

## Public Debt Trends in Albania: A Descriptive Analysis of the Last Two Decades

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### Abstract:

*This paper provides a descriptive analysis of public debt in Albania in the last two decades. It analyses the evolution, composition by creditors, maturity and composition, and key drivers of debt portfolio in Albania, focusing on major fiscal developments and structural changes over the years. The paper highlights how public debt has evolved in response to economic cycles, fiscal policies, and external shocks, including the global financial crisis, the 2019 earthquake, the COVID-19 pandemic and the Russian Ukraine War from 2000 to 2025. The analysis shows a gradual increase in debt levels over time to adapt with the increase needs for borrowing and liquidity, accompanied by a shift toward more diversified financing sources, including external borrowing from multilateral and bilateral creditors and Eurobond issuances in international markets. While this diversification has increased access to funding, it has also introduced additional risks, particularly related to exchange rate exposure. As the share of foreign currency denominated debt increases, so does the vulnerability of the debt portfolio to currency fluctuations, making it riskier compared to domestic currency borrowing. At the same time, external financing has contributed to reducing the overall cost of the debt portfolio, as such sources have often offered more favorable interest rate conditions compared to domestic borrowing. The key indicators such as debt to gdp ratio and interest payments to gdp reflect the cycle of the economy with notable increases during periods of crisis and external shocks, followed by a gradual return to more stable levels during recovery phases. While recent years indicate some stabilization, public debt remains a critical concern for fiscal sustainability. The paper concludes that understanding historical debt trends is essential for informed policymaking and effective debt management in Albania.*

**Keywords:** Public Debt, Debt Structure, Debt Ratios, Fiscal Sustainability, Borrowing Needs

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## 1. INTRODUCTION

Public debt has become a major component of macroeconomic management, particularly in small open economies such as Albania. Over the past two decades, Albania has undergone significant economic and fiscal transformations, which have been reflected in the evolution of its public debt portfolio. The country has gradually moved from a domestically financed debt structure toward a more diversified portfolio, including external borrowing and access to international capital markets (International Monetary Fund 2025). The path of public debt over the years in Albania has been impacted by key factors such as financial crisis, the 2019 earthquake, Covid-19 pandemic and recent geopolitical conflicts, and all of these factors led to increased borrowing needs in the country causing public debt level to increase, reaching its peak in 2021-2022. At the same time, fiscal consolidation efforts and improved debt management strategies have contributed to stabilizing debt levels in recent years (European Commission 2025).

This paper aims to provide a descriptive analysis of public debt in Albania during the period 2000–2025, focusing on its evolution, portfolio structure, and key driving factors. In addition to changes in its overall level, the structure of Albania's public debt has also evolved in important ways. These include shifts in the balance between domestic and external debt, shifts in balance between variable share and fixed share instruments, changes in the maturity profile, and variations in currency composition. Such structural characteristics are crucial in assessing the risk profile of public debt, as they influence the government's exposure to refinancing risk, exchange rate fluctuations, and changes in global financial conditions. Given these developments, a comprehensive understanding of public debt trends is essential for evaluating Albania's fiscal position and identifying potential vulnerabilities. While many studies focus on analytical or econometric approaches to debt sustainability, this paper adopts a descriptive perspective, aiming to provide a clear and systematic overview of how public debt in Albania has evolved over time starting from 2000 up to the most updated data's. By focusing on observable trends, key indicators, and major turning points, the analysis seeks to contribute to a better understanding of the country's fiscal trajectory. Specifically, the objective of this paper is to examine the evolution and structure of public debt in Albania over the period 2000–2025. The study analyzes key indicators such as the debt-to-GDP ratio, the composition of debt by interests rate and currency, instrument composition and the main factors influencing borrowing patterns.

This paper is organized as follows: the first section presents the conceptual framework of public debt and the literature review regarding debt structure and key factors in debt composition, followed on the second section by an analysis of its evolution over time from 2000 to 2025. Then on the third section is given e detailed analysis of its structure over years and main challenges on its structure, followed by the forth section where are analyzed key driving factors on debt path over the years. On the final section are presented main findings of the author on the challenges of the debt portfolio in Albania.

## 2. CONCEPTUAL FRAMEWORK OF PUBLIC DEBT AND LITERATURE REVIEW

Different authors have paraphrased the definition of public debt based on different indicators reflecting its complexity. The authors provide several definitions of public debt, linking it not only to economic efficiency but also to the broader role of government in

delivering essential public services and fulfilling policy commitments (Savoie and Luiza 2013). This perspective suggests that public debt cannot be assessed solely through the lens of cost–benefit efficiency, as it is also shaped by political priorities, social obligations and international impacts.

