

Debt Sustainability and Debt Transparency in LICs

12th Annual Julis Rabinowitz Center for Public Policy and Finance Conference

Panel Discussion on “Catalyzing Macroeconomic Policy for Development in Sub-Saharan Africa”

Princeton University

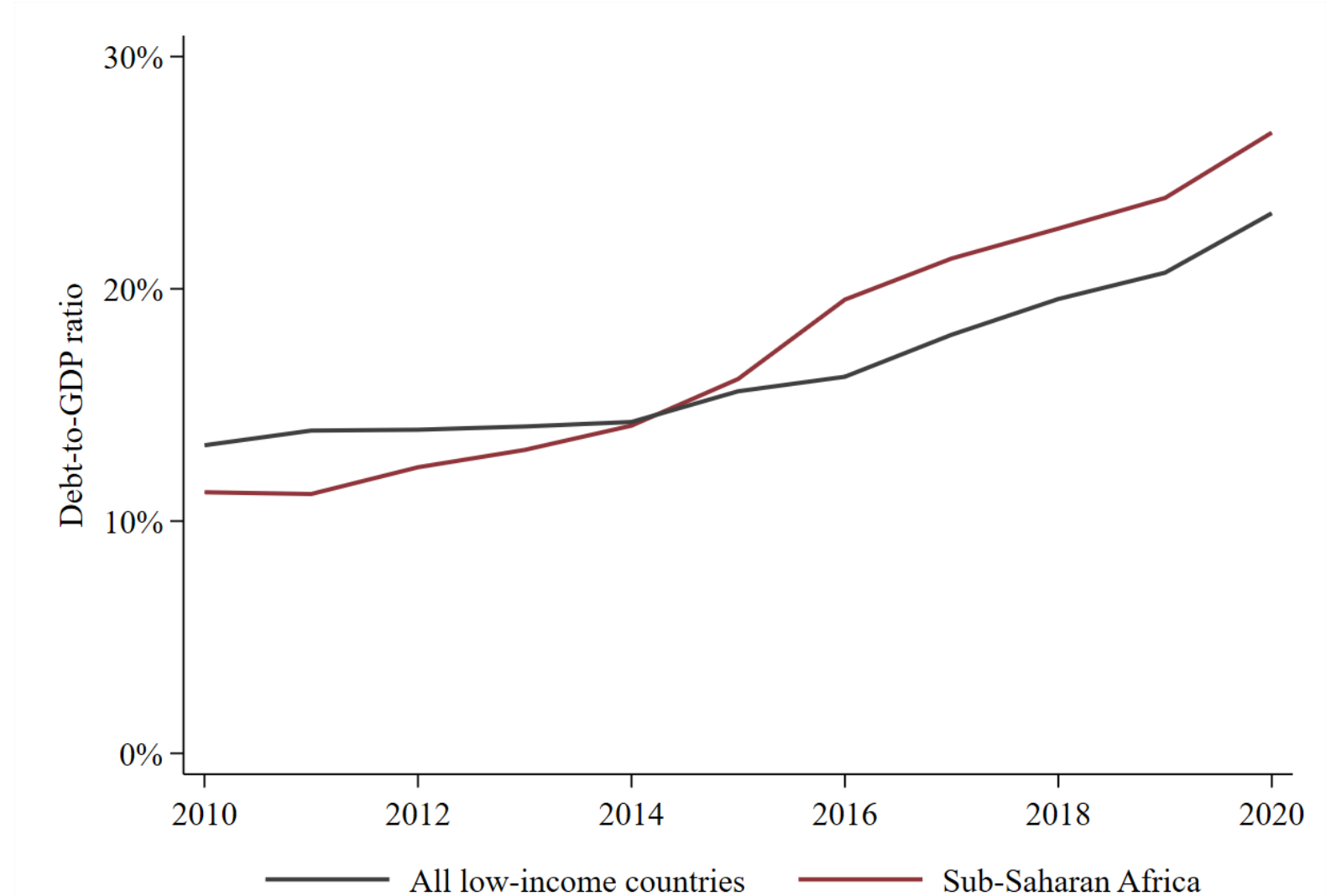
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Aart Kraay

