
Public Debt Management



REPUBLIKA E SHQIPËRISË
MINISTRIA E FINANÇAVE

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Debt management in Albania

Definitions and objectives

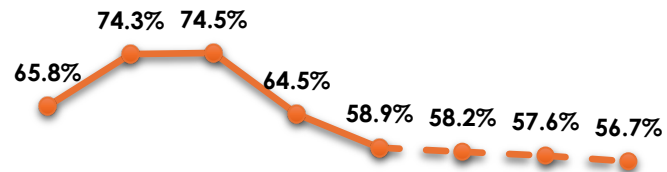
Debt Management involves the planning, issuance, and servicing of public debt



PUBLIC DEBT ON A DECREASING PATH

Current situation-Debt performance and debt/GDP ratio

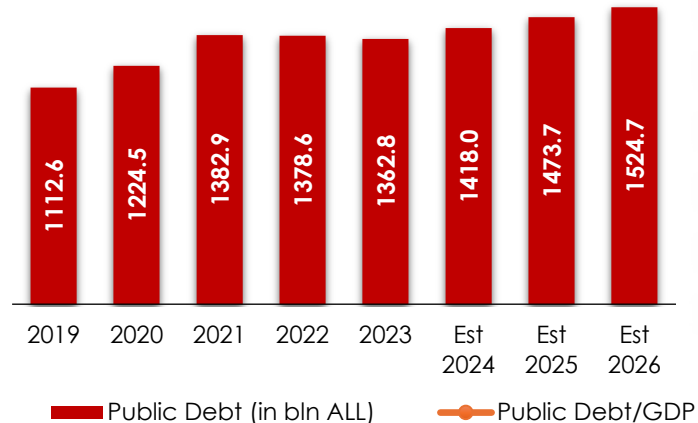
- The debt to GDP ratio continued its downward trajectory in 2024.
- During 2024, the debt to GDP ratio is expected to continue its downward trajectory, reaching the level of **58.2%** at the end of 2024 and **57.6%** at the end of 2025.



Medium-Term Debt Management Strategy 2022-2026

The Medium Term Debt Management Strategy aims to:

- Lengthen further the average maturity of the domestic debt portfolio (currently **920 days**).
- Cap foreign currency denominated debt below 50% of total debt (currently **43.3%** as at June 2024).
- Continue reliance on domestic financing complemented by foreign financing.
- Further development of the domestic market of government securities.

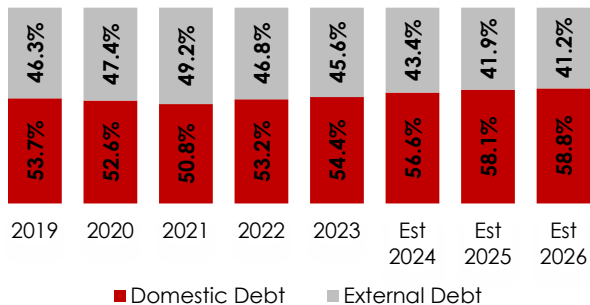


BALANCED DEBT STRUCTURE (Domestic Debt vs. External Debt)

Key highlights

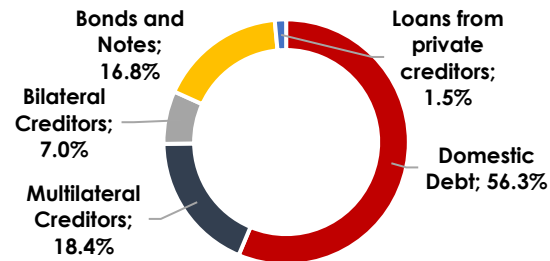
- More than 50% of the central government debt is domestic debt.
- Albania benefits from a wide and well-diversified range of creditors, as well as strong support from international financial institutions, allowing the country to successfully cope with financial crises.
- Short-term debt (with an initial maturity of less than one year) constitutes about 15.9% of the total debt stock. External debt is 100% long-term, while Domestic Debt consists of various maturity instruments, where long-term and medium-term instruments account for 71.7% of domestic debt.