According to the IMF, public debt includes five main financial liabilities of the general government—cash and deposits, debt securities, loans, provisions for standardized guarantees, and other accounts payable—and is measured as gross, consolidated, and at face value. This definition is broader than the Maastricht definition, as it also encompasses insurance, pension, and other standardized guarantees schemes, covering all levels of general government including central agencies, local authorities, and social security funds (INSEE 2026).

Beyond the concept of total debt and what does it count or not count and its size, the structure of public debt plays a crucial role in managing this portfolio and shaping a country's fiscal risk profile. Recent macro-financial crises illustrate how weak public debt structures—such as high debt stock, short maturities, or excessive floating-rate or foreign-currency-denominated debt—can severely constrain a government's countercyclical policy and increase market risk perceptions, investor base limitations, and borrowing costs (Udaibir, et al. 2010).

One of the most important issues in the literature is between domestic and external debt. Domestic debt is generally considered less risky because it is denominated in local currency and financed within the domestic market, thus allowing the government to manage inside its country obligations. On the other hand, external debt exposes countries to exchange rate fluctuations and changes in global financial conditions, increasing vulnerability to external shocks. The shift from external to domestic borrowing can create new vulnerabilities, such as exchanging currency mismatches for maturity mismatches, pressuring institutional investors, or crowding out private issuers, while also introducing political economy challenges and currency-related interest rate risks (Panizza 2008). Also another element to take into consideration when analysing domestic versus external, belongs to the interests paid. Local borrowing retains interest payments within the domestic economy, potentially supporting productive use, job creation, and tax revenues, although external debt may sometimes be unavoidable or preferable (Didia and Ayokunle 2020).

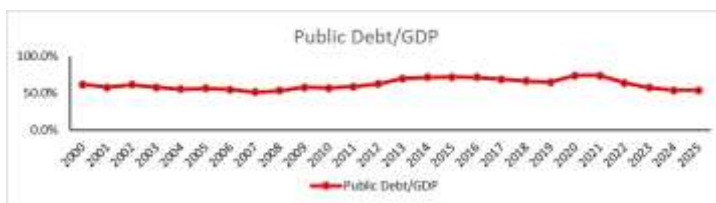
Another key dimension of debt structure relates to the maturity profile. Short-term debt is associated with higher refinancing risk, as governments must frequently roll over their obligations under potentially unfavorable conditions. Conversely, longer maturities are generally preferred, as they provide greater stability and reduce exposure to sudden changes in market sentiment. De Fraise, Post-Doctoral Fellow at the National Bureau of Economic Research under the Long-Term Fiscal Policy Program supported by the Peter G. Peterson Foundation raises a question: If the government borrows the same total amount, does it matter whether it finances itself with long-term debt or short-term debt? (Fraise 2026) His finding argues that the maturity structure of government debt significantly affects financial markets: increasing the proportion of long-term debt raises long-term interest rates relative to short-term rates and shifts corporate investment away from long-term projects.

In addition to above, the choice of debt instruments, such as treasury bills, government bonds, and external loans, reflects both the level of financial market development and the government's borrowing strategy. The diversification of instruments and financing sources is often associated with improved debt management practices and reduced vulnerability to specific risks.<sup>7</sup>

Overall, the literature emphasizes that public debt should not be assessed solely based on its size, but also in terms of its composition and structure. A well-managed debt portfolio—characterized by an appropriate balance between domestic and external borrowing, longer maturities, and controlled exposure to foreign currency risk—is essential for maintaining fiscal sustainability and resilience to economic shocks. These conceptual insights provide the analytical foundation for examining the evolution and structure of public debt in Albania in the following sections.

### 3. EVOLUTION OF PUBLIC DEBT IN ALBANIA (2000–2025)

Before examining the evolution of public debt over different periods, we will provide a general historical overview of its trajectory over the last two decades. Overall, Albania's public debt has followed a gradually increasing trend, oriented by a combination of fiscal policy choices, economic cycles, and domestic and external shocks. In the early 2000s, debt levels were relatively stable in an average of 57% of GDP from 2000 to 2010, and around 70% of total debt was domestically financed (Statistika Fiskale Ministria e Financave 2025), reflecting limited access to international markets and a conservative borrowing approach. Over time, however, the expansion of fiscal policy, particularly in response to economic downturns, led to higher borrowing needs and accumulation of debt. Growing borrowing needs, could not be supported totally from domestic financing for two reasons, first there was not enough liquidity to cover all borrowing needs in a certain moment in the market, and secondly even if it had liquidity in certain periods borrowing needs could not be covered totally domestically in order not to cause crowding out effect. Furthermore increasing of economy and increasing collaboration with foreign investors gradually shifted borrowing toward external financing with more favorable conditions compared to domestic financing. A key structural shift occurred as Albania gradually diversified its financing sources, moving toward greater reliance on external borrowing, including access to international capital markets. Major events such as the global financial crisis, the 2019 earthquake, and the COVID-19 pandemic played a significant role in accelerating debt growth, while subsequent consolidation efforts helped stabilize the debt trajectory in recent years. This overall pattern highlights a transition from stability to expansion and, more recently, toward cautious stabilization, setting the stage for a more detailed period-by-period analysis.