World Bank

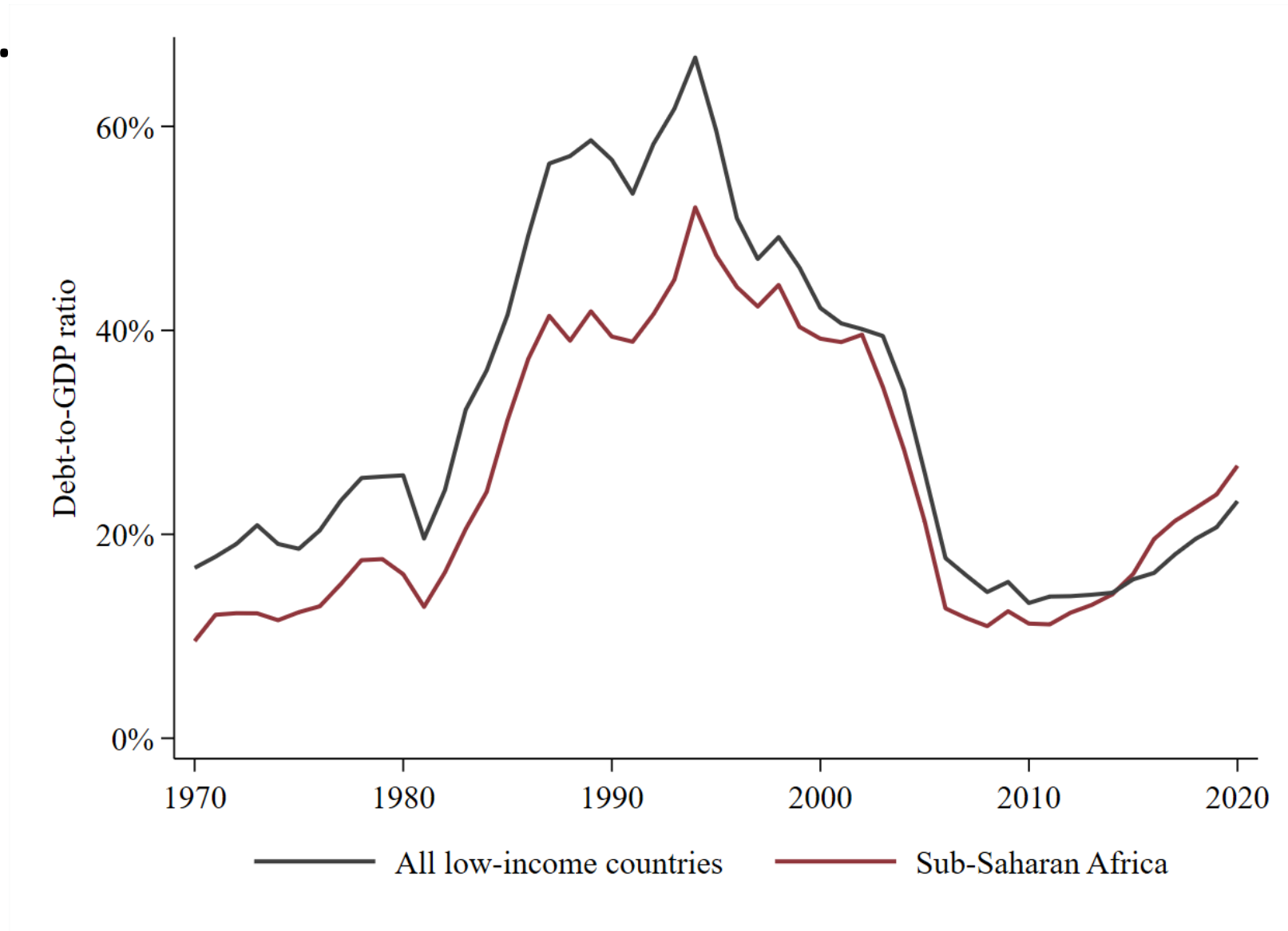
I am grateful to Sebastian Horn for help preparing this presentation. The views expressed here are the author's, and do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent.

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...