Domestic/External Debt Composition

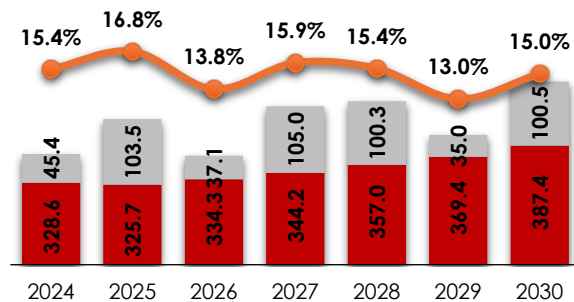


Composition by creditors (%)

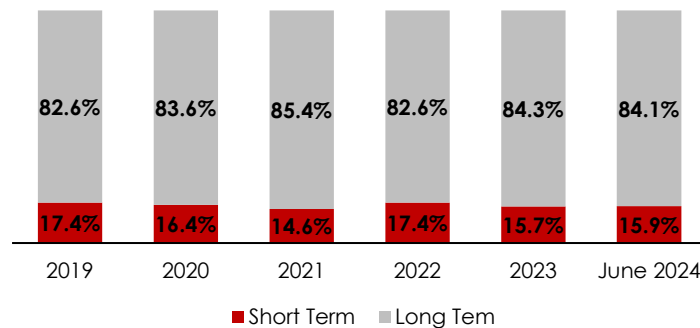
As of June 2024



Albania's existing debt maturity profile (ALL bln)



Composition by maturity

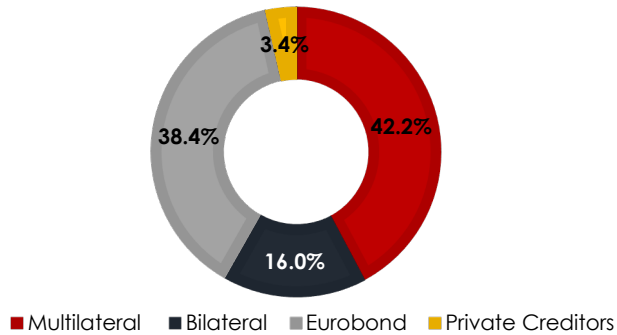


■ Domestic Debt ■ External Debt — Total Maturities/GDP

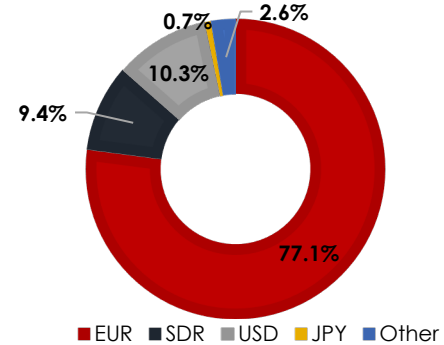
■ Short Term ■ Long Term

EXTERNAL DEBT STRUCTURE

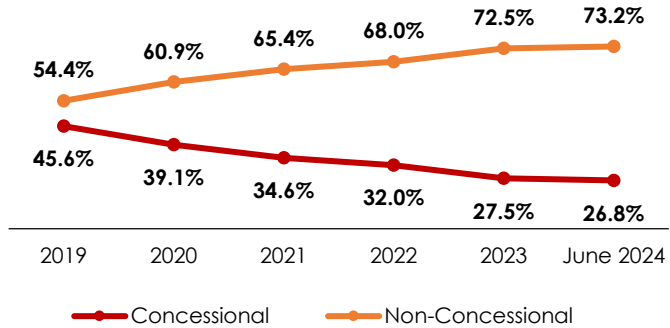
Composition by creditors (As of June 2024)



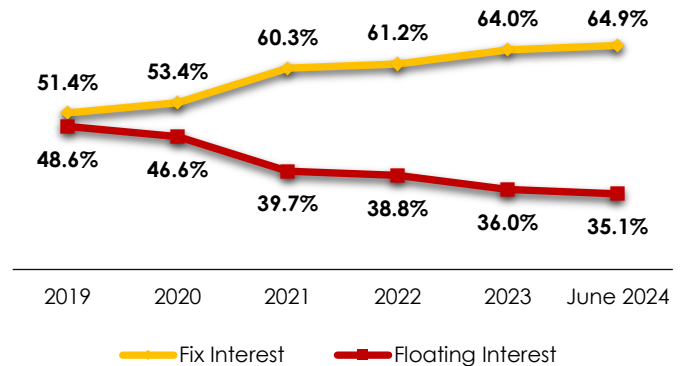
Composition by currencies (As of June 2024)



