

# **Debt and Development in Lower Income Economies**

## **IMF-JICA Conference, February 2020**

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# STRUCTURE OF PRESENTATION

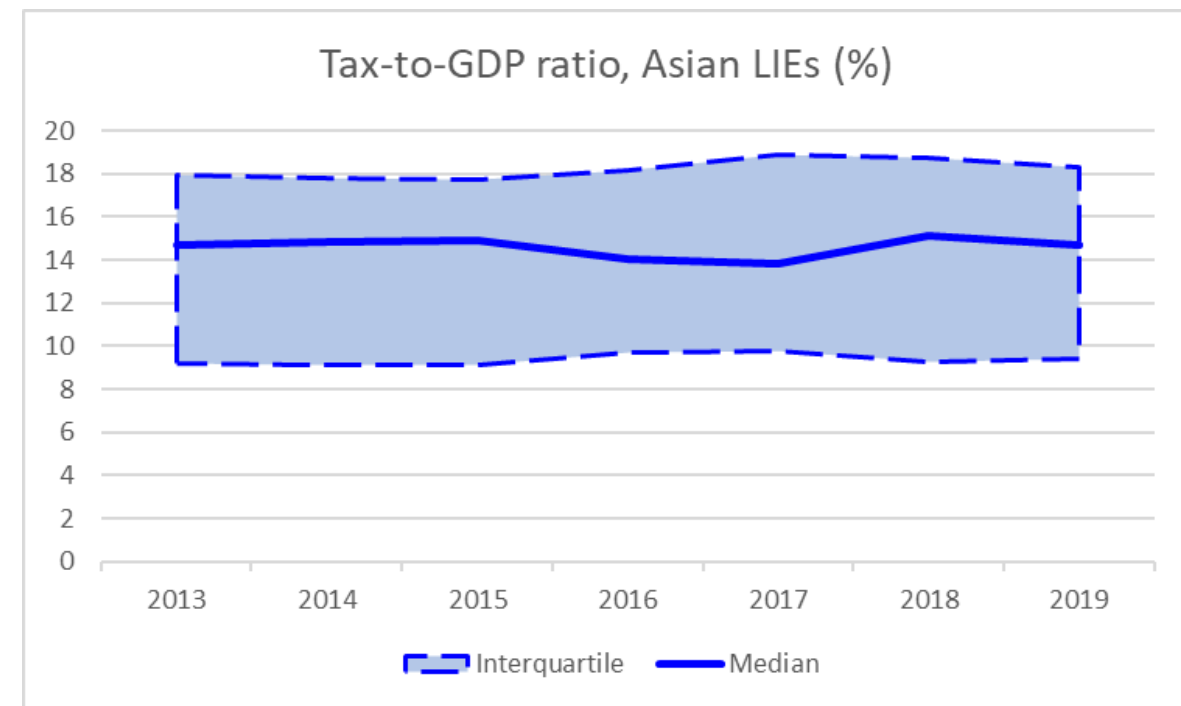
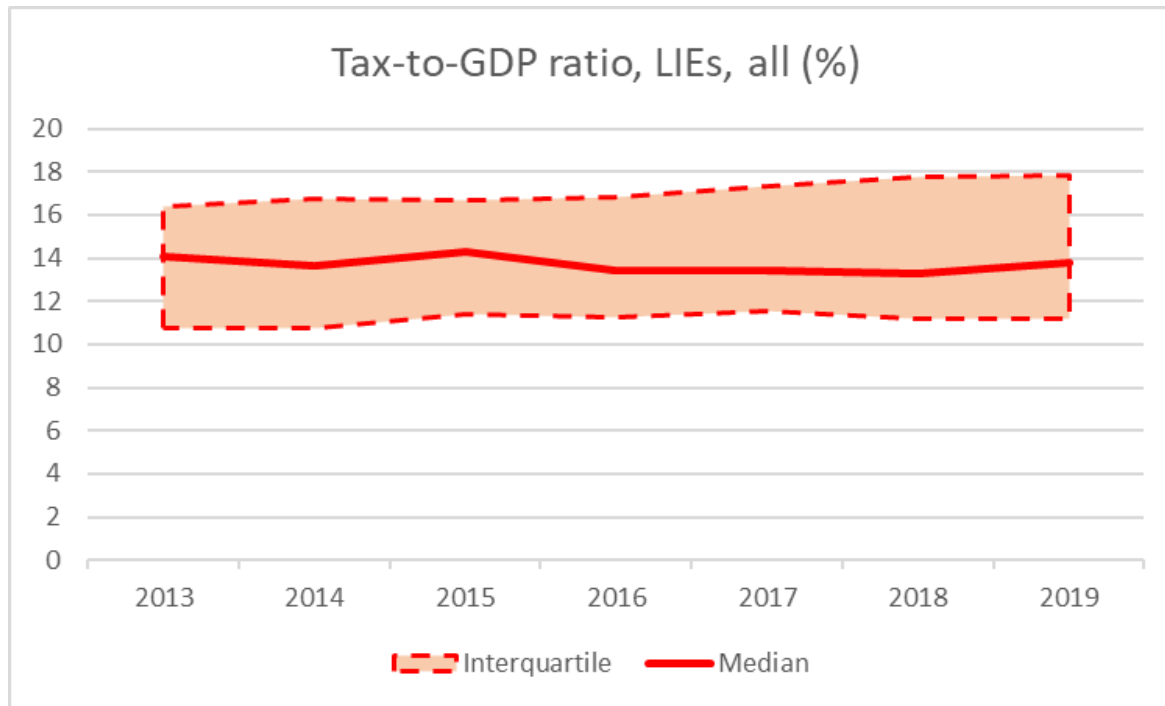
- A. Financing for Sustainable Development (FfSD): The Role of Debt
- B. Debt Developments in LIEs: Recent Trends
- C. Debt Management in LIEs: Challenges
- D. Managing Debt to Support Development – Priorities

# A. FINANCING FOR DEVELOPMENT: THE ROLE OF DEBT

# AI: PUBLIC BORROWING IS INTEGRAL TO FFSD

- **Broad-Based Need for More Public Financial Resources**
- **Funding Sources (Addis Ababa Action Agenda):**
  - *Budgetary Revenues* – see slide A2
  - *Expenditure Reforms*
  - *Private Sector Participation*
  - *ODA* – declining as a share of recipient country GDP
  - *New Borrowing*