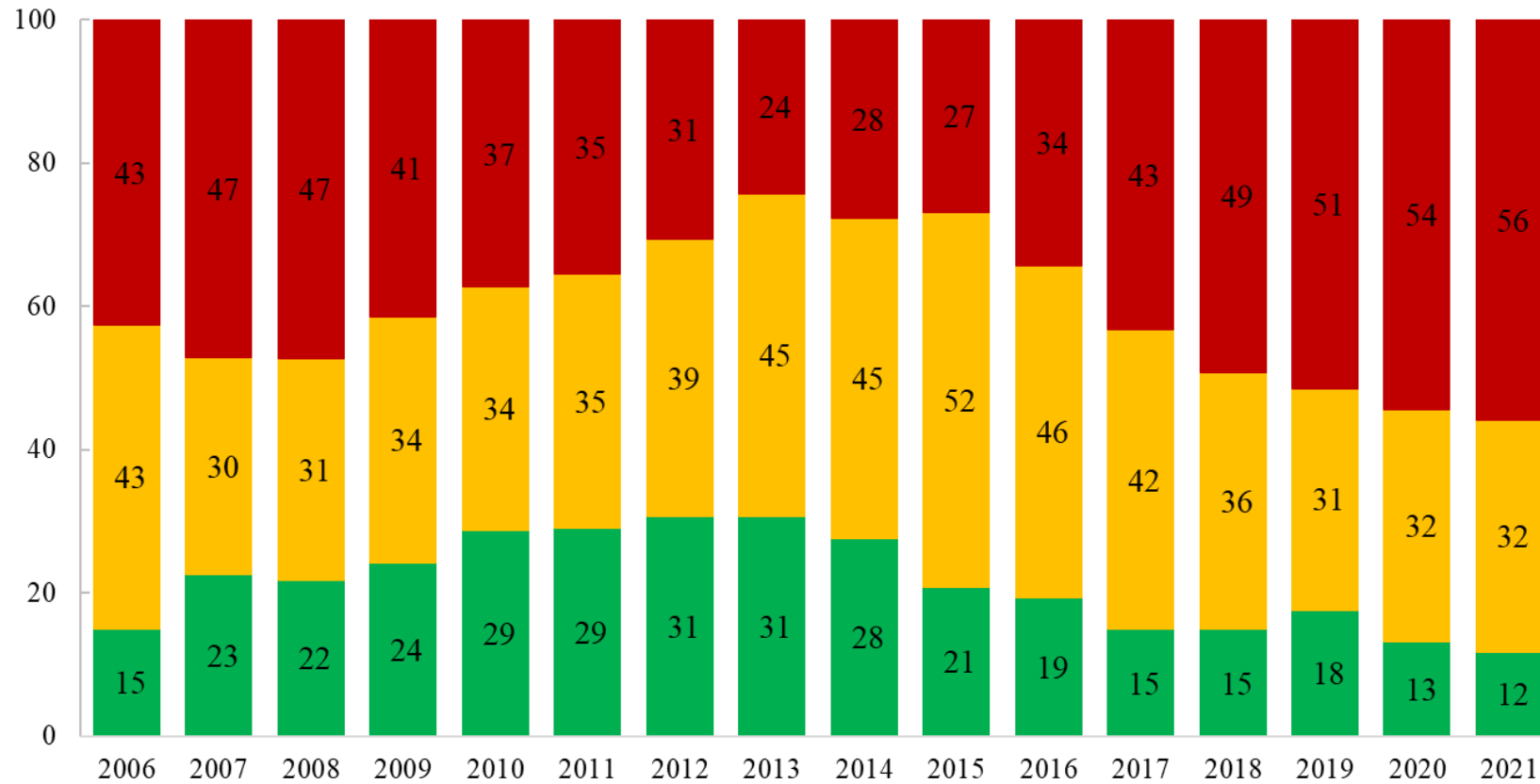


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Increasing risk of debt distress since mid-2010s...

IDA-Eligible Countries: Risk of External Debt Distress
(2013 to end June 2021: share of countries with LIC DSA)

■ Low ■ Moderate ■ High or In Distress



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	PV of Debt/GDP	PV of Debt/Exports	Debt Service/Revenue	Debt Service/Exports
Weak	30	140	14	10
Medium	40	180	18	15
Strong	55	240	23	21

