

Short course for Geneva Delegates

# Debt issues facing developing countries

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## Debt issues facing developing countries

1. A new way of analysing sovereign debt - differentiating developing countries based on their levels of integration into global markets
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3. The impact of recent developments and levels of financial integration on debt service costs
4. Assessing debt sustainability – how are developing countries performing?
5. It is not only about debt: putting debt into context with other financial flows
6. What can do done to address the situation?

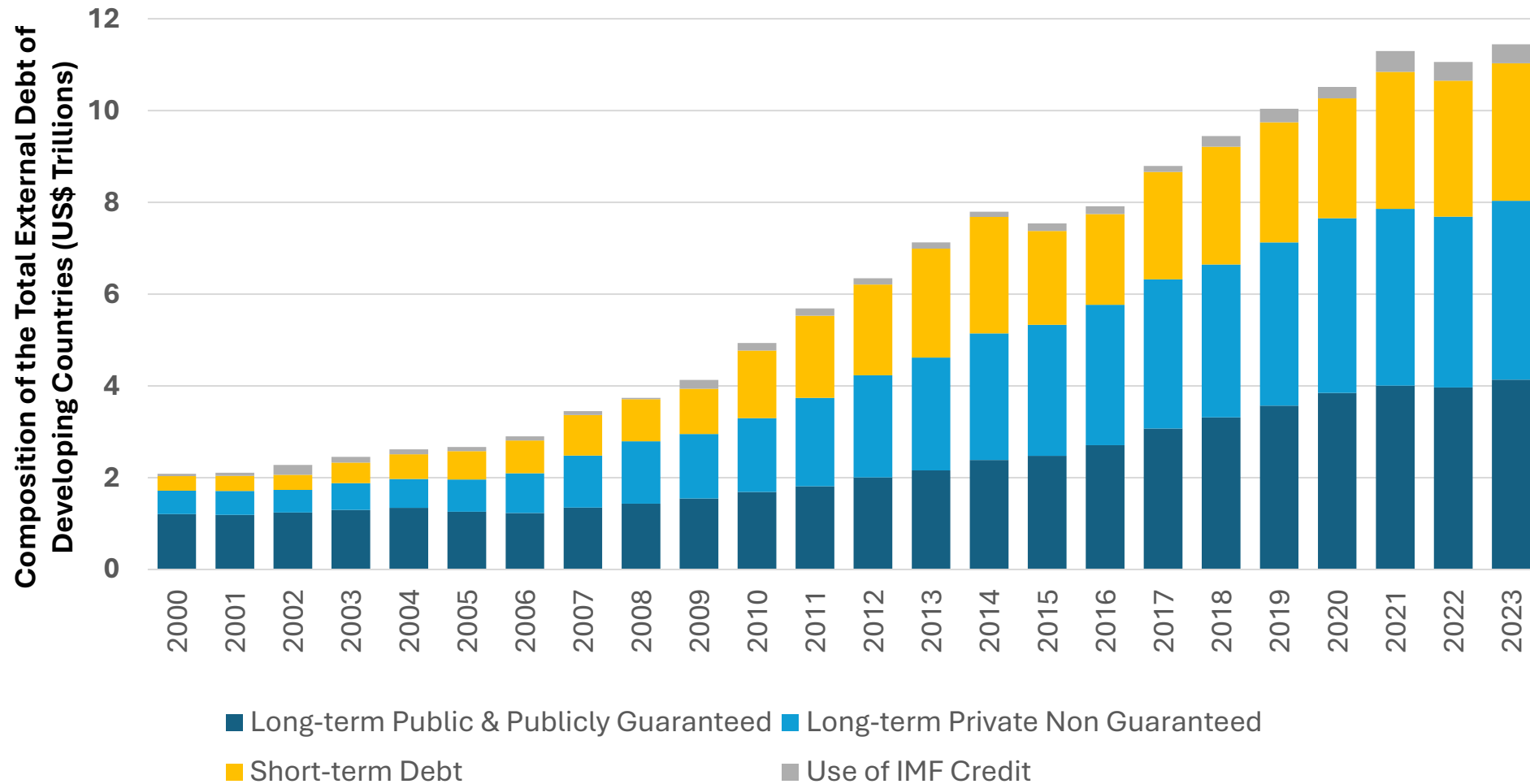
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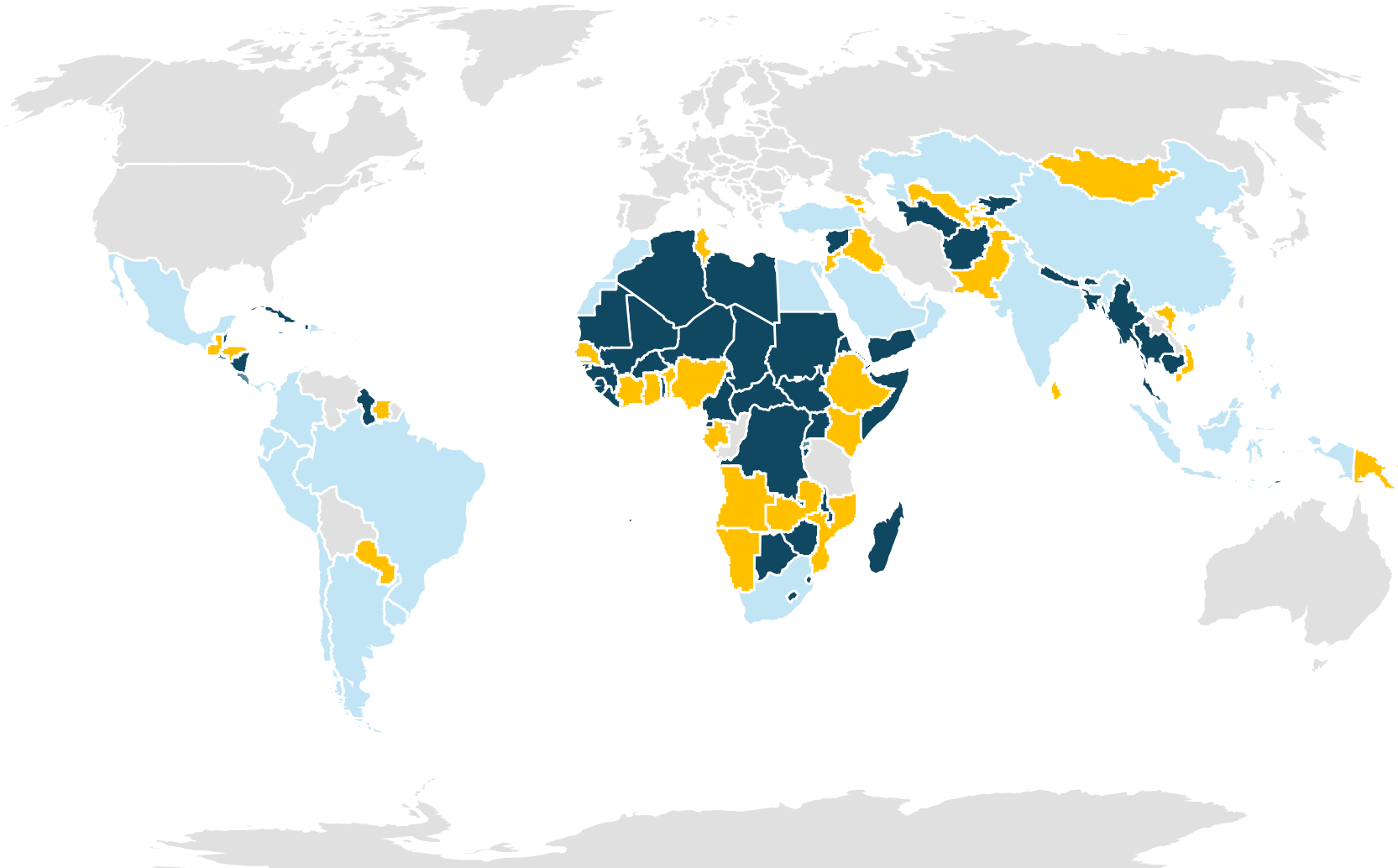
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# Trends in the level of developing countries' external debt and its composition by borrower



