



WORLD BANK GROUP

Debt

Vulnerabilities, Sustainability, Transparency and Restructuring

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Debt vulnerabilities

A debt crisis is building up

Two-thirds of the LIC DSF countries are in high risk of debt distress or in distress

Four waves of debt accumulation since WWII. The first three have ended with financial crises.

Still, the wave of defaults many projected has not materialized

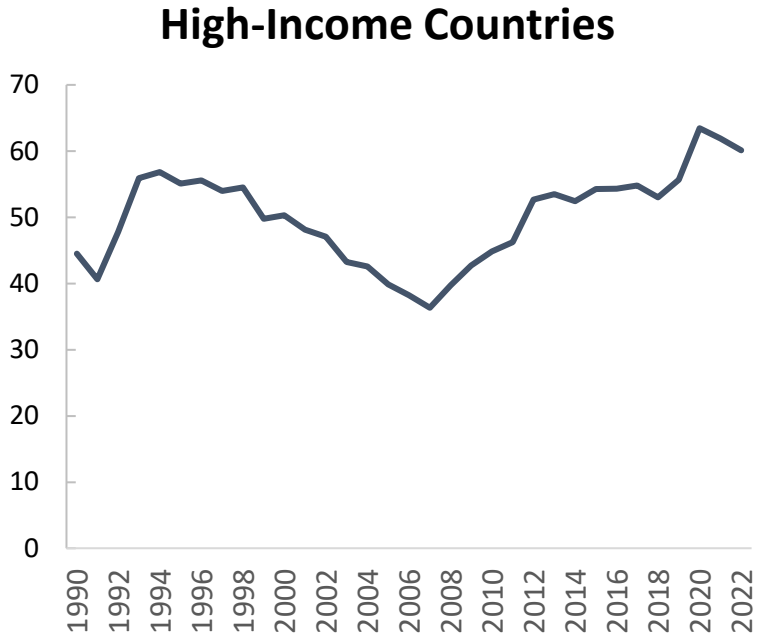
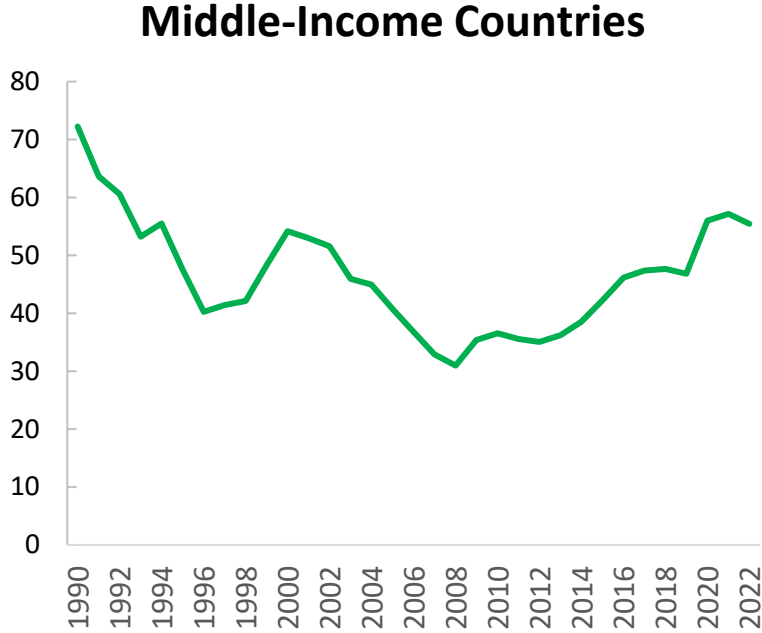
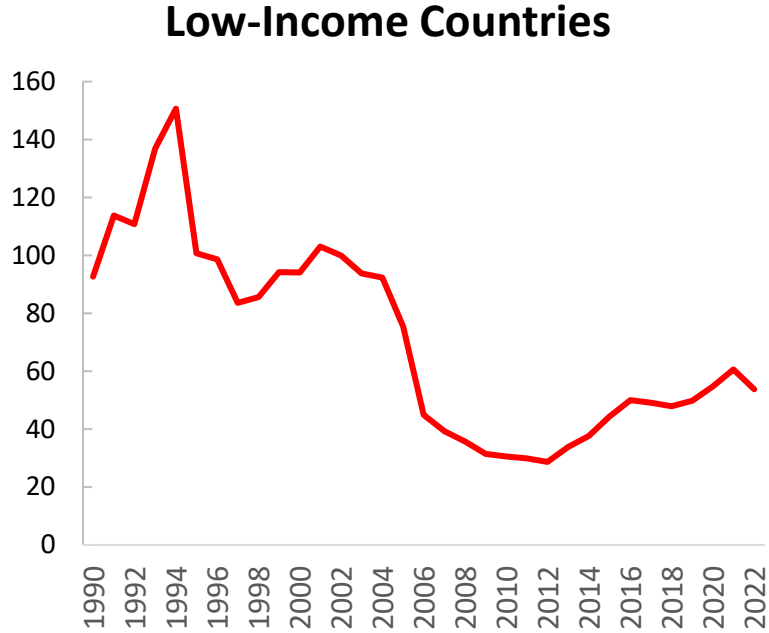
The World Bank has stepped up its support to LICs and MICs

Global economic developments are likely to complicate the debt situation in many countries

Let's look at the vulnerabilities through three prisms.

Public debt levels have reached multi-decade highs, except for low-income countries...

