



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)



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Debt Vulnerabilities in Emerging and Low-Income Economies

Attached is the document entitled “Debt Vulnerabilities in Emerging and Low-Income Economies” prepared by the World Bank Group and the International Monetary Fund for the October 13, 2018 Development Committee Meeting.

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DEBT VULNERABILITIES IN EMERGING AND LOW-INCOME ECONOMIES

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DEBT VULNERABILITIES IN EMERGING AND LOW-INCOME ECONOMIES

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ABBREVIATIONS AND ACRONYMS

AE	Advanced Economies
DeMPA	Debt Management Performance Assessment
DMF	Debt Management Facility
DRF	Debt Reduction Facility
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EM	Emerging Markets
GDP	Gross Domestic Product
GNI	Gross National Income
IMF	International Monetary Fund
LIDC	Low-Income Developing Countries
LIC-DSF	Debt Sustainability Framework for Low-Income Countries
MAC-DSA	Debt Sustainability Analysis for Market-Access Countries
PPP	Public-Private Partnership
PFRAM	PPP-Fiscal Risk Assessment Model
PRGT	Poverty Reduction and Growth Trust
SOE	State Owned Enterprise
TA	Technical Assistance
WB	World Bank

EXECUTIVE SUMMARY

Public debt in Emerging Markets (EMs) has been rising, reaching levels not seen since the 1980s. In recent years, the increase has been driven mainly by a few EMs, including commodity exporting countries affected by the 2014-15 commodity price decline. The increase in public debt levels—if well managed—may to some extent reflect reasonable policy responses to support growth in the context of low global interest rates and the commodity price shock. It has been accompanied by changes in public debt composition and by rising corporate debt in EMs which now significantly exceeds historical levels and adds to fiscal risks and vulnerabilities.

Debt related risks in some EMs are elevated, with substantial variation among countries. Average public and external financing needs are substantial despite the still low global interest rates. In the event of shocks, such as a sharp increase in global interest rates, financing needs could rise quickly. Some countries could face a limited ability to conduct countercyclical policy as high debt constrains fiscal space, and some might see capital outflows and currency depreciations. At the same time, several EMs have increased their resilience thanks mainly to prudent policies, the build-up of external and fiscal buffers, and the implementation of sound debt management strategies.

Debt risks in low income developing countries (LIDCs) have risen substantially over recent years as presented in an assessment in spring. The share of countries at high risk of debt distress or in debt distress has doubled since 2013 to about 40 percent. Heightened vulnerabilities reflect not only higher public debt levels, but also increased debt portfolio risks resulting from the shift in the debt composition. Enhanced reliance on commercial debt has contributed to higher debt service costs and raised refinancing and interest rate risks. Increased access to non-Paris Club creditors and market-based financing has added new sources of finance. But it poses new challenges for debt resolution.

The IMF and the World Bank are pursuing a wide-ranging approach to help countries contain public debt vulnerabilities. The multi-pronged approach proposes improved assessments of public debt vulnerabilities, enhanced early warnings systems, increased debt transparency, enhanced support for structural reforms to help reduce debt vulnerabilities, and scaled up debt management capacity building and outreach to creditors and borrowers to raise awareness of debt issues.

INTRODUCTION

This note contains two sections: i) an analysis of the evolution of public debt vulnerabilities in emerging market and developing economies, flagging key risk factors; and ii) an overview of the IMF-WB multi-pronged approach for helping countries tackle these vulnerabilities. The analysis distinguishes between emerging market economies (EMs) with relatively close links to international capital markets and low income developing countries (LIDCs) where these links are more limited, with official sector creditors playing a greater financing role.¹

DEBT VULNERABILITIES

Debt Vulnerabilities in Emerging Market Economies

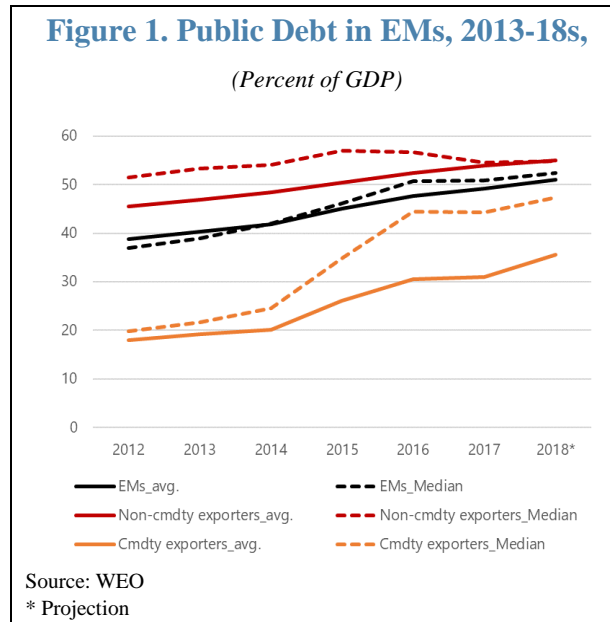
- 1. Public debt in EMs has risen substantially in recent years, approaching levels last seen during the 1980s debt crisis** (Figure 1 and Annex Chart 1).^{2, 3} Public debt has increased by 11 percentage points of GDP over the past five years, reaching 51 percent in 2018. A mechanical debt decomposition finds that public debt increases have been driven mainly by sizeable fiscal deficits. Domestic currency depreciations vis-à-vis the U.S dollar have also pushed up debt.
- 2. Both adverse shocks and policies have contributed to public debt increases:**
 - **In many commodity exporters, particularly oil and gas exporters, the decline of export prices combined with slow fiscal consolidations contributed significantly to a rise in public debt.** While some oil exporters took advantage of low energy prices to tackle price subsidies in the energy sectors, progress in reforming energy subsidies has been limited.⁴ Failure to build adequate buffers, such as larger foreign reserves during the preceding commodity price boom left many countries with no policy space other than higher borrowing when prices dropped. In some countries exchange rate depreciation has also played a role.

¹See Annex 1 for a discussion of country groupings and additional detail on some topics.

²Unless otherwise stated, this notes aggregates data for EMs using purchasing power adjusted GDP weights, as in the IMF flagship publications; and data for LIDCs using medians, as in IMF, March 2018.