# ➤ Grouping developing countries based on their levels of integration into global capital markets



## Emerging Market Economies

(EMEs) - mostly upper-middle income countries that integrated into global capital markets in the 1990s



## Frontier Market Economies

(FMEs) - mainly low, or lower-middle income countries that integrated into global capital markets after the Global Financial Crisis in the 2008

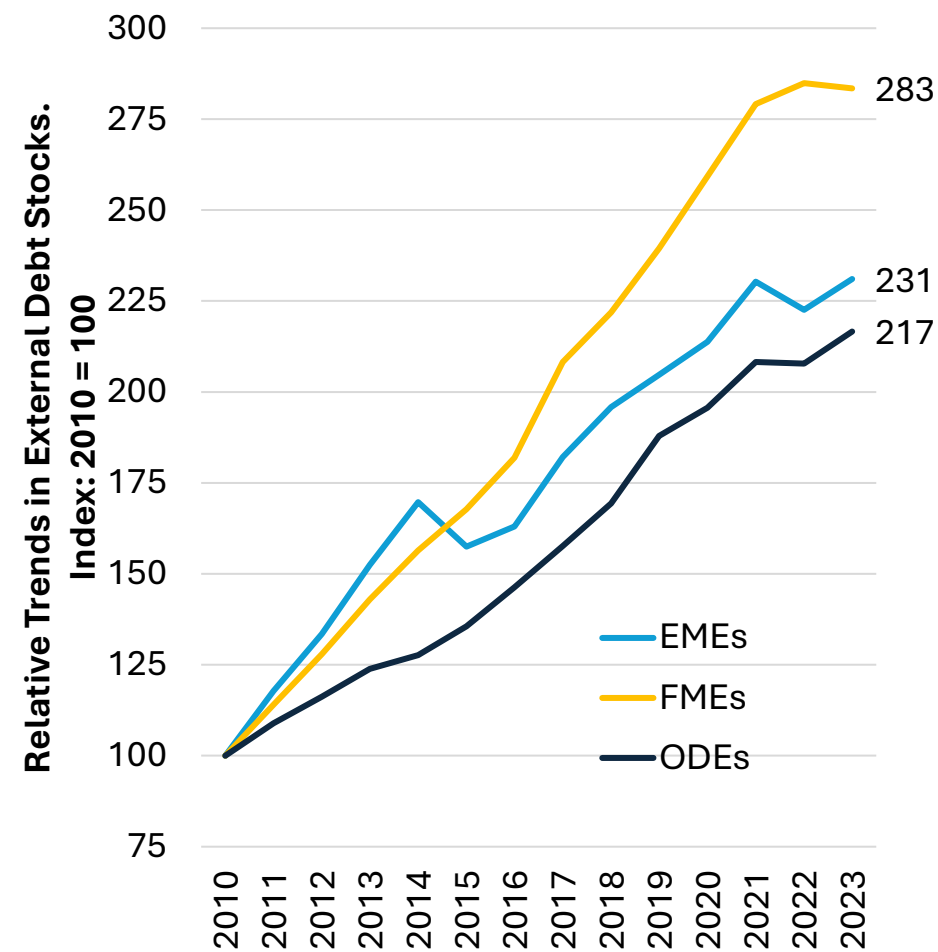
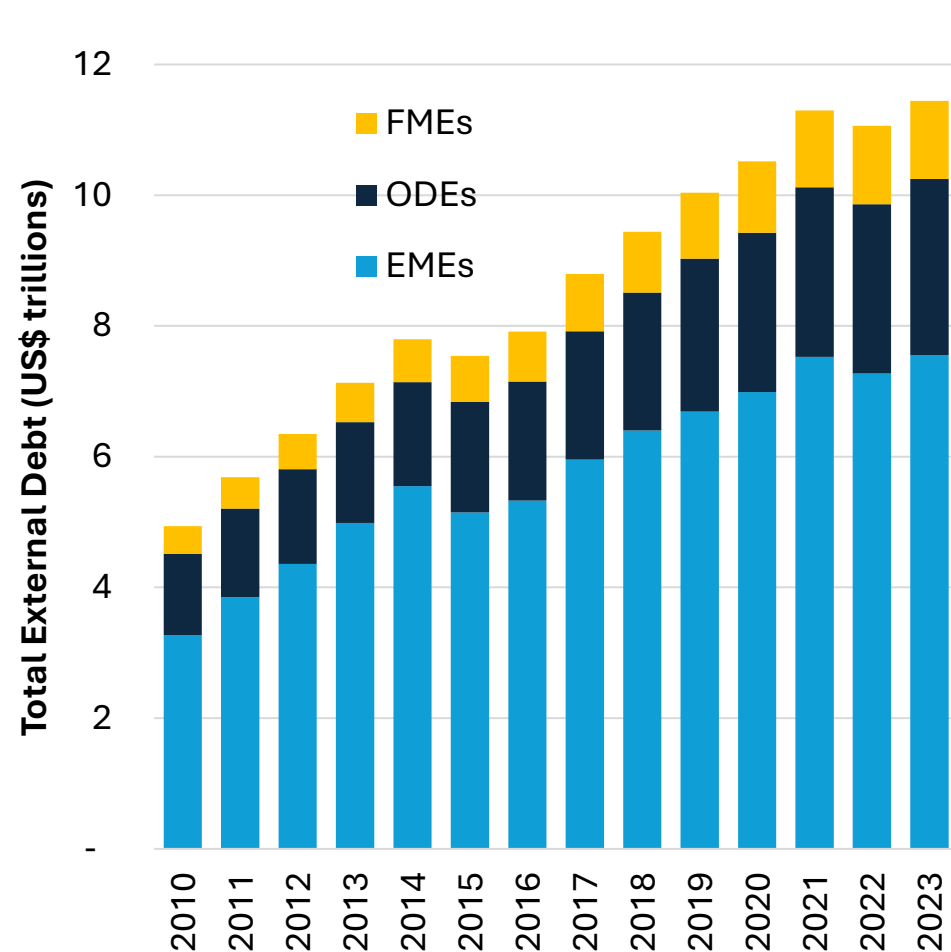


## Other Developing Economies

(ODEs) - remain largely unintegrated and are dependent on external public financing and ODA from official creditors



