

Albania: Debt Sustainability and Accessing International Markets

This presentation draws on work by
MCM Department in the IMF and the
World Bank

Structure of Presentation

- Look at a debt sustainability analysis.
- The Medium-Term Debt Strategy as a framework for thinking through the issues.
- Some thoughts for the Albanian authorities to consider.
- Specific issues for debut issuers in international markets.

Some facts and figures

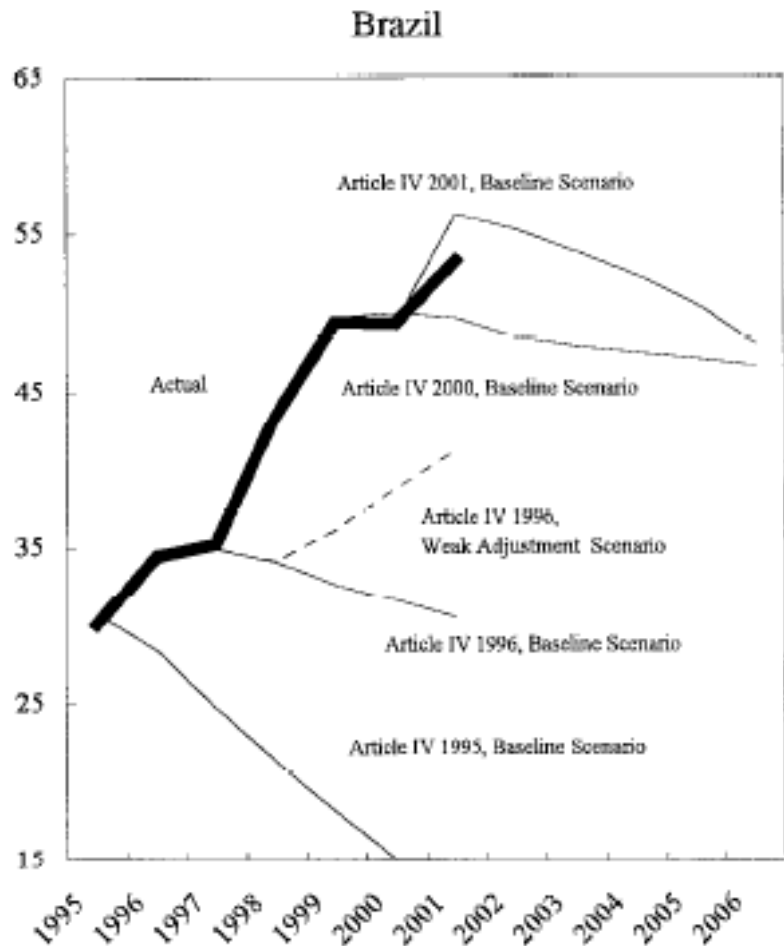
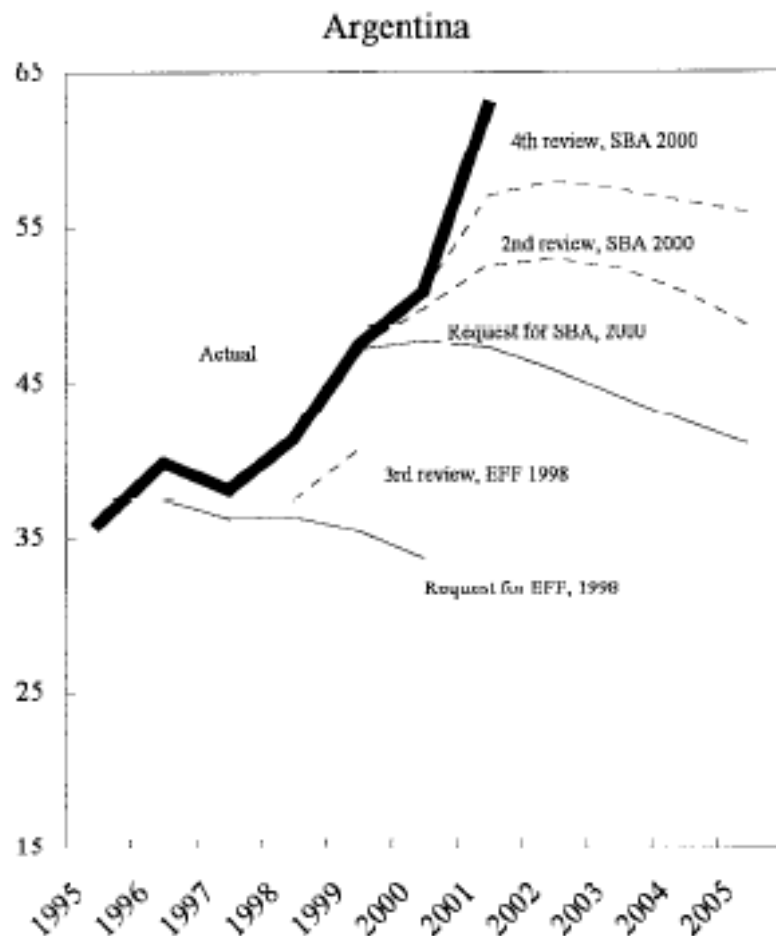
- Public debt around 53% of GDP in 2007.
- Domestic debt 70% of the total.
- Foreign currency debt 15.5% of GDP.

