

Debt Reporting and Transparency

Country insights on debt and investment recording, reporting and transparency

Albania



December 2020



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Compilation of the general government debt data

- Budgetary Central Government
- Central Bank
- Non-Financial Public Entities (SOEs, State Enterprises) at the Central Level
- Local Governments
- Non-Financial Public Entities (SOEs, State Enterprises) at the Subnational Level

Accounting records for public sector debt are not yet consolidated!

ACTUAL REPORTING SYSTEM

Reports and statistics of public debt records doesn't include information on:

- Contingent liabilities
- Budgetary arrears

Fiscal statistical frameworks of public sector debt statistics are based on:

- ESA 2010
- National framework

Accounting standards used to record public debt is:

- National framework on modified accrual basis

Central government provide guarantees as for:

- State Owned Enterprises;
- Subnational / Local Governments;
- Other Types of Government Entities;
- Private Entities in emergency cases.

COVERAGE, FREQUENCY AND METHODOLOGY

Reports generated by public debt

- Medium Term Debt Management Strategy (Yearly)
- Statistical bulletin of public debt (Quarterly)
- Public debt register (Quarterly)
- Data as IMF format/standard (e-GDDS) (Quarterly)
- Auctions results of securities (Daily)
- Benchmark bonds quotation (Daily)

The Ministry of Finance and Economy has registered with several international initiatives in the field of debt disclosure, including:

- The General Data Disclosure System (GDDS)
- Public Sector Debt Statistics (PSDS) (managed by the World Bank)
- At the national level, the Ministry of Finance and Economy publishes:
 - important information on the issuance of government securities in the primary market at the official website;
 - submits a specialized annual report to the Parliament.

COVERAGE, FREQUENCY AND METHODOLOGY

Valuation method for compiling statistics for public debt securities

- Amortized Cost

Valuation method for recording public debt data in government accounts

- Amortized Cost

System used in order to record/report public debt and linked investment management operations

- DMFAS (Debt Management and Financial Analysis System) - UNCTAD

INSTITUTIONS RESPONSIBLE FOR PUBLIC DEBT AUDIT IN ALBANIA

- Supreme Audit Institution
- Internal Auditors of the MoFE

ISSUES HINDERING DEBT TRANSPARENCY IN ALBANIA

- Lack of clarity on reporting standards
- Incomplete coverage of public sector debt

ACTIONS TO IMPROVE DEBT TRANSPARENCY

- Enhancement of regulatory framework;
- Medium-term strategy better elaborated in accordance with international standards;
- Strengthen public debt transparency, through collecting and disseminating debt data, conducting and publishing public debt analysis, and supporting and promoting sustainable borrowing practices;
- Staff capacity building focused on debt recording, reporting and management;
- Strengthening of connection between fiscal risk management function and debt recording and reporting functions;

ACTIONS TO IMPROVE DEBT TRANSPARENCY

- The standardisation of reports that are published as well as being understood and accessible;
- Reporting to the international community;
- The government is prioritizing the implementation of an arrears management system (A wider understanding of government receivables will support government's efforts to recoup funds owed to it in a timely manner);
- Implement accrual accounting (IPSAS) for borrowing costs (based on the Country Strategic Action Plan)
 - Understand the approach to borrowing costs in operation and document how the different regimes work, and any material differences
 - Review the systems used to record the borrowing costs applicable across Albania
 - Develop and agree the year end accrual, prepayment estimates for borrowing costs.
 - Test the estimates and systems to deliver the information required for the financial statements
 - Implement the processed developed and approved for recording borrowing costs

