



REPUBLIKA E SHQIPËRISE  
MINISTRIA E FINANCAVE

# Public Debt

## CONTENTS

- I. Macroeconomic Framework
- II. Public Debt
- III. Considerations for Eurobond



# I. MACROECONOMIC FRAMEWORK

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## MACROECONOMIC FRAMEWORK

### Economic Growth

- ❑ **Economic growth:** Expectations for gradual progress aiming 3% in 2015, 4% in 2016 and 4.5% in 2017.
- ❑ **Credit:** In July 2014 the relative growth in percentage compared to July 2013 was positive with 0.5%, while this trend continued reaching 2% in August.
- ❑ **Public Investments:** For 2015 is planned to keep public investments at the level 5.4% of GDP, focusing in supply water sector, energy innovation and IT, tourism and central and local road infrastructure.

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## MACROECONOMIC FRAMEWORK

### • Budget Deficit Reduction

- ❑ **Increase of revenue:** The revenues for 9 months of 2014 are realized at the level of 13.2 % more than the same period of 2013.
- ❑ **Debt reduction:**
  - ✓ Zero tolerance for tax evasion and corruption;
  - ✓ Increase efficiency and effectiveness by reforming the mean of using public funds;
  - ✓ Important tax and fiscal reforms;

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## II. PUBLIC DEBT

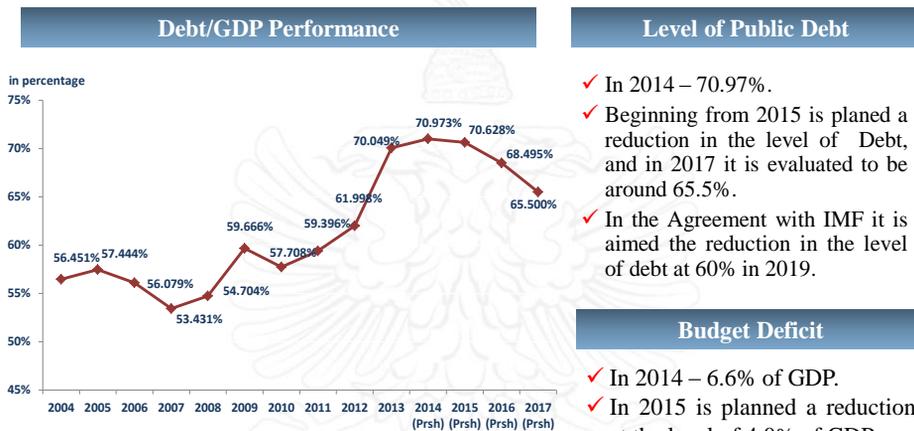
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# PUBLIC DEBT

- ❑ Public Debt Performance
- ❑ General Framework
- ❑ Public Debt Structure
  - ✓ External Debt Structure
  - ✓ Domestic Debt Structure
  - ✓ Cost of Debt
- ❑ Financing Alternatives
  - ✓ Eurobond
  - ✓ Legal Framework Changes
- ❑ Modernization of Public Debt Management

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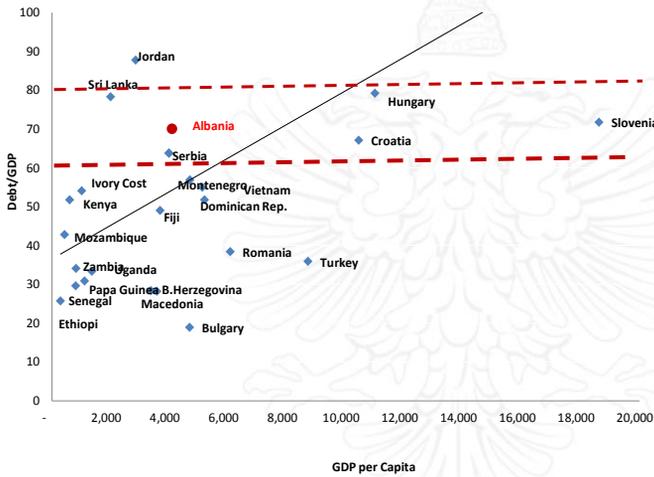
# PUBLIC DEBT PERFORMANCE



