



Weekly Briefing

**Albania economy briefing:
Albania's public debts skyrockets
Marsela Musabelliu**


China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: : Feng Zhongping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

Albania's public debts skyrocket

Summary

The way governments spend public funds in normal times, greatly differs from the maneuvering in times of crisis. As Albania is entering the third year in a row of abnormal economic performance, the increase of the country's public debt to record highs is reducing the government's ability to spend on investment projects or other areas. Furthermore, weak revenue collection capabilities, rising arrears, and immediate activation of concession contracts without feasibility studies make it impossible for the state budget to withstand further/potential emergencies. Albania is one of the countries with the highest level of public debt in the region, and this is one of the primary weaknesses of the country's financial health.

Introduction

The increase in the Public Debt has what appears to be an unstoppable rising trend. However, in the last years, the increase in government borrowing is claimed to be increasing due to the deepening of the deficit and low revenue realization. Moreover, the increased spending during 2020 (for the needs of reconstruction from the earthquake that hit one year prior) and the situation created by the COVID-19 pandemic in the past two years only add to the problem. With the available data recently released, it was noted that Albania's public debt is the highest since the country became an open economy in 1991.

Background: what the Albanian government declares

In the new Macroeconomic Framework forecasts 2023-2025, the Ministry of Finance of Albania reported that the country's public debt is estimated to have reached 80.1% of Gross Domestic Product (GDP) in 2021, setting a record in three decades. The document shows that the public debt in value is expected to reach over 11 billion Euros (€). The government used natural disasters, earthquakes, and pandemics to increase public debt by about 2 billion Euros in the last two years and most of it was used to finance disaster-related projects. The last step in the direction of increasing the public debt for expenditures arrived with a normative act in June 2021. This act authorized the increase of debt through the expansion of the budget bringing

the total to approximately 80.1% of GDP, 3% more than projected in the initial budget. Over the past year, the government has increased public debt at faster rates than the country's economic growth. Albanians' per capita income has grown at lower rates than per capita debt.¹ The country's GDP is estimated at 13.7 billion €.

Short and long-term consequences

The first ramification of this spike in figures of public debt is expressed in the increase of taxes. Specifically, in the last 5 years, the state has billed upon its citizens around 1,000 Euros more per capita. If those figures are put into perspective every child born in Albania currently is born to debt of 5,000 Euros that they will pay through taxes in the future. In aspiring to enter the European Union (EU), financially wise Albania has to abide by the Maastricht Treaty. For developing countries, the level of Public Debt should be 60% of GDP so that it is optimal and affordable for a sluggish economy. In the meantime, Albania has suppressed the limit of 80%, which is the optimal threshold for advanced and developed economies. What is concerning mostly the country's balance sheets in the costs of the debt, or specifically the interests rates payment? Currently, the government of Albania spends 7.9% of the state budget on the cost of debts repayments. If the current trend continues, it is estimated that more than 10% of the state budget will be channeled into payment interest rates of the public debt.²

The debt path under the baseline is subject to significant risks. The governor of the Bank of Albania (BoA) blames the pandemic and the earthquake for this, he states that the increase of public debt during the crisis is a comprehensive global phenomenon, and went on to say that Albania is no exception. However, According to the same BoA, the attention of public finances should be turned towards debt reduction, to such levels that minimize the impact of financial market fluctuations on the health of public finances and increase the fiscal policy response space in the future.³

¹ Hoxha, B. (2022, January 26). Shifra e re e qeverisë, borxhi më 2021 arriti në 80.1% të PBB-së, rekord i pas viteve '90. Available at <https://www.monitor.al/shifra-e-re-e-qeverise-borxhi-me-2021-arriti-ne-80-1-te-pbb-se-rekord-i-pas-viteve-90/>

² Muco, K (2022, January 31). Eksperti i ekonomisë në Report Tv: Borxhi publik aq i lartë sa çdo fëmijë kur lind ka 5 mijë euro 'borxh'! Pritet të rritet edhe gjatë 2022. Available at <https://shqiptarja.com/lajm/eksperti-i-ekonomise-ne-report-tv-borxhi-publik-aq-i-larte-sa-cdo-femije-kur-lind-ka-5-mije-euro-borxh>

³ Gazeta Shqiptare (2022, January 29). Rritja në nivele historike e borxhit publik/ Guvernatori Sejko gjen 'fajtorin' dhe drejton gishtin nga pandemia. Available at <https://gazetashqiptare.al/2022/01/29/rritja-ne-nivele-historike-e-borxhit-publik-guvernatori-sejko-gjen-fajtorin-dhe-drejton-gishtin-nga-pandemia/>

The “unaccounted-for” debt

Local and international economists argue that Public Debt is higher than what the Albanian government claims. There are two unaccounted-for phenomena, Public-Private Partnerships (PPP)/Concessions, and what the Albanian State owes for International Arbitrations (or Arbitrage bills). The Status of Contingent Liabilities for PPP Concessions only according to the potential contractual obligations without including other liabilities beyond September 2020 for the Albanian state is estimated in the amount of 1.48 billion €. ⁴

In 2021, the other Concessions and PPPs with the longest duration is the PPP concession “*For the construction of the landfill, incinerator, and rehabilitation of existing landfills Tirana*”. The other is a concession “*for the construction, improvement, use, and maintenance of the highway Milot-Morina*”.