## A2. TRENDS IN TAX REVENUES ARE NOT ENCOURAGING



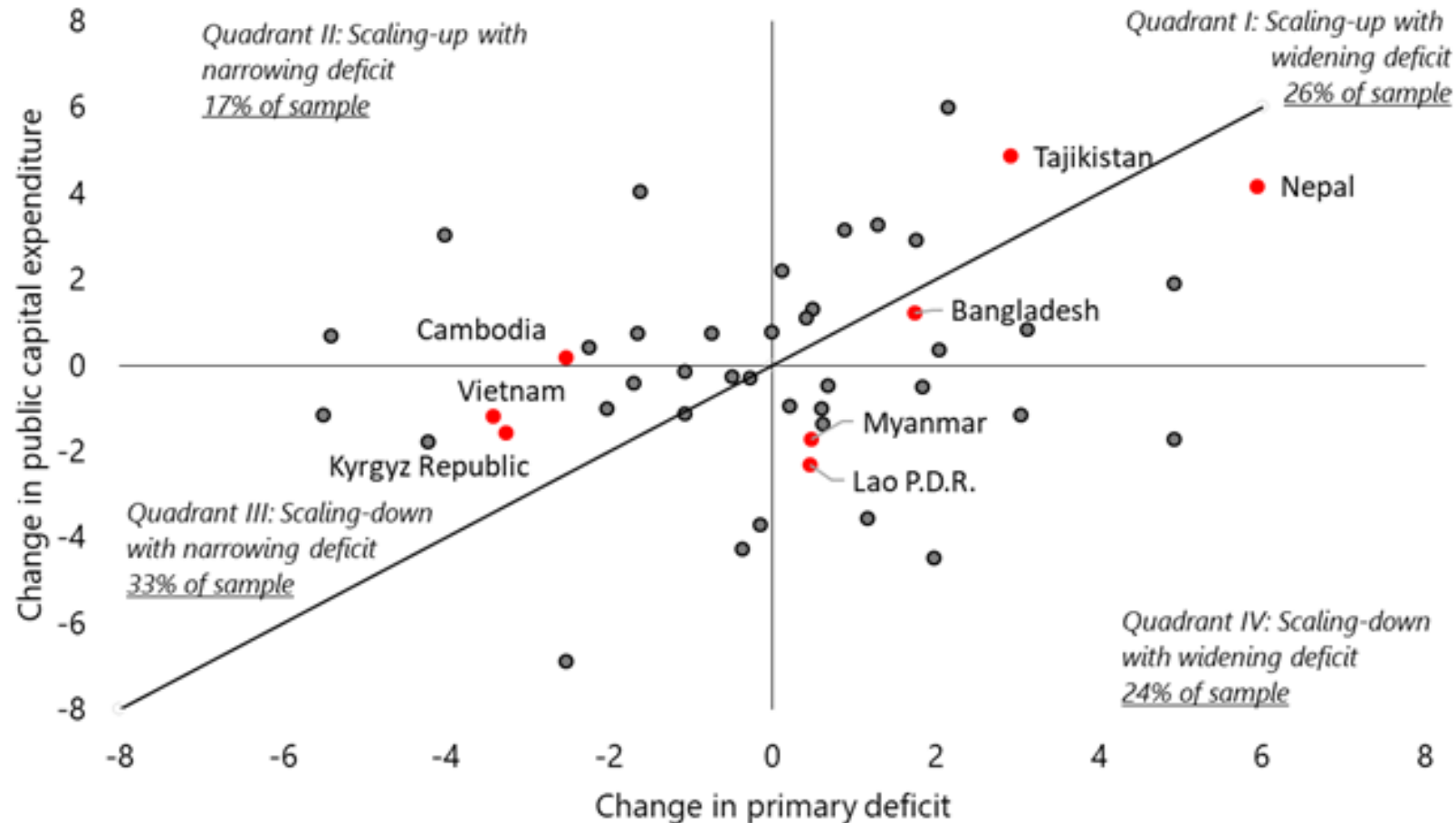
Source: World Economic Outlook Database.

# A3: DEBT ACCUMULATION: HEALTH WARNINGS

- **Contain Debt Levels and Vulnerabilities**
  - Avoid rising risk premia, funding/solvency crises
- **Strong Debt Governance is Essential**
  - Centralized control over borrowing
  - Close monitoring and pro-active management
- **Need to Use Borrowed Resources Effectively**
  - Project selection and implementation
  - Financing consumption or investment?

# A4. MORE BORROWING DOES NOT EQUAL MORE INVESTMENT

Changes in Public Deficits and Investment  
(2018-19 vs. 2012-13)

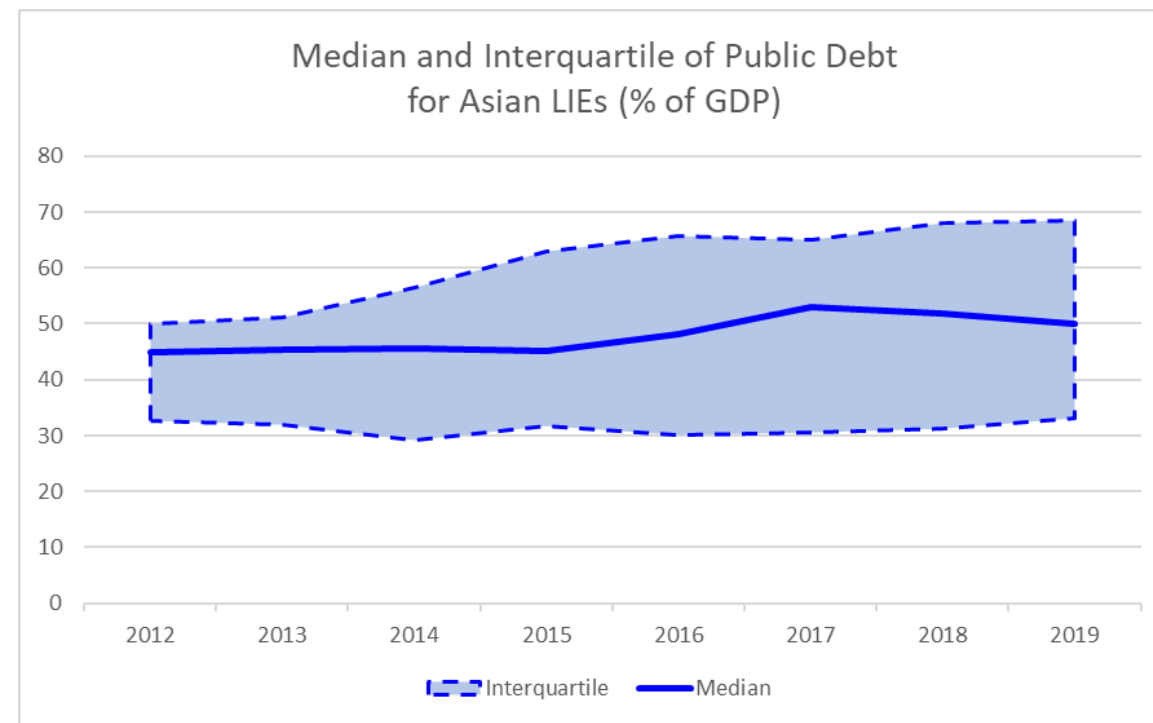
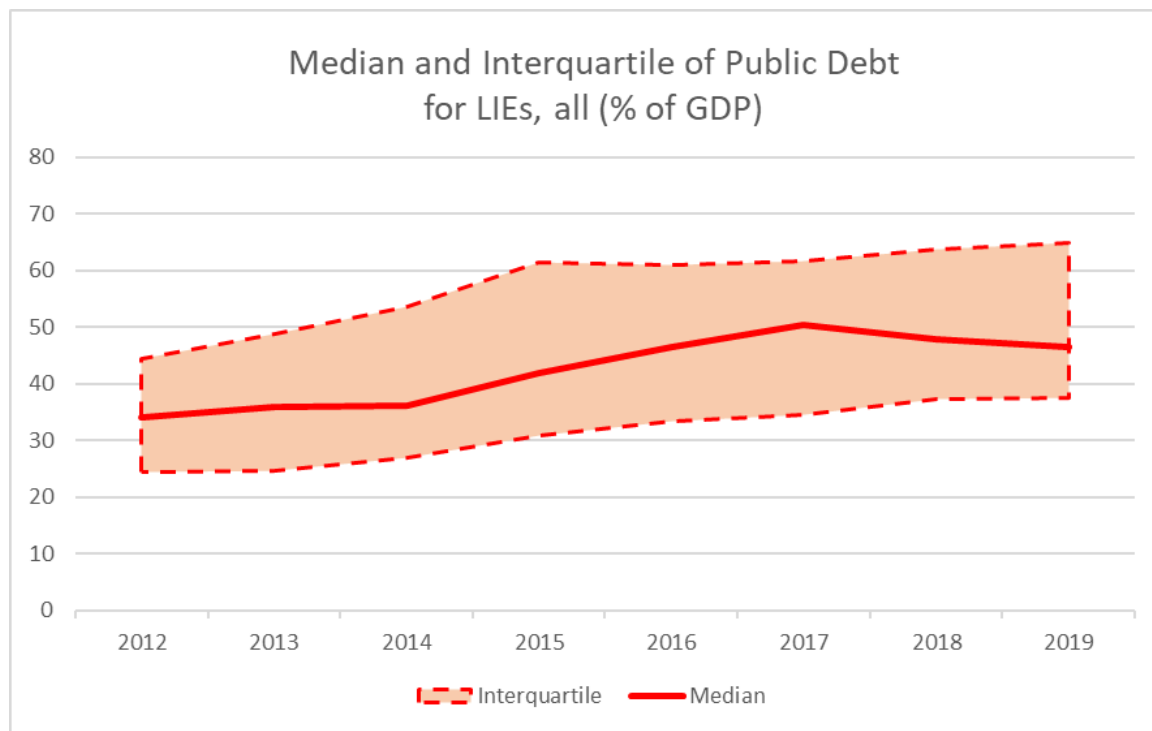


