



Debt Vulnerabilities in LIDCs: Domestic and Multilateral Policy Priorities & Options

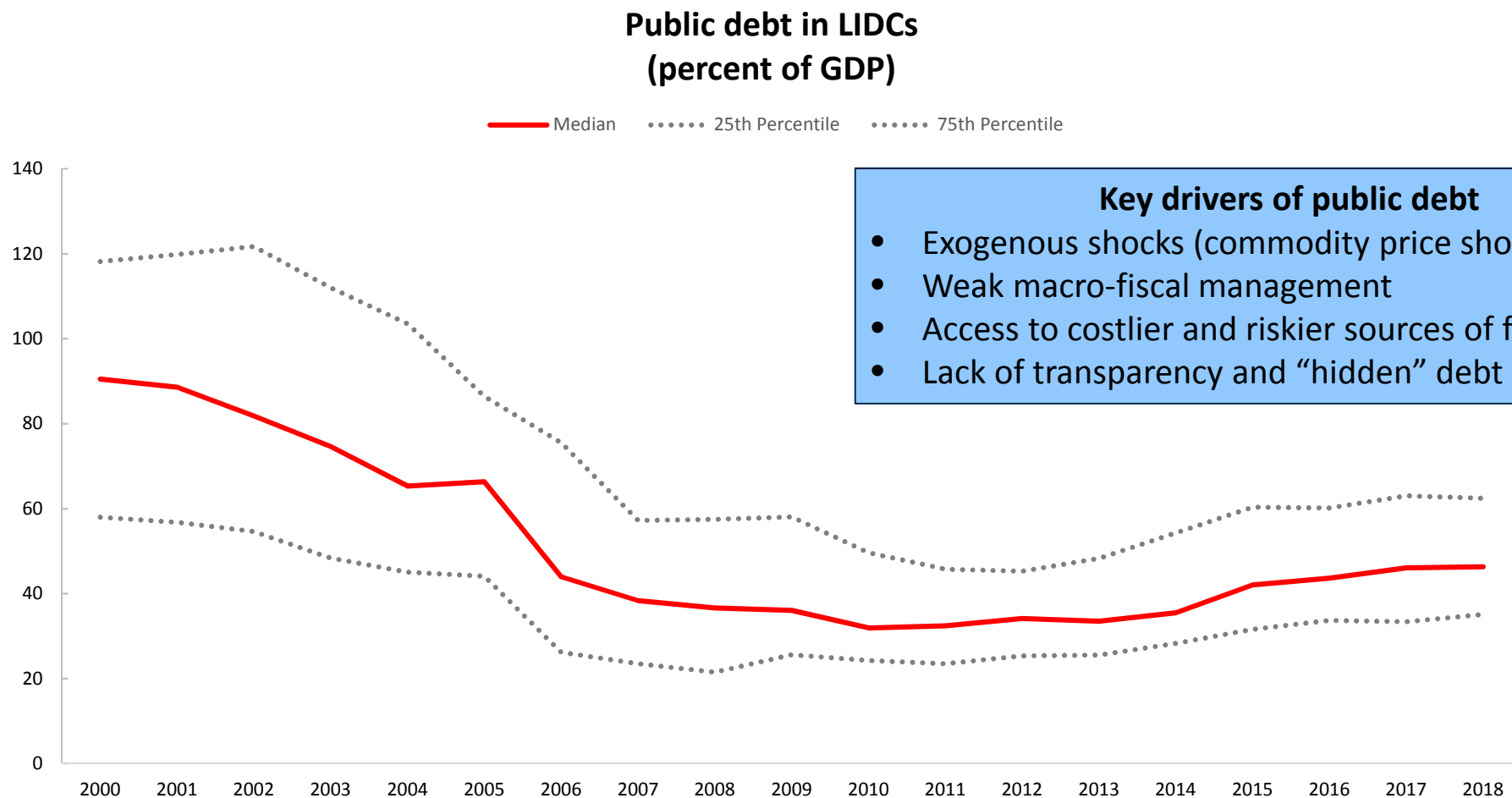
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Public debt in low-income developing economies (LIDCs) as a group has increased rapidly since 2013



