BANK OF ALBANIA

GROSS EXTERNAL DEBT ANALYSIS H1-2021

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C O N T E N T S

MAIN CONCLUSIONS

LEVEL AND STRUCTURE

At the end of June 2021, Albania's gross external debt stock stood at 62.6% of GDP. The ratio is around 5.3 percentage points lower compared with a year earlier. Its contraction reflects mainly the steep increase of nominal GDP affected by the strong base effect in the previous year. On the other hand, the debt stock decreased by 1.5% compared with the previous year, driven mainly by the lower "general government stock," which is associated with the payment of the Eurobond during the fourth quarter of 2020. Broken down by maturity, long-term debt accounts for about 92.0% of total, while short-term debt accounts for about 8.0[1]%. Net external debt ratio to GDP is assessed at 12.6%, down by 2.2 percentage points compared with a year ago.

The indicators of the external debt long-term repaying capacities have returned to an improving trend after the shock experienced during 2020. This relates to the economic recovery reflected in the increase of exports and fiscal revenues. Hence, the ratio of gross external debt to the annual exports of goods and services was estimated at 183.0%, from 191.8% a year ago. This ratio recorded the highest value during 2021 Q1 when it reached 221.1%. Also, the ratio of external debt to fiscal revenues fell to 233.0%, from 250.5% a year earlier. The ratio of general government stock to fiscal revenues dropped to 111.3%, from 125.4% in 2020 Q1.

There are positive developments observed in the liquidity adequacy indicators as well. At last, foreign exchange reserve stock covers 535.5% of short-term external debt at the end of 2021 Q2, showing an adequacy in meeting the short-term liabilities[2].

1. A DETAILED ANALYSIS OF GROSS EXTERNAL DEBT[3]

At the end of 2021 H1, Albania's gross external debt stock totalled EUR 8,811.4 million, down by around 1.5% in annual terms. The decline of stock in annual terms is mainly driven by the contraction in the debt of "General Government" due to Eurobond repayment. The external debt is estimated at 62.6% of nominal GDP[4]. This ratio is around 5.3 percentage points lower compared with the same period in the previous year, and 4.2 percentage points lower compared with 2021 Q1.

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[1] *In the External Debt Report of 2020 Q3, the "Currency and deposits" instrument has been reclassified due to the additional reporting of immigrants' deposits. As a result, the share of the long-term debt has decreased significantly, while the share of the long-term instrument has gone up.*

[2] *Short-term debt stock used in this report does not include debt by the remaining maturity.*

[3] *The external debt data that were applied in this analysis belong to 2021 Q2.*

[4] *Four-quarter moving amount of GDP.*

The general government remains the sector with the highest share in the total external debt stock, by around 47.8%. The specific stock decreased by 5.9% in annual terms. The stock to nominal GDP ratio was assessed at 29.9%, around 4.1 percentage points lower compared with the previous year.

The gross external debt stock of depository corporations (except the central bank) amounted to EUR 1,454.5 million, up by around 3.1% compared with a year ago. The stock was estimated at 10.3% of nominal GDP, around 0.4 percentage point lower yoy. Other sectors stock was EUR 1,461.9 million, recording an annual growth by 7.5%. The stock to GDP ratio was assessed at 10.4%, around 0.1 percentage point higher compared with a year ago.

The stock of foreign direct investments inter-company lending registered EUR 1,628.4 million, down by around 0.7% in annual terms. The stock to nominal GDP ratio was assessed at 11.6%, around 0.9 percentage point lower compared with 2020 H1.

At the end 2021 H1, 92.0% of foreign debt is estimated to be long-term debt (including FDIs) mainly in the form of loans. Short-term debt accounted for around 8.0% of the total debt stock, mainly in the form of currencies and deposits of Deposit-taking corporations (except the central bank).

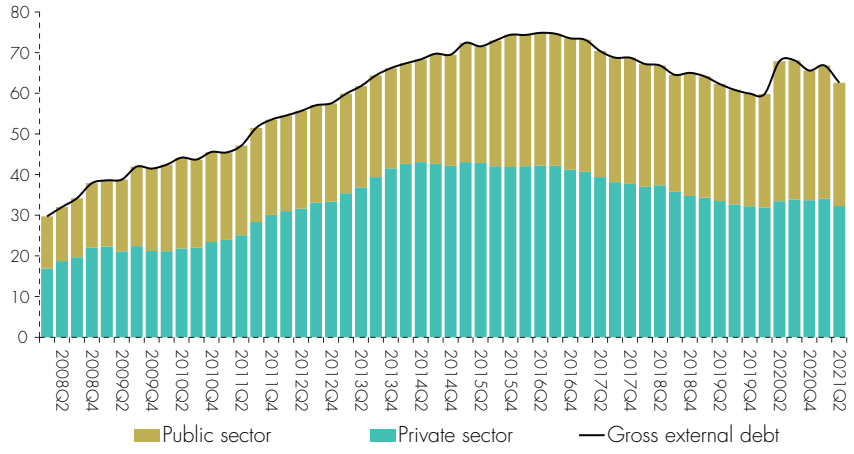
A) EXTERNAL DEBT BY SECTORS[5]