Debt Sustainability Analysis

- Analysis checks whether macroeconomic policies are consistent with sustainable debt.
- Looks at solvency: [PDV of current and future expenditure no greater than PDV of path of income and indebtedness.]
- Also looks at liquidity [debt servicing pressures.]
- Uses Net Present Value to capture concessionality of debt.

Prior to Debt Sustainability Analysis the IMF was poor at projecting debt profiles..

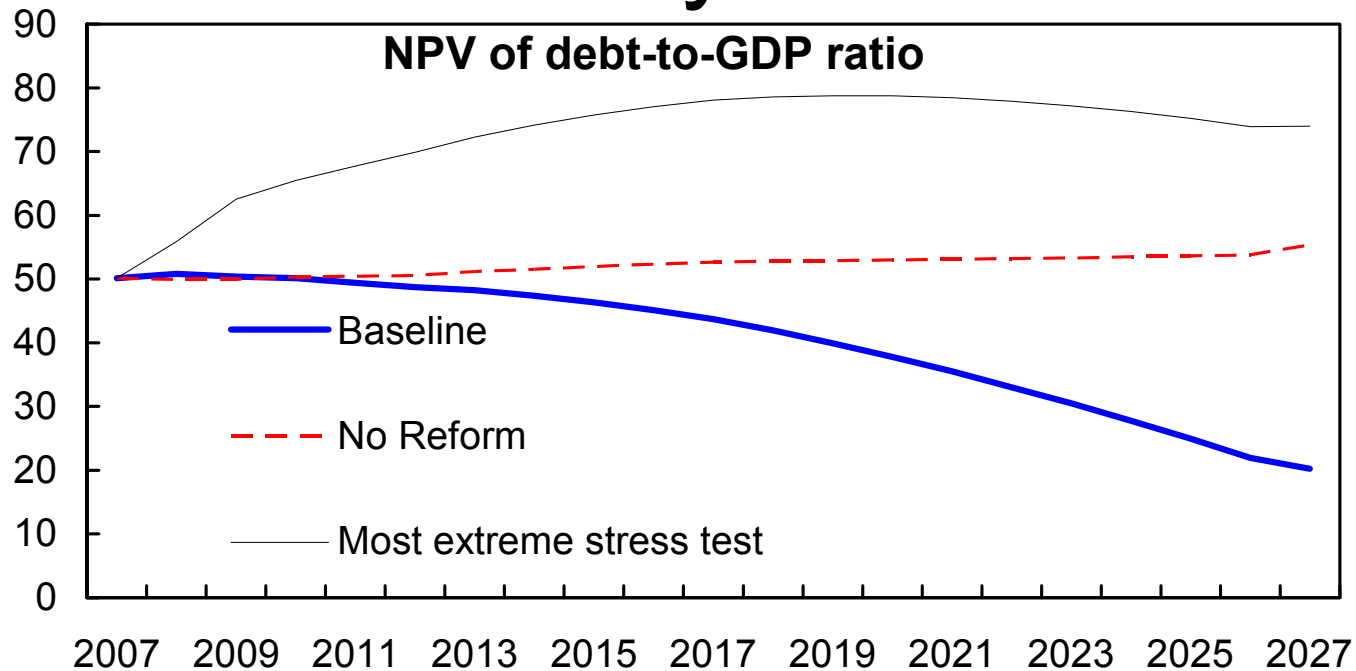
Figure 2. Projections of Public Debt to GDP Ratio : Selected Emerging Market Countries



Changes in debt ratios in transition economies also surprised policymakers

	Change Debt/GDP ratio 1995-2001		
	Actual	Projection	Difference
Armenia	26.2	6.4	19.8
Estonia	7.2	-5.6	12.8
Georgia	3.2	-21.6	24.8
Kazakhstan	38.4	1.4	37
Moldova	53.3	-16	69.3
Russia	22.5	0	22.5
Ukraine	5.1	1.7	3.4