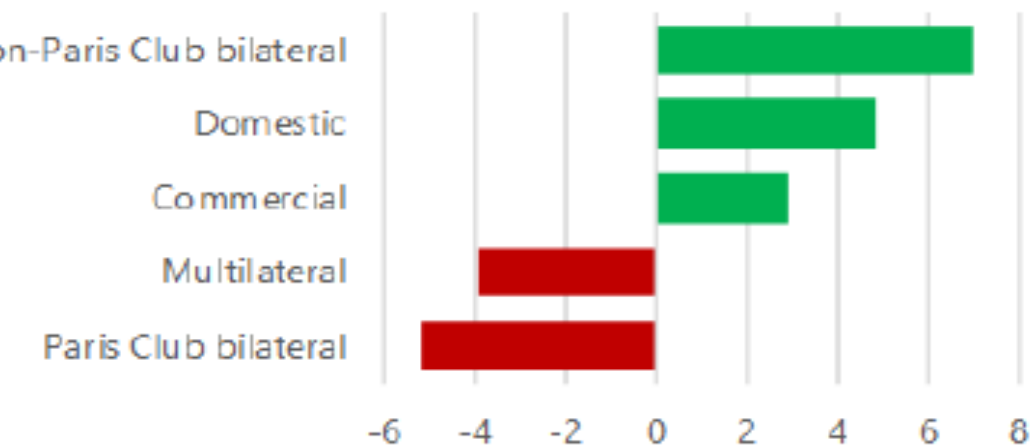
Key drivers of public debt

- Exogenous shocks (commodity price shock)
- Weak macro-fiscal management
- Access to costlier and riskier sources of finance
- Lack of transparency and “hidden” debt

Note: Public debt covers general government gross debt.
Source: World Economic Outlook Database, October 2018.

Changes in the composition of LIDCs debt portfolios, including increased reliance on costlier and riskier sources of finance, and large international bond redemptions coming due increase risks

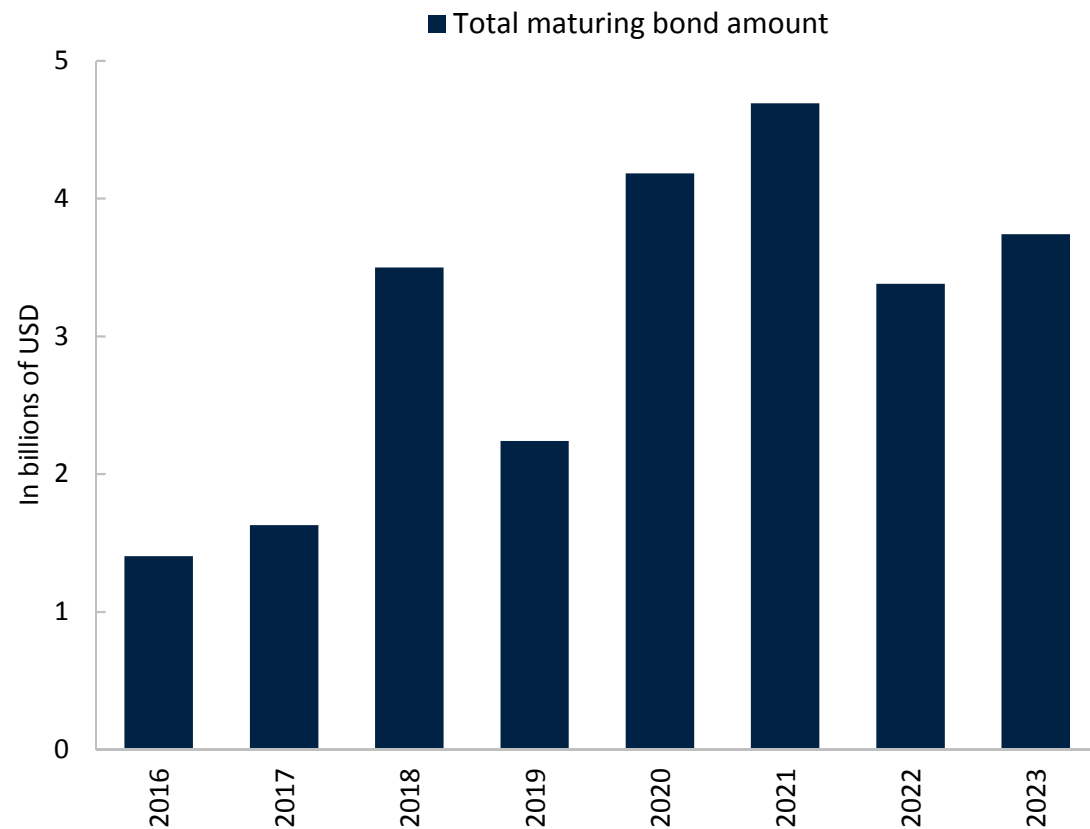
**Change in Composition of LIDCs External PPG Debt
(in percent of GDP, 2007-2016)**