Composition by concessionality



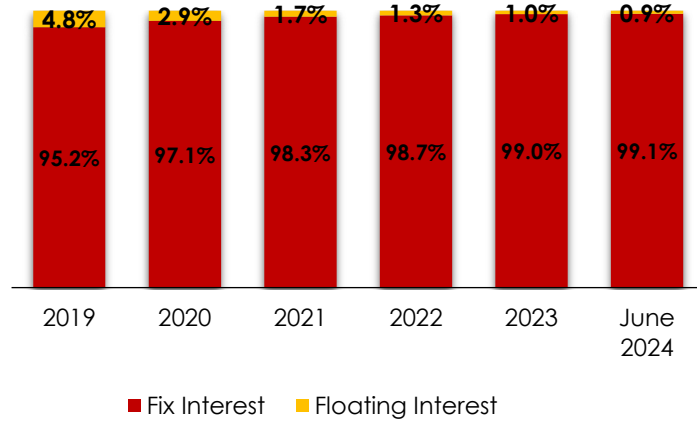
Composition by interest rates



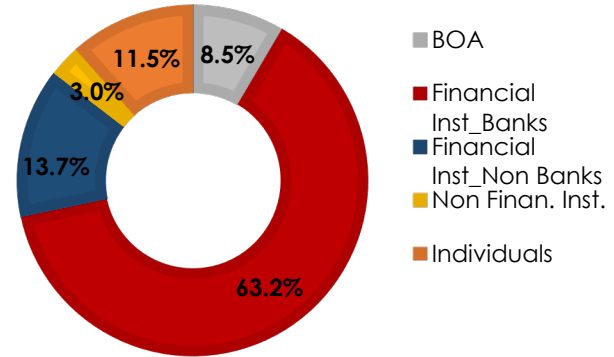
- The country's more frequent access to international markets has influenced the significant increase in the share of debt with non-concessional terms in the last years.

DOMESTIC DEBT STRUCTURE

Domestic Debt by type of interest



Domestic Debt Holders (As of June 2024)



Domestic debt by currencies

June 2024: **ALL (99.1%)** and **EUR (0.9%)**

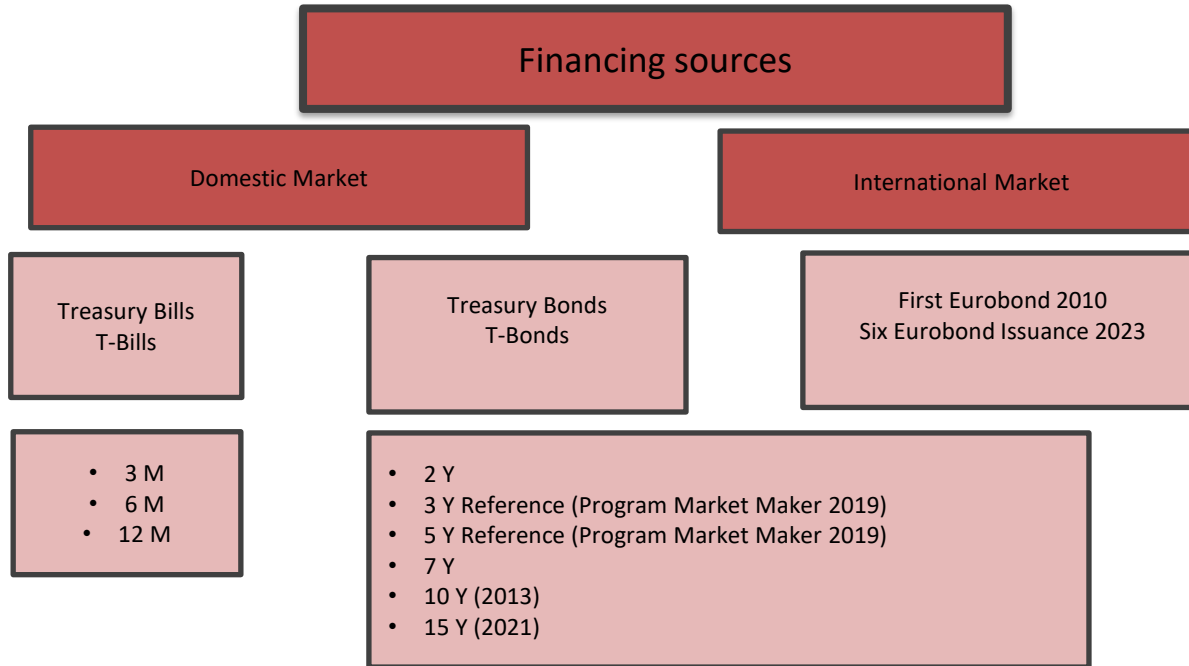
- **The weight of bonds with variable interest rates has been reduced** – there have been no issuances of bonds with variable interest rates since August 2016;
- The domestic debt portfolio continues to be concentrated at **over 60% in the banking sector**, but meanwhile the share of non-bank financial institutions has increased from 12.97% at the end of 2022 to 13.75% at the end of June 2024.
- **Individual hold a high proportion of domestic debt (11.5%)** due to awareness raising campaigns undertaken by MoF. No retail program is yet in place.

