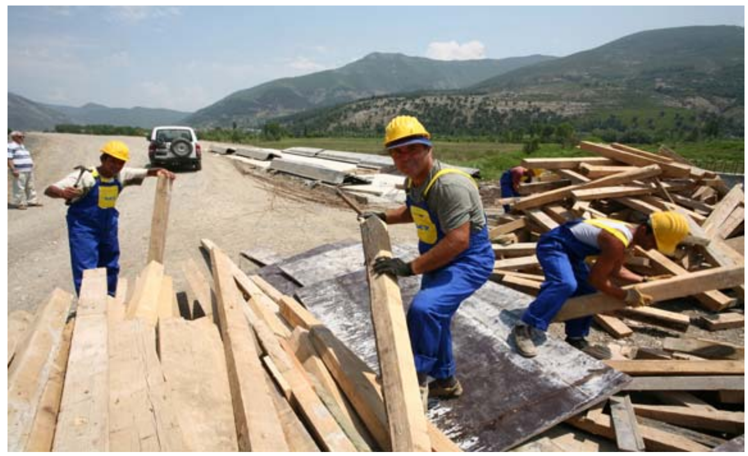
CASE STUDY

Alleviating Funding Pressures and Debt Roll-over Risks in Albania

OVERVIEW



The 2008 global financial crisis and the subsequent Eurozone crisis considerably slowed the growth and poverty reduction momentum in Albania. Government financing needs in 2015 were very high. A EUR200 million World Bank Guarantee alleviated funding pressure and debt roll-over risk in Albania in a volatile global financial market setting by raising required financing from the private sector at attractive levels.

Background

Between 1998 and 2008 Albania was growing at 6 percent per year. However, the global financial crisis in 2008 and the subsequent Eurozone crisis significantly impacted the country, slowing down growth to 1.6 percent in 2012 and 1.4 percent in 2013, as exports, remittances and to some extent foreign direct investment (FDI) suffered, in particular from Albania's close ties to Greece and Italy.

Public debt surged from 54.7 percent of GDP in 2008 to 70.7 percent in 2014. Strengthening public financial management and reducing long-term pressures were thus critical for the Government.

Financing Objectives

Central government gross financing needs in 2015 amounted to 31 percent of GDP. In addition to a large budget deficit and sizeable domestic debt obligations, a EUR300 million Eurobond was maturing. Meeting the financing needs was a significant challenge for the Government because demand for longer-term domestic government securities had declined in recent months as the largest holder of government securities had started to reduce its risk-weighted assets in Albania.

Financial Solution

In March 2015 the World Bank approved a EUR200 million (US$226.7 million equivalent) Policy-Based Guarantee (PBG) to help the

Government of Albania secure the needed financing at a reasonable cost.

Outcome

The PBG helped Albania raise EUR250 million needed for maturing debt from international banks. The terms achieved — 10-year maturity at EURIBOR + 1.3% — were substantially better than available under a non-guaranteed instrument. This was in line with Albania's debt management objectives, which are to meet the funding needs of the central government, minimize borrowing costs to acceptable levels, and support the development and efficiency of the domestic debt market. The PBG also leveraged the World Bank's capital by increasing the volume of funding raised. Having met the roll-over with the PBG, and in a more supportive market, Albania issued a standalone 5-year Eurobond at better than anticipated rates two months later.

The Development Policy Financing (DPF) allowed the World Bank to help Albania strengthen public finance management, pension and energy sector reforms. It was the second in a series of two programmatic development policy financing operations focusing on a) strengthening public financial management to address arrears; and b) tax, pension and energy sector reforms to improve fiscal sustainability.

Terms & Conditions

Table 1: Summary of Financial Terms

Effective Date	July 27, 2015
Type of Guarantee	IBRD Policy-Based Guarantee
Coverage	80% of principal at maturity
Amount	EUR 250 million
Term	10 years
Structure	Bullet payment

Figure 1: Cost comparison: Albania borrowing with and without World Bank guarantee

Government bond without World Bank guarantee	Government borrowing from global lender with World Bank guarantee
EURIBOR + 6.50%**	EURIBOR + 1.7%*

* Including arrangement fees and World Bank fees (40 bps); actual interest rate was fixed for the loan.
** Spread for 10 year bond for Albania as of August, 2015.

Policy-Based Guarantees in Other Countries

Other European countries that have used World Bank PBGs to access the markets since 2011 include Serbia, Macedonia, and Montenegro. In 2011 a PBG helped Serbia raise EUR292.6 million from a global lender. In 2012 the Former Yugoslav Republic of Macedonia borrowed EUR130 million from a commercial lender supported by a PBG, which extended the maturity of government debt by 50 percent and produced savings of at least 3 percent per annum. In 2013, Macedonia once again used a PBG to raise EUR 250 million, achieving even longer maturities and similar levels of savings. The experience of neighboring Montenegro was also very favorable. The PBG-backed transactions also paved the way for subsequent standalone funding transactions by all three borrowers. Montenegro and Macedonia both issued Eurobonds under very favorable terms after their initial PBG-backed borrowings. Serbia too raised over US$5 billion in the bond market. The World Bank Treasury can explore different financing strategies and options, including guarantee-backed financing for clients.

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