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

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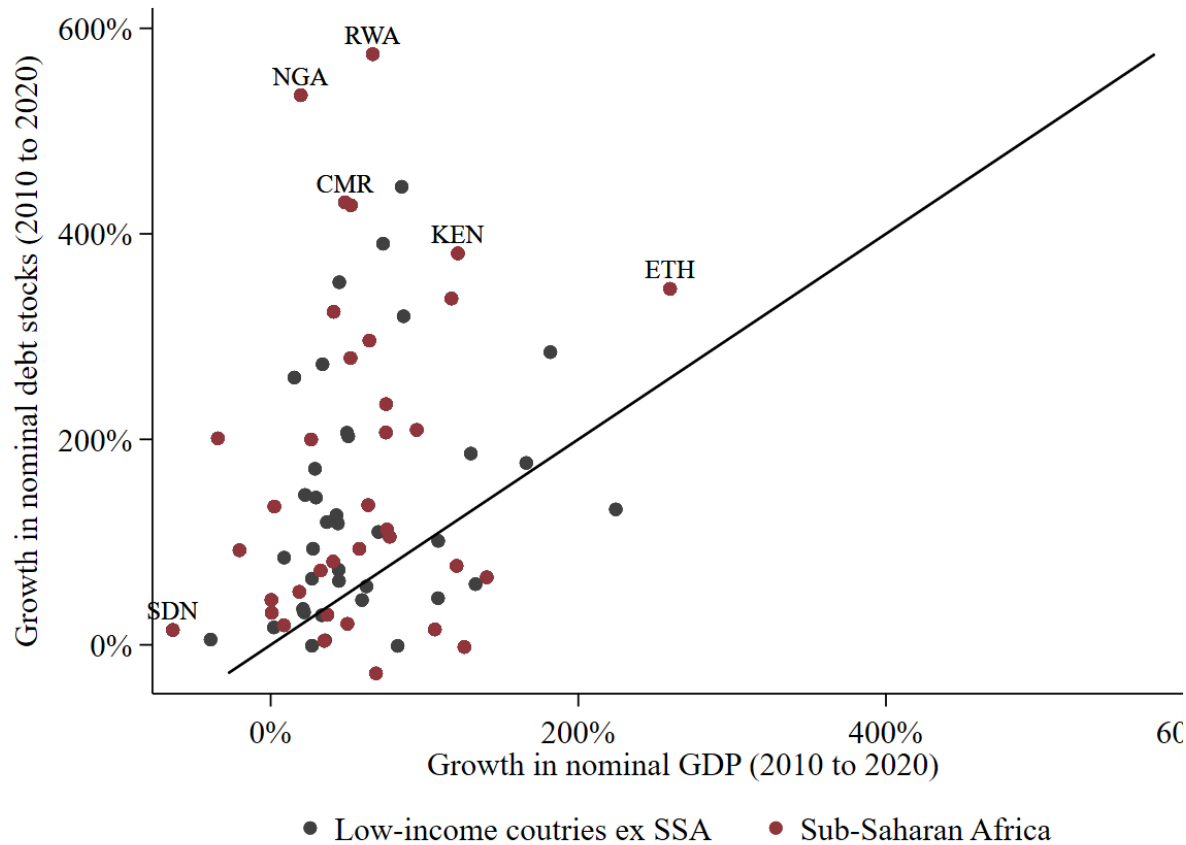
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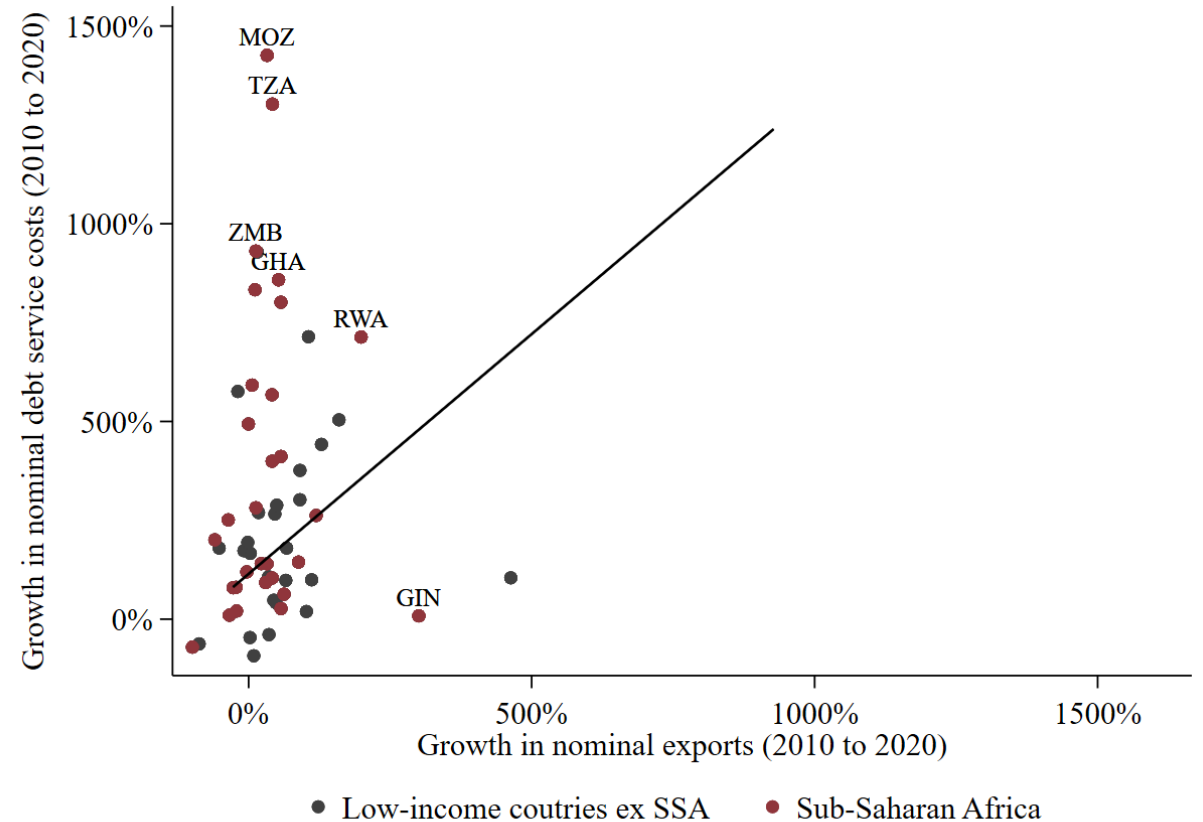
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 - Y is GDP
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-
- **How much has $\frac{D}{Y}$ changed? How much have P and $D^*(P)$ changed?**