³Unless otherwise stated, public debt refers to general government gross debt.

⁴The World Bank and IMF have worked with countries to tackle price subsidies in the energy sector, both to free up fiscal space and to foster environmental sustainability, see http://esmap.org/Energy_Subsidy_Reform; also <http://www.imf.org/external/np/fad/subsidies/>

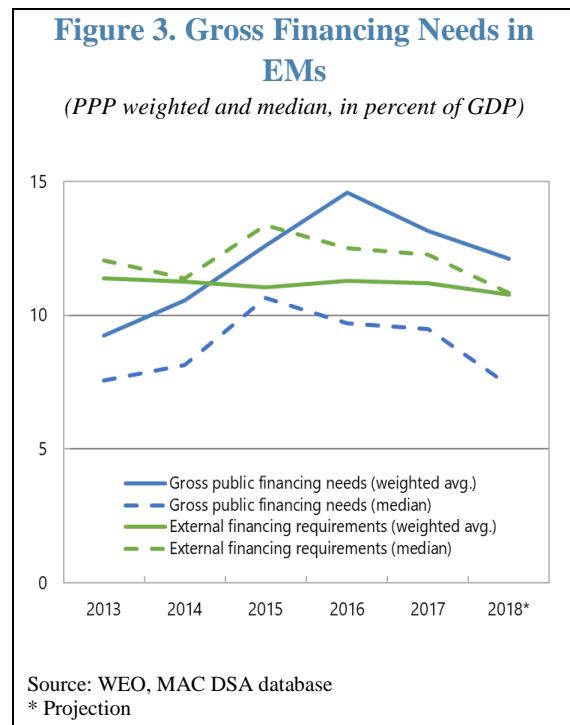
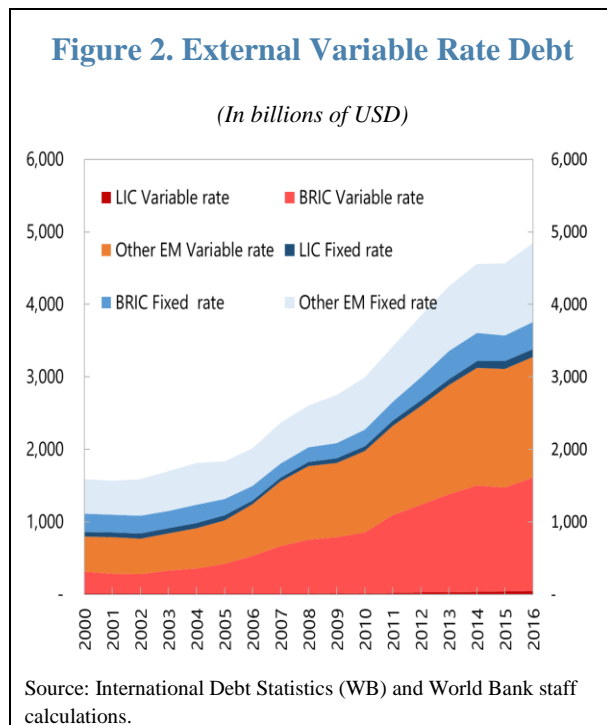


- **In countries not classified as commodity exporters, expansionary fiscal policies have led to a sizable increase in public debt levels in many cases.** These countries include China,⁵ and less markedly, Brazil and Tunisia. In some cases, changes in commodity prices, exchange rate depreciations and the realization of contingent liabilities also contributed to the public debt build-up.
 - **The increase in public debt levels—if well managed—may to some extent reflect a reasonable policy response to low global interest rates and the commodity price shock.** A case can be made for smoothing consumption following a terms of trade shock, with the optimal speed of adjustment depending on a range of factors. Several countries also took advantage of the very low global interest rates in the wake of the global financial crisis to finance higher public investment to support growth. But so far, the rise in growth has not been sufficient to reverse the increase in debt burdens.
 - **Several small economies also suffered steep increases in public debt.** Delayed recovery from the global financial crisis, persistent fiscal deficits, growth volatility, and exposure to natural disasters were among the factors that pushed up public debt.
3. **The increase in public debt has been accompanied by rising corporate debt in EMs, which now significantly exceeds historical levels as well** (Annex Chart 2). Outside of China, foreign currency-denominated debt has constituted nearly half of the growth in corporate debt between 2010 and 2017. Debt service costs of EM firms are expected to rise

⁵This note uses a broad definition of China's public debt, following IMF, August 2017.

as monetary policy in advanced economies (AEs) normalizes, raising concerns for financial stability and in many cases public debt.⁶ High leverage in the corporate sector is likely to continue to weigh on investment and potential growth in EMs.

4. Changes in the composition of EM public debt add to risks (Annex Charts 3 to 5). External debt carrying variable interest rates has risen markedly in recent years (Figure 2). The share of domestic currency debt in total public increased rapidly until 2013, but has remained stable since then. A few countries have significant and growing non-resident participation, which renders them more vulnerable to sudden capital outflows.



5. Public and external financing needs have remained high. The weighted average gross public financing needs have risen slightly from 5 years ago, and are substantial at 10 to 12 percent of GDP, notwithstanding low global interest rates (Figure 3).⁷ Gross financing needs exceed 15 percent of GDP in many cases. (The temporary bulge in financing needs during 2015-17 reflected mainly weak fiscal and external balances in commodity exporters, now on the mend thanks in good part to higher commodity prices.)

⁶See, World Bank, June 2018. Special Topic: [Corporate Debt: Financial Stability and Investment Implications](#).

⁷Public gross financing needs are the sum of the primary fiscal deficit and public domestic and external debt service, which comprises both interest payments and amortization. External gross financing needs are the sum of the current account deficit and public and private external debt amortization.

6. Looking ahead, public debt-to-GDP ratios are projected to ease slightly in most EMs over the next 3 to 5 years but are subject to significant downside risks. Forecasts of public and external financing show little change.⁸ These projections are, however, based on assumptions of improving fiscal positions and broad stability in global growth and exchange rates.

