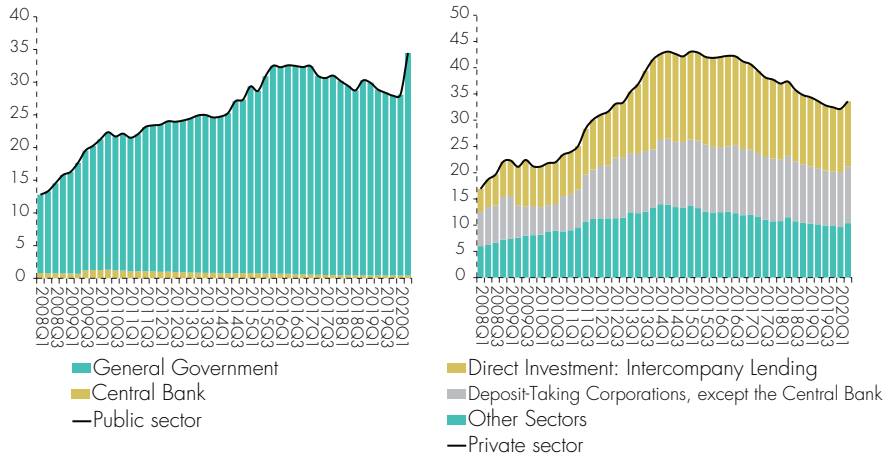


Source: Bank of Albania.

[3] *According to M6BP, 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).*

The private sector generated a negative contribution of 1.1 percentage points in the external debt annual growth. The main contribution came from the decrease in the stock of "FDI-Inter-company lending" and of "deposit-taking corporations".

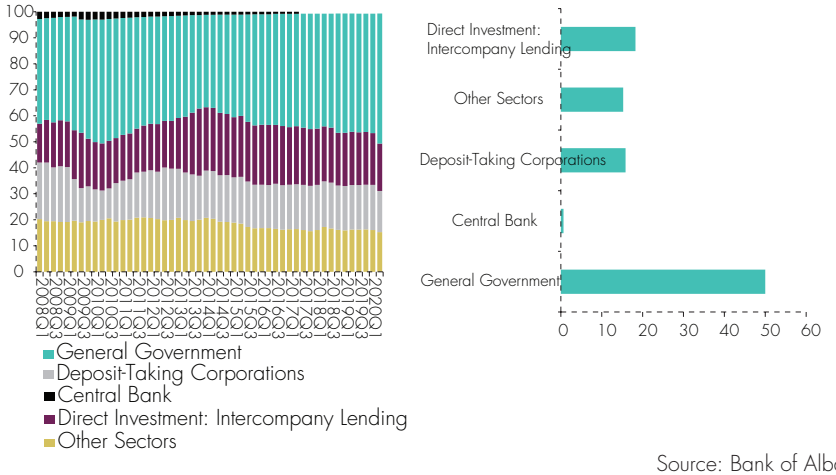
Chart 2 Disaggregated public and private sectors' debt (% of nominal GDP



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 (around 50.0%) and upwards compared with the previous periods. The rest of the debt stock has been allocated between: deposit-taking corporations (except of the central bank) 15.8%, other sectors of the economy 15.3%, FDIs (intercompany lending) 18.3%, and the monetary authority 0.01%.

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.

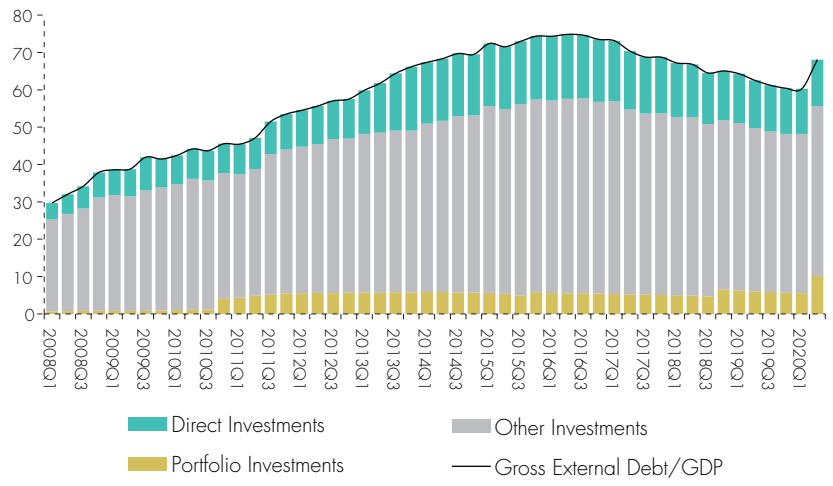
B) EXTERNAL DEBT BY INSTRUMENTS USED

Broken-down by instruments used, other investments[4] have the main share to the total external debt stock, by around 66.9% of the total (45.5% of nominal GDP) at the end of 2020 H1. This ratio is around 1.8 percentage points higher than a year earlier. Long and short-term loans have the main share within this item.