Albania Debt Sustainability Analysis

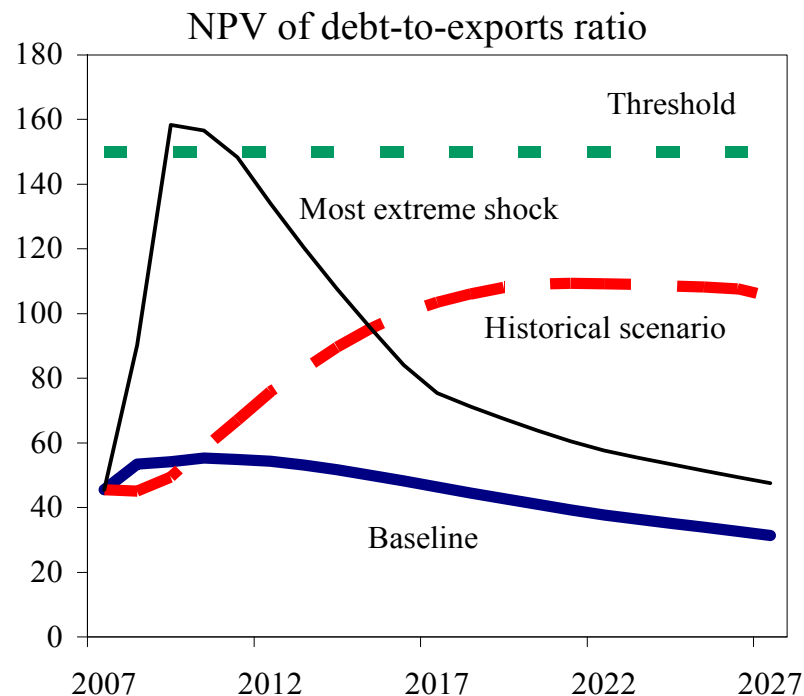
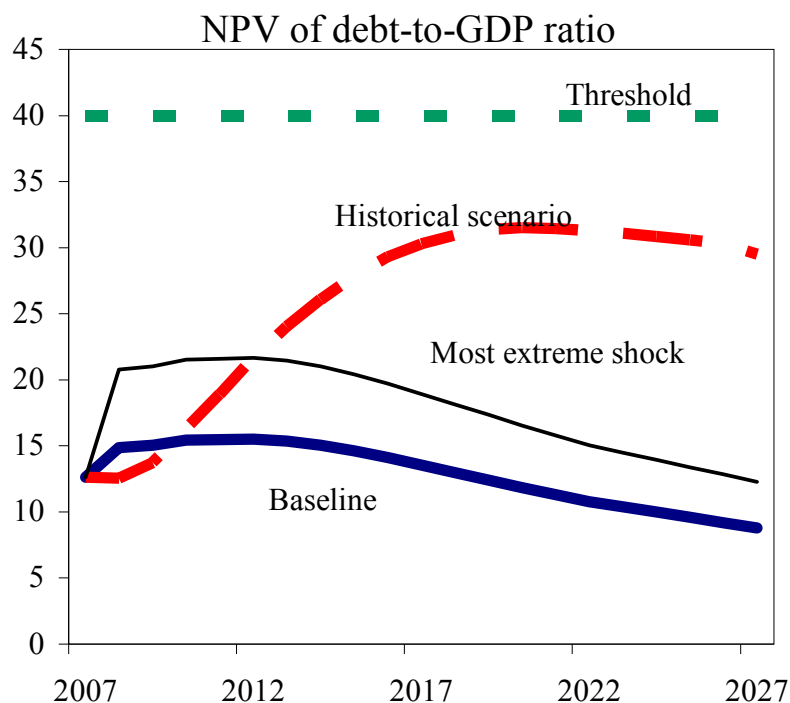


- On current plans-- fiscal deficit firmly anchored-- total debt/GDP is on a declining path and looks sustainable.
- But debt remains susceptible to shocks-- and so vigilance is needed.