7. Public debt levels and financing needs would also face upward pressures if the following events were to materialize:

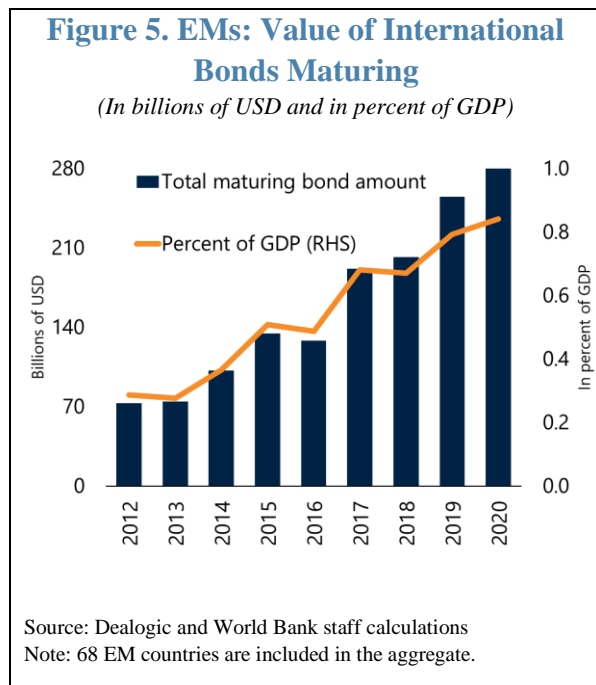
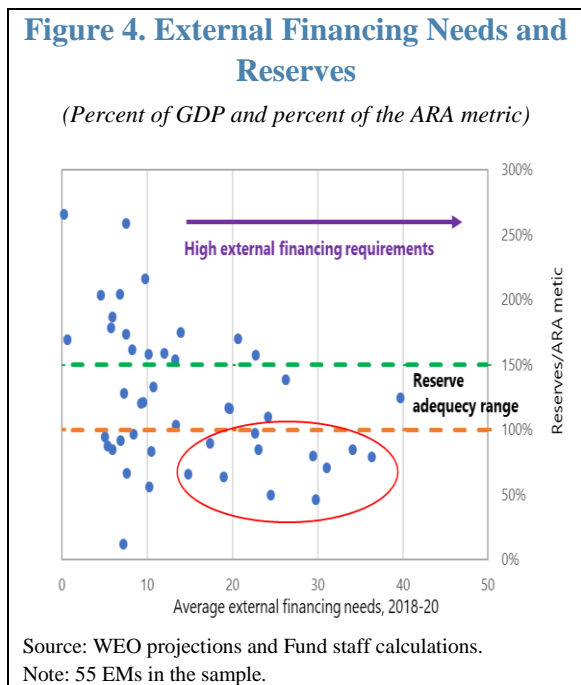
- **Crisis risk in case of a shock such as a larger-than-expected increase in global interest rates.** Interest rates could rise faster than expected in the context of monetary policy normalization in AEs or shifts in investor risk perceptions. In this case, several EMs could see their public and external financing requirements grow quickly, possibly in combination with capital outflows and currency depreciations.
- **Under some circumstances, a debt crisis event in one or several countries can cause contagion within a region or across regions.** This can occur through interconnected creditors or through shifts in investor sentiment. For example, as a country is downgraded to below investment grade.
- **A weaker growth outlook.** A significant shift towards protectionism could lead to a curtailment in global trade and investment, lower global growth, and higher volatility in exchange rates and commodity prices.
- **Limited ability to conduct countercyclical policy in case of a shock.** Countries with high levels of debt face reduced fiscal space and would therefore have limited ability to implement countercyclical policy.
- **Cuts in investment to stabilize debt levels.** Forecasts assume sustained fiscal consolidations that, if not well managed, could squeeze investment and growth prospects.
- **Weak long-term outlook for global metals and food prices.** Based on current trends, metal and food prices could decline substantially over the next decade, damaging growth prospects of exporters of these commodities.⁹

8. Beyond debt levels and financing requirements, there are other risk factors:

⁸ The projections are based on mid-August 2018 WEO submissions, consistent with the October 2018 WEO global assumptions which envisaged interest rates rising gradually in advanced economies and higher oil prices.

⁹ World Bank, June 2018. Special Topic: [The Role of Major Emerging Markets in Global Commodity Demand](#).

- Countries with large near-term external financing needs and/or low reserve adequacy will likely be more affected under monetary policy normalization – particularly in countries with high external debt carrying variable interest rates.¹⁰
- About half of countries with annual external financing needs exceeding 15 percent of GDP have reserve levels that fall significantly short of the IMF’s assessed reserve adequacy measure (Figure 4).



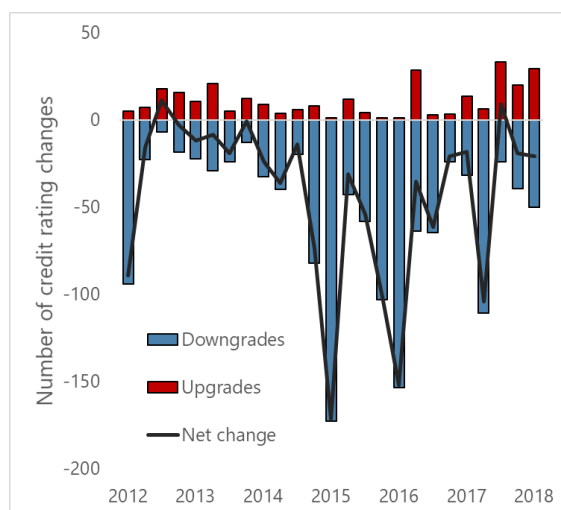
- Pressure on exchange rates in many EMs, would push up debt ratios significantly, as seen in some large EMs in recent months (e.g., Argentina, Turkey).
- The volume of EM bonds maturing is set to rise significantly in the next few years, implying increased re-financing risks (Figure 5).¹¹
- Average EM credit quality has also deteriorated (Figure 6), suggesting that investors will require higher yields going forward to maintain their positions.
- The realization of contingent liabilities (including SOE debt and PPP transactions).

¹⁰Unless mentioned otherwise, external debt refers to the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy.

¹¹ Figure 5 does not include redemptions on syndicated loans, which have also increased.

Figure 6. Change in Credit Rating in EMs, 2012-18

(Number of credit rating changes)



Source: IIF and World Bank staff calculations.