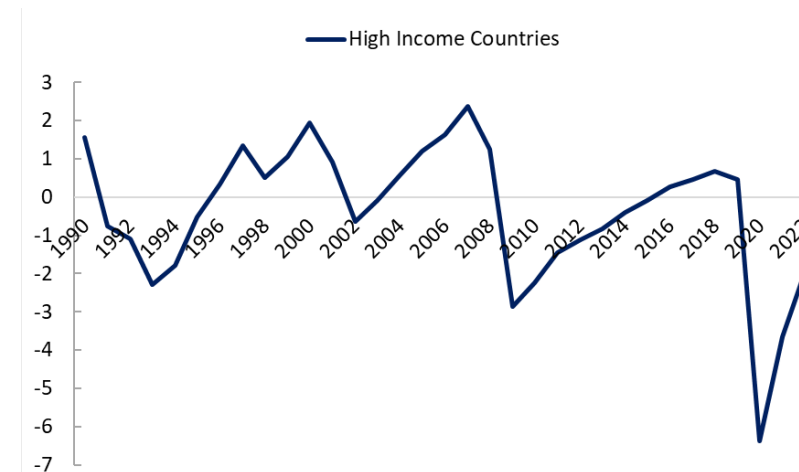
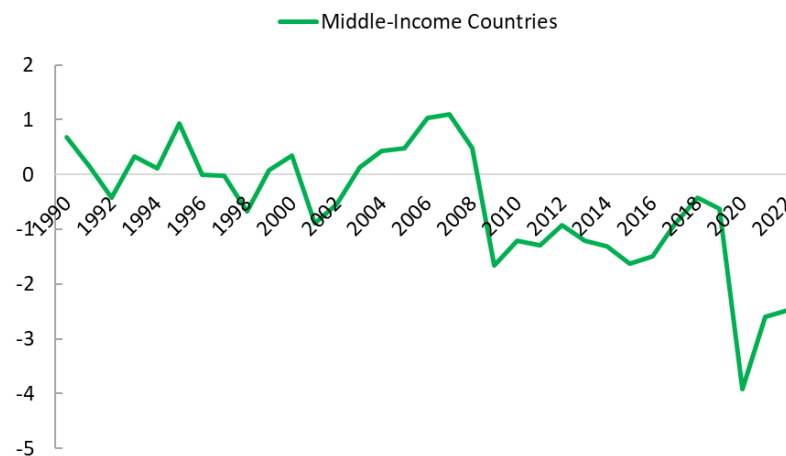
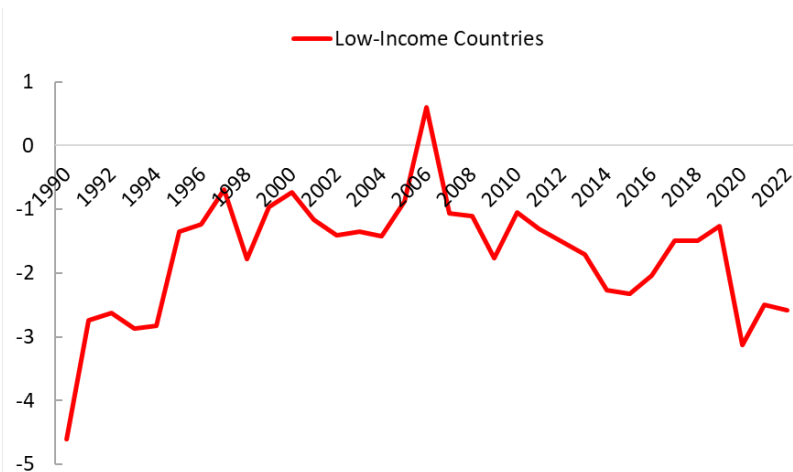
General Government Gross Debt
(In percent of GDP, median)