Scenarios and effect on public debt

	Projections			
	2007	2008	2011	2012
NPV of Debt-to-GDP Ratio				
Baseline	50	51	49	48
A. Alternative scenarios				
A1. Real GDP growth and primary balance at historical averages	50	51	56	58
A2. Primary balance is unchanged from 2007	50	50	51	52
A3. Permanently lower GDP growth 1/	50	51	52	52
B. Bound tests				
B1. Real GDP growth is at historical average minus one sd in 2008-2009	50	53	58	59
B2. Primary balance is at historical average minus one SD in 2008-2009	50	53	54	53
B3. Combination of B1-B2 using one half standard deviation shocks	50	53	55	54
B4. One-time 30 percent real depreciation in 2008	50	56	55	54
B5. 10 percent of GDP increase in other debt-creating flows in 2008	50	60	57	56

External Debt sustainability



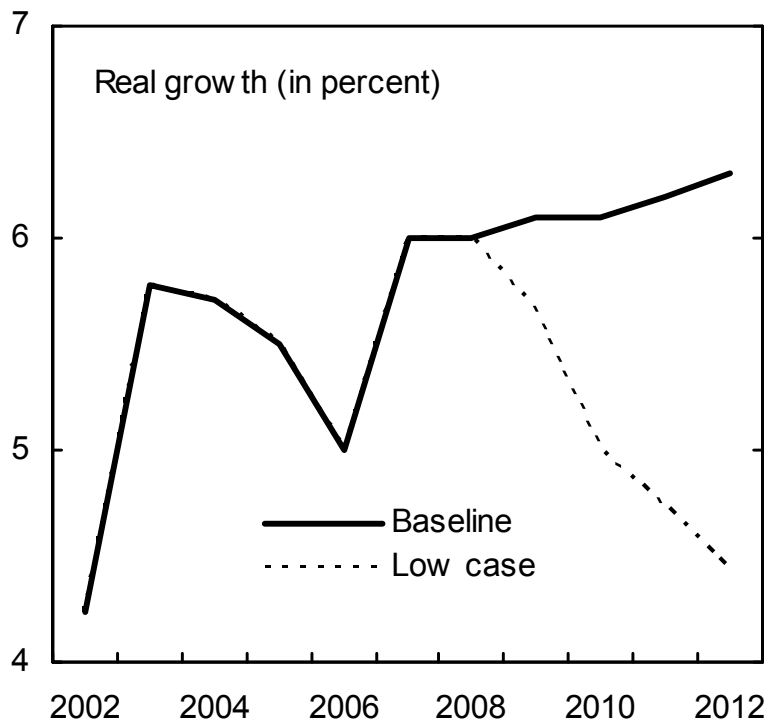
- External debt is comfortably low at present
- But it also remains vulnerable given Albania's narrow export base and exposure to shocks

Managing debt would be more challenging with lower growth

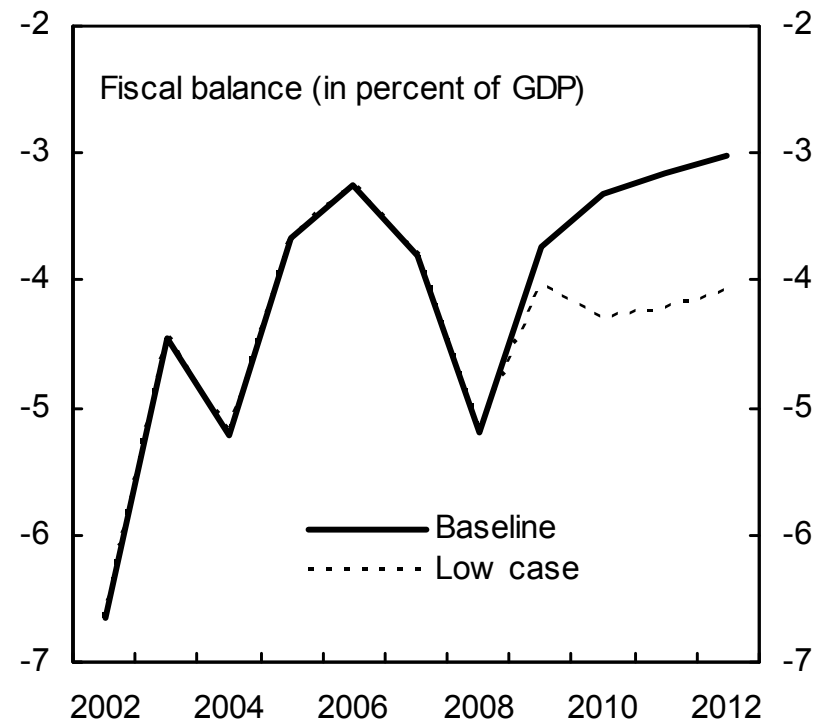
- Sustaining Albania's current high growth rates of 6% a year depends on further progress on improving the business climate.
- If progress slips the macroeconomic environment would be more challenging