# Trends in the level of developing countries' external debt and its composition by country group



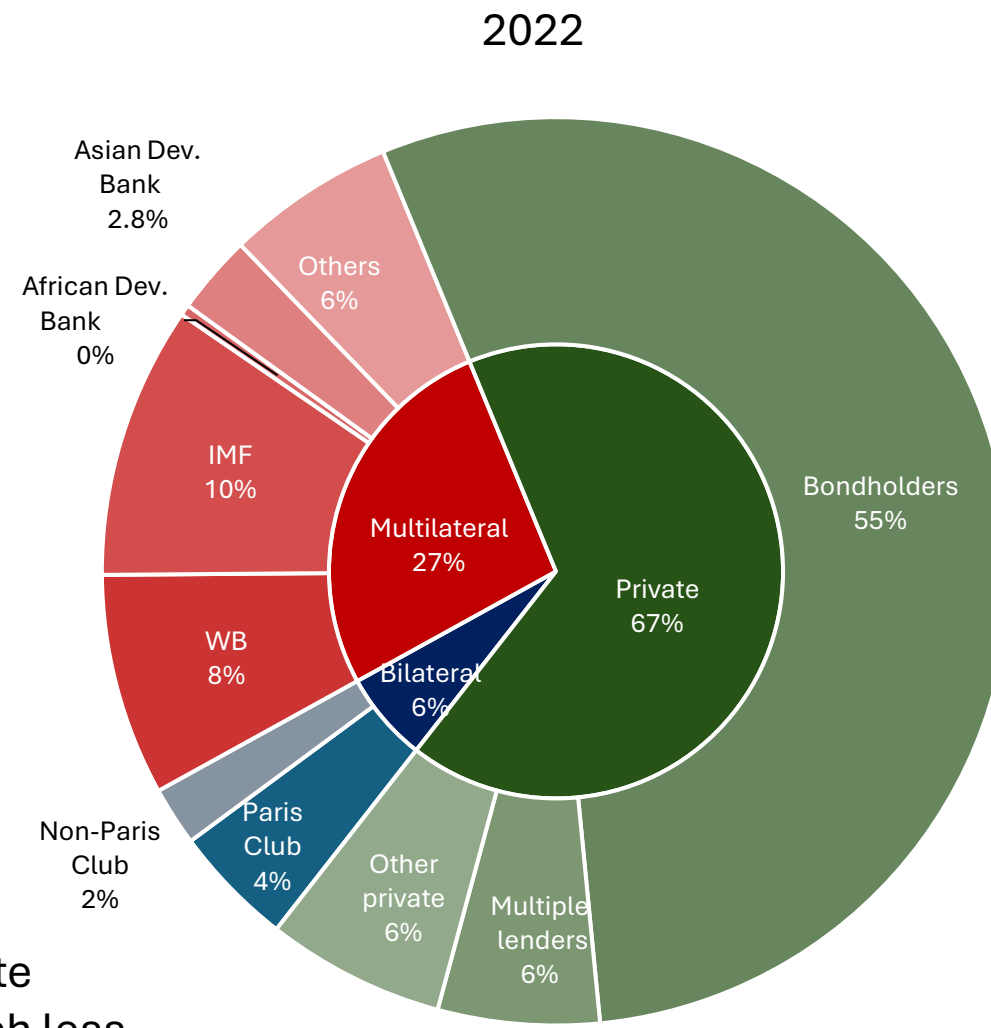
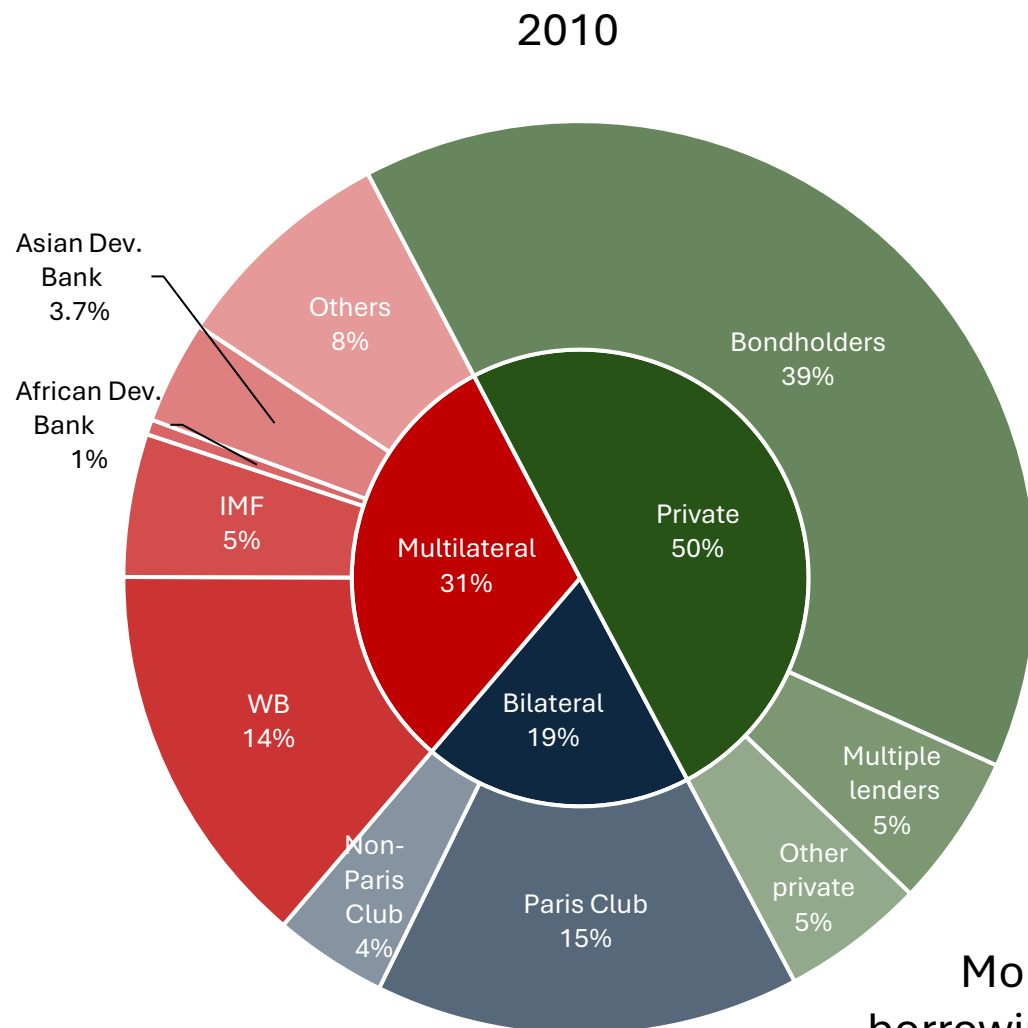
Sources of data: World Bank IDS