Note: average across 37 countries with continuous data.
Sources: 2017 Survey of IMF country desks; BIS-IMF-OECD-WB Int External Debt Statistics; WB International Debt Statistics; IMF International Financial Statistics; and IMF Staff Reports.

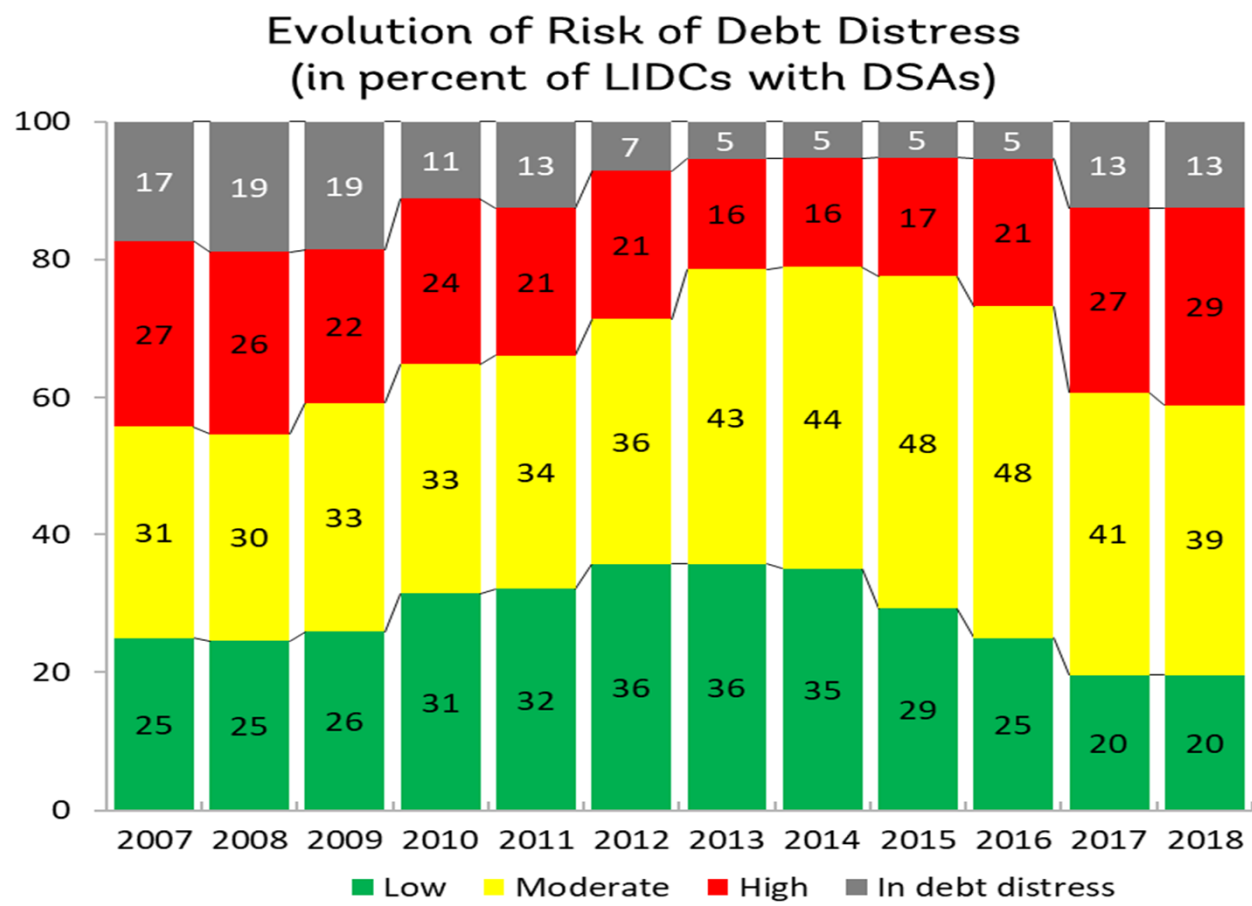
Source: International Debt Statistics.