The public sector's debt stock (except of the guaranteed debt included in other sectors) decreased by around 5.9% on an annual basis, and contributed by -3.0 percentage points in the annual decline of the gross external debt. The decline of stock is mainly driven by the "General Government" Eurobond repayment carried out during 2020 Q4.

The private sector generated an increased contribution of 1.5 percentage points in the total external debt. The main contribution came from the expansion of the stock of "other sectors, "driven mainly by the increase in "commercial lending" and "long-term debt."

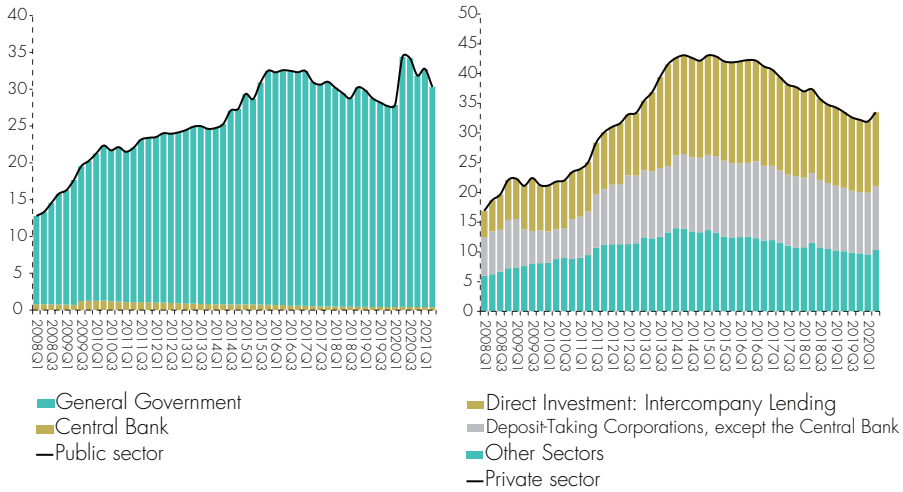
[5] *According to BPM6, the sectors of the economy include: 1. general government; 2. Central bank; 3. deposit-taking corporations except the central bank; 4. other sectors; 5. foreign direct investments (FDIs).*

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



Source: Bank of Albania.

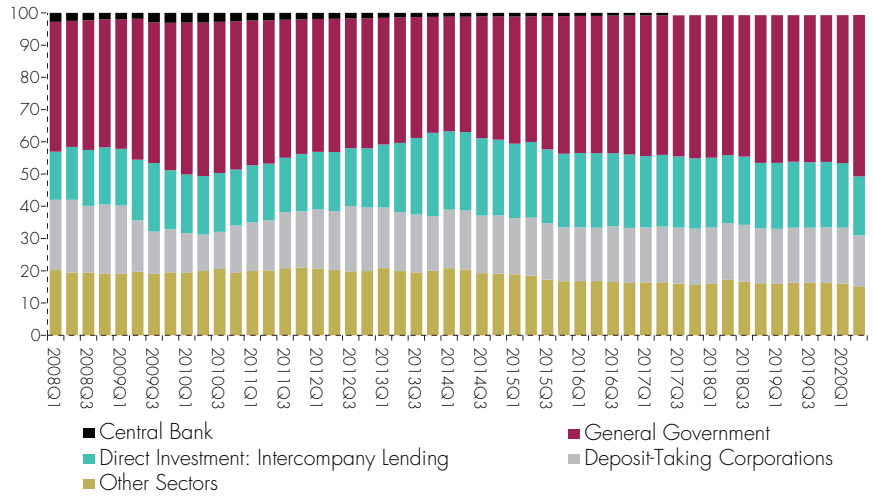
Chart 2 Disaggregated public and private sectors' debt (% of nominal GDP



Source: Bank of Albania.

In a more detailed sector breakdown, the "general government" has the main share in the external debt (around 47.8%). 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 16.6%, FDIs (intercompany lending) 18.5%, and the monetary authority 0.01%.