The increase in the relative share of "portfolio liabilities" at 14.9% of total, compared with 9.7% at the end of 2019 Q2, and 9.2% at the end of previous quarter, is an important development. This instrument as a ratio to GDP was estimated at around 10.1% from 6.1% in the previous year. These are reflections of Eurobond issuance during 2020 Q2.

The stock of "FDI-Inter-company Lending" reduced by 4.6% in annual terms, reflecting the non-good performance of FDIs during 2020 H1. The stock is estimated at 12.4% of total, down by around 0.7 percentage point compared with the previous year. The stock of FDIs accounts for 18.3% of the total external debt stock, down by 2.1 percentage points in annual terms.

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



Source: Bank of Albania.

C) EXTERNAL DEBT BY MATURITY

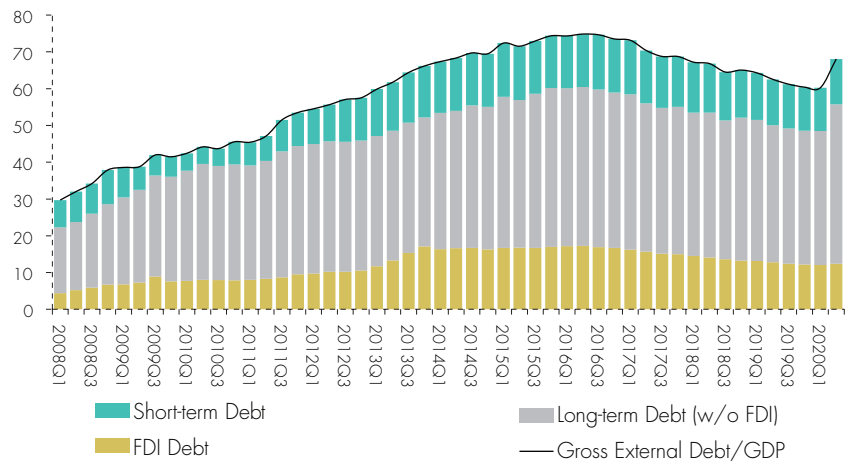
By maturity, the external debt stock is mainly composed by long-term debt (which methodologically includes FDIs) accounting for around 82.0% of the total. Its share increased by 2.0 percentage points compared with the previous year, driven by the growth of portfolio investments (issuance of Eurobond).

At the end of 2020 H1, short-term debt amounted to around EUR 1,616.0 million, down by around 2.8% on an annual basis. Short-term debt to total external debt stood at 18.0%, and was assessed around 12.3% of nominal GDP. Only the deposit-taking corporations sector and other sectors of the economy hold a short-term debt portfolio. These two sectors' short-term debt

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

consists largely of currency and deposits, as well as of the instruments of trade credits. Both components were downward in annual terms.

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



Source: Bank of Albania.

D) GROSS EXTERNAL DEBT SERVICE BY SECTOR

During 2020 H1, the total external debt service (principal and interest) by all sectors of the economy amounted to EUR 276.5 million, around 4.5% of nominal aggregate half-year GDP. This ratio is slightly higher compared with both 2019 H1 and H2. 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

		2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2
General Governement	Principal payments	23.2	68.7	37.3	58.8	29.7	76.8	55.9	59.6	39.6	82.4
	Interest payments	13.9	10.9	14.9	16.2	19.5	11.6	19.9	11.3	18.7	10.6
	New debt	23.7	26.4	54.3	49.7	35.3	45.8	26.5	66.6	29.0	218.8
Private (long-term and short-term)	Principal payments	15.3	19.1	41.4	26.0	28.5	23.5	28.9	31.8	37.1	30.9
	Interest payments	1.6	1.8	1.8	2.7	2.4	2.3	3.8	3.6	15.1	13.8
	New debt	8.5	130.5	17.7	22.4	21.2	34.9	34.8	34.9	36.0	73.5
Banks (long-term and short-term)	Principal payments	9.5	12.4	69.0	16.8	7.4	20.4	48.8	19.0	4.3	22.6
	Interest payments	1.6	1.3	1.4	1.0	1.0	0.8	0.8	0.7	0.7	0.7
	New debt	27.8	34.0	14.6	19.8	20.5	46.9	23.8	12.6	9.7	17.2
Total debt servicing		65.2	114.2	165.9	121.3	88.7	135.5	158.2	126.0	115.5	161.0
New debt		59.9	190.9	86.6	91.8	77.0	127.6	85.1	114.1	74.7	309.6

Source: Bank of Albania.