Note: It is based on the number of credit rating upgrades minus credit rating downgrades (including ratings watches) and are the average of S&P, Fitch, and Moody's ratings.

9. Despite improvements, debt data coverage remains narrow in many EMs. For example, data on nonresident holdings of domestically issued securities, which have increased in importance for many emerging markets with bigger domestic debt markets, is often limited. Lack of sufficient debt coverage may lead to the underestimation of debt levels and debt surprises.¹²

10. Some countries are particularly vulnerable to a debt crisis. Countries with large external financing needs, a reliance on volatile capital inflows and low reserve adequacy ratios are particularly vulnerable without adequate buffers such as sovereign wealth funds. Also, countries with a high stock of public debt that is subject to market risks (interest-rate refixing, refinancing and exchange rate risks) and a large fiscal sustainability gap are likely to be at heightened risk.¹³

11. Several countries have increased their resilience to debt-related risks. These countries have implemented prudent and growth-friendly macro-fiscal policies; built up external and fiscal buffers, including high foreign reserve coverage providing self-insurance, particularly in some Asian EMs; and accumulated large sovereign wealth funds. They have

¹²The World Bank's status reports on debt reporting shows steady improvement with respect to public and publicly guaranteed external debt, coverage of external debt denominated in foreign currency and private non-guaranteed external debt over the past decade. Reporting challenges emerge from insufficient coverage of non-Central Government public sector entities and government liabilities.

¹³ Gap between primary deficit and debt-stabilizing primary balance.

also implemented sound debt management strategies; macro-prudential regulations; and growth-promoting structural reforms. Also, some countries are obtaining financial support from IMF and World Bank-supported economic programs.

12. While several EMs have improved their resilience, vulnerable EMs need to act to contain risks. In the short-term, countries need to develop credible macro-economic frameworks and take actions to strengthen debt management, e.g. through asset and liability management operations. In the medium-term, lowering debt vulnerabilities hinges on growth-friendly fiscal consolidation and the implementation of prudent debt management strategies,¹⁴ while building external and fiscal buffers and promoting growth-enhancing reforms.

13. Tailored policy reforms that reflect country-specific vulnerabilities will be important. Commodity exporters need to take active steps to better insulate themselves from volatile commodity prices and diversify their economic base.¹⁵ Elevated public debt levels in countries with fixed exchange rates may require a different set of risk management policies, e.g., greater reserve buildup, than in countries with flexible exchange rates. Policy options may differ for countries facing solvency or liquidity constraints. Countries with large corporate debt levels would be well advised to implement macroprudential policies to help mitigate financial sector risks and structural policies—such as strengthening of bankruptcy regimes—to build resilience.¹⁶ Countries with high level of state-owned enterprise (SOE) debt and public-private partnerships (PPPs) may benefit from strengthening corporate governance and improving fiscal risk management.

Debt Vulnerabilities in Low-Income Developing Countries

14. As discussed in recent Fund and Bank work, public debt vulnerabilities in LIDCs have risen substantially over the past five years.¹⁷ There have not been any material changes since the analysis was presented in the spring.

15. Public debt in LIDCs has increased significantly (Figure 7). Since 2013, the median level of public debt has risen by 13½ percentage points of GDP, reflecting adverse

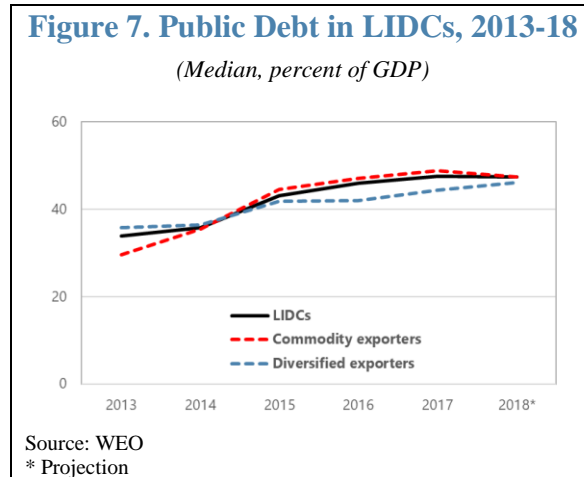
¹⁴ This could entail, for example, an analysis of fiscal multipliers to inform the design of fiscal consolidation programs, complemented by social measures to help smooth consumption and structural reforms to anchor the foundations for medium-term growth.

¹⁵ For example, energy subsidy reforms and carbon taxes could – among other policy measures - help improve the fiscal balance while supporting the environment.

¹⁶ See World Bank, June 2018. Special Topic: [Corporate Debt: Financial Stability and Investment Implications](#), and IMF, April 2018 (b), Chapter 2: “[The Riskiness of Credit Allocation: A Source of Financial Vulnerability?](#)”

¹⁷ See IMF, March 2018, which discussed the public debt situation of LIDCs in detail, including of countries that did not suffer increases in risk of debt distress; IMF and World Bank, April 2018; and World Bank, April 2018.

shocks and sluggish policy adjustment in some cases, sustained expenditure increases in others. In several countries, hidden debt, fraud and other governance abuses also contributed. Debt increases were often high among countries in situations of fragility (e.g., Burundi and The Gambia).



16. The composition of public debt has also changed, with a shift toward non-traditional external creditors and domestic financial markets, contributing to risks (Annex Chart 6). Increased reliance on commercial and quasi-commercial financing has brought higher debt service costs and increased refinancing, interest rate and capital reversal risks. An increasingly diverse creditor base has increased challenges for debt resolution.

17. Rising debt levels and shifts in the composition of debt have increased debt vulnerabilities. The share of countries assessed at high risk of debt distress or in debt distress under the DSF has doubled since 2013 to about 40 percent (Figure 8).¹⁸ For many countries at low or moderate risk of debt distress, safety margins have eroded.