Chart 3 Share of sectors in total external debt stock (left)



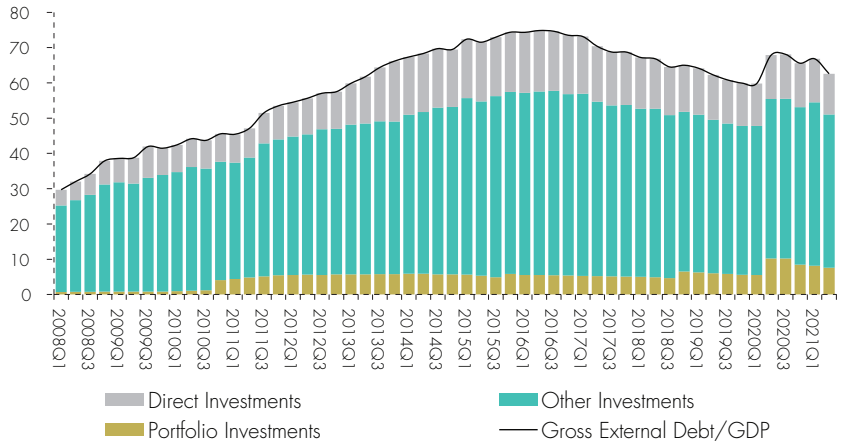
Source: Bank of Albania.

B) EXTERNAL DEBT BY INSTRUMENTS USED

Broken-down by instruments used, other investments[6] have the main share to the total external debt stock, by around 69.4% of the total (43.4% of nominal GDP) at the end of 2021 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 share of "portfolio liabilities" expanded considerably in the previous year, with the issuance of Eurobond. At the end of 2021 H1, this category accounted for around 12.1% of the total external debt. The share is slightly lower in annual terms (-2.9 percentage points) due to repayments.

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



Source: Bank of Albania.

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

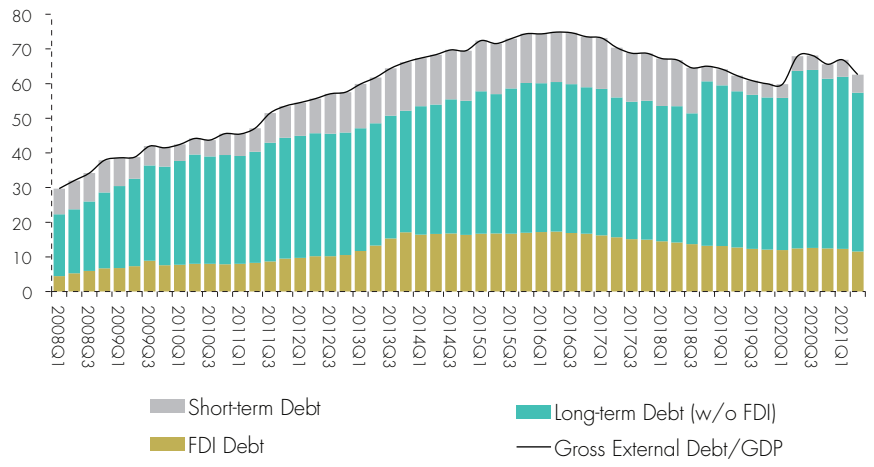
The stock of "FDI-Inter-company Lending" reduced by 0.7% in annual terms, in line with the annual decline in direct external investments during this period. The stock of FDIs accounts for 18.5% of the total external debt stock.

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 92.0% of the total. Its share decreased by 2.0 percentage points compared with the previous year, driven by the fall of portfolio investments (repayment of Eurobond).

At the end of 2021 H1, short-term debt amounted to around EUR 732.9 million, expanding by around 31.9% on an annual basis. The expansion of the short-term debt stock was driven by both the increase of "commercial lending" and the relevant stock of "deposit-taking corporations." As regards the latter, short-term obligations in the form of "debt" and "currency and deposits" have gone up. Short-term debt is estimated at 5.2% of nominal GDP, up by around 2.0 percentage point, compared to the previous year.

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



Source: Bank of Albania.

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;[7] (b) indicators that measure the adequacy of liquidity in case of obligation to repay short-term liabilities[8].