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# GENERAL FRAMEWORK

GDP per Capita and Debt/GDP Ratio for the Region of Balkan and B1 Countries estimated by Moody's



Albania has the lowest rating in the region, the same with the less developed countries, as result of :

- ✓ High level of the debt
- ✓ Low level of GDP/ Capita
- ✓ Refinancing Risk
- ✓ High level of NPL

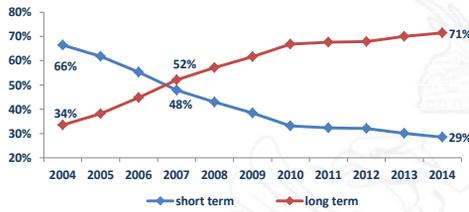
# GENERAL FRAMEWORK

## Albania Rating Profile



Actual Rating	B/ Positive	B1/ Stable
<p>Advantages</p>	<ul style="list-style-type: none"> <li>✓ Expectacion that fical consolidation efforts will push government deficits to moderate levels;</li> <li>✓ Monetary flexibility benefits from its managed-float exchange rate;</li> <li>✓ Ambitious reform plan;</li> <li>✓ Availability of IMF and other official support.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Progress with respect to EU candidacy;</li> <li>✓ Progress with respect to the clearance of arrears;</li> <li>✓ Strong price stability credentials;</li> <li>✓ Significant FDI inflows.</li> </ul>

# PUBLIC DEBT STRUCTURE



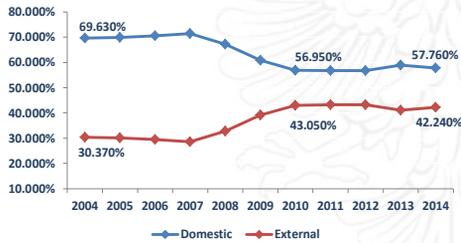
In 2014 the structure of public debt is improved by increasing its sustainability

## Domestic Borrowing

- ✓ In 2014 the ratio long term instruments/ short term – objective 52% /48%.
- ✓ In 2015: objective 55% /45%.
- ✓ In 2016: objective 58% /42%.

## External Borrowing

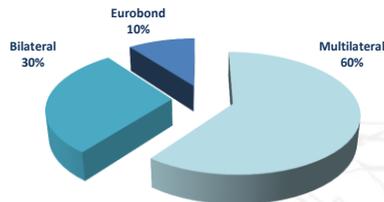
- ✓ The funding will be based on existing projects and new projects to support the government reforms and economic growth.
- ✓ During 2015 will be issued a new instrument (Policy Based Guarantee) by the World Bank in order to reduce domestic financing and improving private sector lending.
- ✓ Eurobond refinancing.



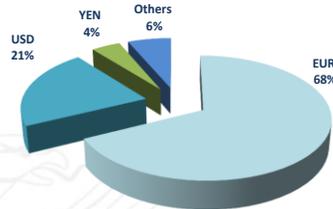
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# EXTERNAL DEBT STRUCTURE