Numerators outpacing denominators: proportional changes in debt ratios 2010-2020

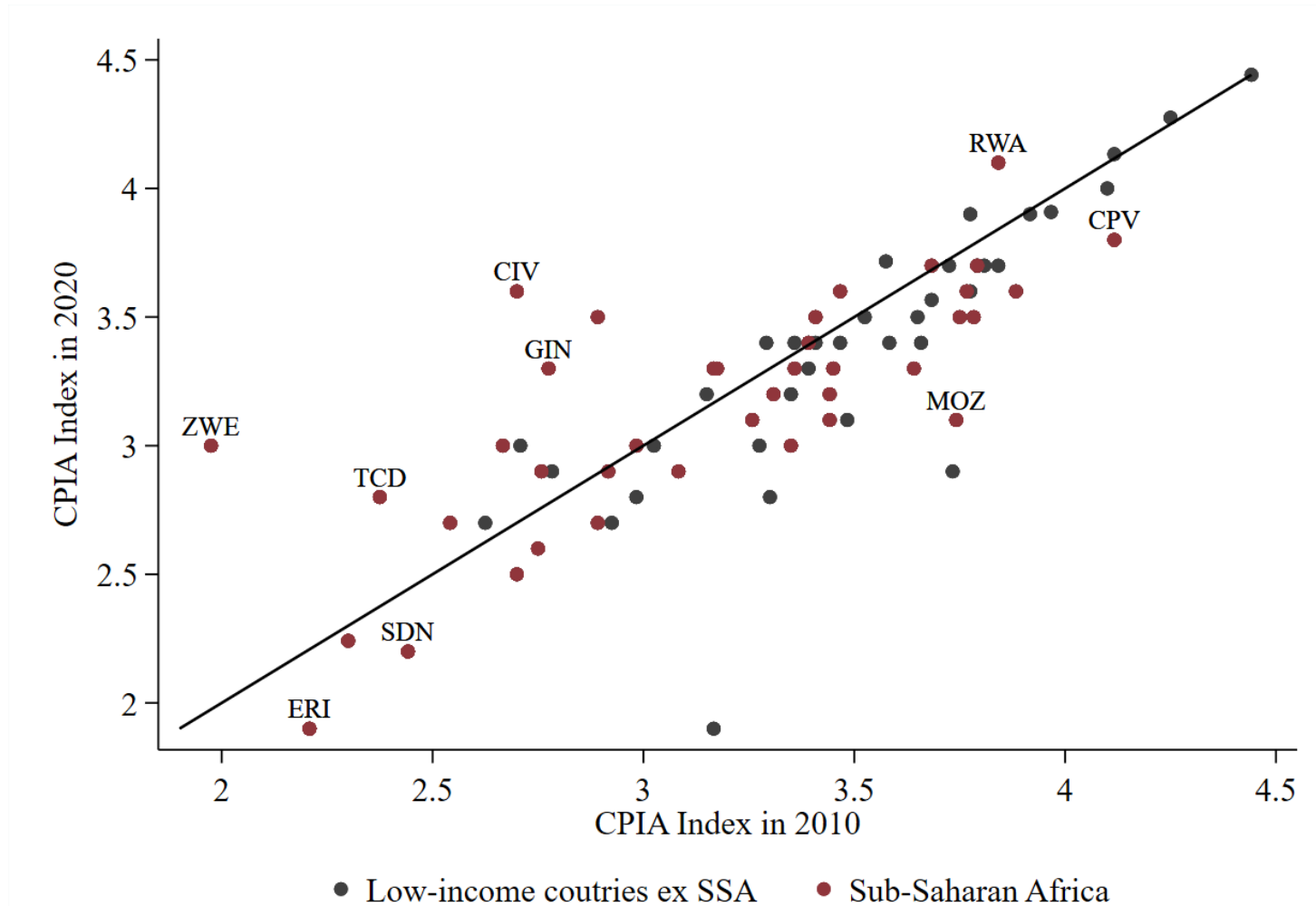