Organizational Structure of Debt Directorate

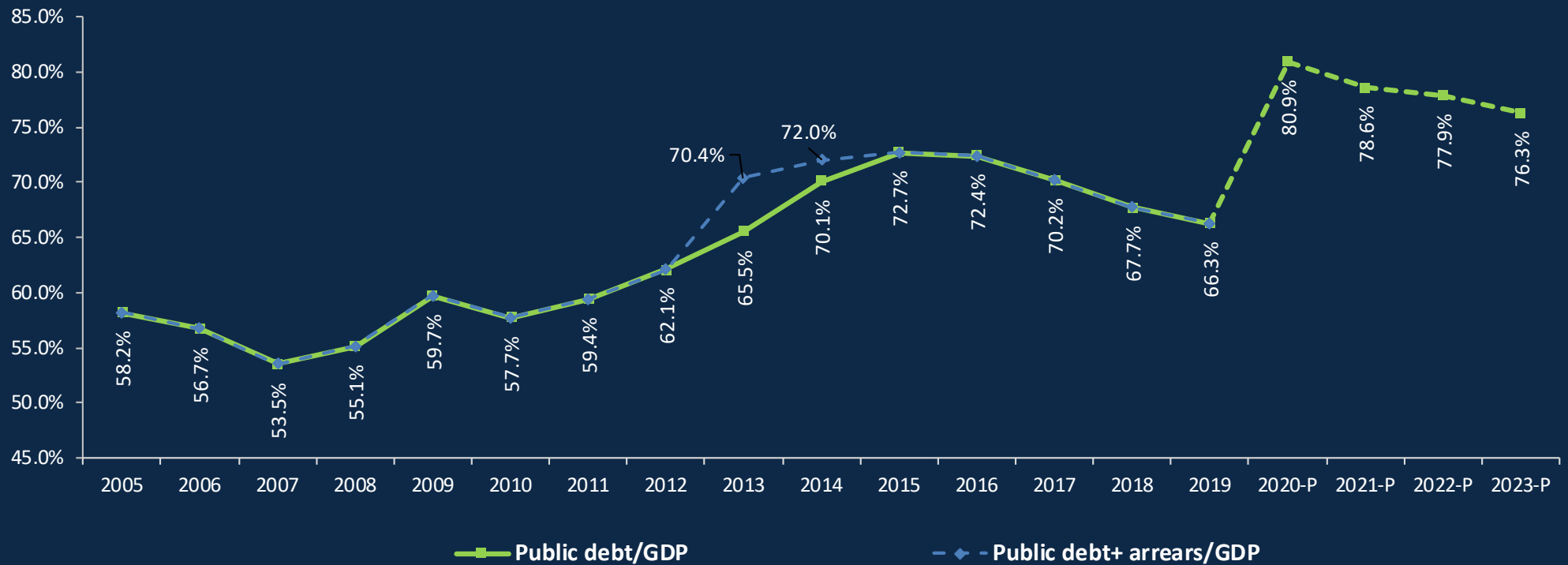


PUBLIC DEBT PERFORMANCE



IN 2019, THE LEVEL OF CENTRAL GOVERNMENT DEBT HAS REMAINED ON A DOWNWARD TRAJECTORY IN LINE WITH MACRO-FISCAL TARGETS.

GIVEN THE INCREASING BUDGETARY FINANCING NEEDS CAUSED BY THE EARTHQUAKE AND COVID-19 PANDEMIC, AS WELL AS THE DECLINING GDP FORECAST, THIS RATIO IS PROJECTED TO INCREASE TO AROUND 80% BY THE END OF 2020.