BORROWING

Strategic objectives

The financing of the budget deficit is mainly provided by borrowing in the domestic market and international market through government securities.

- Continue reliance on domestic financing complemented by foreign financing.
- Further development of the domestic market of government securities.



Debt management in Albania

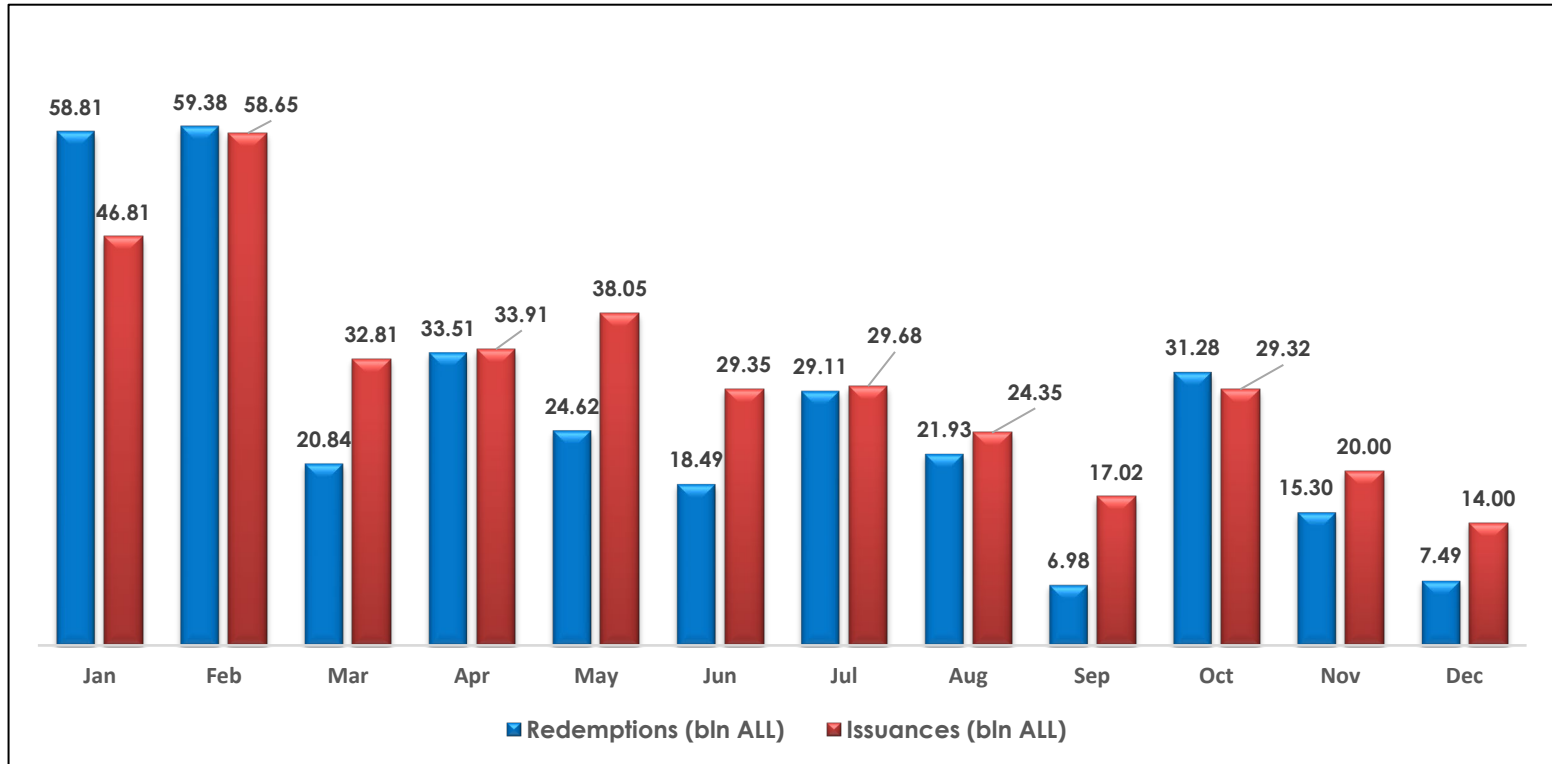
ANNUAL BORROWING PLAN

- ✓ The Ministry of Finance for the second consecutive year has prepared the Annual Borrowing Plan with the aim to increase the transparency in the process of borrowing and financing as well as informing investors.