[7] *Mainly expressed as "general debt" and "general government" debt ratio to "export of goods and services" and to "fiscal income."*

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

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	2020	2021H1
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	174.2	164.0	153.2	214.8	183.0
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	243.6	233.0
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	116.8	111.3
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	6.7	6.6	6.4	8.3
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	288.6	906.9	993.5	729.4	656.9
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	605.3	620.1	720.7	535.5
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	13.7	12.6
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	44.8	36.9
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	8.6	9.9	9.9	14.1	13.1
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	123.7	129.5	109.8	103.1

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

A) INDICATORS OF REPAYMENT CAPACITY

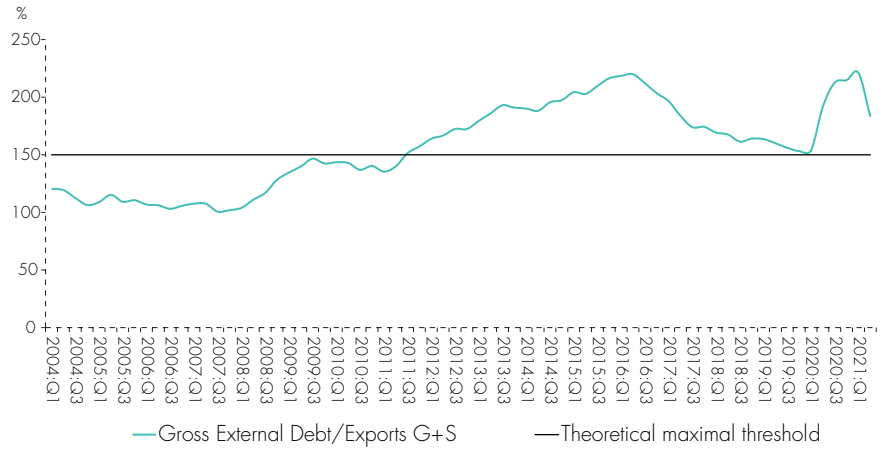
Long-term indicators of repayment capacity have resumed their improving trend during 2021 Q2, following the shock received over the previous year due to the effects of the pandemic. The recovery of the economic activity played a role in this, which was reflected in the improvement of the indicators of exports and fiscal revenue.

Hence, gross external debt ratio to the export of goods and services [9] stood at 183.3%, down by 8.2 percentage points annually and 38.1 percentage points compared with 2021 Q1. This is associated with the strong rebound during 2021 Q2. As a result, the ratio has started to approach the theoretical maximal threshold of 150%[10].

[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] *MF (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.*

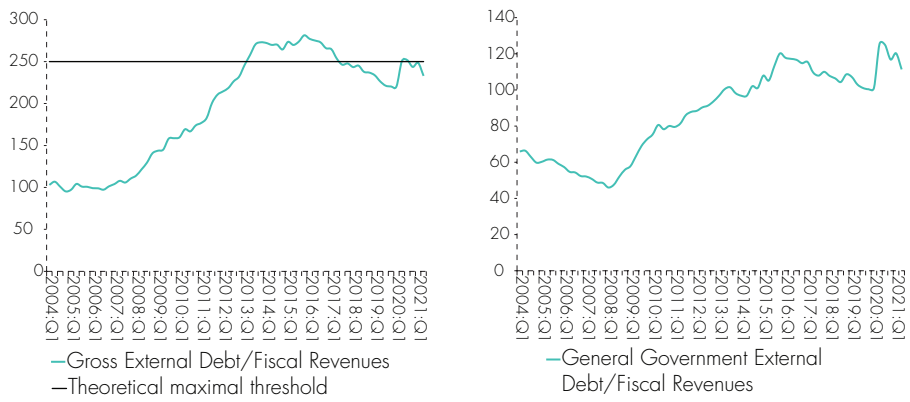
Chart 6 Gross external debt to exports of goods and services



Source: Bank of Albania.

Debt indicators against fiscal revenues show a similar panorama as well. The ratio of gross external debt to fiscal revenue fell to 233.0%[11], declining in both annual and quarterly terms by 17.6 and 15.5 percentage points, respectively. The ratio of "general government" stock to fiscal revenues decreased to 111.3%, down by 14.0 percentage points in annual terms and 8.9 percentage points in quarterly terms.

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.