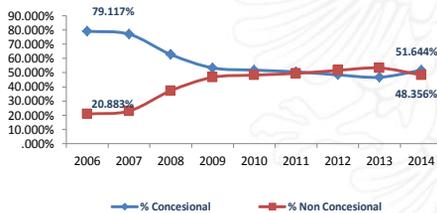
## External debt by creditors



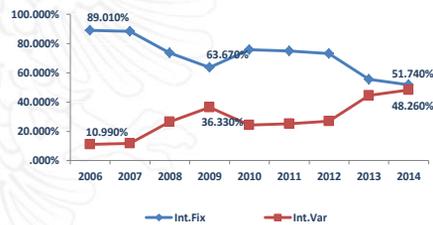
## External debt by currency



## External debt by concessionality



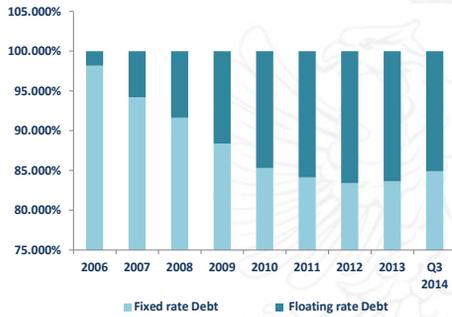
## External debt by interest type



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# DOMESTIC DEBT STRUCTURE

Domestic debt by interest type



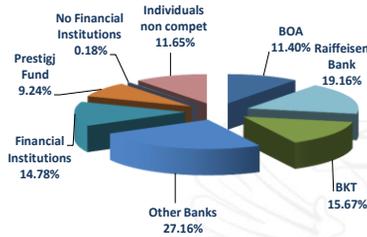
Domestic debt by currency



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# DOMESTIC DEBT STRUCTURE

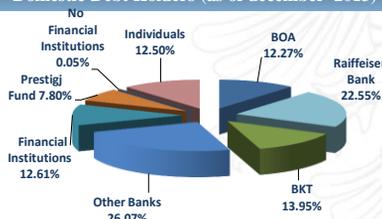
Domestic Debt Holders (September 2014)



During 2014 the debt portfolio is diversified from the debt holder perspective

- ✓ Bank of Albania portofolio concentration is reduced
- ✓ Notable improvement in the distribution of banking sector portofolio concentration and the increased contribution of other financial institutions;
- ✓ The participation of individuals is characterized by a shift from treasury bills to bonds;

Domestic Debt Holders (as of december 2013)



Investor Base diversification significantly affects the development of the domestic market

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# DOMESTIC DEBT STRUCTURE

## Yield Curve of Domestic Government Instruments

### Yield Curve (TB 12-months)



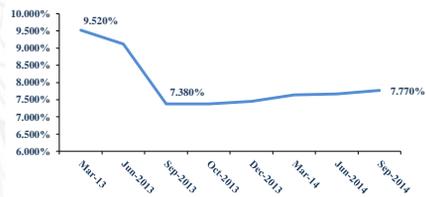
### Yield Curve (Bond 2-years)



### Yield Curve (Bond 5-years)

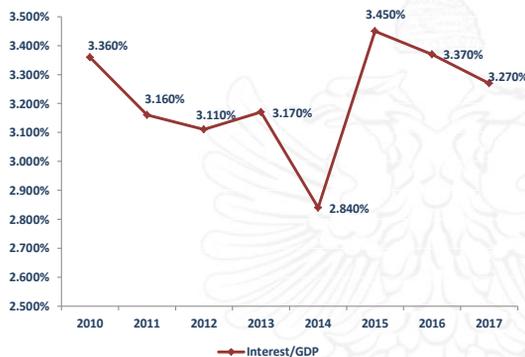


### Yield Curve (Bond 7-years)



# PUBLIC DEBT COST

## Public Debt Cost (2010-2017)

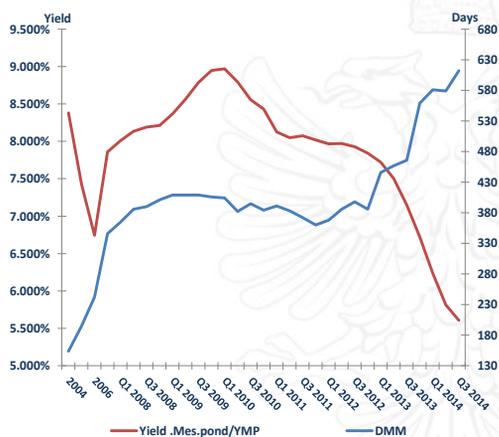


## Expectations

- ❑ Debt Service in 2014 is expected to decrease by about 1.1 billion ALL compared with 2013.
- ❑ In 2015 it is expected an increase in the cost of debt. This increase comes as a combination of several factors;
  - ✓ debt stock growth;
  - ✓ increasing the ratio of short-term instruments in the domestic market
  - ✓ Expectations of increasing interest rates in the domestic market and overseas market (mainly Euribor) in 2015
  - ✓ For 2015, every increase of 1% in interest rates in the domestic market has an effect at about 500 million in debt service.
- ❑ After 2015 is expected a gradual reduction of debt service as a result of the additional debt reduction and economic growth increase

## DOMESTIC DEBT INDICATORS

### Weighted Average Yield and Average Maturity



### Average maturity

- ✓ End 2013 – 559 days
- ✓ End 2014 – 612 days
- ✓ Target 2015 – 650 days

### Yield Trend

Weighted Average Yield for Domestic Debt:

- ✓ 2013 – 6.72%;
- ✓ 2014 – 5.61%;
- ✓ 2015 – forecast 6.5%.