Nominal Debt/GDP



Total Debt Service/Exports



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

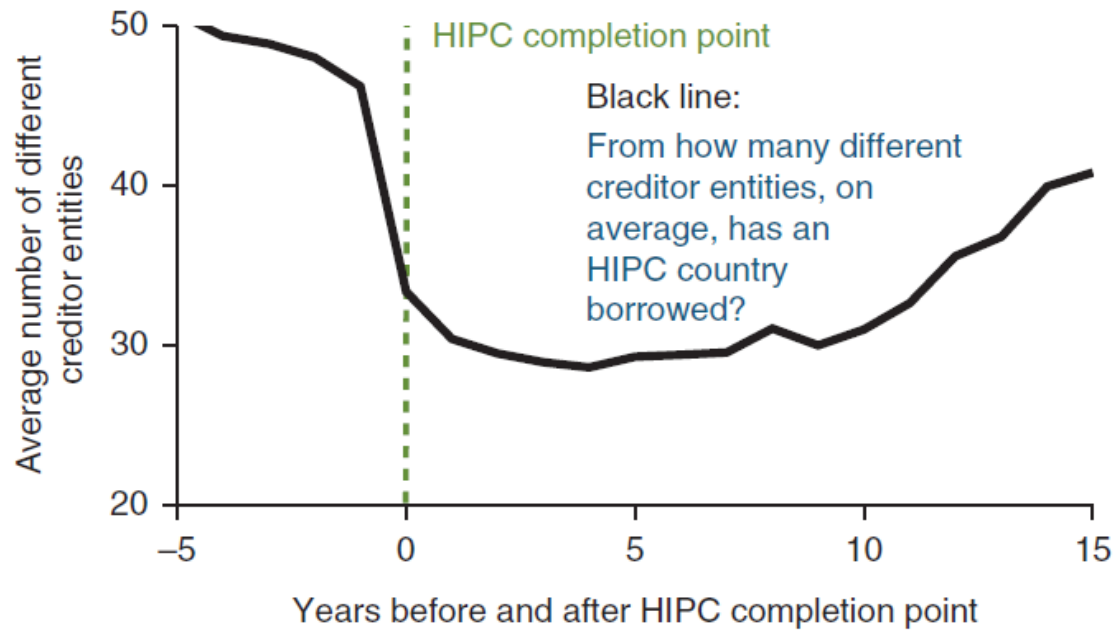
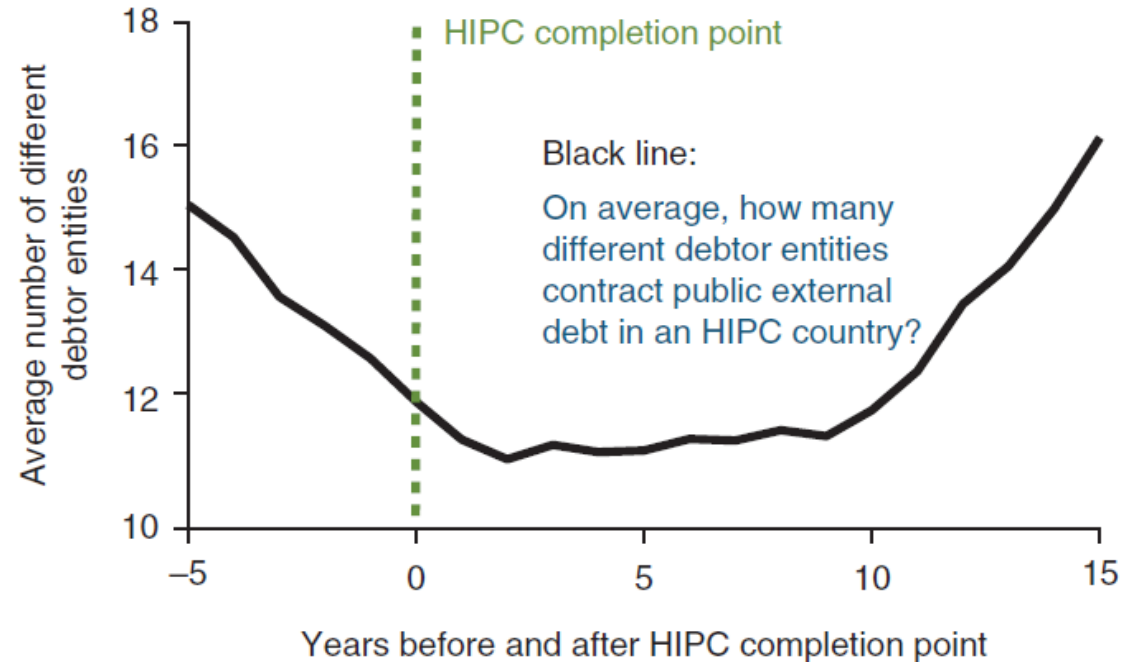
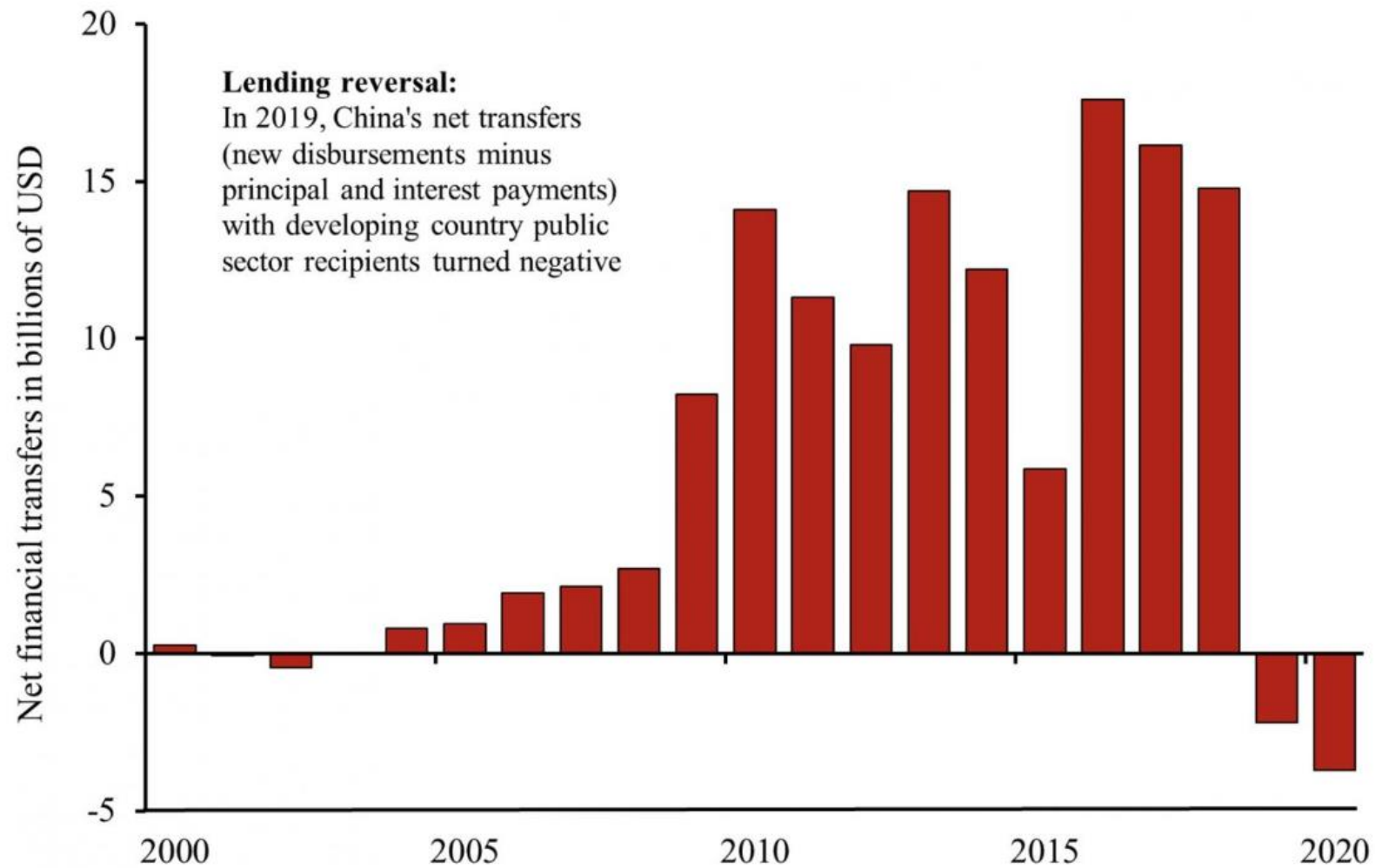


