Debt Sustainability and Debt Transparency in LICs

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I am grateful to Sebastian Horn for help preparing this presentation. The views expressed here are the author’s, and do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent.
External debt in low-income countries: Recent trends 2010-20

Note: All LICs refers to all countries covered by the WB/IMF LIC Debt Sustainability Framework
External debt in low-income countries: the long view...

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Increasing risk of debt distress since mid-2010s...

Source: Joint Bank-Fund LIC DSF Database, June 2021. The High-risk category includes countries assessed to be in debt distress.
What do we mean by “debt sustainability”?

• (extremely stylized rendition of) Joint IMF/WB Debt Sustainability Framework for Low-Income Countries (LIC-DSF): debt is (un)sustainable if:

\[
\frac{D}{Y} (> ) < D^*(P)
\]

where:
• \(D\) is external debt indicator
• \(Y\) is GDP
• \(D^*(P)\) is policy-dependent debt threshold, \(P\) is policy
More details on LIC-DSF

- Country classification depends on CPIA, growth, reserves, remittances, world growth
- Four debt indicators
- Projections, judgment play important roles

<table>
<thead>
<tr>
<th>Country Classification</th>
<th>PV of Debt/GDP</th>
<th>PV of Debt/Exports</th>
<th>Debt Service/Revenue</th>
<th>Debt Service/Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak</td>
<td>30</td>
<td>140</td>
<td>14</td>
<td>10</td>
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<tr>
<td>Medium</td>
<td>40</td>
<td>180</td>
<td>18</td>
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</tr>
<tr>
<td>Strong</td>
<td>55</td>
<td>240</td>
<td>23</td>
<td>21</td>
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• How much has \(\frac{D}{Y}\) changed? How much have \(P\) and \(D^*(P)\) changed?
Numerators outpacing denominators: proportional changes in debt ratios 2010-2020

**Nominal Debt/GDP**

- Growth in nominal debt stocks (2010 to 2020) vs. Growth in nominal GDP (2010 to 2020)

- Countries: NGA, CMR, KEN, ETH, RWA, SDN

**Total Debt Service/Exports**

- Growth in nominal debt service costs (2010 to 2020) vs. Growth in nominal exports (2010 to 2020)

- Countries: MGZ, TZA, ZMB, GHA, RWA, GIN

- Low-income countries ex SSA vs. Sub-Saharan Africa
Changes in Policy: CPIA Ratings 2010-2020
Features of external debt expansion in SSA

• Approximately $700bn in new loan commitments to SSA 2010-2021

• Increased fragmentation on creditor side (Mihalyi and Trebesch (2022))
  • ~$140bn from private capital markets (more procyclical)
  • ~$150bn in commitments from China (more procyclical)
  • most of rest from IFIs, largest single creditor (more countercyclical, particularly exceptional support during 2020-2021)

• Increased fragmentation on debtor side
  • Increase in number of SOEs, special purpose vehicles as debtors

These developments pose challenges for debt transparency, debt sustainability and potential future debt restructuring
Fragmentation on Creditor and Debtor Side

Figure BO.4.1 Creditor Base Fragmentation in Highly Indebted Poor Countries

- Black line:
  - From how many different creditor entities, on average, has an HIPC country borrowed?

Figure BO.4.2 Debtor Base Fragmentation in Highly Indebted Poor Countries

- Black line:
  - On average, how many different debtor entities contract public external debt in an HIPC country?

Source: World Bank (2022), International Debt Report, based on Graf von Luckner and Horn (2022)
Greater reliance on procyclical creditors

Source: Reinhart, Trebesch and Horn (2022)
Debt Transparency

• World Bank’s Debtor Reporting System (DRS) dataset is key pillar of IFI debt transparency efforts
  • Established in 1951
  • Annual International Debt Statistics reports since 1970
  • Loan-level reporting requirement for all World Bank client countries
  • Continuous efforts to expand coverage – creditor entities (e.g. non-Paris Club creditors), debtor entities (e.g. domestic public debt, SOEs), instrument types (e.g. central bank liabilities)

• World Bank Sustainable Development Finance Policy (SDFP)
  • Prescribes performance and policy actions (PPAs) in countries with elevated debt risks
  • Still quite recent, but has strong emphasis on debt transparency and debt management PPAs

• Extensive technical support on debt recording and debt management
Improving Debt Transparency: DRS Revisions

Figure 4. Country ranking: the largest upward debt revisions since IDS 2018

Source: Horn, Mihalyi and Nickol (2022)

Example:
According to IDS 2018, Tanzania's debt stock in 2016 was 9.8 bn USD. According to IDS 2022, the debt stock in 2016 was 11.8 bn USD, an upward revision of 2 bn USD or more than 16 percent of the initial reporting.