New debt disbursement undertaken by all the economy during 2020 H1 amounted to EUR 384.3 million. The debt of "general government" dominated the debt disbursements, accounting for around 64.5% of the total. The reason is the issue of Eurobond.

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;[5] (b) indicators that measure the adequacy of liquidity in case of obligation to repay short-term liabilities[6].

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	2019	2020Q2
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	164.0	153.2	191.1
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	220.3	249.5
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	100.4	124.8
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	19.6	18.1
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	332.9	288.4
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	207.8	257.8
Net external debt/GDP	11.9	12.1	11.7	19.0	19.5	25.6	26.7	25.0	22.2	20.3	16.5	13.9	14.7
Net external debt/Exports (goods and services)	40.3	41.5	36.1	56.0	58.5	73.8	76.0	72.8	61.4	51.4	41.6	35.3	41.2
External debt service/Exports (goods and services)[1]	3.9	5.3	11.9	7.0	8.9	8.5	9.7	10.6	9.4	8.7	9.0	9.9	23.0
External debt service/New debt disbursements[1]	30.8	49.0	187.1	66.0	91.3	102.7	65.6	67.4	88.6	82.9	123.7	110.5	52.0

Source: Bank of Albania, Ministry of Finance and Economy.
[1] Annual cumulative average

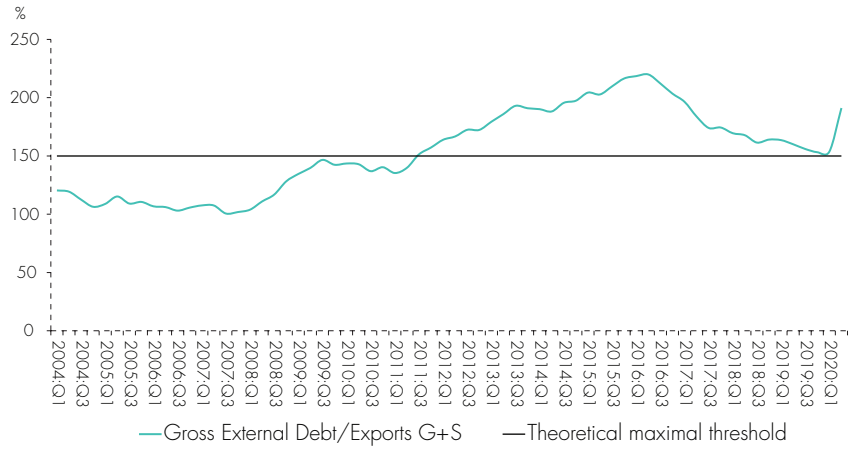
A) INDICATORS OF REPAYMENT CAPACITY

Long-term indicators of repayment capacity have pursed an improving trend for almost four years. But developments in 2020 Q2 have reflected deterioration. On one hand, the growth of debt, due to the issuance of Eurobond" has been considerable. On the other hand, exports and fiscal income worsened affected by the impact from Covid-19 pandemic shock.

[5] *Mainly expressed as "general debt" and "general government" debt ratio to "export of goods and services" and to "fiscal revenues".*
[6] *Indicators of "net debt" and of "debt servicing" to "export of goods and services"; "international reserve" ratio to "short-term debt".*

Hence, gross external debt ratio to the export of goods and services[7] stood at 191.1%, up by 31.1 percentage points compared with the previous year, and 37.4 percentage points compared with 2020 Q1. Thus, this indicator jumped considerably above the theoretical maximal threshold of 150%[8].