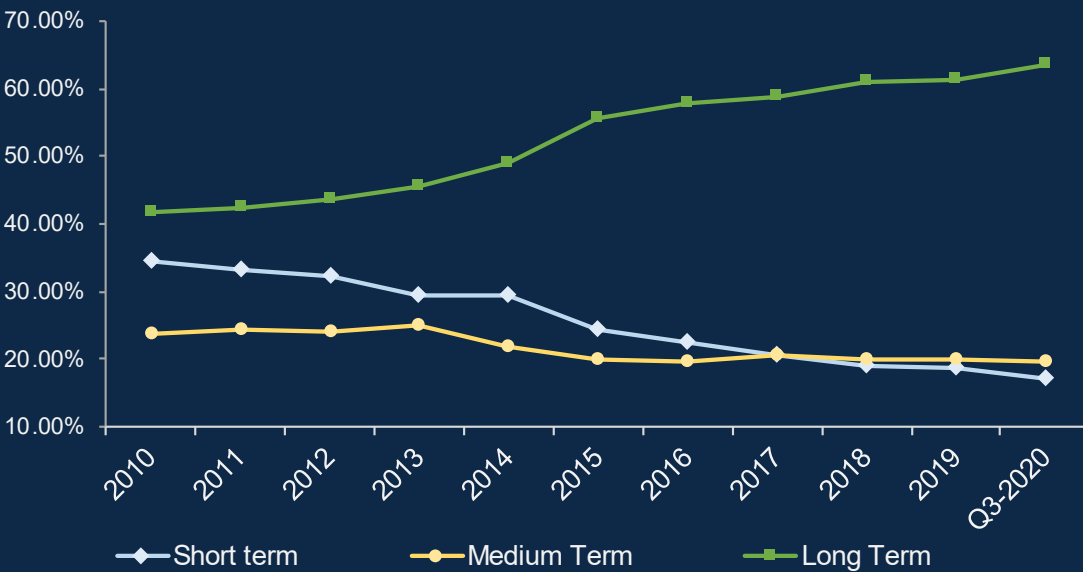


PUBLIC DEBT STRUCTURE

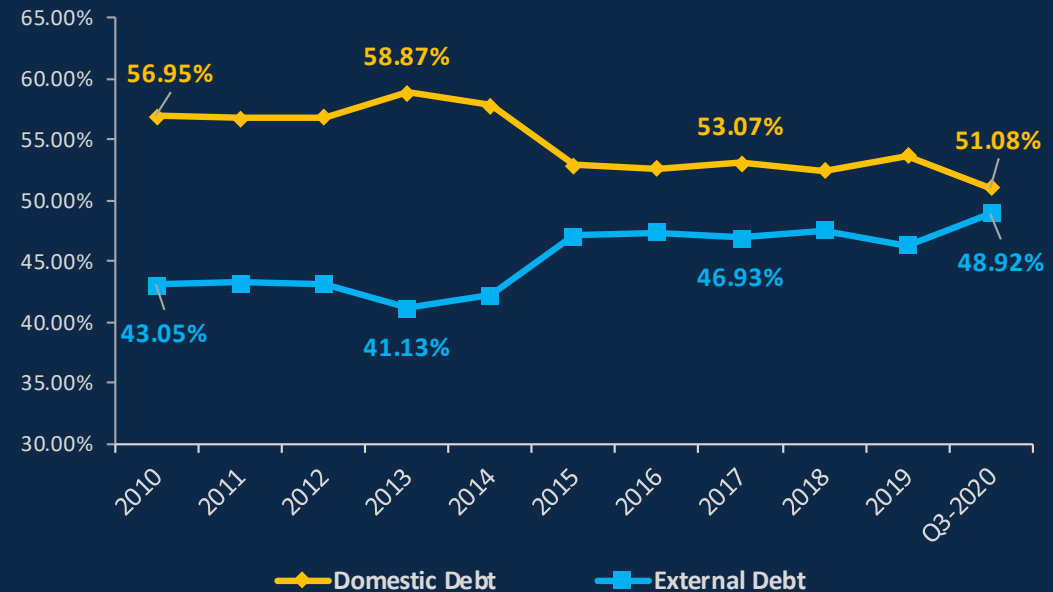


IN Q3-2020, THE STRUCTURE OF PUBLIC DEBT HAS BEEN IMPROVED BY INCREASING ITS STABILITY

- ✓ REFINANCING RISK IS REDUCED
- ✓ INTEREST RATE RISK HAS DECREASED



Foreign borrowing for 2020 is realized mainly through the Eurobond instrument, as well as through loans in the form of budget support, which will finance the growing financing needs caused by the COVID-19 pandemic and the reforms undertaken by the government.