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# Creditor composition of Emerging Market Economies



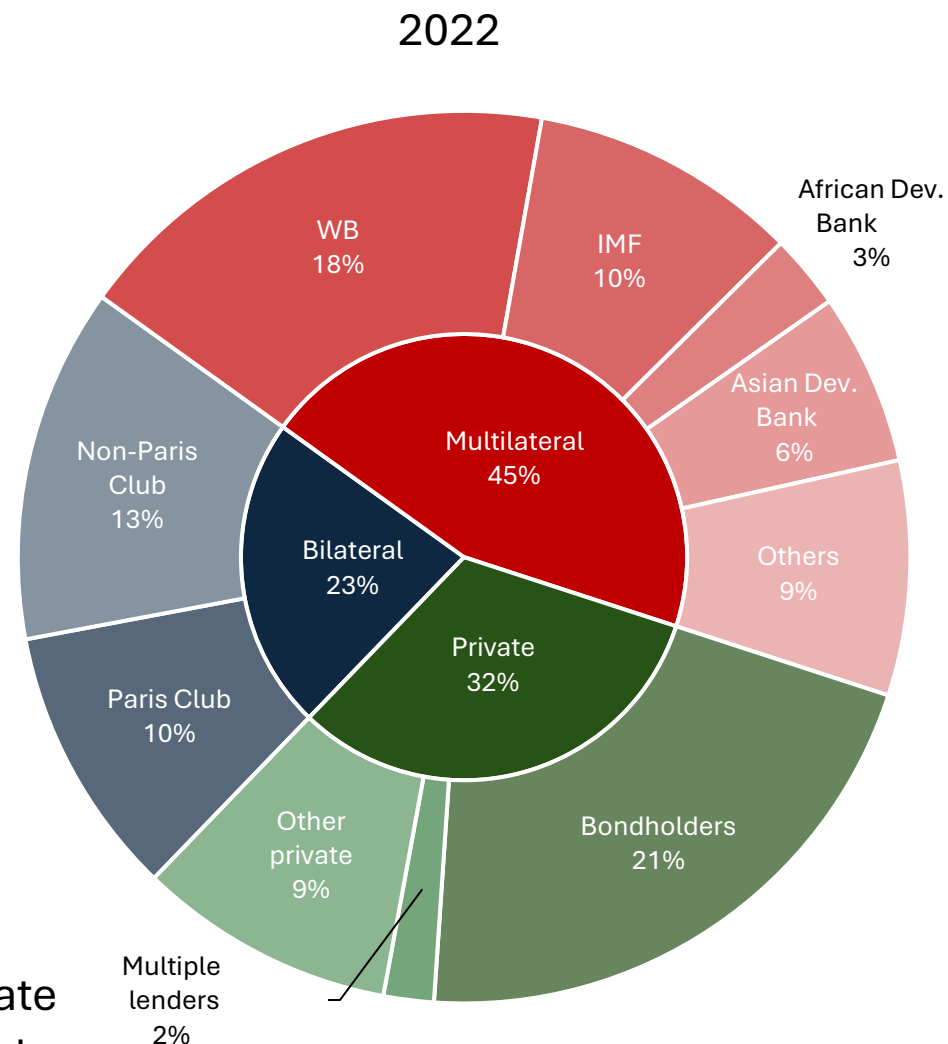
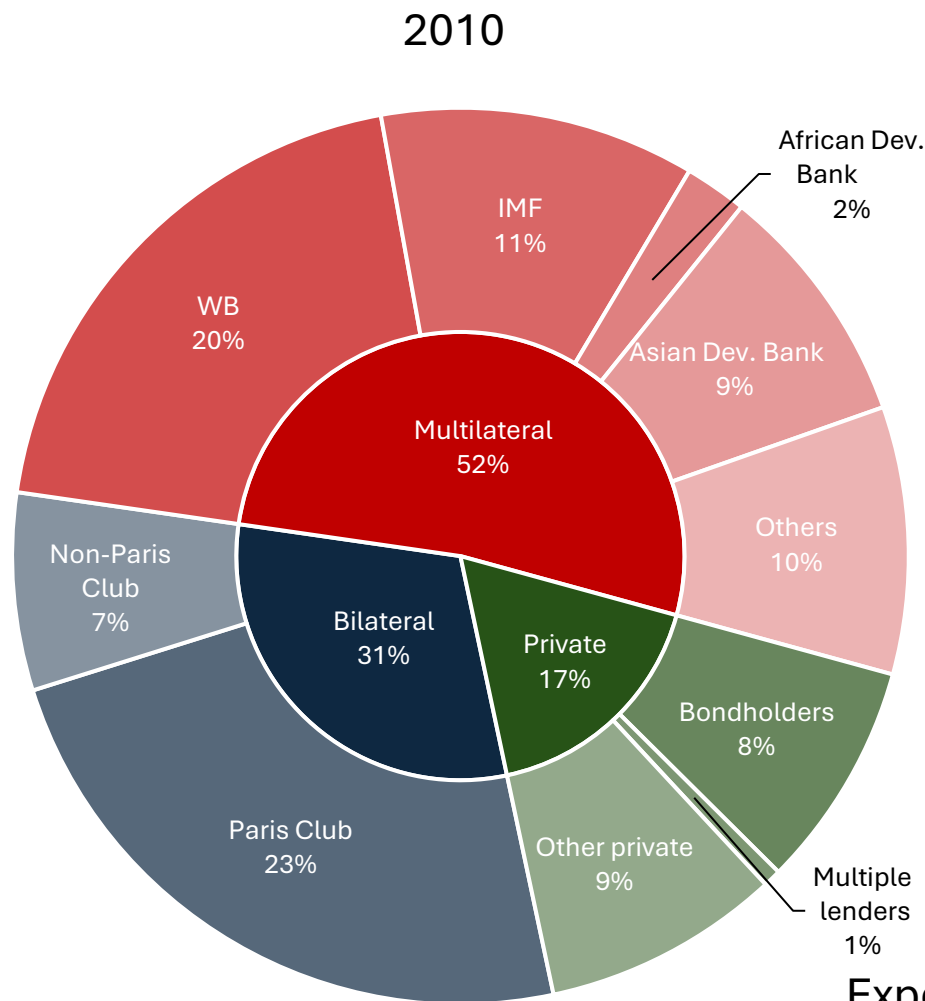
More private  
borrowing, much less  
bilateral