Graph 1: Debt Ratio 2000-2025

Source: Calculation of author

- *Early 2000s: Relative Stability:* In the early 2000, Albania had a relatively stable public debt ratio, between 55-60% of GDP, in which the largest share was maintained from domestic market, more concretely domestic banks, which were the main contributor of domestic debt portfolio. External debt accounted in average around 30% of portfolio, thus reflecting limited access to

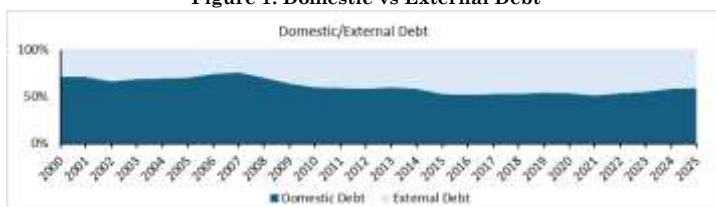
international capital markets, and external debt belonged mostly to multilateral and bilateral creditors who issued loans for project financing.

- *Post-2008 Global Financial Crisis:* The global financial crisis of 2008 marked a turning point in Albania’s fiscal policy. The Albanian government started to adopt expansionary measures to support the economic growth of the country, thus leading to higher budget deficits and increased levels of public debt. Public debt ratio exceeded 60%, and on those years the portfolio also shifted toward external creditors creating the first increase in the share of external debt. Also in 2010 Albania was presented for the first time in international markets and issued its first Eurobond in the amount of EUR 300 million.
- *Fiscal Consolidation (2014–2019):* From 2014 onwards, Albania implemented fiscal consolidation measures aimed at reducing deficits and stabilizing public debt. These efforts included expenditure control and improved revenue collection. During this period, Albania also continued issuing Eurobonds, being more present in international markets and increasing the issuance sizes from time to time thus diversifying its sources of financing.
- *Shock Period: Earthquake and COVID-19:* The 2019 earthquake and the COVID-19 pandemic significantly impacted Albania’s fiscal position. Emergency spending and reduced revenues due to market conditions, lead to increase needs for borrowing causing increase in public debt levels, with a maximum level of 74% of GDP.
- *Recent Developments (2022–2025):* In recent years, public debt has shown signs of stabilization, supported by economic recovery and improved fiscal performance. Debt ratio has returned in its downward trend, by reducing down to the level of 53% of GDP in the end of 2025. However, based on reports published from the Ministry of Finance of Albania, projections indicate a further reduce of this ratio down to 40% of GDP up to 2034.

#### 4. STRUCTURE OF PUBLIC DEBT

Over the past two decades, Albania’s public debt has evolved not only in volume sizes but also in its composition, reflecting changes in financing strategies, investor demand, market development and international relations. In 2000 Albania Debt Portfolio was mostly characterized by domestic instruments and a strong reliance in domestic markets concretely Government Bonds and Treasury Bills. But then over the years, the debt structure has gradually become more diversified, incorporating an increasing portion of external financing. This transformation has been driven by improved access to international capital markets, as well as cooperation with international financial institutions.

Figure 1: Domestic vs External Debt



Source: Calculations of the author

At the same time, important shifts have occurred in terms of the instruments used, the maturity profile, and the currency composition of debt. The government has increasingly relied on a mix of short-term and long-term instruments, while also is making efforts to extend maturities in order to reduce refinancing risks. Furthermore, the presence of foreign currency-denominated debt has introduced additional considerations related to exchange rate exposure.

Overall, the structure of Albania's public debt reflects a balance between domestic market development and external financing opportunities, while also highlighting key risk dimensions that are essential for understanding the country's debt profile. The following subsections provide a more detailed examination of these structural components.