The possible effects of low growth

Growth lower at 4%

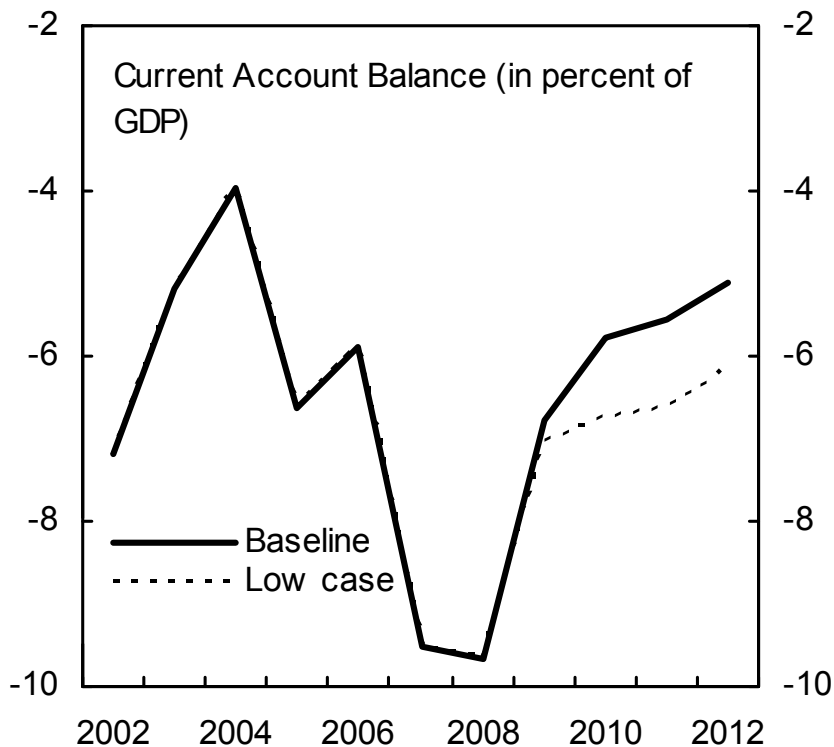


Fiscal Deficit higher

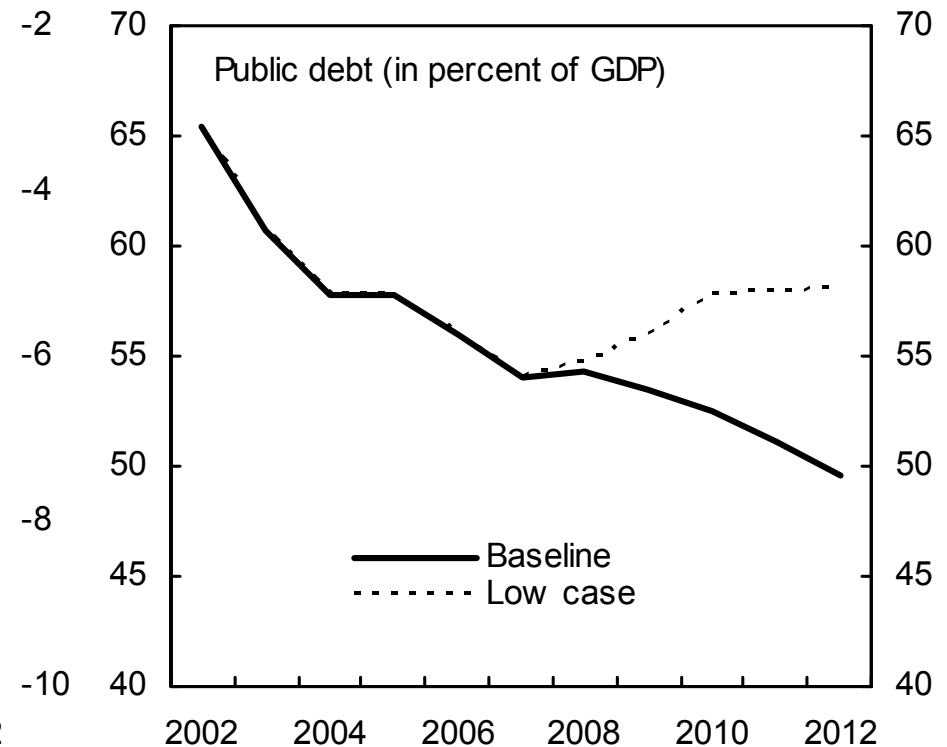


Worsens current account and increases debt

Current Account widens



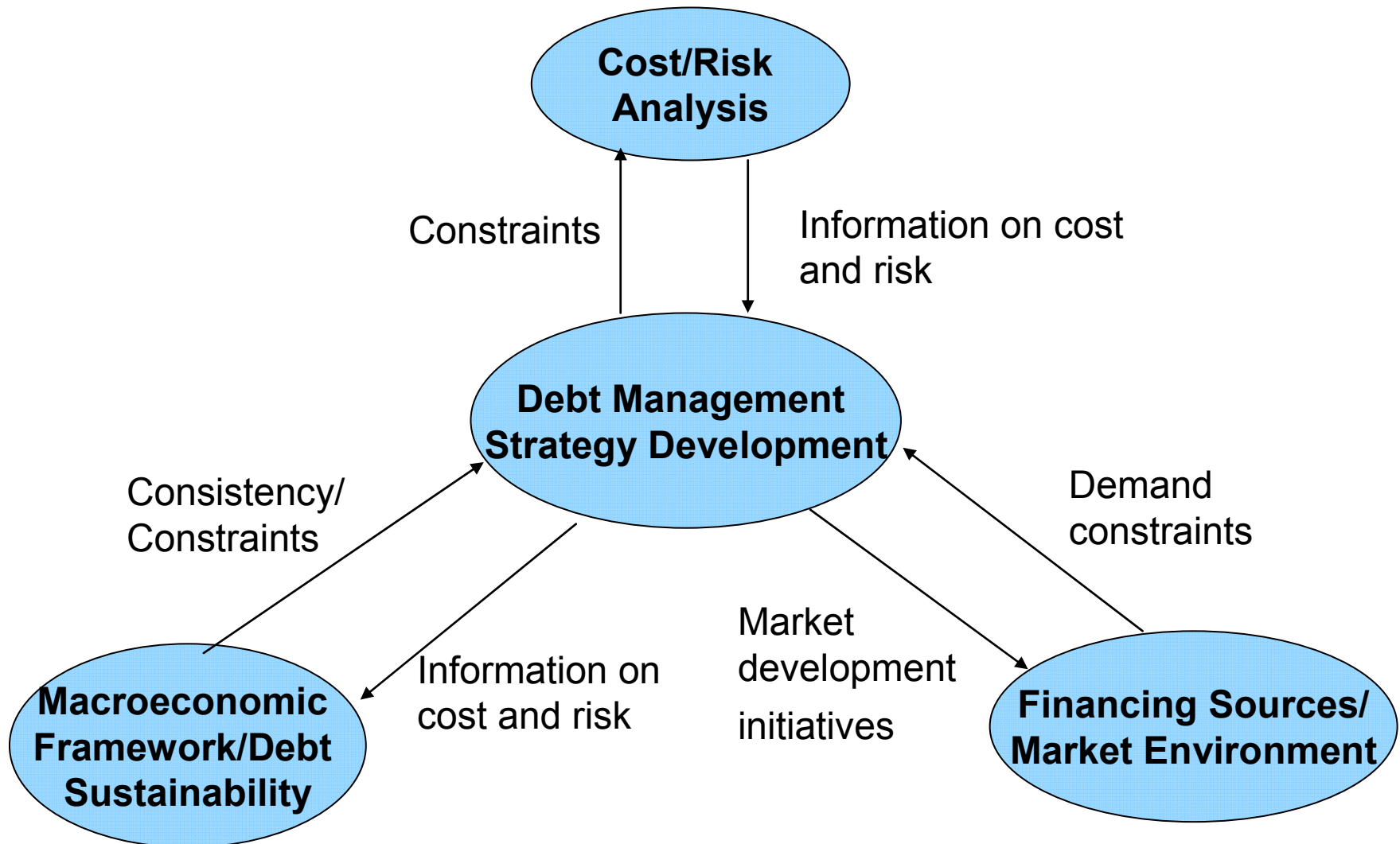
Public debt higher



Issues to Consider

- Need to consider the debt strategy in the context of overall macroeconomic policy.
- The IMF and World Bank are developing a framework – The Medium Term Debt Strategy that is a tool that countries might use as a guide.
- Its objective is to help governments meet financing needs at lowest cost and consistent with a prudent degree of risk.
- It focuses on the financing strategy over the medium term planning horizon.

Debt Management, Macroeconomic Framework and Market Constraints



Some considerations for Albania

1. **Macroframework:** medium-term budget framework, fiscal anchor, capacity to implement.
2. **Costs and risks:** short maturity though now increasing, range of instruments.
3. **Financing sources:** less concessional, aiming for market access.
4. **Structural factors/ market development:** domestic market development. Remittances. Pensions.