Sources of data: World Bank IDS





# Creditor composition of Frontier Market Economies

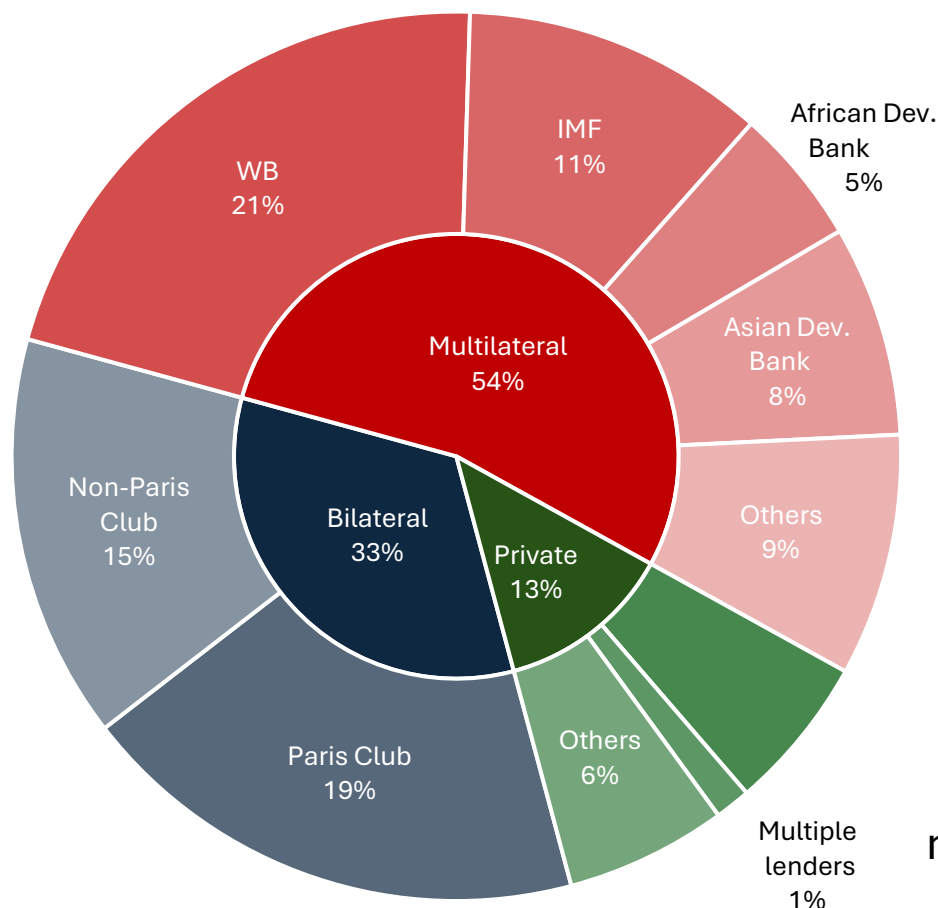


Exposure to private  
creditors almost  
doubled

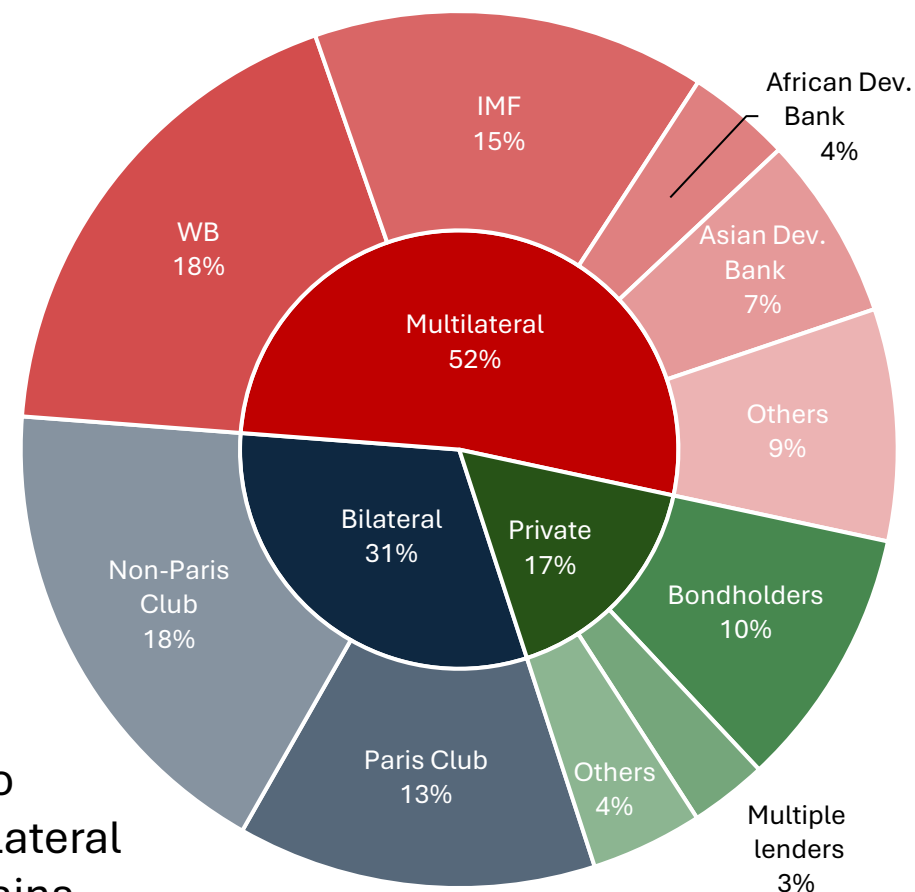
Sources of data: World Bank IDS

# Creditor composition of Other Developing Economies

2010