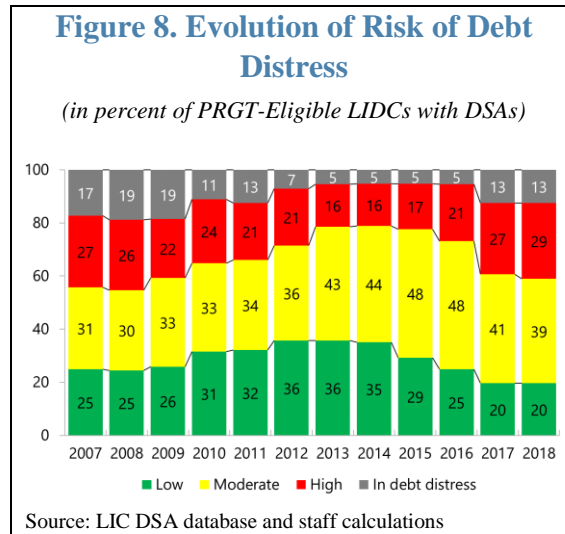
18. Estimates of current public debt levels suffer from limited debt transparency (in particular related to contingent liabilities, including SOE debt and PPP transactions), including narrow debt data coverage.¹⁹ Poor data coverage can give rise to unexpected sudden increases in debt, for example when debt of loss making SOEs migrates onto the books of the central government.^{20, 21}

¹⁸Four DSA external rating changes have taken place since the Spring 2018: two upgrades and two downgrades.

¹⁹See IMF and World Bank, June 2018 (b).

²⁰The case of Mozambique, Republic of Congo and Zambia illustrate the impact of debt surprises. See IMF and World Bank, June 2018 (b).

²¹For example, power sector SOEs in much of Sub-Saharan African generate substantial fiscal and debt risks—with quasi-fiscal deficits, of up to 6 percent of GDP. See World Bank, 2016.



19. While debt management performance has improved in many LIDCs, significant gaps remain. Recent debt surprises and results from Debt Management Performance Assessments (DeMPA) suggest that the most pressing challenges are related to legal frameworks, governance, coordination with fiscal and monetary policy, cash management, and capacity, while raising awareness of the importance of sound debt management with governments and parliaments.²²

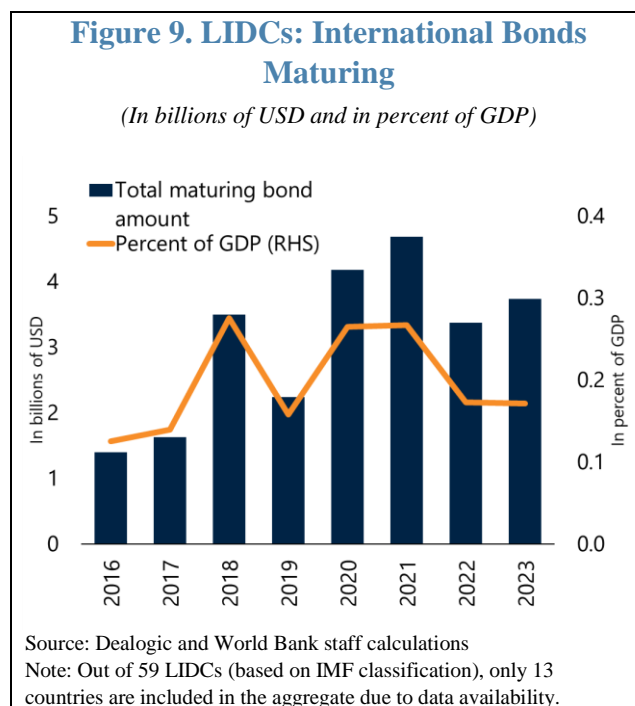
20. Looking ahead, public debt levels in LIDCs are projected to remain contained over the next several years, predicated on assumptions of continued implementation of fiscal consolidation and a pick-up in growth.²³ Risks to this scenario include fiscal policy reversals, inability to implement key fiscal and growth-promoting reforms, and adverse shocks, both domestic and external. Also, improvements in debt data coverage – a key agenda item in Bank and Fund operational work – may result in upward revisions of debt levels and possibly reassessments of debt risks. In addition:

- Interest expense and public gross financing needs will remain elevated in several countries. While interest expense in the median LIDC remains at around 5 percent of fiscal revenues, countries with maturing Eurobond issues face sizeable gross financing needs. The interest-to-tax revenue ratio exceeds 20 percent in countries with low revenue bases (e.g. Nigeria) and/or sizable domestic debt levels (e.g., Ghana).

²²For discussion of the extensive technical assistance on debt management, measurement, and governance arrangements, see IMF and World Bank, June 2018 (b) and IMF and World Bank, August 2017.

²³ See IMF and World Bank, August 2017 for a discussion of an optimism bias in public and external debt projections driven by overly-ambitious fiscal and/or growth forecasts in DSAs performed over 2005-15.

- External gross financing needs are expected to rise, as current account deficits widen and large bond redemptions fall due for countries that had earlier tapped the Eurobond markets (Figure 9).



21. LIDCs need to take determined policy action to contain debt-related risks.

Emphasis should be on developing a credible macroeconomic framework and consider new borrowing only for investment projects with credibly high rates of return and using fiscal risk management tools. Countries also need to strengthen efforts to mobilize domestic resources, improve the efficiency of public expenditures, and strengthen public investment and debt management. In some countries, developing a robust local currency debt market could reduce risks associated to foreign currency borrowing. Tailoring policy reforms to country-specific circumstances will be important. Furthermore, to ensure that risks are detected and addressed, increased efforts are needed to strengthen public debt recording, monitoring and reporting, and to build capacity to manage public debt. Building capacity to identify and manage fiscal risks from contingent liabilities is also important as many LIDCs are embarking on large public infrastructure investments through SOEs and are making increased use of PPPs.

A MULTIPRONGED APPROACH FOR ADDRESSING EMERGING DEBT VULNERABILITIES

22. Rising debt risks have prompted the international community to step up its work to help countries reduce public debt vulnerabilities. Recognizing that the primary responsibility for addressing debt vulnerabilities lies with borrowers the IMF and World Bank are working together on a multi-pronged approach to help member countries address debt vulnerabilities. This work is taking place within the context of the global development agenda (e.g., SDGs). This would include improved monitoring of debt vulnerabilities, enhanced early warning systems, support for structural reforms to help reduce debt vulnerabilities, improved debt transparency, and increased debt management capacity building and outreach to creditors and borrowers to raise awareness of debt issues. Key elements of this work program were laid out in two recent IMF-World Bank G20 notes.²⁴ These efforts will be complemented by additional support for the strengthening of fiscal frameworks (including domestic revenue mobilization efforts, improving the efficiency of public expenditure and strengthening public investment management).