#### *Domestic vs External Debt*

The distinction between domestic and external debt is crucial for understanding the risk profile of public debt, due to the fact that external borrowing exposes countries to exchange rate fluctuations and global financial conditions, while domestic debt is generally considered more manageable within national policy frameworks. Domestic debt is typically considered less risky compared to external debt, due to the absence of exchange rate exposure. Albania's public debt portfolio has evolved from being predominantly domestic to a more balanced composition, as in 2025 around 40% of debt portfolio corresponds to external debt. External borrowing has increased due to access to international markets and financial institutions. Based on strategic documents Albania will be oriented toward a diversified debt structure in order to maintain rationale debt and risk ratios between domestic and external debt (Ministry of Finance 2025).

#### *Instruments of Borrowing*

Albania Debt Portfolio is composed of different instruments. In the domestic markets Government issues Treasury Bills and Bonds from 3 months to 20 years maturity through auctions in the domestic market. As for external markets, external portfolio is composed of External Loans from Multilateral and Bilateral Creditors, Eurobonds in international Markets and Budgetary Support from international institutions.

#### *Currency Composition*

Debt portfolio of Albania is exposed of different currencies. Domestic portfolio is mainly exposed from Albanian Lek and in some year there is a portfion of Euro denominated instruments which are treasury bonds issued in the domestic market. As regards external portfolio, more than 60% belongs to Euro Currency and then there is a list of other instruments such as American USD, JPY, SDR, KWD, KRW etc. in total composition more than 50% belongs to Albanian Lek and then followed by Euro Currency.

## **5. KEY INDICATORS AND TRENDS**

Over the past two decades, public debt dynamics in Albania have been shaped by the interaction of a range of domestic and external factors (International Monetary Fund 2025). Fiscal policy has played a central role, particularly through government decisions on public expenditure and revenue generation. Periods in which expenditures have exceeded revenues have increased financing needs, leading to a higher accumulation of public debt. At the same time, overall economic performance has been a key determinant of debt sustainability. Strong economic growth has supported the country's capacity to

service its obligations, while slower growth periods have made debt management more challenging.

External shocks have also significantly influenced the trajectory of public debt. Global financial crises, fluctuations in international markets, and unexpected events such as the COVID-19 pandemic have periodically increased borrowing requirements and weakened debt sustainability indicators. In such circumstances, governments have often been required to implement additional fiscal measures to support economic activity, further intensifying pressure on public finances.

Access to international financing has been another important driver. The ability to enter into external financial markets has affected both the volume and the cost of borrowing. As Albania has gradually developed its financial system it has been able to diversify its funding sources. This has led to changes not only in the source of borrowing but also in the composition of public debt, including its currency denomination, maturity structure, and the instruments used.

Overall, these factors do not operate separately; rather, they interact dynamically, generating periods of debt expansion as well as phases of stabilization. To better understand these developments, several key indicators are commonly used.

*The debt-to-GDP ratio* is a primary measure, as it reflects both the accumulation of liabilities and the economy's capacity to service them (World Bank 2024). In Albania, this ratio increased notably after the global financial crisis and reached its peak during the COVID-19 period, highlighting the impact of major external shocks on fiscal performance. This indicator in Albania has varied from minimum of around 51% to maximum of 74% during global crisis.

*Interest payments* constitute a significant share of government expenditure and are closely linked to both the level of debt and prevailing financing conditions. Increases in borrowing, combined with rising interest rates in both domestic and international markets especially during periods of crisis have contributed to higher debt servicing costs. In Albania the indicator of debt interests payments to GDP has declined over the years from 5.7% of GDP in early 2000 to around 2% of GDP in the last years.

Another important dimension is the risk profile of public debt. This includes exposure to refinancing risk, arising from the need to roll over maturing debt; exchange rate risk, due to the share of foreign currency-denominated debt; and vulnerability to external financing conditions. The management of these risks is guided by the country's Debt Management Strategy (Ministry of Finance 2025), which aims to balance cost and risk by optimizing the structure of the debt portfolio.

In summary, these indicators and drivers provide a comprehensive picture of Albania's fiscal developments, highlighting periods of debt accumulation, stabilization, and structural transformation. A detailed examination of each of these elements allows for a deeper understanding of public debt dynamics and the associated risks.

## 6. CONCLUSION

The analysis of public debt trends in Albania over the past two decades reveals a pattern of gradual increase influenced by fiscal policy and external shocks. While early years were characterized by stability and constant levels of debt to GDP ratio, upcoming crises led to higher borrowing needs and increased debt levels. Increased debt levels translate to increased debt service. Authorities need to pay attention to increased cost due to also increased uncertainty in the global markets based on recent geopolitical issues. At the same time, Albania has improved its debt structure through instrument diversification

and longer maturities, by giving focus to domestic market development. Despite recent stabilization, public debt remains a key fiscal challenge, highlighting the need for continued prudent fiscal management.

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