Exogenous Shocks and Debt

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD
Exogenous Shocks and Debt
In Developing Countries

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Outline

• Development and Poverty Reduction
• Debt in Developing Countries (LICs)
• Outlook and Vulnerabilities
• Policy Options
Era of unprecedented growth

Real GDP Growth by Country Group

Strong (but uneven) progress against twin goals

Convergence in poverty reduction

Growth inclusive in IDA countries


Source: World Development Indicators.

* Average annual growth in mean income/consumption per capita during a 5-year period between 2002-2012.
Benign external environment

Source: World Development Indicators, DSAs
LICs able to diversify financing

Debt disbursements to Low Income Countries by type

- Multilateral
- Bilaterals
- Other Private
- Commercial Banks
- Bonds
Broader access to global bond markets

Global Bond Issuances – Sub-Saharan Africa (Excl. SA)
HIPC gains sustained

Change in External Debt After HIPC

Average External Debt to GDP

DP = HIPC Decision Point

Source: World Development Indicators
Until very recently, reduced risks of debt distress

Number of Countries by Risk Rating and Year

- Low
- Moderate
- High/In Debt Distress
A more challenging global outlook

Source: *World Economic Outlook, April 2014 and October 2015, IMF.*

*Commodity Price Index includes both Fuel and Non-Fuel Price Indices*
Transitioning into headwinds

- Country specific
- Oil and commodity exporters vs. diversified economies
- Buffers and vulnerabilities
Transitioning into headwinds - vulnerabilities

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<tr>
<th>Oil Exporters</th>
<th>Commodity Exporters</th>
<th>Diversified</th>
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<td>1) Fiscal</td>
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World Bank Group: Macroeconomics & Fiscal Management
Transitioning into headwinds – external sector and erosion of buffers

Change in FX Reserves and Depreciation Since 2014

Source: World Bank Survey of Commodity Exporters
Policy options in an era of headwinds

- Speed of adjustment a function of policy space
  - Market debt
  - Reserves
  - IFIs
- If possible, support domestic demand
- In the longer run:
  - Debt risk management
  - Diversification (RER, structural reforms)
Policy options in an era of “headwinds”

How we are helping countries transition and increase gains

• Efficiency in Public Finance
  o Domestic Resource Mobilization and its cross-cutting effects
  o Public Investment and debt management to sustain infrastructure development
  o Human capital

  But external financing is critical

• Relentless focus on productivity/transformation
  o Ambition in policy reforms in agriculture, resource management and infrastructure

• Importance of Equity and Measurement
  o Constantly checking and measuring progress