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## FINANCING ALTERNATIVES

### 1. Refinancing of existing Eurobond:

- ✓ Meetings with over 30 banks / international financial institutions that have expressed high interest for Albanian Eurobond.
- ✓ Work has begun for selection of consultants and the lead manager who will assist the Government in the Eurobond issue.

### 2. Emission partially guaranteed by the World Bank:

- ✓ Presentation of the World Bank and Deutsche Bank on the terms and conditions of this new instrument.

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# RIFINANCING OF EUROBOND

## Albanian Eurobond Yield Trend



Burimi: REUTERS

## Eurobond details

- ✓ Maturity 5 – 10 years;
- ✓ Currency EUR or USD;
- ✓ Amount 300 – 500 million USD ;
- ✓ Refinance the existing eurobond 300 milion euro;
- ✓ A succesfull issuance would ensure a further improving in the structure of the debt and at the same time would re-affirm Albania in the international capital markets.

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# RIFINANCING OF EUROBOND

## STEPS FOR REALIZATION OF EUROBOND ISSUANCE

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li><input type="checkbox"/> Preliminary meetings with banks/international institutions</li> <li><input type="checkbox"/> Review of Debt Low</li> <li>✓ Establishment of the work group</li> <li>✓ Preparation of the draft Law revising</li> <li>✓ Approval of the draft of the revised Low</li> <li><input type="checkbox"/> Compilation of appropriate guidelines</li> <li><input type="checkbox"/> Selection of "Legal Advisor"</li> <li><input type="checkbox"/> Selection of "Lead Manager"</li> <li><input type="checkbox"/> Signing the agreement with "Legal Advisor"</li> <li><input type="checkbox"/> Negotiation and signing the agreement with "Lead Manager"</li> <li><input type="checkbox"/> Drafting of Prospectus</li> <li><input type="checkbox"/> "Road Show" process</li> <li><input type="checkbox"/> Approval of issuance documentation</li> <li><input type="checkbox"/> Eurobond issue</li> <li><input type="checkbox"/> Signing of the documents and realization of final steps</li> </ul> | <ul style="list-style-type: none"> <li><input type="checkbox"/> Finished</li> <li><input type="checkbox"/> Finished</li> <li>✓ Finished</li> <li>✓ Finished</li> <li>✓ Finished</li> <li><input type="checkbox"/> In process</li> <li><input type="checkbox"/> In process</li> <li><input type="checkbox"/> Not started</li> <li><input type="checkbox"/> Not started</li> <li><input type="checkbox"/> Not started</li> <li><input type="checkbox"/> Not started</li> <li><input type="checkbox"/> In process</li> <li><input type="checkbox"/> Not started</li> <li><input type="checkbox"/> Not started</li> <li><input type="checkbox"/> Not started</li> </ul> |
|---|---|

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## PARTIAL GUARANTEED LOAN FROM WB

### Benefits of using this type of instrument

- ✓ Diversification of the investor's base;
- ✓ Lower cost of financing;
- ✓ Simplicity in procedures;

### Details on the WB Partial Guarantee

- ✓ Budgetary support;
- ✓ Maturity 7-10 years;
- ✓ Currency EUR or USD;
- ✓ Amount 400 million;

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## MODERIZATION OF PUBLIC DEBT MANAGEMENT

- In cooperation with the World Bank's technical assistance is aimed to:
  - ✓ Improve public debt management
  - ✓ Further development of the government securities market
- Improving and strengthening the organizational structure.
- Upgrade debt management information system.

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**Thank you**

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**Will be read the 8,10,11,14,16,18,21,22  
slides**

**The time = 15 minutes**

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