

## **DOES EXTERNAL PUBLIC DEBT CAUSE POSITIVE EFFECT IN ALBANIA**

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### **Abstract**

Public debt in Albania is currently at a level of 68.11% of GDP (MoF, 2015). Before 2012 there was a target limit for public debt in accordance to the Copenhagen criteria, but the Law where this threshold was defined has been revoked by the Parliament. This policy decision had an immediate impact on the debt level, which rose to 70.2% of GDP in 2013. By the end of 2009, there were suggestions made to the Government that an acceptable public debt level for Albania should not be higher than 50% of GDP, and this target ought to be preserved in the future of 2015, with the commitment of adequate political support (Jonas, 2010). The global crisis effect, but not only, did not permit safeguarding such levels of debt. Over the last two years more attention has been paid to the composition of public debt. Continuous pressures to shift parts of internal debt into external debt exist. In theory, the effects of this action are bilateral. The pro effect allows internal actors (financial institutions operating in Albania) to use their funds to create adequate incentives for aggregate demand and stimulate lending to economy, that has suffered dramatically in the past two years. The cons effect relates to additional risks due to fluctuation of exchange rate and international interest rate that the market can assign to Albania's country risk. In this context the hypothesis we put forth is: Can the relative change from internal into external debt, which avoids crowding out effect in internal actors, be promotive for economic environment? Using appropriate quarterly data for GDP and external public debt from public domestic databases we have to test for unitary root test to study the stationarity and the Granger causality test in accordance to the hypothesis. The expected results will be a critical point for policy making. Anyway, we are conscious that other conditions have considerable impact on the way that external debt affects economic environment, conditions that might fundamentally offset the positive effect. In our analysis, such factors will take part exogenously and, if similar results will occur, further research is required to shed light on this.

**Keywords:** *GDP, Albania, debt, bilateral.*