Source: International Monetary Fund, WEO April 2022

...driven by large and sustained primary deficits

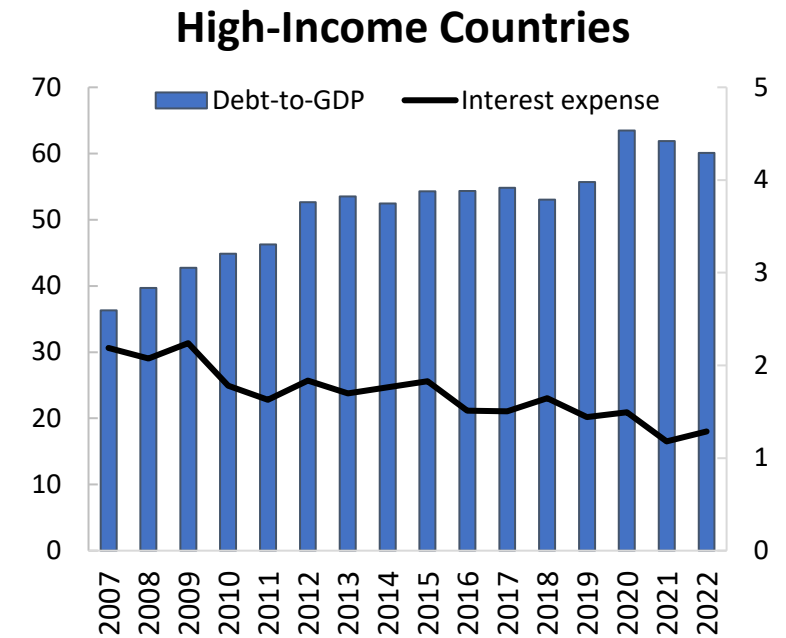
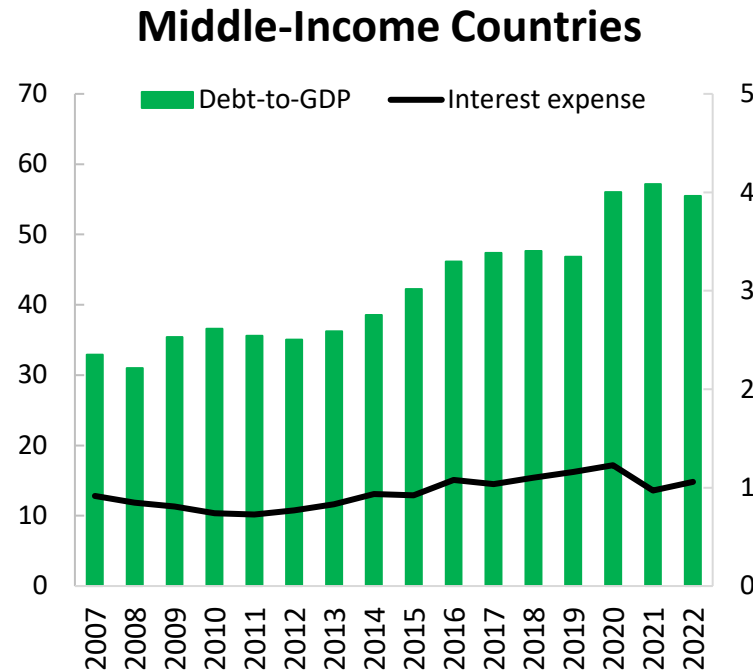
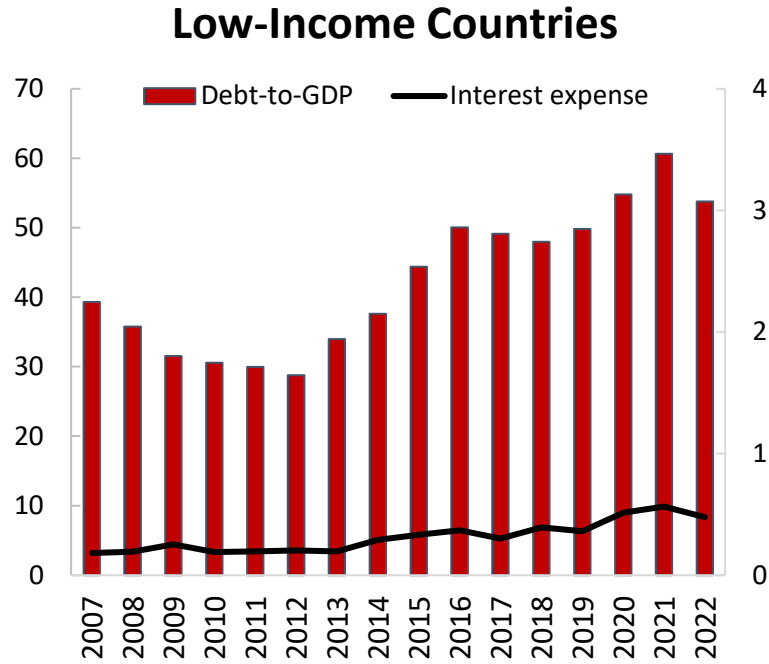
Primary Balance
(In percent of GDP, median)



Primary deficits were present in low- and middle-income countries already before the COVID-19 pandemic

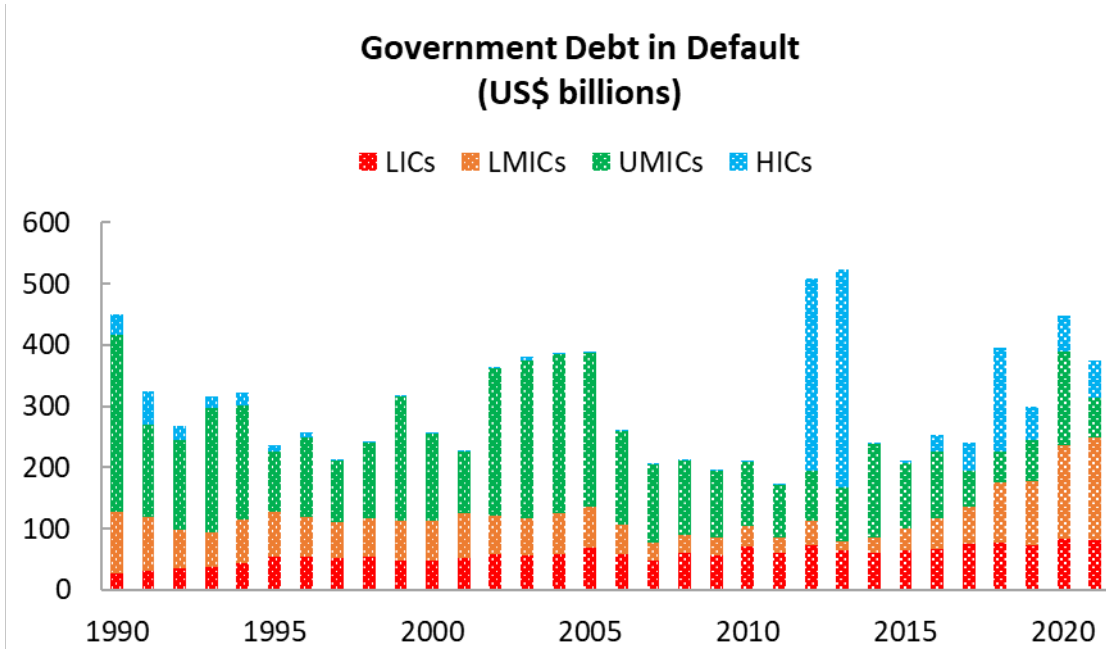
Interest expenditures have increased in line with public debt levels, except for high-income countries

General Government Gross Debt (lhs) and Interest Expense (rhs)
(In percent of GDP, median)