- ✓ **The Annual Borrowing Plan is drafted on the basis of:**
 - *the forecasts carried out in the budget for the following year;*
 - *detailed analysis of market conditions;*
 - *the situation presented during the current year, taking into consideration the progress of auctions and interest rates.*

- ✓ **Annual Borrowing Plan includes:**
 - *Gross Financing Needs for the following year;*
 - *Government Debt Redemptions for the following year;*
 - *Forecasting for domestic financing*
 - *Issuance Calendar for following year*
 - *External Financing*
 - *Debt Management Strategy and Risk Indicators*

Domestic market - Redemptions-Issuances by month/2024



Impacts on Debt Management and Cash Management

Debt Servicing: Regular debt payments (interest and principal) impact available cash flow and liquidity.

Debt Issuance Timing: The timing of issuing new debt can affect cash management, as it may involve large inflows or outflows of cash.

Liquidity Management: Effective cash management helps ensure that debt obligations are met on time, reducing the need for costly emergency borrowing.

Surplus Cash Utilization: Efficient cash management can optimize the use of surplus funds, potentially reducing the need for new debt issuance.

Reporting: Debt Department sends to the Treasury Department:

- ✓ Weekly and monthly forecast for borrowing in the domestic market and budget support;
- ✓ Quarterly forecast for Government Securities Issuance Auctions;
- ✓ Daily forecast of domestic debt payments for the current year (several times during the year), divided into maturities and interests;
- ✓ Daily forecast of foreign debt payments according to currencies (updated during the year);
- ✓ Monthly forecast of foreign debt payments in EURO.

Reporting: Treasury Department sends to the Debt Department:

- ✓ Cash Flow Projections including forecasts of expected inflows and outflows over different time periods (daily, weekly, monthly);
- ✓ Monthly liquidity reports including available cash and liquid assets and forecasting for the following month;



Further analysis and addressing of debt and cash management issues during the monthly meetings of the Debt and Liquidity Management Committee

Impact of Cash Flow Profile on Domestic Debt Issuance:

Timing of Issuance: A strong cash flow position may allow for strategic timing of debt issuance to take advantage of favorable market conditions or lower interest rates.

Debt Amounts: Positive cash flow profiles can enable larger debt issuances, as they signal financial stability and a capacity to service new debt. Poor cash flow can limit the amounts that can be issued or lead to higher interest rates demanded by investors due to perceived risk.

Refinancing Decisions: Strong cash flows might facilitate refinancing existing debt at lower rates, while weak cash flows could lead to a focus on maintaining current debt levels to avoid increased financial strain.

Investor Confidence: A well-managed cash flow profile can enhance investor confidence, making it easier to issue debt at better terms. Disruptions in cash flow may raise red flags for investors, complicating future issuance efforts.

Debt and Liquidity Management Committee

- ✓ Order of the Minister of Finance no. 4 dated 13.01.2017 for "Establishment of the Debt and Liquidity Management Committee, amended;
- ✓ This committee is chaired by the Deputy Minister responsible for debt management and budget execution issues, as well as co-chaired by Secretary General of MoF;
- ✓ Meanwhile, the members are the heads of the specific departments of: budget, debt, treasury, fiscal and macroeconomic issues, the head of borrowing and treasury operations;
- ✓ Meetings are held every month and the main issues for discussion are focused on:
 - *Flows and liquidity situation for the current month and forecast for the next period;*
 - *Borrowing progress in the Internal Market until reporting and expectations for borrowing in the coming periods;*
 - *Other issues related to liquidity and debt management.*
- ✓ The decisions taken are mainly related to the approval of the issuance calendars of government securities in the internal market.

Conclusions

- ✓ Effective debt management and cash management are interrelated and crucial for economic stability;
- ✓ Both practices influence each other, and better integration can lead to improved fiscal health;
- ✓ Ongoing reforms and improvements in both areas are important to achieve long-term economic stability and growth.

Any

Question



“Thank You”