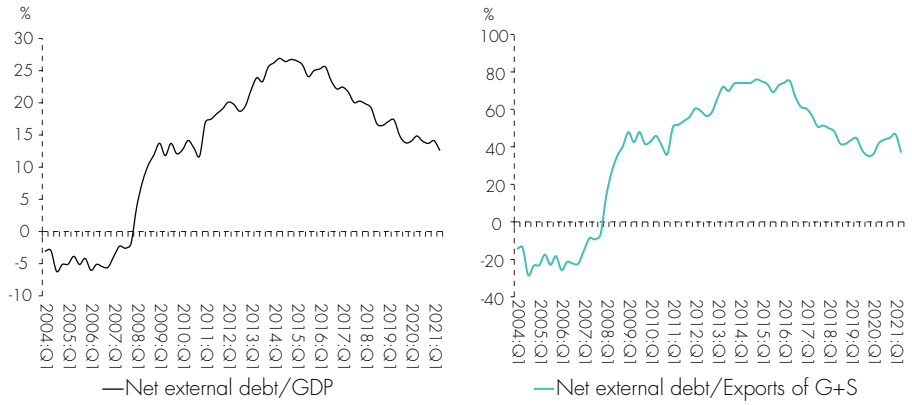
B) LIQUIDITY ADEQUACY INDICATORS

Liquidity adequacy indicators have shown a more mixed overview of indicators. The ratio of export to short-term debt decreased due to the increase of the latter. On the other hand, pressures in terms of net external debt have improved. The ratio of net external debt stock to nominal GDP fell to 12.6%,

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

2.2 percentage points lower compared with the previous year. Also, the ratio of net debt to exports declined by 5.0 percentage points compared to the previous year.

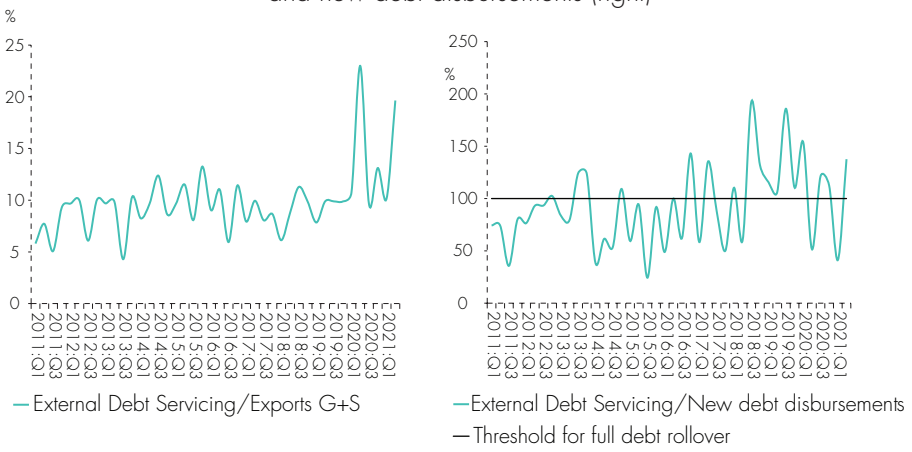
Chart 8 Net external debt to nominal GDP (left) and to exports of goods and services (right)



Source: Bank of Albania and INSTAT.

In terms of debt servicing, indicators have improved as well. The ratio of external debt servicing to the export of goods and services fell to 19.6% at the end of 2021 H1, down by 3.3 percentage points in annual terms. The recorded ratio of this indicator returned below the theoretical threshold of 20%[12]. Also, the ratio of external debt repayment[13] stood at137.6%, recording a considerable increase compared with the previous year. In this case it is observed a strong base effect engendered by the issuance of Eurobond during 2020 Q2. This brought about a significant decline in the replacement ratio one year earlier.

Chart 9 Ratio of external debt service to export of goods and services (left) and new debt disbursements (right)



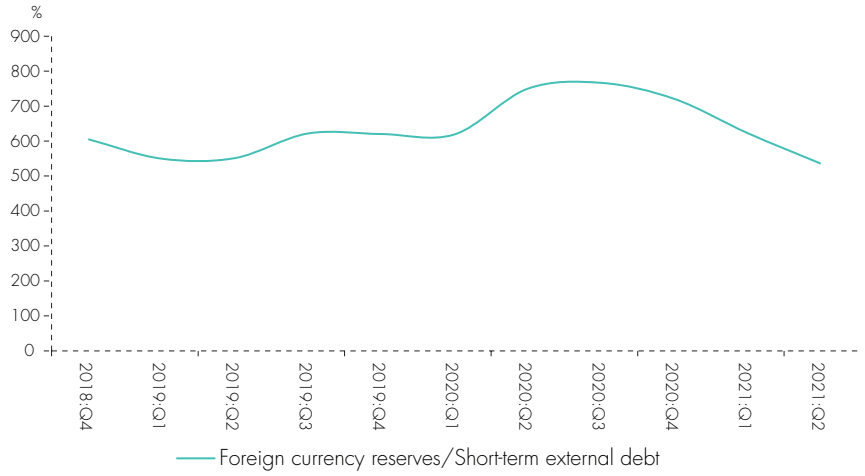
Source: Bank of Albania.

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

[13] *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 535.5%, notably above the critical threshold of 100%.[14].

Chart 10 Foreign exchange reserve stock to short-term gross external debt



Source: Bank of Albania.

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