**LIDCs: International Bond Redemptions
(USD billions)**



Source: Dealogic and World Bank staff calculations.

a result of rising debt levels and shifts in the composition of public debt
 increased debt vulnerabilities, more than 40 percent of LIDCs are currently
 at high risk of debt distress



Source: LIC DSA database and staff calculations.
 Risk ratings as of end-July 2018

Looking ahead, public debt is expected to remain contained, but important work, requiring careful execution of fiscal policies, tailored policy reforms and smooth debt management

Key risks to the outlook include:

- Larger than anticipated increases in global interest rates (e.g., due to more rapid normalization of monetary policy in advanced economies)
- Weaker global growth (e.g., due to curtailment of global trade and investment)
- Volatility in commodity prices (beyond expected gradual decline over the medium-term)
- Poorly executed fiscal adjustments (e.g., with high impacts on growth, due to excessive focus on cutting investment)

It will be critical to:

- Implement sound macro-fiscal frameworks
- Implement tailored policy reforms that reflect country-specific vulnerabilities:
 - Commodity exporters could take steps to better insulate their economies from volatile commodity prices or diversify their economic base over time
 - Countries with high level of SOE debt and PPPs may benefit from improving transparency and fiscal risk management
 - Development of local debt currency markets if it does not lead to financial repression
- Strengthen public debt recording, monitoring and reporting; and build public debt management capacity

ing debt vulnerabilities and recent cases where monitoring and disclosure
ve been inadequate highlight the need for greater debt transparency

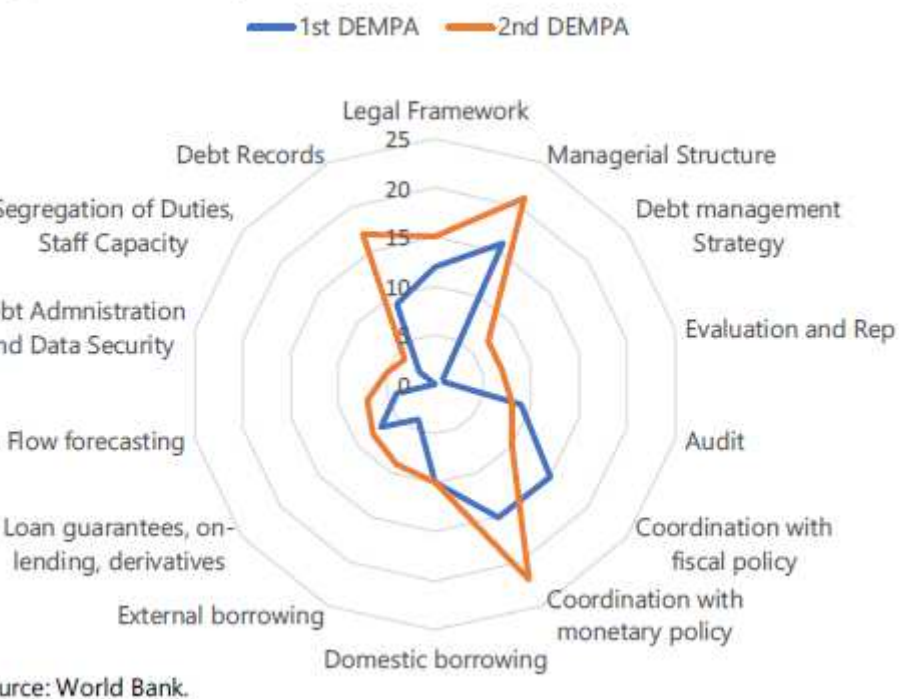
Public debt transparency plays a critical role in: evaluating the sustainability of public debt and monitor emerging risks; helping countries take informed borrowing decision, facilitating debtor-creditor and creditor-creditor coordination