Source: World Economic Outlook.

## B. DEBT DEVELOPMENTS IN LIES – RECENT TRENDS



# BI: RISING PUBLIC DEBT LEVELS

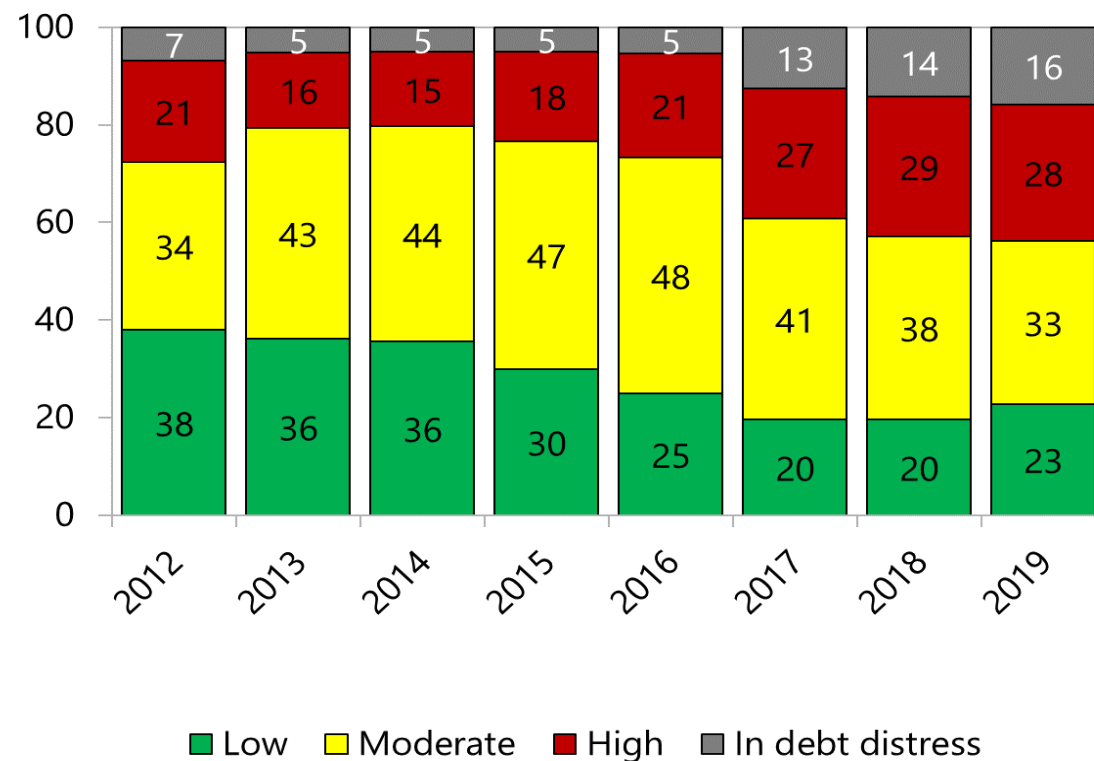


Source: World Economic Outlook Database.