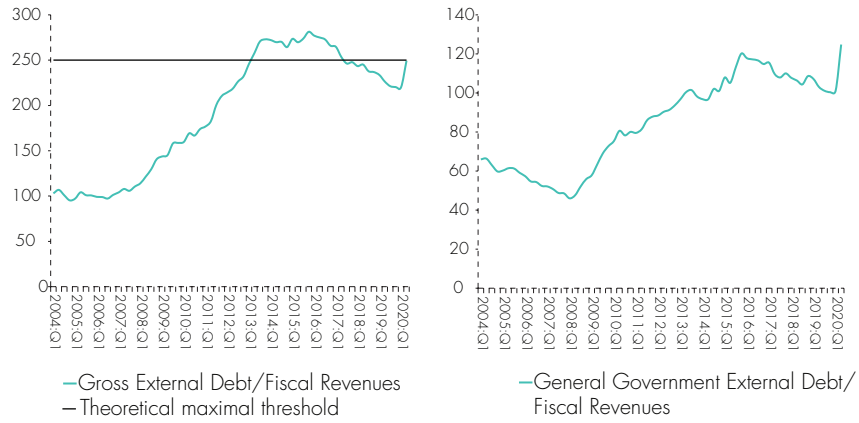
Chart 6 Gross external debt to exports of goods and services



Source: Bank of Albania.

Debt indicators against fiscal revenues show a similar panorama. The ratio of gross external debt to fiscal revenues jumped at 249.5%[9] from 220.2% at the end of 2020 Q1, and 226.4% in 2019 Q2. The ratio of "central government" stock to fiscal revenues increased to 124.8%, from 101.1% at the end of 2020 Q1, and 103.0% at the end of 2019 Q2.

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.

[7] *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.*

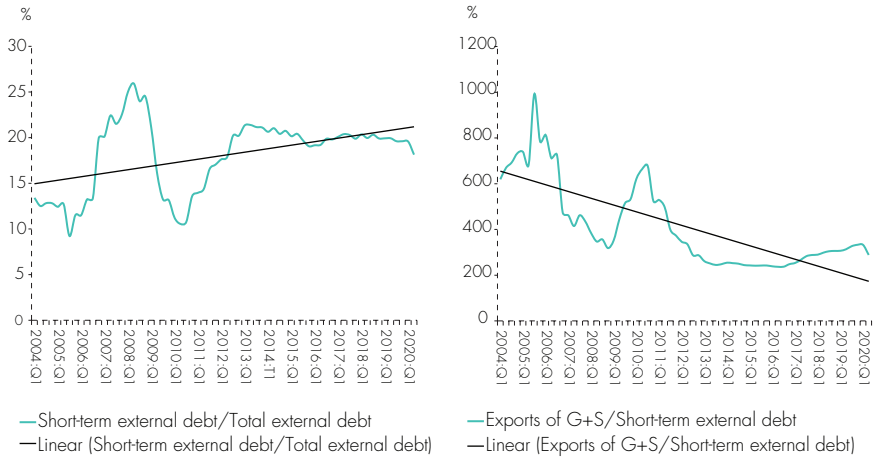
[8] *IMF (2003), "External Debt Statistics: Guide for Compilers and Users", International Monetary Fund, Washington D.C. The maximal theoretical threshold changes according to the institutional development of a country.*

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

B) LIQUIDITY ADEQUACY INDICATORS

Liquidity adequacy indicators show upward pressures if considering the ratios to exports where Covid-19 impact is being reflected once more. The ratio between the export of goods and services to the short-term external debt dropped at 288.4% at the end of 2020 H1, from 332.5% at the end of 2020 Q1. This ratio was estimated to have been reduced by 20.5 percentage points in annual terms.

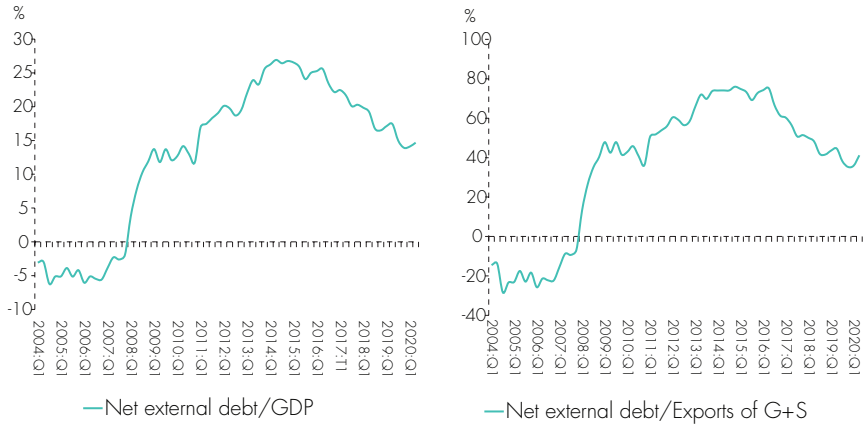
Chart 8 Short-term gross external debt to the total (left) and exports of goods and services (right)



Source: Bank of Albania.