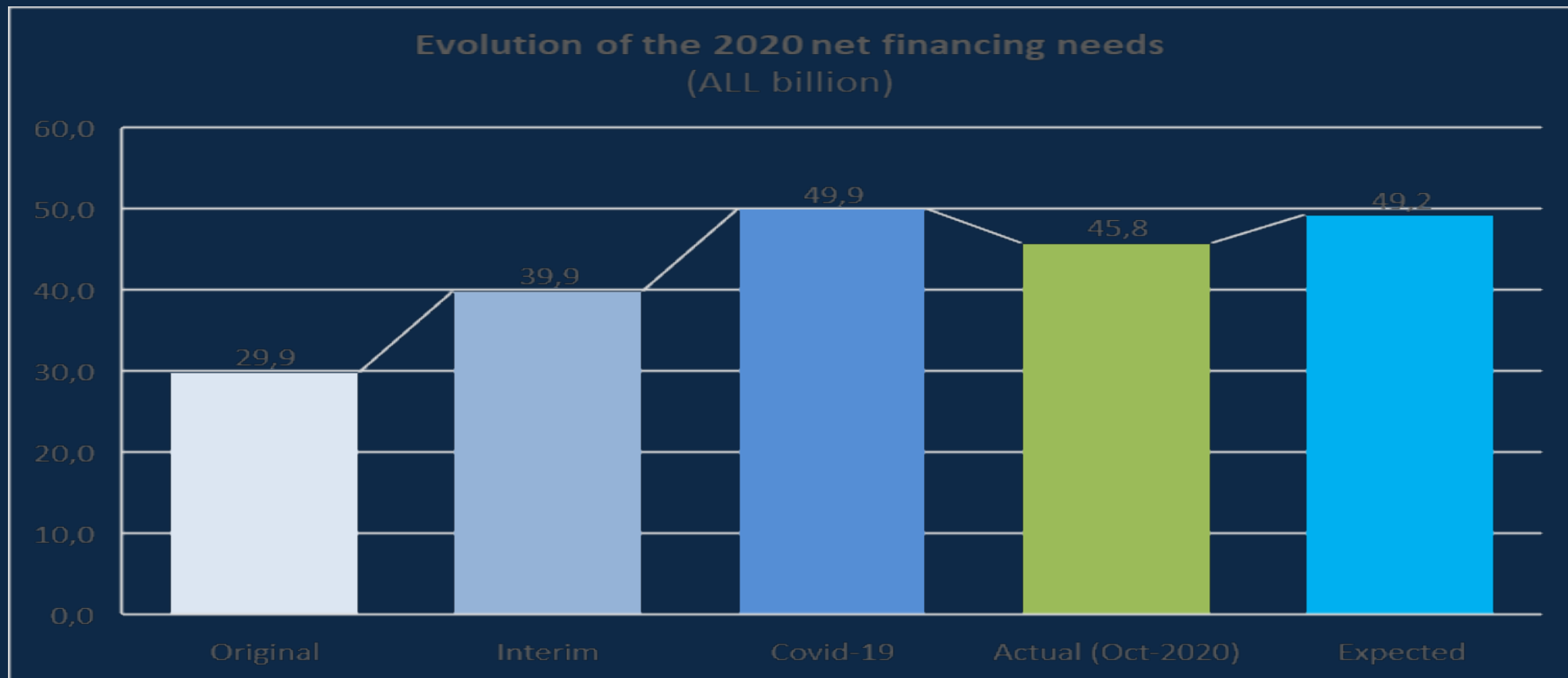
- In 2019 the ratio of long-term, medium-term and short-term instruments was **61.4%**, **19.8%**, **18.8%**, respectively;
- In Q2 2020 the ratio of long-term, medium-term and short-term instruments was **63.5%**, **19.0%**, **17.5%**, respectively;
- In the medium term, long-term instruments will continue to carry the main weight in the portfolio.



DOMESTIC DEBT 2020



EVEN AFTER THE MEASURES TAKEN BY THE GOVERNMENT IN THE FRAMEWORK OF COVID-19 PREVENTION, THE GOVERNMENT'S CAPACITY TO BORROW HAS NOT DETERIORATED. ALMOST ALL GOVERNMENT AUCTIONS FOR STATE SECURITIES THE DEMAND HAS EXCEEDED THE GOVERNMENT'S NEEDS FOR FUNDING.