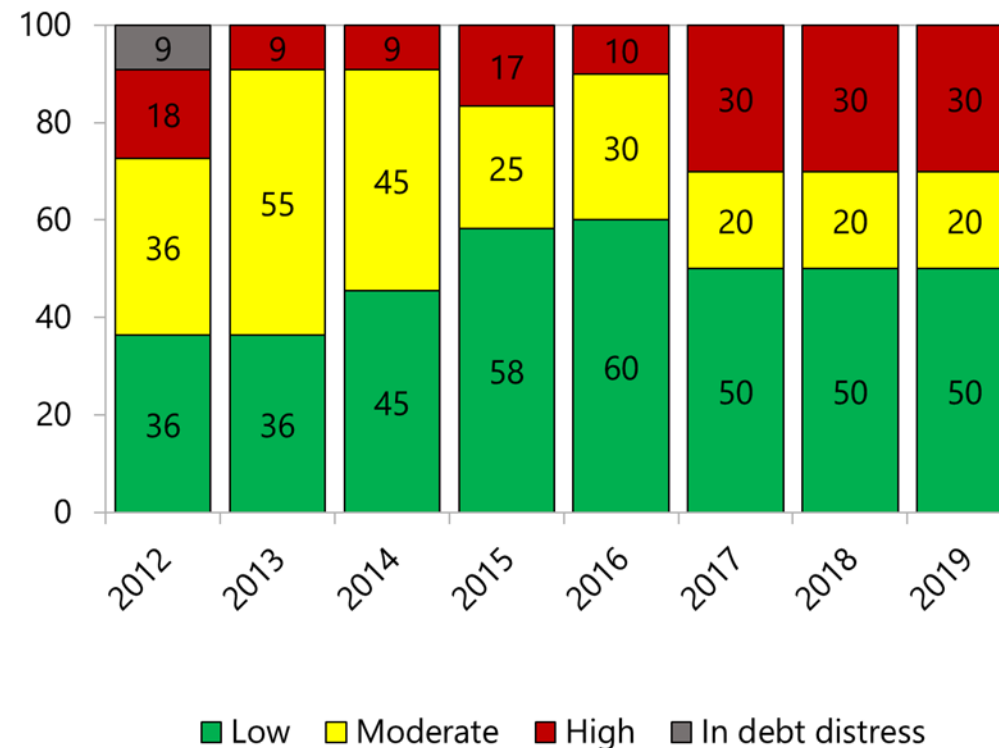
# B2: DEBT VULNERABILITIES HAVE RISEN

Risk assessments from IMF-World Bank LIC DSF

LIEs, all (Percent of LIEs with LIC DSAs)



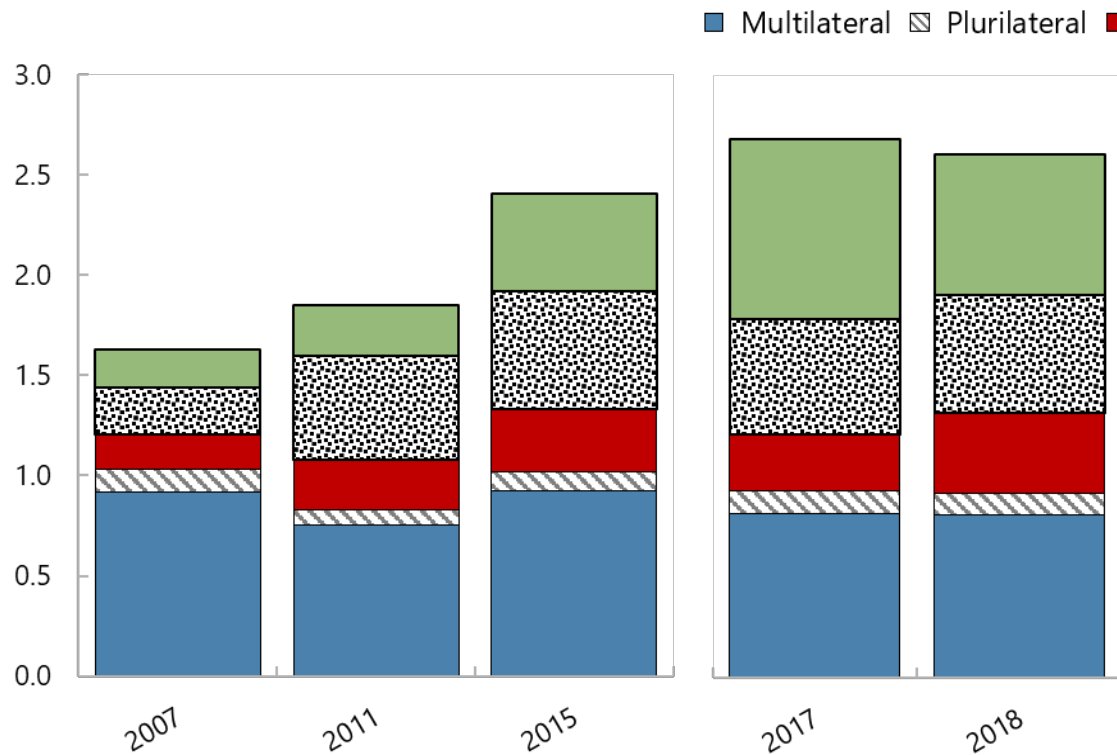
Asian LIEs (% of Asian LIEs with LIC DSAs)



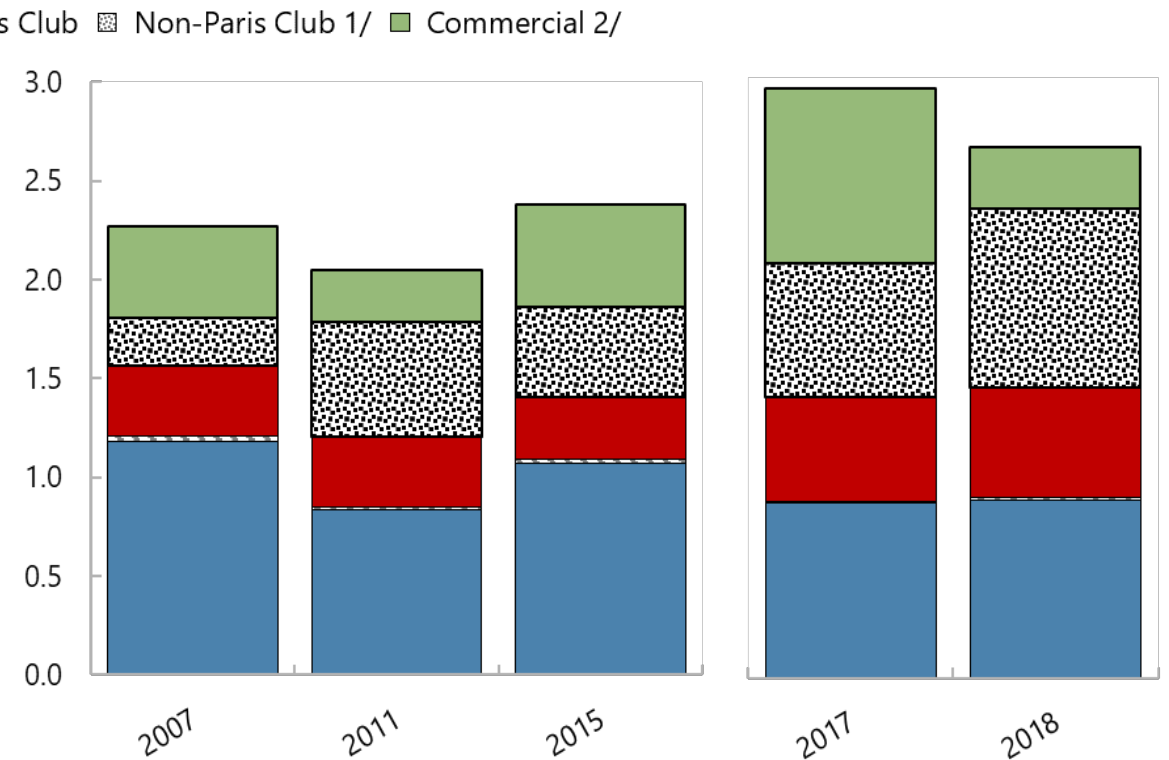
Source: LIC DSA database  
As of end-October 2019

# B3: EXTERNAL CREDITOR BASE HAS SHIFTED SIGNIFICANTLY

Disbursements by Creditor Type - LIEs  
(percent of GDP, weighted average)