Both are estimated from the State Budget planning payments at almost 112 million €, which is added to the already existing 1.48 billion € from 2020, and the total non-accounted for 1.59 billion € in debt. The PPPs are covered in secrecy and the Albanian people know about them only when some scandal erupts.

EUROSTAT publishes every year a report on the Contingent Liabilities from PPP Concessions classified off-balance against the GDP. Albania is ranked at a high-risk position, as it has several times more in Contingent Liabilities PPP Concessions vs. its GDP compared to other countries. Albania ranks at 11.4% and is followed by Slovakia with Liabilities of 2.42% and Portugal with 2.26% of its GDP. All other countries have PPP Contingent Liabilities up to 1.13% of their GDP showing maximum caution towards Public Finance.

⁴ Eurostat (2021). "Liabilities related to private-public partnerships (PPPs) recorded off-balance sheet of government" Processing and Analysis: Open Data Albania.
<https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do> and
<https://ndiqparate.al/?p=13077&lang=en>

Albania and European Countries, Contingent Liabilities PPP/Concessions vs GDP

Country	PPP liabilities classified 'off' Balance in% of GDP
Albania 2020	11.6
Albania 2019	11.4
Slovakia	2.42
Portugal	2.26
Hungary	1.13
United Kingdom	1.09
Ireland	0.66
Belgium	0.37
Spain	0.27
Denmark	0.19
Greece	0.15
Austria	0.12
Croatia	0.08
Cyprus	0.08
Estonia	0.07
Malta	0.05
Lithuania	0.03

Source: OpenData Albania

On the other hand, there are additional losses. The State Supreme Audit (the highest institution of economic and financial control in the country) states that there are at least 170 million Euros in losses in international arbitrations courts that the government of Albania will have to pay soon.

The list confirmed of lost cases in court to be paid according to the Albanian Supreme audit is:

-111 million € to Italian investors Francesco Becchetti was awarded full compensation (after Albania confiscated his assets in 2015) from the International Centre for Settlement of Investment Disputes.

- 45 million € for compensation of the company the Greek company "Actor" that built the Tirana-Elbasani tunnel and the other two lots of the highway in cooperation with "Copri". In addition, there are more than 15 million € in court expenses and delays in payment for the Albanian government (which brings the total at \approx 170 million €)

However, according to Albanian economists, the total sum is much higher because the KLSH did not include many of the cases that the government lost already.⁵ In the European Court of Human Rights, also known as the Strasbourg Court and the International Centre for Settlement of Investment Disputes (ICSID) there are 106 cases against the Albanian government. Even if the Albanian government wins in some, the cost of lawyers and court expenses is exuberant. In expectation of losses are also the following: 110 million € for a compensation of the company "Akërnia"; 100 million € "Kurum" has an open issue with the Albanian state; 110 million € has estimated the loss of the Albanian state with "Dondi & Kubota"; 150 million € to the company "Fusha".

These expenses will be covered by Albanian taxpayers in the future, thus it should be calculated as debt. Many scholars expressed concern about the country's growing fiscal risks and the lack of accurate data on public-private partnership (PPP) projects as well as the arbitration bills.

Thus, the government states 80.1% of GDP but if we add PPP and arbitration is more than 92% debt to GDP ratio. In 2013, the average Albanian citizen owed 2,600 €; in 2020 it was 3,600 € and in 2021 it rose to 5000 €.

Going forward: some estimations and recommendations from the IMF

According to the latest report on Albania, the International Monetary Fund (IMF), states that tighter global financial conditions, stemming from a potential de-anchoring of inflationary expectations in advanced economies, could also make financing more challenging for Albania. There are present large refinancing needs, shallow domestic markets, a sizeable share of external commercial debt with large bullet repayments, and sizeable domestic arrears. A robust debt management strategy is needed to guide the government's decisions on external commercial borrowing, which is subject to rollover and exchange rate risks. Albania should adopt a credible revenue-based fiscal consolidation plan. Last but not least, the IMF urges the Albanian authorities to closely monitor and manage fiscal and financial sector risks.⁶

⁵ Gazeta Telegraf (2021 July 22). Shqipëria humbet gjyqet në arbitrazh, qytetarët do paguajnë 445 milion euro. Available at <https://telegraf.al/politike/shqiperia-humbet-gjyqet-ne-arbitrazh-qytetar-et-do-paguajne-445-milion-euro/>

⁶ International Monetary Fund (2021, December 7). Albania: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Albania. Available at <https://www.imf.org/en/Publications/CR/Issues/2021/12/07/Albania-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-510834>

Conclusion

While the debt is constantly increasing, this is not being transformed into a public spending increase, which is misused. The best possible solution to balance this phenomenon is economic growth. Debt *per se* might not a bad thing; the problem is how the funds taken as debt are spent. When investing through debt has a higher return on the interest, then all is worth it. In Albania, the opposite is happening, public debt is growing, but it is not being transformed into public/real growth. There is a needed appropriate policy mix to secure an inclusive recovery and meet Albania's development needs while preserving fiscal sustainability and financial stability.