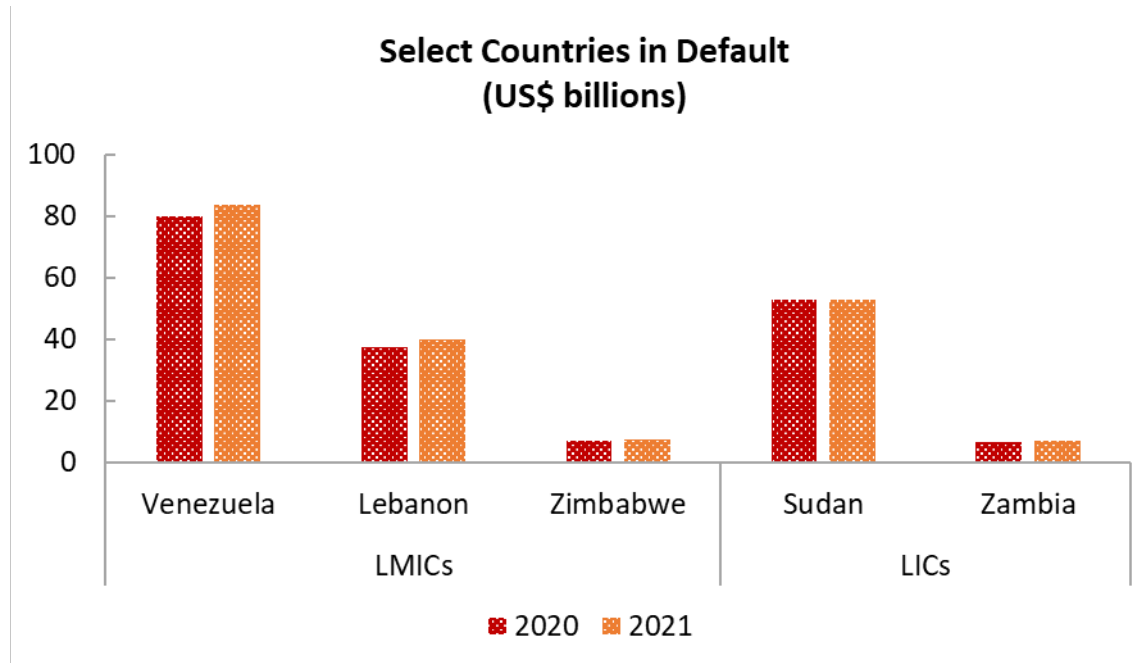


Source: International Monetary Fund, WEO April 2022

Government debt in default increased substantially in middle-income countries

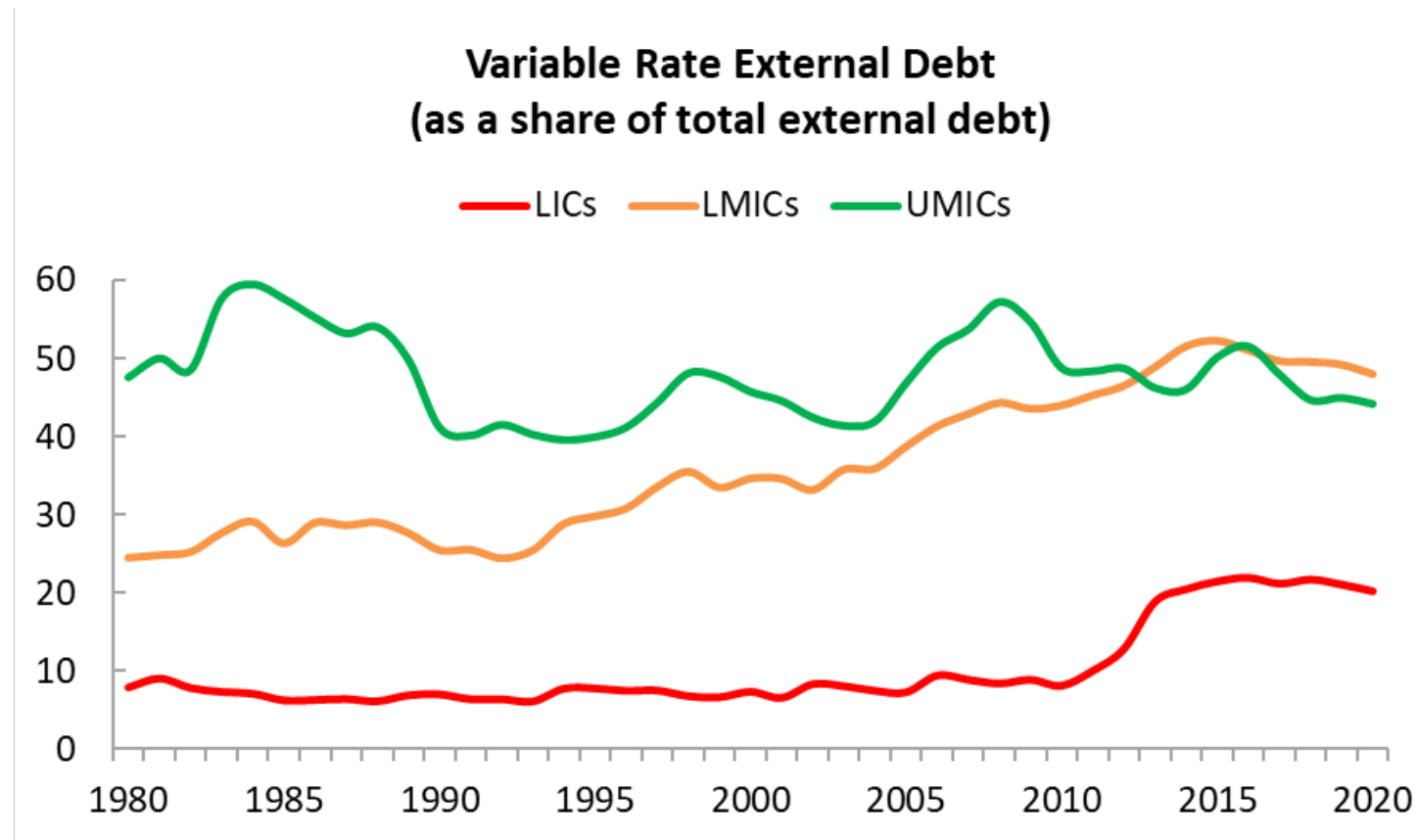


Government debt in default in lower middle-income countries increased from \$36 billion in 2015 to \$168 billion in 2021. Debt in default in LICs reached \$82 billion in 2021, higher than in high-income countries.



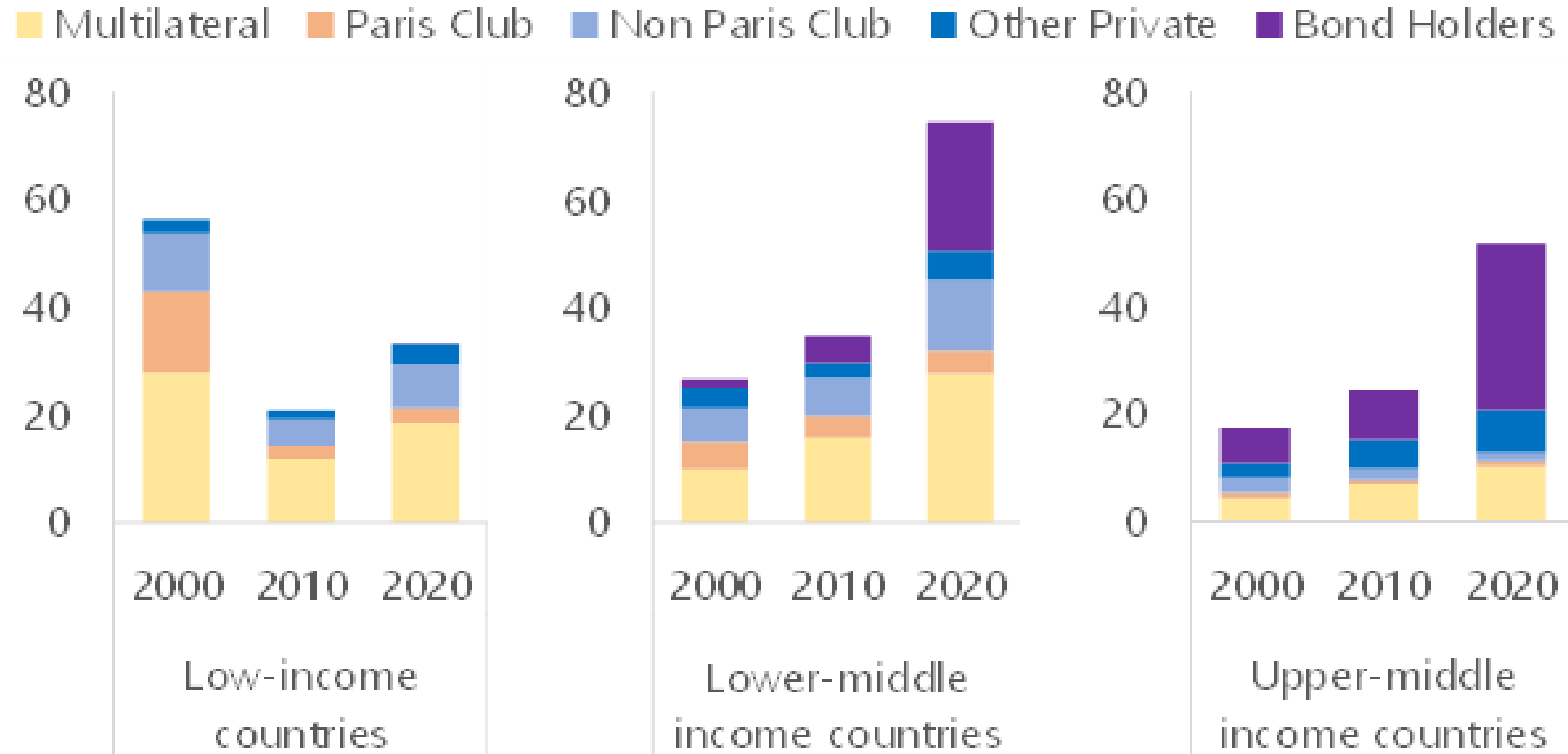
Few lower middle- and low-income countries account for a large part of respective government debt in default

High levels of variable rate external debt could increase interest expenditure even further going forward



The shares increased significantly in low- and lower-middle income countries. Interest rate increases going forward can significantly increase the cost of external debt through outstanding variable rate debt

The composition of LICs' external debt has shifted dramatically



Source: International Debt Statistics.