Disbursements by Creditor Type – Asian LIEs  
(percent of GDP, weighted average)



Source: DRS Database

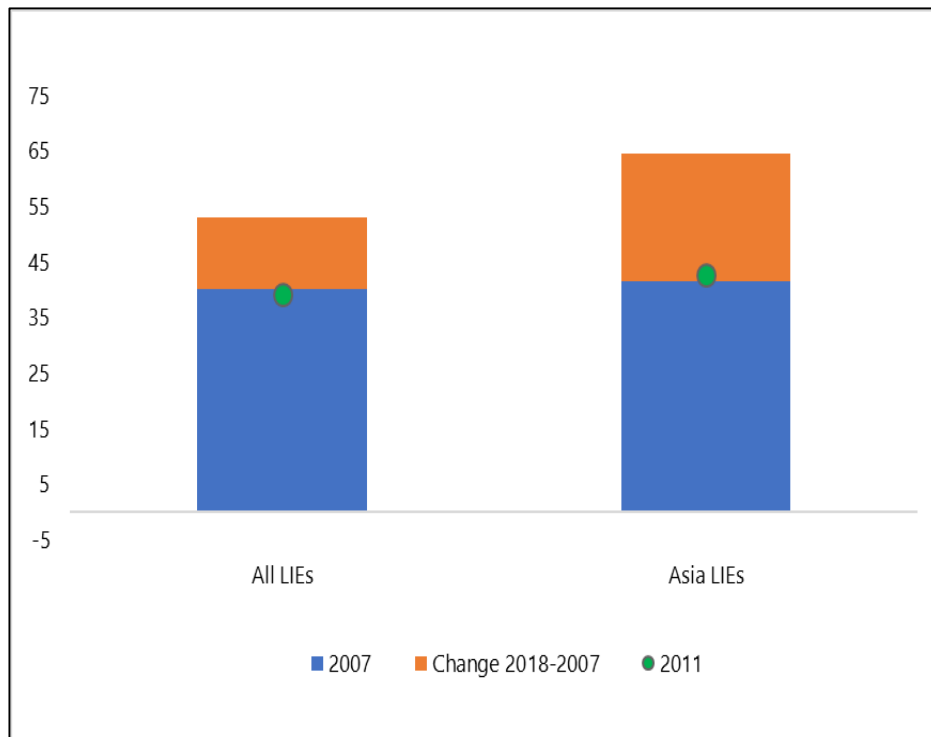
1/ Includes disbursements from China

2/ Includes disbursements from bonds and other instruments

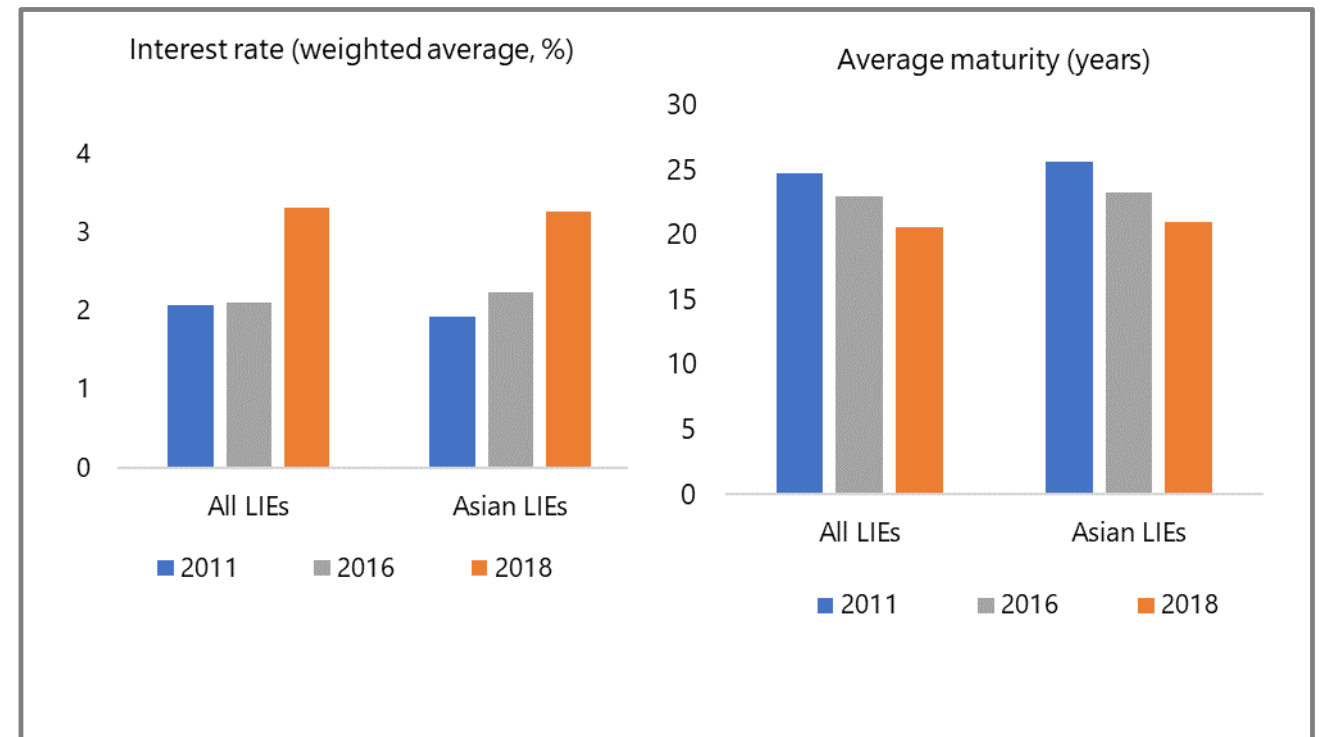
# B4: INCREASED RELIANCE ON NON-CONCESSIONAL DEBT

## ...more marked in Asian LIEs

Share of non-concessional debt in total public external debt (% of total public external debt)