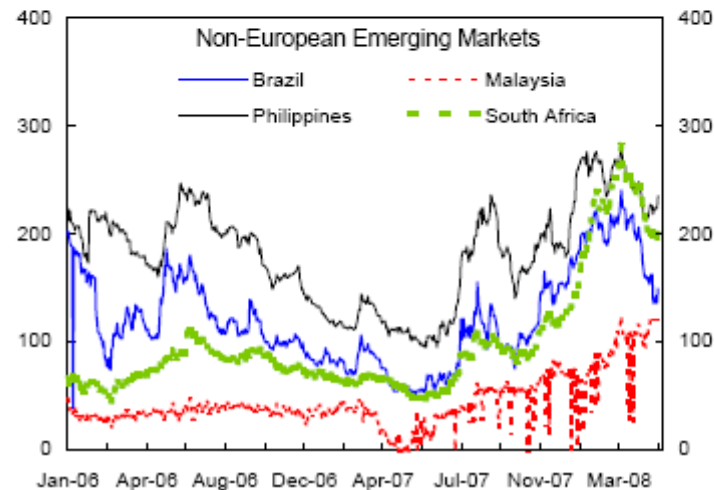
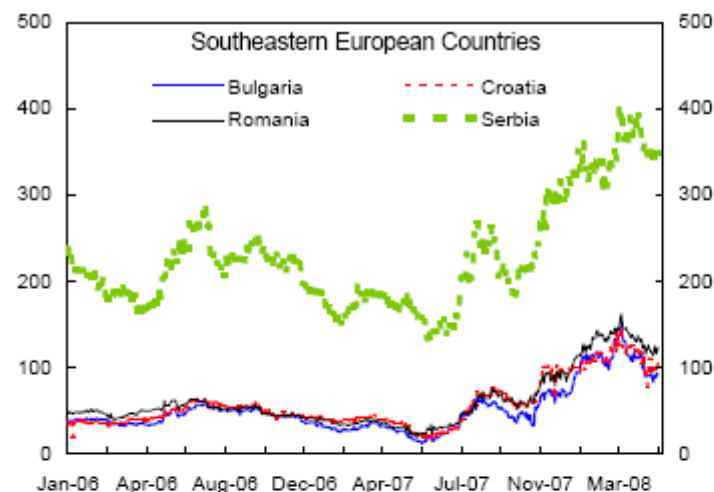
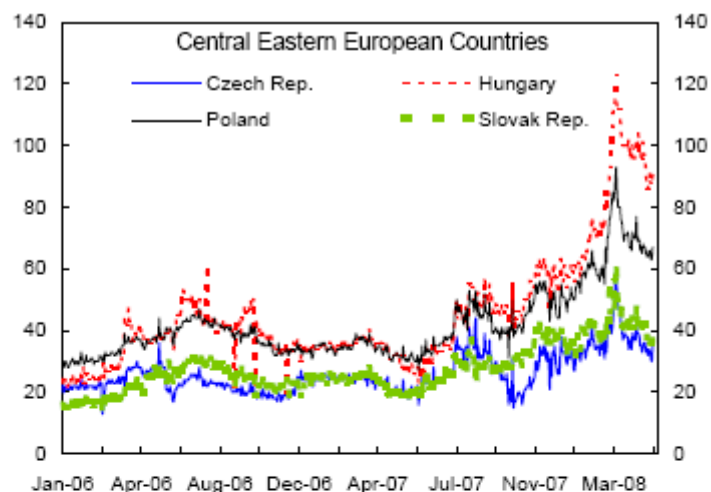
Local Currency Debt Markets

- Over the past 2 years MOF has improved the domestic currency debt structure: good progress on lengthening maturities – 5 year fixed and floating rate debt 7 year fixed bond a success.
- Possible further next steps include deepening the fx market.
- Structural features- mentioned previously – tapping remittances and development of pensions pillars.

Access to International Capital Markets – the key questions

- Project evaluation and capacity to implement.
- Is the strategy consistent with the development of the domestic market?
- Is now a good time to access markets?
- Comparison of alternative forms of finance.