Comprehensive recording, monitoring and reporting of public debt are critical for debt transparency. They require on the borrower side:

- A strong governance framework and an effective organizational structure
- Adequate staff capacity
- Functional recording systems

ing stock of where we are

Debt Management Performance Evaluations



WB Debt Management Performance Assessments in 37 countries.

Results from 2015-16 World Bank's Debt Management Performance Assessment (DeMPA) show **significant gaps** in:

- debt recording (41% of countries meet minimum requirements)
- debt reporting and evaluation (35%)
- monitoring of guarantees (33%)

and **broader problems in debt management governance**:

- weak legal frameworks
- lack of audits
- poor data administration and internal control
- low staff capacity

with **limited and uneven progress** over time

Main drivers of weak capacity: weak incentives to provide reliable data; weak procedures; weaknesses in IT infrastructure and outdated software; insufficient human resources

The IMF-World Bank have launched a multi-pronged approach to help countries address debt vulnerabilities.

Debt Analytics and Monitoring

- Implementation of revised joint Bank-Fund Debt Sustainability Framework (and the to-be-revised MAC DSA)
- Scale-up of analytics on debt issues and fiscal risks
- Strengthen early warning systems

Debt Transparency

- TA to support recording, monitoring, and reporting of debt
- Better access to debt data and analysis from IMF and WBG
- Enhanced creditor outreach

Debt Management

- Scaled up debt management TA
- Tools to improve management of contingent liabilities
- Enhanced operational support to strengthen debt/fiscal policy frameworks
- Extend WBG Debt Reduction Facility
- Supportive IMF and WBG policy framework (Debt Limits Policy and NCBP)

Conclusion

About 40 percent of low income developing countries (LICDs) are at high risk or in debt distress. Heightened debt vulnerabilities reflect rapid debt accumulation and change in the composition of debt. Increased reliance on new sources of official and market-based financing adds to risks

Key drivers: weak macro-fiscal management; access to costlier and riskier sources of finance; exogenous shocks; lack of debt transparency and “hidden” debt

Public debt-to-GDP ratios are projected to remain contained, but policy implementation and global risks could frustrate such outcome

Reforms tailored to country circumstances are needed. Fiscal adjustment supported by growth-friendly reforms; asset and liability management operations to smooth refinancing risks; greater transparency about and management of off-balance sheet risks; stronger domestic resource mobilization;

Despite progress, challenges remain on debt recording, monitoring and reporting, and broader aspects of debt management

The IMF and the World Bank are pursuing a multi-pronged approach to help countries address debt vulnerabilities: stronger data analytics; promote debt transparency; and improved debt/fiscal risk management, including scaled-up TA on debt management

Thank you !

The 2017 revisions of the joint Bank-Fund DSF respond to this evolving financial landscape

The revised DSF is more complete.

- Realism tools ensure quality of inputs.
- DSA covers relevant risks not previously analyzed.
- CI and stress tests use expanded set of country-specific information.

Transparency and engagements are enhanced.

- Tools help to make explicit underlying assumptions.
- Country classification is derived from additional observable variables.
- You can better understand and articulate differences in views.

The revised DSF has been simplified.

- Redundant indicators and stress tests have been eliminated.
- Template has been streamlined, with several features automated.