## Terms of new external borrowing



Source: World Bank's Debt Reporting System Database

# B5: COLLATERALIZED LENDING

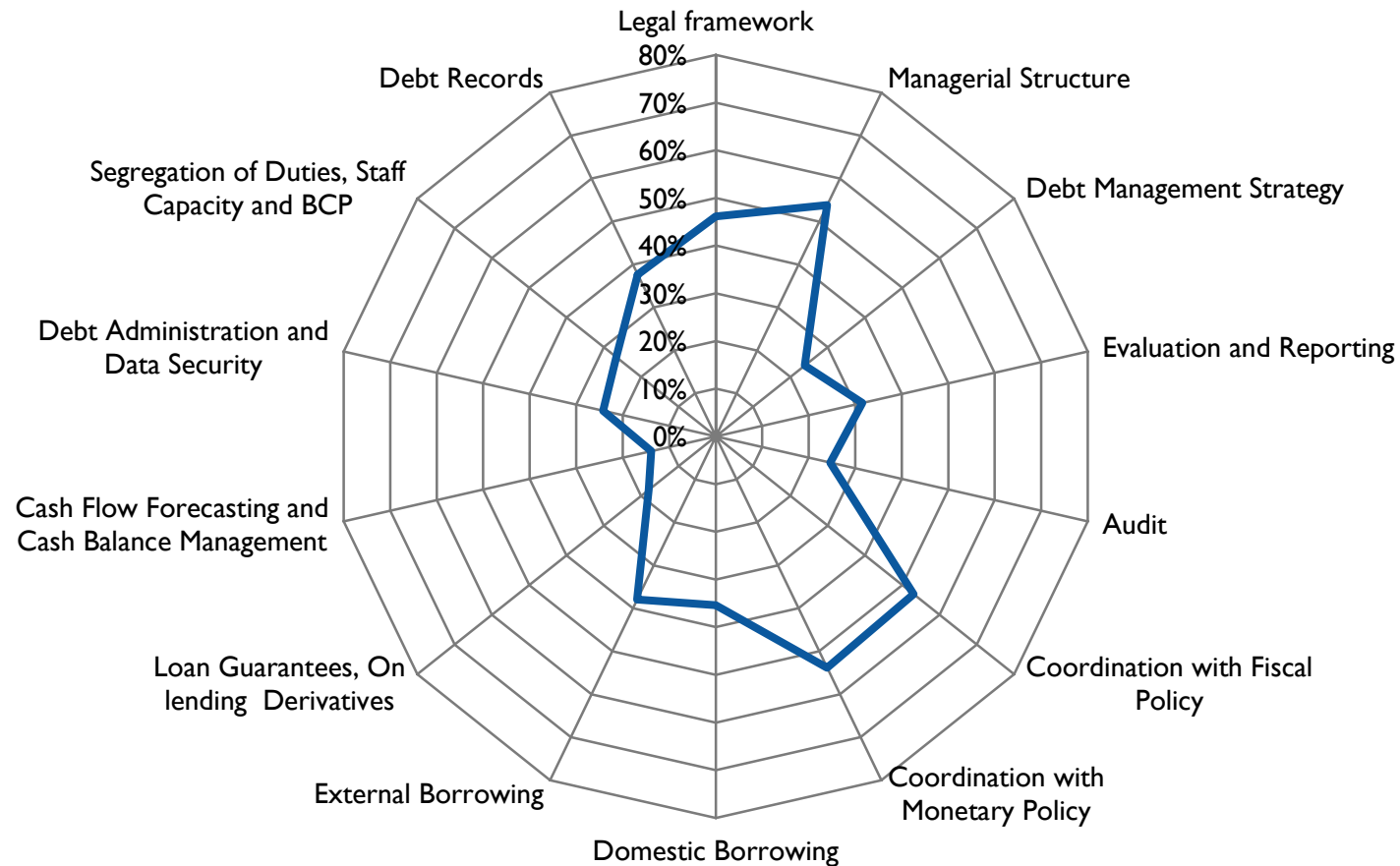
## Collateralization:

- Wide range of practices
  - Standard practice in trade and project financing
  - Less standard: use of unrelated revenue streams
  - Not inherently beneficial or harmful
- Limited information
  - Some decline in relevance for international bonds and syndicated loans
  - Unknown significance in bilateral official loans
  - More common for borrowers that are commodity exporters

## C. DEBT MANAGEMENT IN LIEs - CHALLENGES

# C1. DEBT MANAGEMENT: MANY WEAK POINTS...

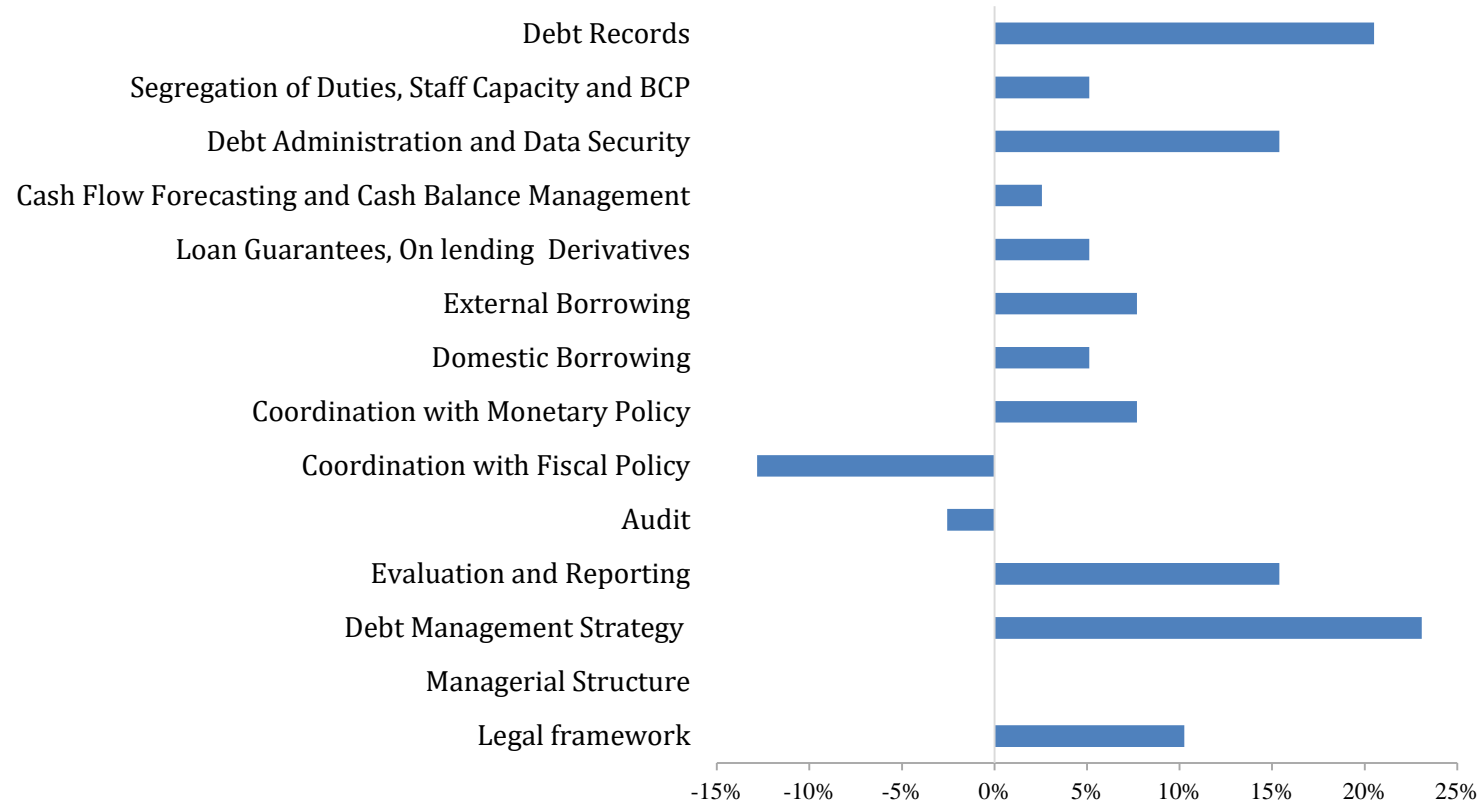
## Share of LIEs meeting minimum requirements in Debt Management Performance Assessments (DeMPA)



Source: The World Bank.