In terms of net external debt, pressures have trended upwards as well. The stock ratio to the export of goods and services expanded 41.2%, as at end of 2020 H1, from 36.0% at the end of 2020 Q1. These developments entirely relate to the fall in the export of goods and services, while the ratio of net external debt stock to GDP reduced by 2.7 percentage points compared with a year earlier.

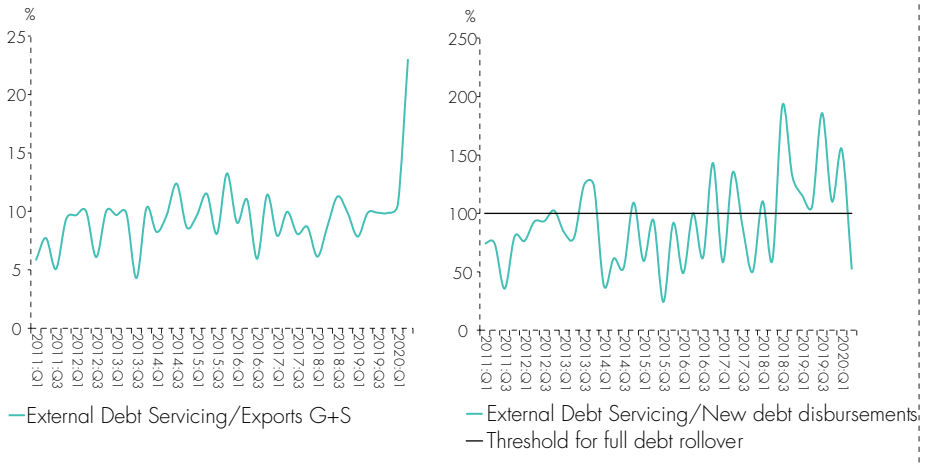
Chart 9 Net external debt to nominal GDP (left) and to exports of goods and services (right)



Source: Bank of Albania.

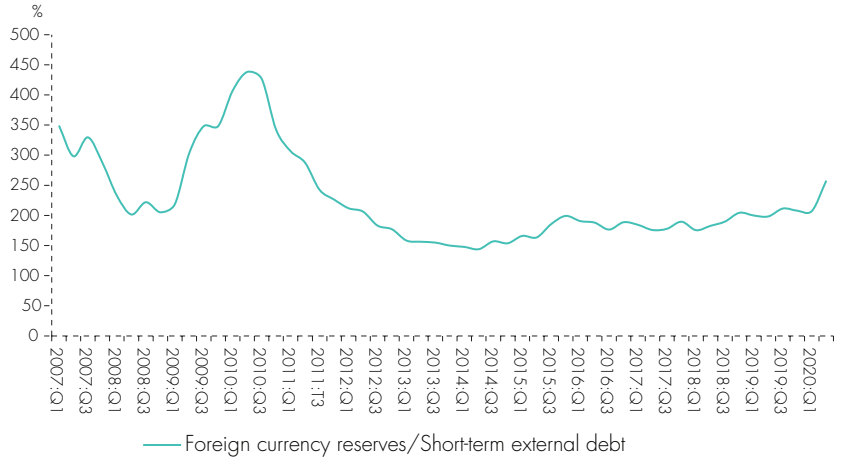
In terms of debt servicing, pressures have trended upwards as well. The ratio of external debt servicing to the export of goods and services[10] climbed at 23.0% at the end of 2020 H1, up by 12.4 percentage points compared with 2020 Q1. The recorded ratio of this indicator returned above the theoretical threshold of 20%[11]. Last, the Eurobond issuance drove to a considerable reduction to the ratio of external debt replacement[12], standing at 52.0%. This ratio has continuously been above the level of 100%, from some times.

Chart 10 Ratio of external debt service to export of goods and services (left) and new debt disbursements (right)



Source: Bank of Albania.

Chart 11 Foreign exchange reserve stock to short-term gross external debt



Source: Bank of Albania.

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

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

[12] *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.*

Notwithstanding the above-stated deteriorations, data on foreign exchange reserve stock show adequacy in terms of covering the short-term liabilities. This ratio stands at 257.8%, notably above the critical threshold of 100%.[13].

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