EMBI Spreads for Emerging Markets since 2006 in basis points

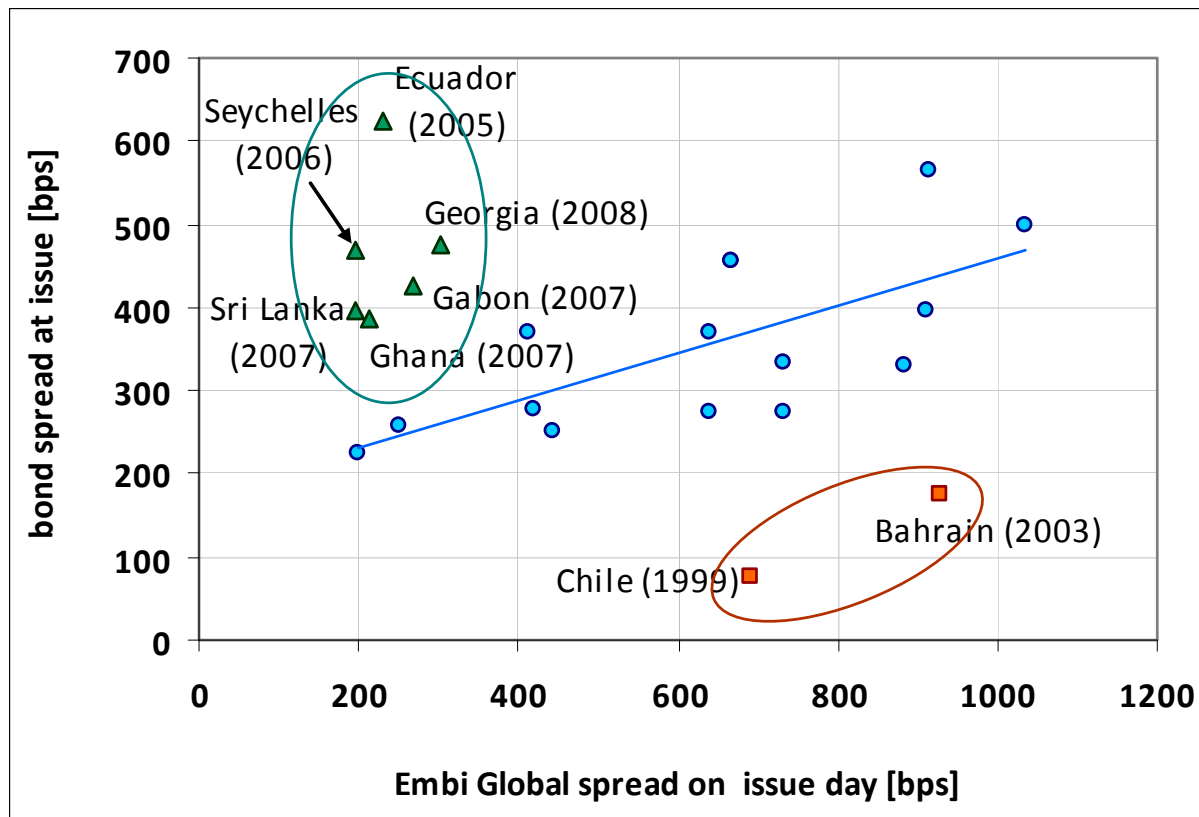


Specific considerations for accessing international markets

- Type of issue.
- Currency.
- Size and use of proceeds
- Maturity and repayment structure
- Execution
- Legal advice.

Based on work by Polan, Pappaioannou

Relative cost of issue



Recent debut bond issues

Country	Date	Size (\$ mln)	Size (% GDP)	Maturity	Spread at issue	Yield at issue
Pakistan	Feb-04	500	0.52%	5	370	6.864
Indonesia	Mar-04	1000	0.39%	10	277	6.968
Vietnam	Oct-05	750	1.42%	10	268	7.247
Ecuador	Dec-05	650	1.75%	10	623	11.061
Fiji	Sep-06	150	5.00%	5	225	7.252
Seychelles	Sep-06	200	28.64%	5	470	9.296
Ghana	Sep-07	750	4.99%	10	387	8.500
Sri Lanka	Oct-07	500	1.85%	5	397	8.472
Gabon	Dec-07	1000	9.80%	10	426	8.200
Georgia	Apr-08	500	6.46%	5	474	7.500

Source: MCM.

Pitfalls for debut issuers

- Issuing too large for financing needs— resulted in high carry cost
- Very large compared to an economy's size – putting debt sustainability at risk
- Issuing bullet bonds causing hump in repayment profile
- More preparation may have been needed with more precise information on the intended use of the proceeds.
- Poor pricing, high volatility and low liquidity in the secondary market.

Conclusion

- A lot of preparation is needed.
- Thought needs to be given to a range of issues from the broad macroeconomic implications to the specific aspects of the issue.
- Plan within a medium-term framework.
- A clear fiscal rule would help with credibility and transparency with the markets.
- Continue to strengthen debt management capacity and increase coordination within MOF.

Thank you

- I would like to thank IMF colleagues, Allison Holland, Peter Kunzel and Magda Polan of MCM, for their useful comments on the presentation.
- I'd now like to hand over to Mr. Gjermeni for a central bank technician's view on the issues raised.