Debt sustainability

Two-thirds of the LIC DSF countries are at high risk of debt distress or in distress

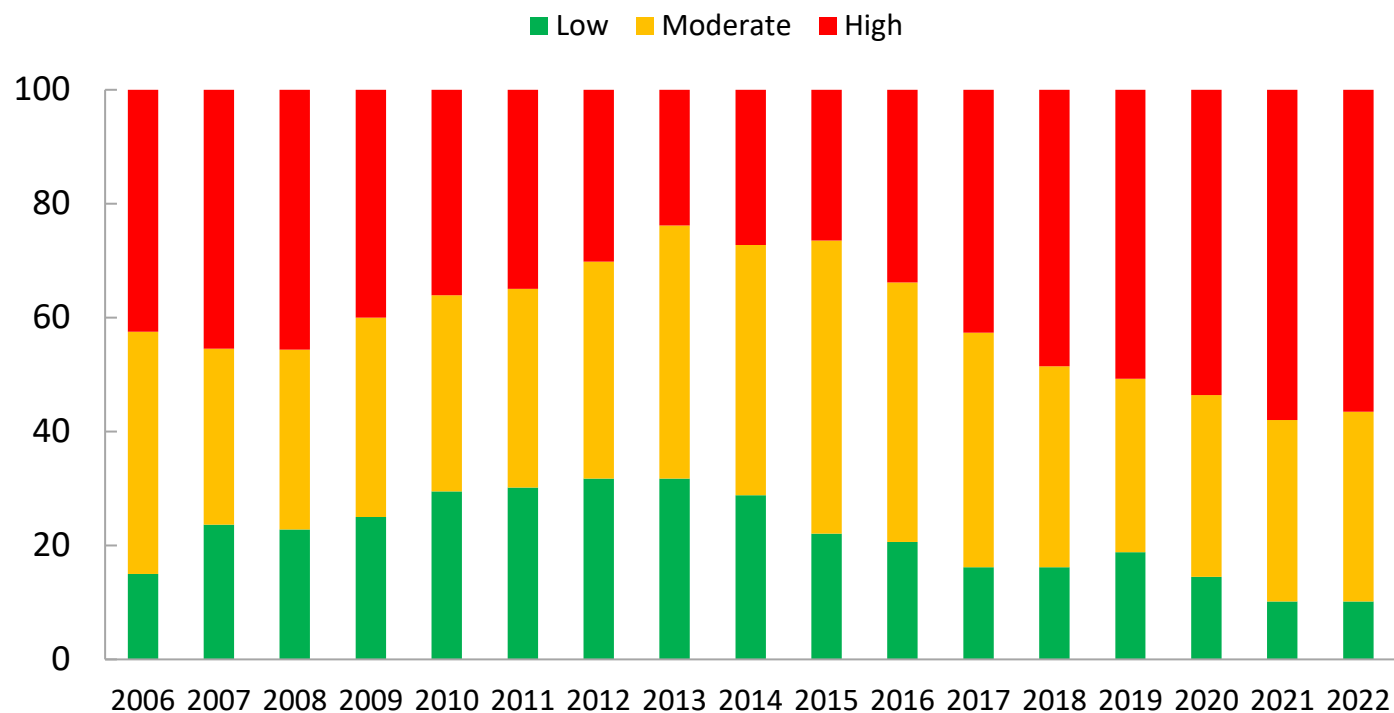
It is not just COVID-19. Even in 2019, half of LICs were in distress or at high risk.

Debt sustainability framework for LICs (LIC DSF) ...

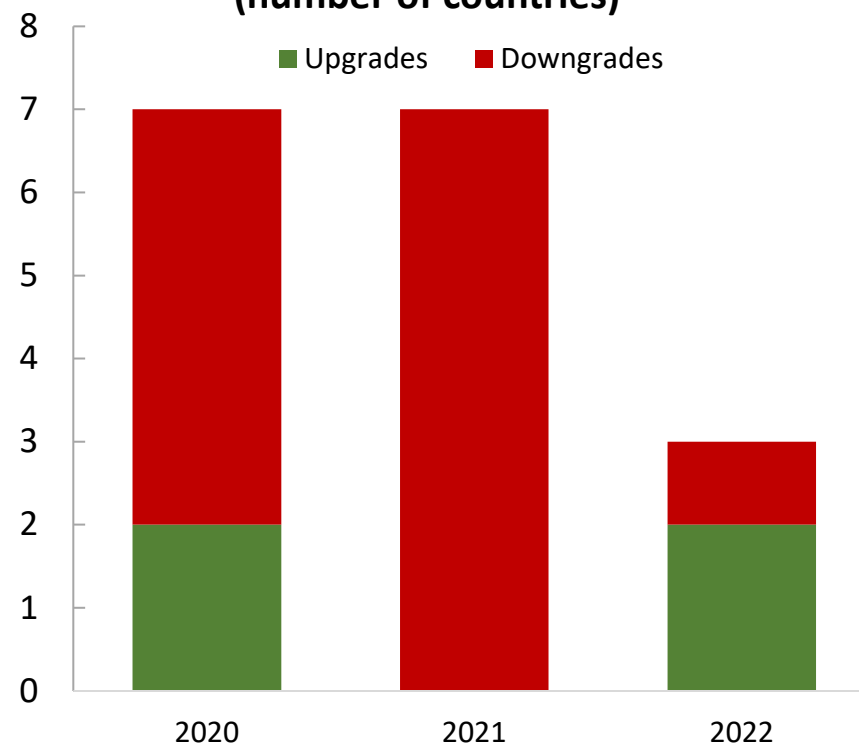
... and for market access countries (MAC DSA)

Sustainability: the risk of debt distress has increased in many low- and middle-income countries

Evolution of the Risk of External Debt Distress in LIC DSF Countries
(in percent of total)



Changes in the Risk of External Debt Distress
(number of countries)



Source: LIC-DSF as of end-June 2022 and World Bank staff calculations.

Debt restructuring

The DSSI: 48 out of 73 countries (66 percent) took advantage. \$12.9 billion in debt was deferred.

The Common Framework (CF): a good initial step.

Only 3 countries (5 percent) have applied to the CF. None has received debt relief.