2022



Exposure to  
multilateral & bilateral  
creditors remains  
dominant

Sources of data: World Bank IDS

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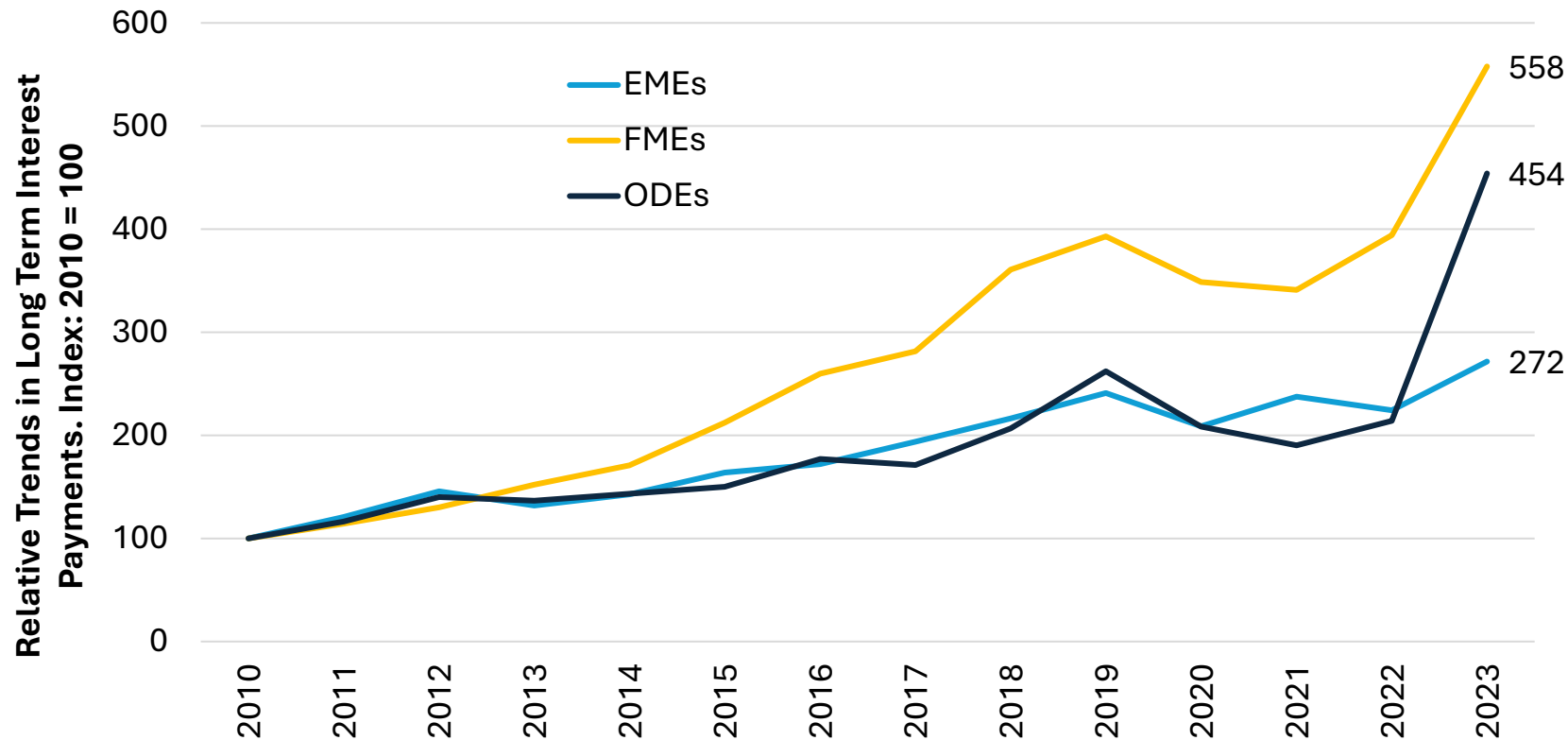
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# ➤ Trends in debt service costs