23. The multi-pronged approach for helping countries address debt vulnerabilities is organized around four areas:

Area 1: Strengthening debt analytics and early warning systems to help countries better understand debt vulnerabilities. The IMF and World Bank are continuing to strengthen debt-related analytical work and increasing the focus on debt issues, public finance and fiscal risks in analytical products:

- **Debt sustainability analysis (DSA).**
 - The IMF/World Bank Debt Sustainability Framework for Low Income Countries (LIC-DSF) has been revised, and now places greater emphasis on debt data coverage, on accounting for contingent liabilities, on analyzing customized shock scenarios, and on flagging possible optimism bias in projections. Implementation began in July 2018, supported by a new staff guidance note²⁵ and increased training of staff and country officials.
 - The IMF's methodology for assessing debt sustainability in countries with significant access to external capital markets (MAC DSA) is also being reviewed with a view to enhancing its coverage of debt including for contingent liabilities.

²⁴See IMF and World Bank, June 2018 (a), (b) and (c).

²⁵See IMF and World Bank, December 2017.

- **Increased focus on debt issues, public finance and fiscal risks in analytical products.** The World Bank plans to deepen the analysis of debt vulnerabilities and fiscal space in core diagnostics, such as public expenditure reviews, systematic country diagnostics and in special-topic reports as relevant. This will complement the IMF's work on fiscal space assessment pilots, which is being extended to a broad range of countries.²⁶
- **Fiscal risk assessments.** The IMF and World Bank will continue to roll out analytical toolkits for fiscal risk assessments from contingent liabilities, including the PPP-Fiscal Risk Assessment Model (PFRAM). In parallel, assessments of macro-financial risks and their potential fiscal and economic implications will be strengthened.
- **Early warning systems.** The World Bank is planning to strengthen its internal early warning system on debt vulnerabilities for emerging market economies. The IMF and World Bank staff will exchange assessments and policy views on highly vulnerable countries.

Area 2: Strengthening debt transparency to help countries **have a more complete picture of their debt.** The full work program in the area of debt transparency is presented in Annex 3. It includes:

- **Raising awareness at the highest political level.** The IMF and World Bank staff will use policy and technical assistance (TA) engagement to raise awareness of debt sustainability and of reform options to reduce debt vulnerabilities with governments and parliaments or equivalent legislative bodies (in coordination with the executive branch – as relevant).
- **Provision of TA and development of tools to build borrower capacity to record, monitor, and report debt.** This will be done by tailoring TA to country specific needs in this area, while ensuring adequate TA funding (including for the Debt Management Facility, DMF) and enhancing information sharing among TA providers.²⁷ Another initiative is the development of a tool to better monitor a country's capacity and performance on debt recording, monitoring and reporting, building on the World Bank's DEMPA.
- **Efforts to provide greater clarity about the requirements and accessibility of debt data collected and disseminated by the IMF and World Bank.** There is scope to

²⁶See <https://www.imf.org/en/News/Articles/2018/06/26/pr18260imf-board-takes-stock-of-work-on-fiscal-space>.

²⁷The [DMF](#) is a multi-donor trust fund supporting debt management capacity building.

improve the accessibility and user friendliness of this data, and encourage countries to improve reporting and compliance with established statistical standards.

- **Efforts to enhance creditor outreach.** The IMF and World Bank are exploring how to build on existing creditor platforms (such as the DMF, the DMF Stakeholder Forum and Multilateral Development Banks meetings) to strengthen engagement with non-Paris Club bilateral and plurilateral creditors. By expanding the scope of the DMF, the facility could be leveraged into a multilateral platform for dialogue on debt issues. The IMF and World Bank are also planning workshops for non-Paris Club bilateral creditors on debt sustainability analysis and lending frameworks. As per the recent IMF-World Bank G20 notes on debt transparency, both institutions will also support the implementation of the G20 Principles and Operational Guidelines for Sustainable Financing and private sector lending disclosure initiatives.

Area 3: Strengthen capacity on debt/fiscal risk management to help countries deal with existing debt more effectively. The IMF and World Bank are scaling up efforts to address demand for more focused and expanded capacity building on debt and fiscal risk management. Activities include:

- **Debt management.** The IMF and World Bank plan to scale up effective debt management TA, including through the DMF, to provide support for the development of national and sub-national debt management reform plans, medium-term debt strategy formulation, targeted TA support to reform implementation, and domestic debt market development.
- **Operational support to strengthen debt and fiscal policy frameworks and manage fiscal risks.** The IMF and World Bank will conduct joint missions to help countries improve their ability to better monitor and manage fiscal risks stemming from contingent liabilities (including from SOEs and PPPs). They are also strengthening the link between debt management TA, fiscal risk management and related policy reforms anchored in IMF-supported programs and World Bank development policy operations.
- **Debt reduction.** The World Bank will extend the mandate of the Debt Reduction Facility (DRF) for IDA-only countries and may adapt the facility's scope to address identified implementation challenges.

Area 4: Reviews of the IMF Debt Limits Policy and the IDA Non-Concessional Borrowing Policy. The reviews are to start in the second half of 2018. They will be informed by implementation experience and will include extensive consultations with stakeholders. The World Bank is also considering the review of operational guidelines on debt-related disclosure requirements.

Questions for the Development Committee

The following guidance is sought from the Development Committee:

1. Does the Committee agree with the assessment of debt vulnerabilities in Emerging and Low-Income Economies presented in the paper?
2. Does the Committee agree with the thrust of the WB-IMF multipronged approach to help countries address debt vulnerabilities presented in the paper?

Annex 1. Country Groupings

Low-income developing countries as defined by the IMF are countries with low per capita Gross National Income (GNI) and comparatively weak socioeconomic indicators, and comprise 59 countries (see [*Macroeconomic Developments and Prospects in Low-Income Developing Countries - 2018*](#)). The World Bank classifies 32 of these countries as “low-income” and 27 as “lower-middle income.”