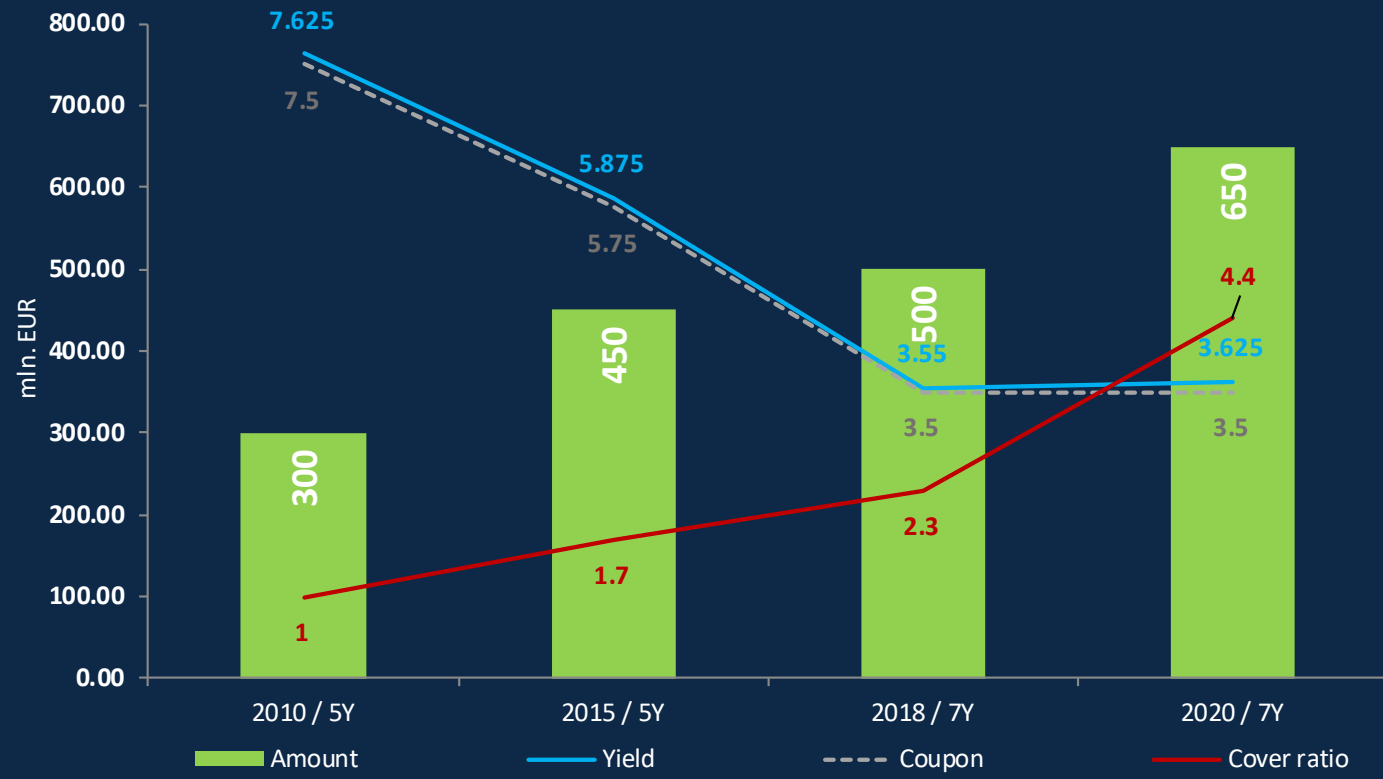




INSTRUMENTS ISSUED BY THE REPUBLIC OF ALBANIA IN INTERNATIONAL MARKETS



ON JUNE 9, 2020, THE REPUBLIC OF ALBANIA ISSUED IN THE INTERNATIONAL MARKETS FOR THE FOURTH TIME A NEW 7-YEAR BOND IN THE AMOUNT OF € 650 MILLION WITH AN INTEREST RATE (YIELD) OF 3.625% (AND A FIXED COUPON AT THE LEVEL OF 3.50%).



SUCCESSFUL ISSUANCE, DESPITE THE CHALLENGING CONDITIONS, AT A LOW INTEREST AND MUCH HIGHER DEMAND (DEMAND RATIO FOR THE INSTRUMENT 4.4 TIMES HIGHER THAN THE TARGET AMOUNT FROM OUR COUNTRY), IS A SIGNAL OF INTEREST AND MARKET CONFIDENCE OF INTERNATIONAL INVESTORS FOR OUR INSTRUMENT, AND MORE BROADLY, CONFIDENCE IN THE PUBLIC FINANCES OF OUR COUNTRY