Figure BO.4.2 Debtor Base Fragmentation in Highly Indebted Poor Countries



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

Greater reliance on procyclical creditors



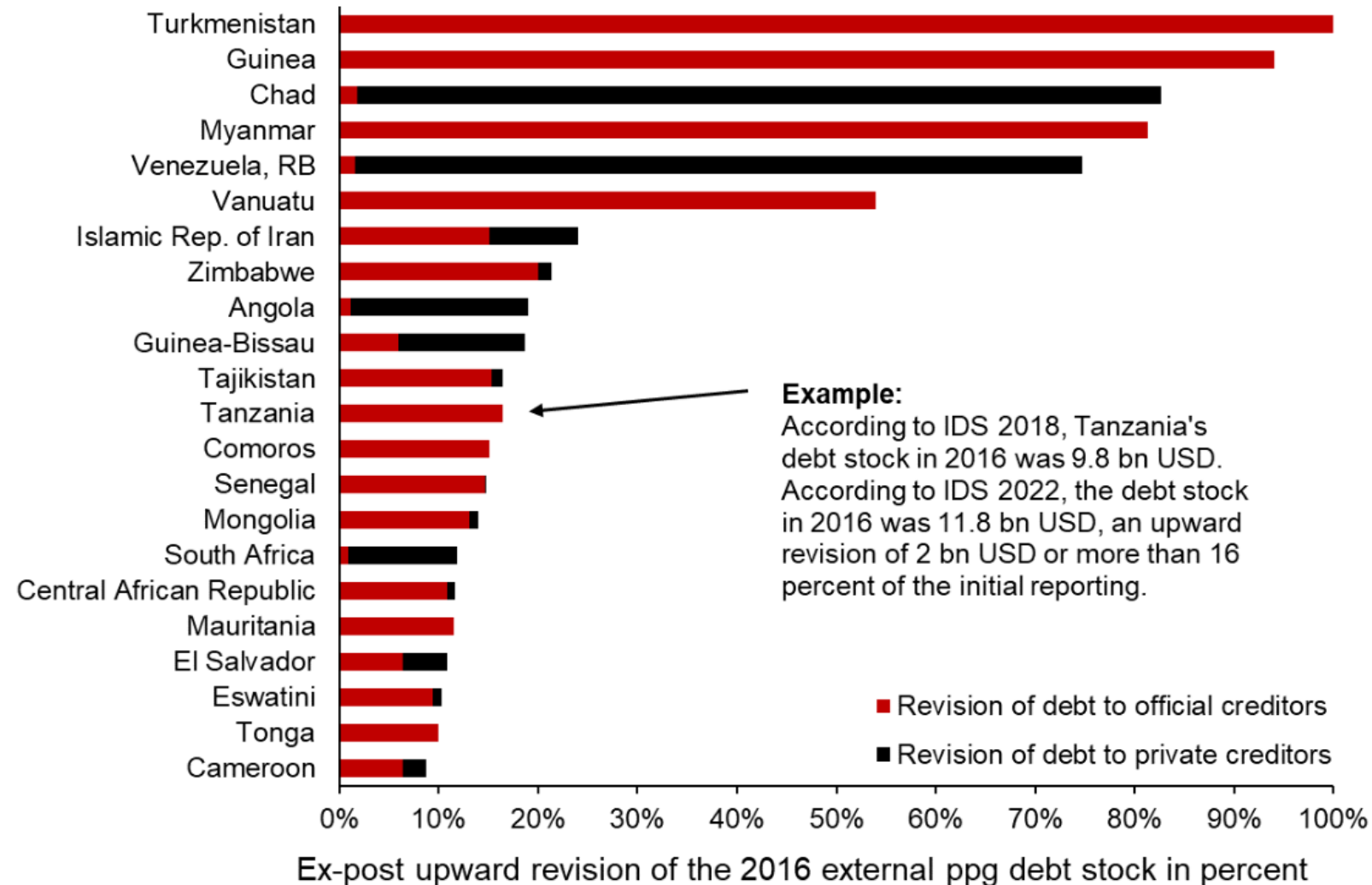
Source: Reinhart, Trebesch and Horn (2022)

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)