- | | | |
|-----------------------------------|-------------------------------------|-------------------------|
| • Afghanistan * | • Guinea * | • Nigeria |
| • Bangladesh | • Guinea-Bissau * | • Papua New Guinea |
| • Benin * | • Haiti * | • Rwanda * |
| • Bhutan | • Honduras | • São Tomé and Príncipe |
| • Burkina Faso * | • Kenya | • Senegal * |
| • Burundi * | • Kiribati | • Sierra Leone * |
| • Cambodia | • Kyrgyz Republic | • Solomon Islands |
| • Cameroon | • Lao, People’s Democratic Republic | • Somalia * |
| • Central African Republic * | • Lesotho | • South Sudan * |
| • Chad * | • Liberia * | • Sudan |
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* Denotes low-income countries as per the World Bank classification.

For the purposes of this note, emerging market countries are countries that are neither AEs nor LIDCs.

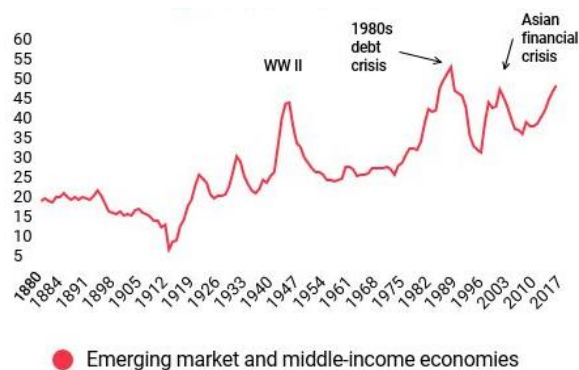
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| • Algeria | • Georgia | • Paraguay |
| • Angola | • Grenada | • Peru |
| • Antigua and Barbuda | • Guatemala | • Philippines |
| • Argentina | • Guyana | • Poland |
| • Armenia | • Hungary | • Qatar |

- Azerbaijan
- Bahamas, The
- Bahrain
- Barbados
- Belarus
- Belize
- Bolivia, Plurinational State of
- Bosnia and Herzegovina
- Botswana
- Brazil
- Brunei Darussalam
- Bulgaria
- Cabo Verde
- Chile
- China ¹
- Colombia
- Costa Rica
- Croatia
- Dominica
- Dominican Republic
- Ecuador
- Egypt, Arab Republic of
- El Salvador
- Equatorial Guinea
- Eswatini
- Fiji
- India
- Indonesia
- Iran, Islamic Republic of
- Iraq
- Jamaica
- Jordan
- Kazakhstan
- Kosovo
- Kuwait
- Lebanon
- Libya
- Macedonia, former Yugoslav Republic of
- Malaysia
- Maldives
- Marshall Islands
- Mauritius
- Mexico
- Micronesia, Federated States of
- Mongolia
- Montenegro
- Morocco
- Namibia
- Nauru
- Oman
- Pakistan
- Palau
- Romania
- Russian Federation
- Samoa
- Saudi Arabia
- Serbia
- Seychelles
- South Africa
- Sri Lanka
- St. Kitts and Nevis
- St. Lucia
- St. Vincent and the Grenadines
- Suriname
- Syrian Arab Republic
- Thailand
- Tonga
- Trinidad and Tobago
- Tunisia
- Turkey
- Turkmenistan
- Tuvalu
- Ukraine
- United Arab Emirates
- Uruguay
- Vanuatu
- Venezuela, República Bolivariana de

¹ Excludes Hong Kong SAR, China; Macao SAR, China; and Taiwan, China (classified as advanced economies).

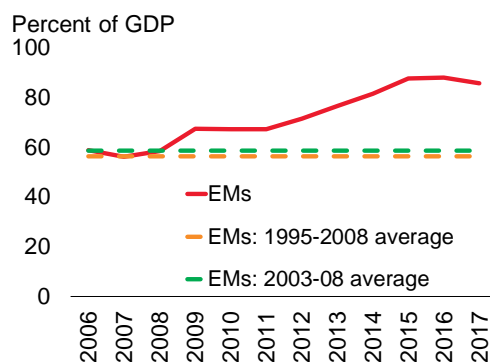
Annex 2. Additional Charts

Annex Chart 1. EM Government Debt. Average debt-to-GDP ratio



Sources: April 2018 Fiscal Monitor.

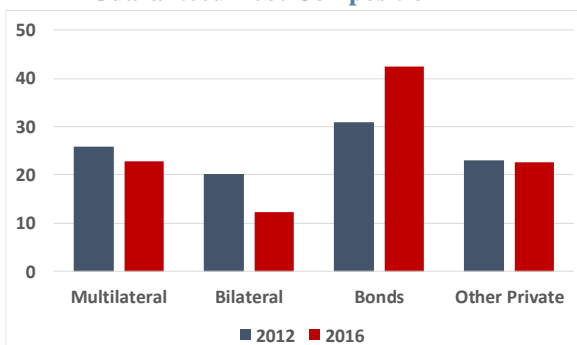
Annex Chart 2. EM. Corporate Debt



Sources: Bank for International Settlements, Institute for International Finance.

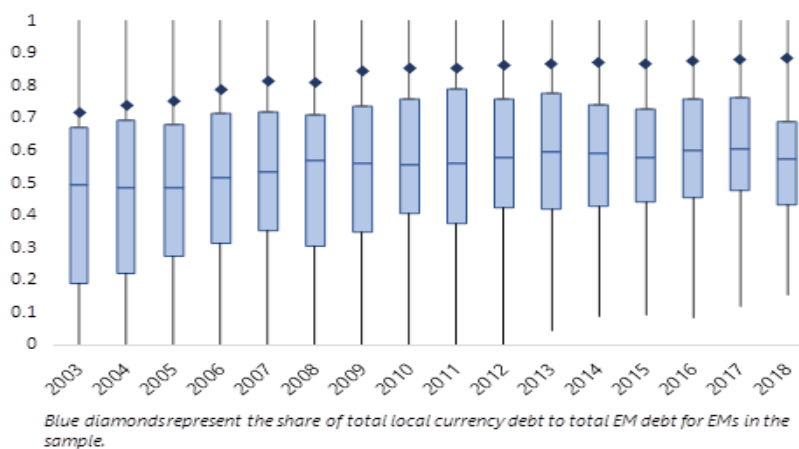
Note: Figure shows GDP-weighted averages for 16 EMs (seven commodity importers and nine commodity exporters).