Chad: agreement by creditors that higher oil prices eliminated the financing gap but no debt relief.

Debt restructuring: the Common Framework was a step in the right direction, but it has yet to deliver

	DSSI	Common Framework
Eligible countries	73	73
Applied	48	3
in percent	66	4
Debt deferred or restructured	\$12.9 deferred	Chad completed. No debt treatment.

Debt transparency

Transparency is essential for development

Growing recognition that debt statistics are plagued by major limitations and incomplete reporting, especially in the LICs and some MICs

Patchwork of databases

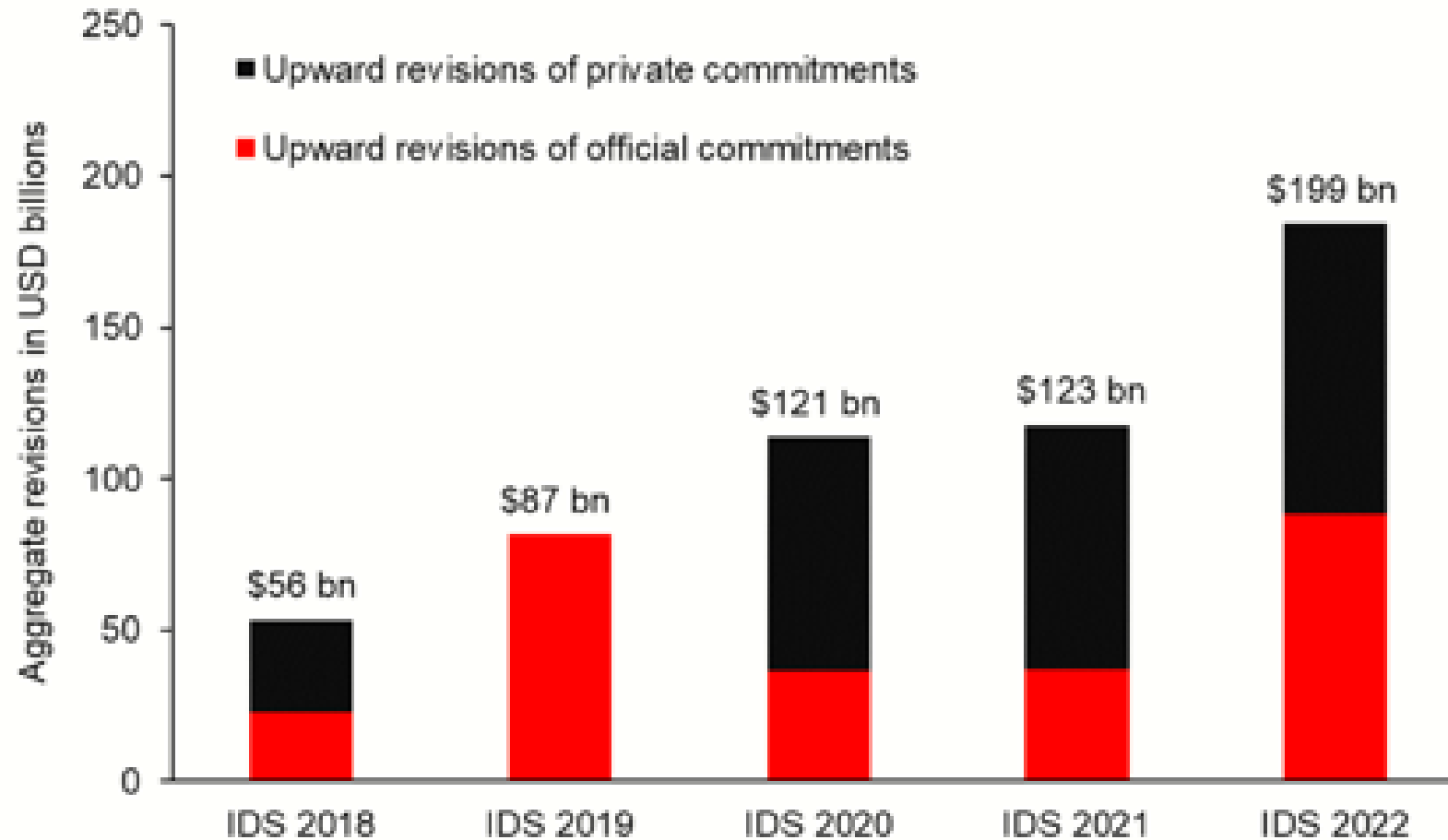
Higher level of transparency is essential for debt restructuring

Transparency is a shared responsibility of borrowers and creditors

Progress in recent years:

- World Bank debt reporting heatmap
- US and UK disclose exposure loan-by-loan basis--
- LICs sectoral and instrument coverages limited

Debt transparency: ex-post revisions of past loans in the World Bank's International Debt Statistics