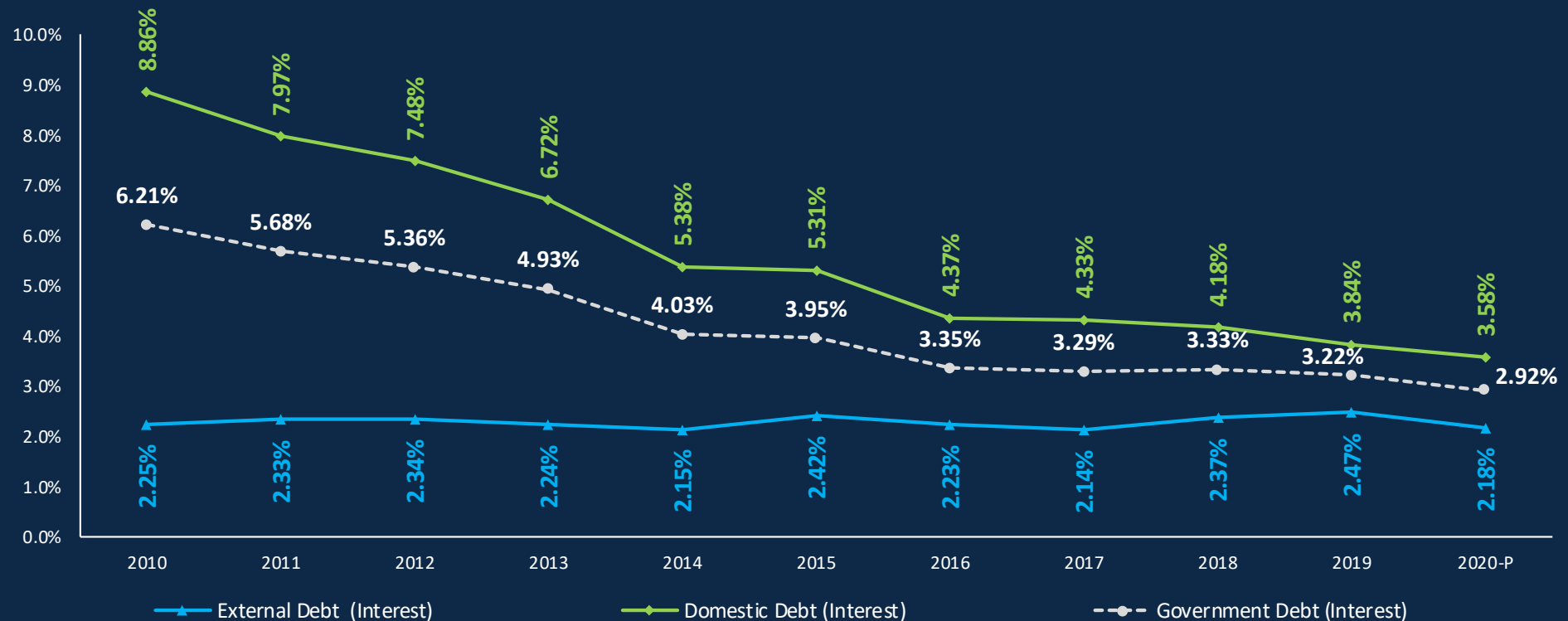


COST OF GOVERNMENT DEBT



DESPITE THE INCREASE IN THE DEBT STOCK IN ABSOLUTE TERMS AND THE INCREASE IN THE CONCENTRATION OF LONG-TERM DEBT IN THE PORTFOLIO, DEBT COSTS CONTINUE TO BE LOW, REFLECTING THE IMPROVEMENT IN THE RATIO BETWEEN COST AND RISKS.

COST PER UNIT OF GOVERNMENT DEBT HAS CONTINUED TO DECLINE DUE TO FALLING INTEREST RATES AND DUE TO THE REFINANCING OF LONG-TERM DEBT MATURING WITH MORE FAVORABLE INTEREST RATE DEBT



CREDIT ASSESSMENT PROFILE



Current Rating

B+ / Stable / B (January 2020)

B1 / Stable (August 2020)

Advantages

- ✓ Expectations for structural reforms in the context of improving the business climate and attracting foreign investment;
- ✓ Expectations for reforms in the medium term in line with EU aspirations;

- ✓ Progress in EU integration;
- ✓ Progress on structural reforms;
- ✓ Significant level of Foreign Direct Investment (FDI);

**Disadvantages
(Attention
required)**

- ✓ High level of debt and fiscal risks arising from contingent liabilities (PPP);
- ✓ Relatively low income levels.

Thank you for your attention!



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