Annex Chart 3. Emerging Markets: External Public and Publicly Guaranteed Debt Composition



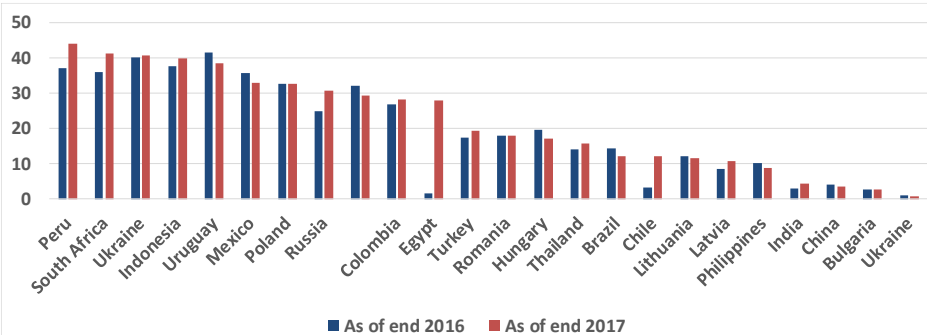
Sources: WDI and staff estimates.

Note: Figure shows GDP-weighted averages for 66 EMs.

Annex Chart 4. EM. Evolution of Share of Local Currency Debt.

Sources: Data based on 50 EMs.

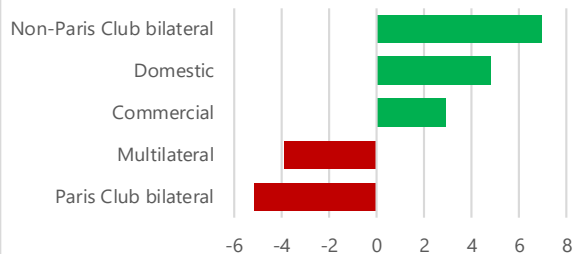
Note: Boxplot shows median and interquartile range.

Annex Chart 5. Emerging Markets: Share of Local Currency Government Debt Held by Foreign Investors

Sources: Sovereign Investor Base Dataset for Emerging Markets and staff estimates.

Annex Chart 6. LIDC. Change in Creditor Composition

(in percent of GDP, 2007-16)



Note: average across 37 countries with continuous data.

Sources: 2017 Survey of IMF country desks; BIS-IMF-OECD-WB Joint External Debt Statistics; WB International Debt Statistics; IMF International Financial Statistics; and IMF Staff Reports.

Annex 3. IMF and World Bank Agenda Going Forward on Strengthening Debt Transparency

Areas	Main work areas	Institutions
Borrower capacity building in debt recording, monitoring and reporting	<ul style="list-style-type: none"> Develop tailored and targeted action plans with support of diagnostic TA 	IMF/WB
	<ul style="list-style-type: none"> Provide TA to support implementation of needed reforms where diagnostic TA has taken place and weaknesses have been identified 	IMF/WB
	<ul style="list-style-type: none"> Provide support to broaden debt coverage and strengthen legal and governance frameworks, and to support the implementation of appropriate tools for debt recording, monitoring and reporting, with contributions from specialized providers 	IMF/WB
	<ul style="list-style-type: none"> Deliver adequate and effective TA by ensuring sufficient TA funding, including to the DMFIII facility, enhancing information sharing among TA providers, and regularly reporting on progress in the debt-related work program 	IMF/WB
	<ul style="list-style-type: none"> Strengthen country efforts to build debt management capacity by identifying measures to support in IMF-supported programs and World Bank financing operations 	IMF/WB
	<ul style="list-style-type: none"> Simplify debt recording guidance and standardize data reporting templates to help alleviate capacity constraints 	IMF/WB
Collection and dissemination of debt data	<ul style="list-style-type: none"> Implement IMF's "Overarching Strategy on Data Statistics in the Digital Age" to strengthen the collection of the broader institutional and instrument coverage of existing debt databases by integrating IMF-wide work streams 	IMF
	<ul style="list-style-type: none"> Implement and scale up D4D and Financial Sector Stability Fund (statistics module) to close data gaps and strengthen capacity 	IMF
	<ul style="list-style-type: none"> Implement World Bank initiatives to improve private external debt and public domestic debt statistics 	WB
	<ul style="list-style-type: none"> Improve accessibility of various debt databases by providing on an IMF/WB website a summary of information by country; supplemented by links to published implementation status and assessment reports 	IMF/WB
Public debt analysis (DSA and MTDS)	<ul style="list-style-type: none"> Support implementation of the new LIC DSF including with supplementary guidance on expanding debt coverage and assessing fiscal risks 	IMF/WB
	<ul style="list-style-type: none"> Define options for stronger debt coverage and disclosures in the review of the MAC DSA 	IMF
	<ul style="list-style-type: none"> Facilitate access to published DSA information through: an extended LIC DSA summary table with key debt information (beyond just rating); clearer guidance on sharing of DSA files with country authorities; a webpage listing published MAC DSAs; and a platform for voluntary sharing of DSA files by country authorities 	IMF/WB
	<ul style="list-style-type: none"> Strongly encourage country authorities to publish MTDS to increase transparency 	IMF/WB

Sustainable lending (creditor outreach and debt limits)	• Review of DLP/NCBP with a view to strengthening data provisioning requirement and simplify conditionality framework	IMF/WB
	• Consideration of enhanced commentary on member countries' debt issues in context of IMF surveillance	IMF
	• More structured outreach to non-Paris Club and plurilateral creditors	IMF/WB
	• Prepare and provide workshops for emerging creditors on: DSA analysis, lending frameworks, internal coordination of lending agencies, and external coordination in debt resolution situations	IMF/WB
	• Enhanced information sharing with multilateral and plurilateral creditors	IMF/WB
	• Clarification of perimeter of official and commercial debt, and multilateral and plurilateral debt (for IMF policy purposes)	IMF
Support to creditor initiatives	• Support G20 self-assessment of sustainable financing principles	IMF/WB
	• Support private sector lending disclosure initiative	IMF/WB

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