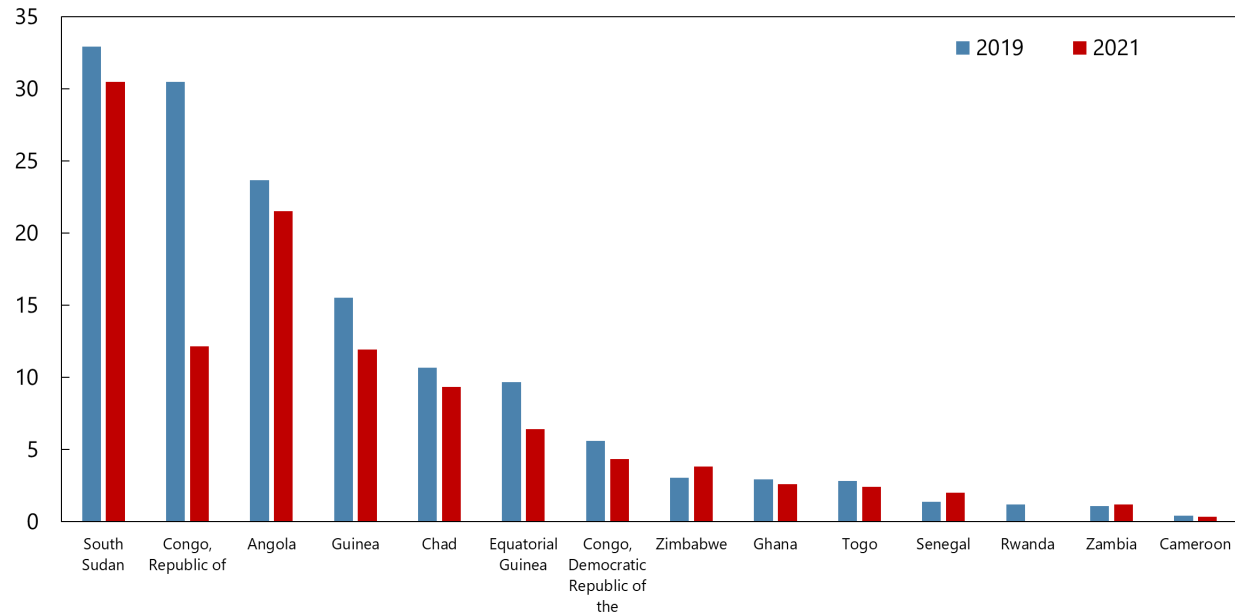


Source: (Horn, Mihalyi and Nickol, 2022)..

Collateralized debt in Sub-Saharan Africa

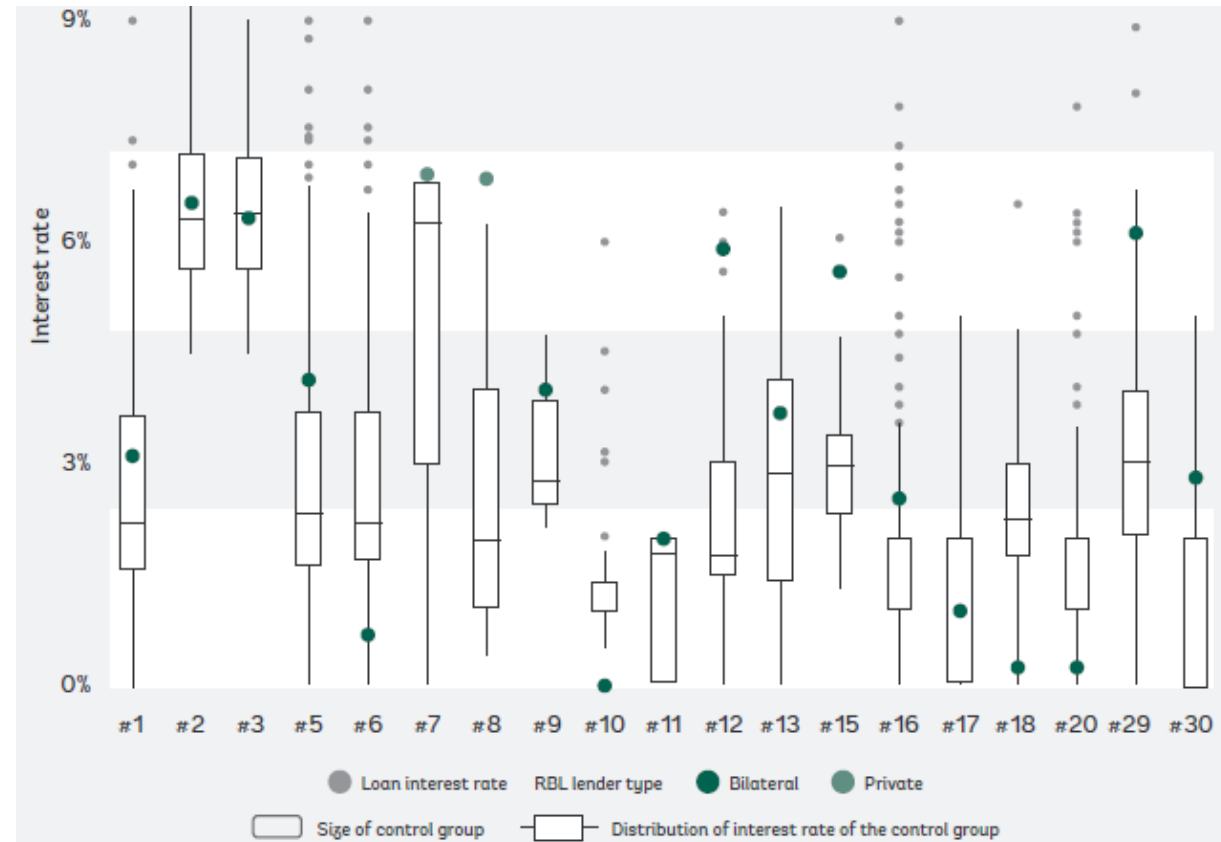
13 out of 45 SSA countries have collateralized debt: 25 percent of external debt.

Collateralized Debt Stock (% of GDP)



Source: G. Albertin, N. Koumtingue' and Q. Yin IMF WP, 2022

Collateral does not necessarily lead to lower cost



Source: D. Mihalyi, David; J. Hwang, D. Rivetti, J. Cust. 2022.
Resource-Backed Loans in Sub-Saharan Africa, WB Policy
Research WP nr. 9923



Looking ahead: debt transparency

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