## C2. ....BUT SOME PROGRESS

### Changes in share of LIEs meeting minimum requirements in DeMPAs



Source: The World Bank.



# C3: DEBT DATA: RECORDING GAPS AND TRANSPARENCY

## Recording Gaps:

- Government guarantees – *well-covered in most countries*
- Debts of general government – *covered in less than half of countries*
- Sizable gaps on terms and conditions of loans, including collateral
- Contingent liabilities (e.g., PPPs)

## Transparency:

- Timely publication of debt statistics – *not yet common*
- Preparing/publishing debt management strategies (*improving: 35 countries by 2018*)

## C4: MANAGING DEBT WORK-OUTS

### ➤ **Diverse creditor base**

- Contributes to protracted negotiations

### ➤ **Collateralized loans**

- Complicates ranking of creditors

### ➤ **Ad-hoc bilateral restructurings**

- May not restore debt sustainability
- Borrowers potentially in weak bargaining positions

## D. MANAGING DEBT TO SUPPORT DEVELOPMENT - PRIORITIES

# DI: KEY ACTIONS AT THE COUNTRY LEVEL

## ➤ **Tackling debt governance challenges**

- Clear centralized control on incurring public debt obligations
- Full coverage of public debt obligations in centralized information systems
- Improving debt transparency to domestic policy makers and creditors
- Active management of debt, given adequate capacity

## ➤ **Sound fiscal policy**

- High quality debt sustainability assessments (DSA) to inform policy choices
- Awareness of contingent liabilities
- Choose clear spending priorities within a viable fiscal envelope

## D2: ACTIONS AT THE INTERNATIONAL LEVEL

- **G20 Operational Guidelines for Sustainable Financing for official creditors**
  - IMF-WVB recommendations on good practices consistent with the guidelines (May 2019), development of a diagnostic tool for creditor self-assessment (November 2019).
- **Strengthening creditor coordination in debt resolution processes**
  - Need to improve mechanisms for official creditor coordination
- **Transparent reporting of debt data by private creditors**
  - Proposed IIF-sponsored database for voluntary use by private creditors
- **External support for broad-based approach to improving debt management in LIEs**
  - IMF-WVB multi-pronged approach as an organizing frameworks

# D3: KEY PILLARS OF IMF-WB MULTI-PRONGED APPROACH

## I. Enhance debt transparency

- Guide borrowers' sound macro-fiscal policy frameworks
- Determine appropriate magnitude, terms and conditions of lending
- Design **effective adjustment program (crisis prevention) and debt resolution strategy (crisis resolution)**
- Facilitate debtor-creditor and creditor-creditor coordination

## II. Strengthen debt management capacity

- **Monitor, assess, and adequately report debt vulnerabilities and fiscal risks**
- **Develop prudent borrowing and risk mitigation strategies**
- **Inform borrowing decisions and overall macro policy stance**

## III. Improve debt analysis/early warning systems

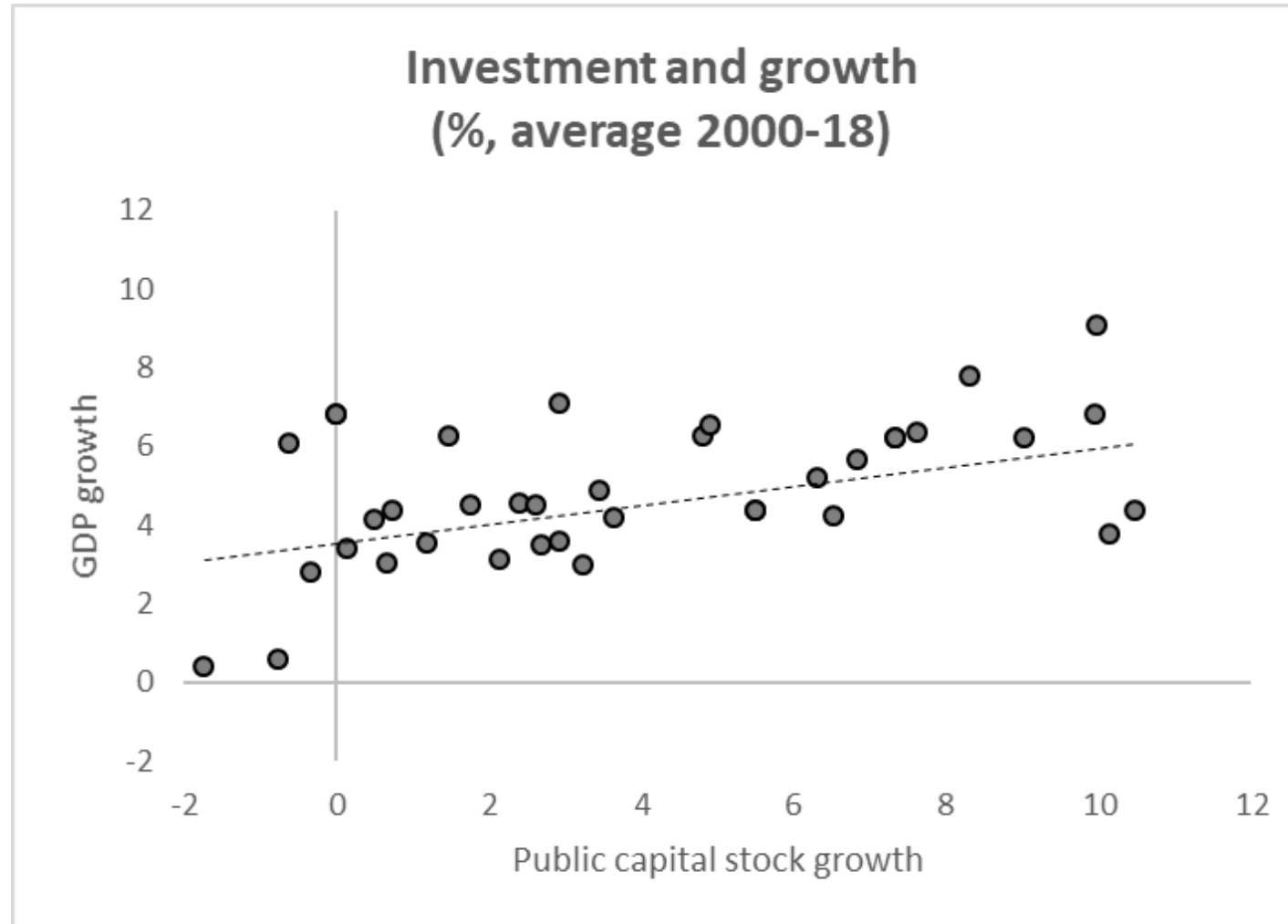
- **Assess risks inherent in fiscal and financing plans**
- **Identify debt vulnerabilities for policy corrections**
- **Examine impact on debt sustainability of alternative policy paths**

## IV. Review debt policies

- **Better address current and new debt challenges**
- **Set incentives for sustainable borrowing and lending**
- **Support debt resolution architecture by:**
  - (i) **balancing debtors' and creditors' interest;**
  - (ii) **protecting integrity of the international financial system**

Thank you

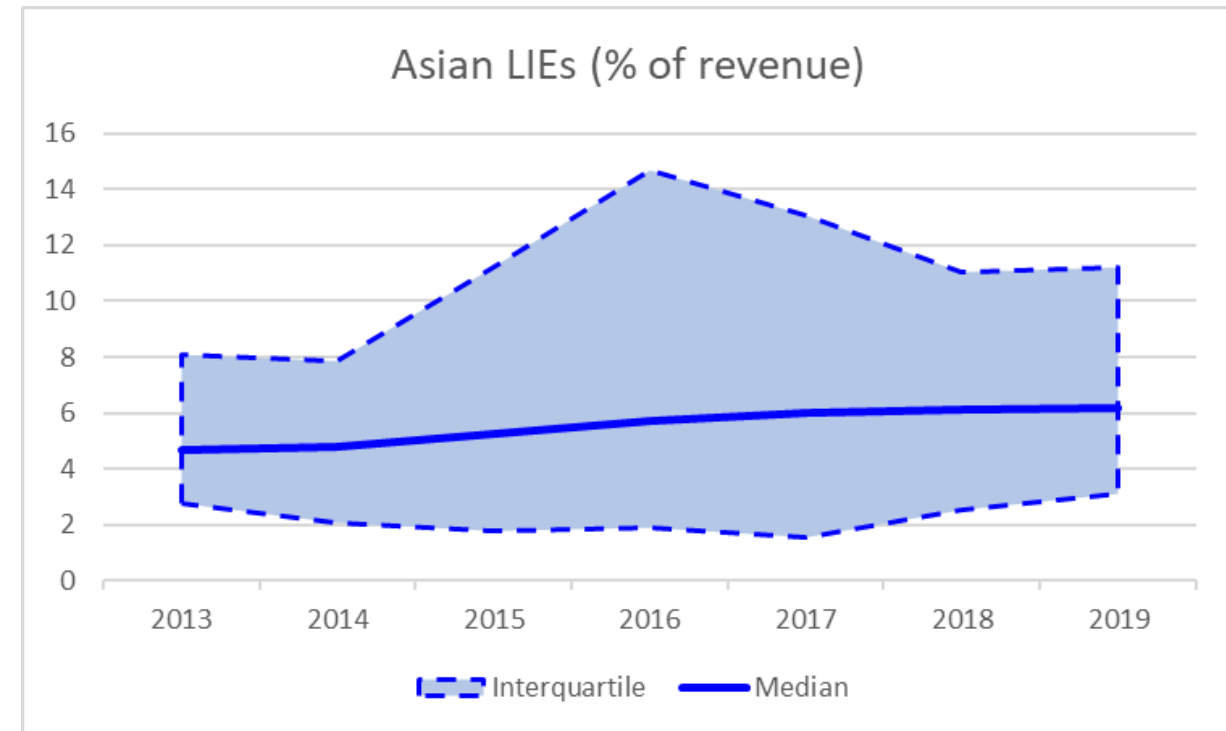
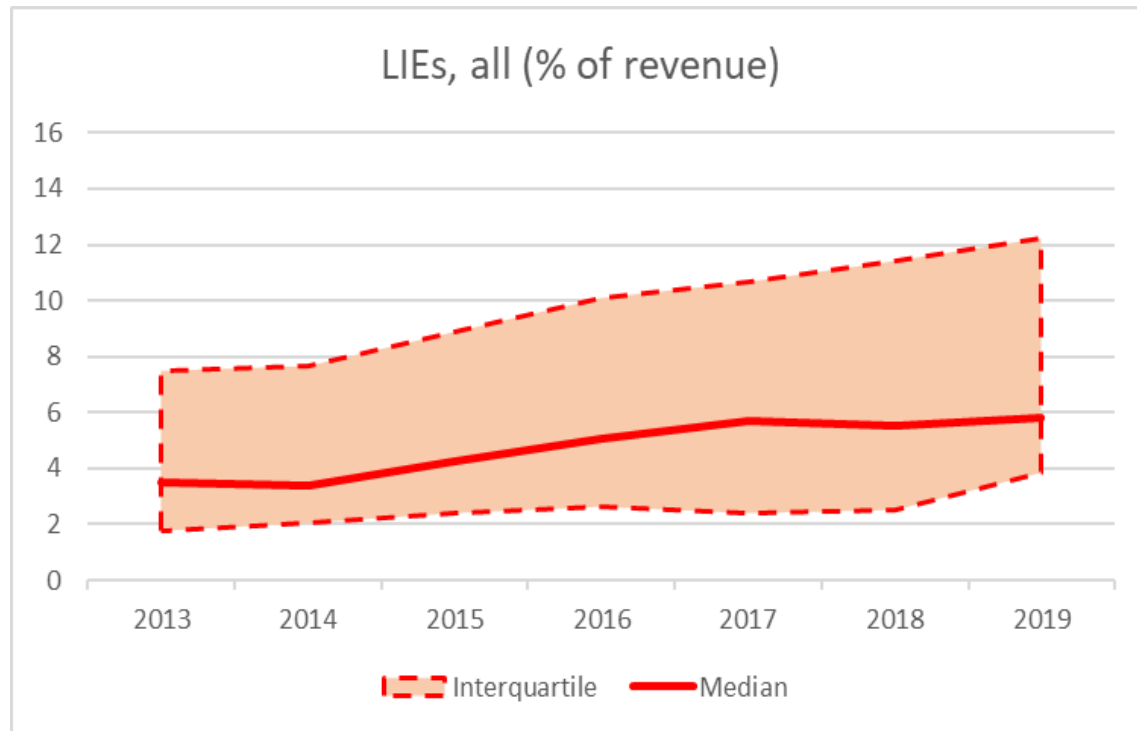
# BACKGROUND I: WEAK RELATIONSHIP BETWEEN PUBLIC INVESTMENT AND GROWTH



Source: World Economic Outlook.



# BACKGROUND 2: INTEREST BURDENS ARE STEADILY RISING



Source: World Economic Outlook Database.

# REFERENCES

## **International Monetary Fund:**

*Macroeconomic Developments and Prospects in Low-Income Developing Countries (2018)*

## **International Monetary Fund and World Bank:**

*G20 Operational Guidelines for Sustainable Financing—Survey Results and Policy Recommendations (2019)*

*G20 Operational Guidelines for Sustainable Financing - Diagnostic Tool (2019)*

*The Evolution of Public Debt Vulnerabilities in Lower Income Economies (2020)*