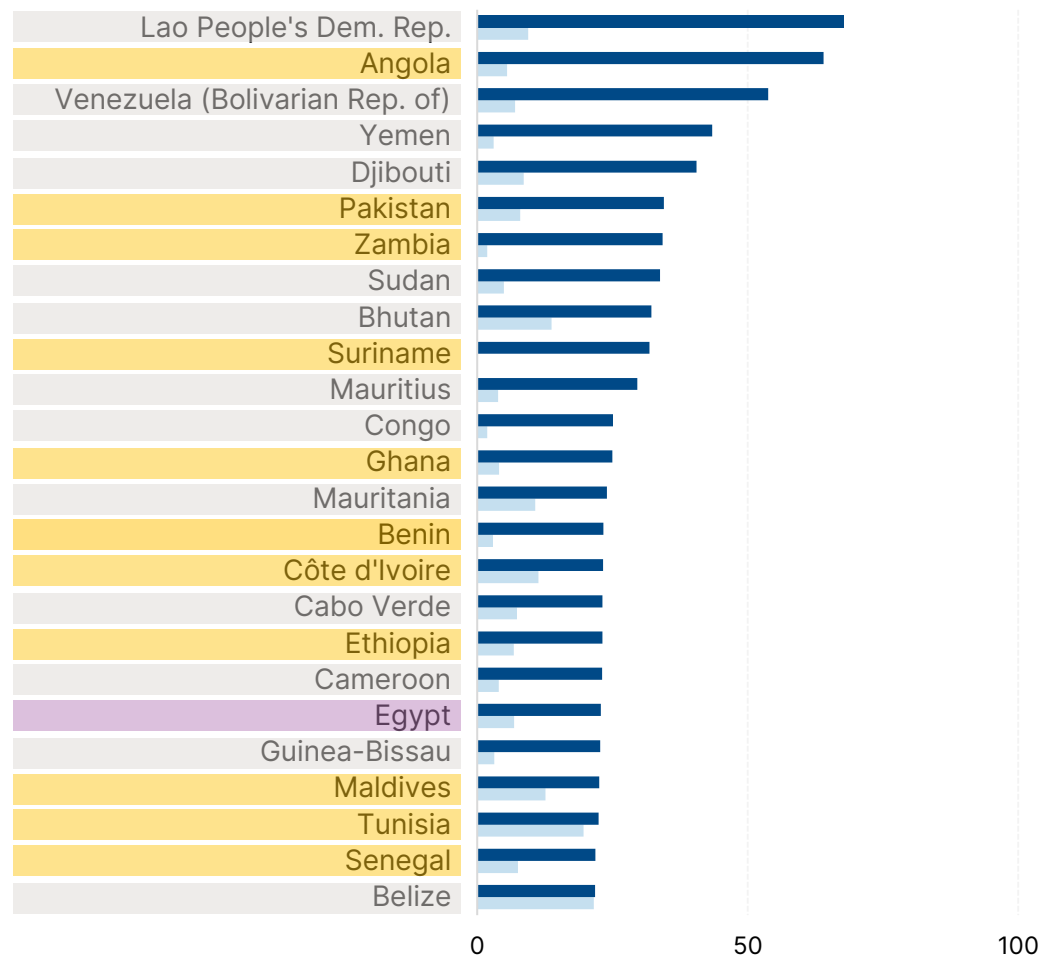
External debt service costs have been increasing, causing external debt sustainability to deteriorate and limiting fiscal space.

## ➤ Trends in long-term interest costs

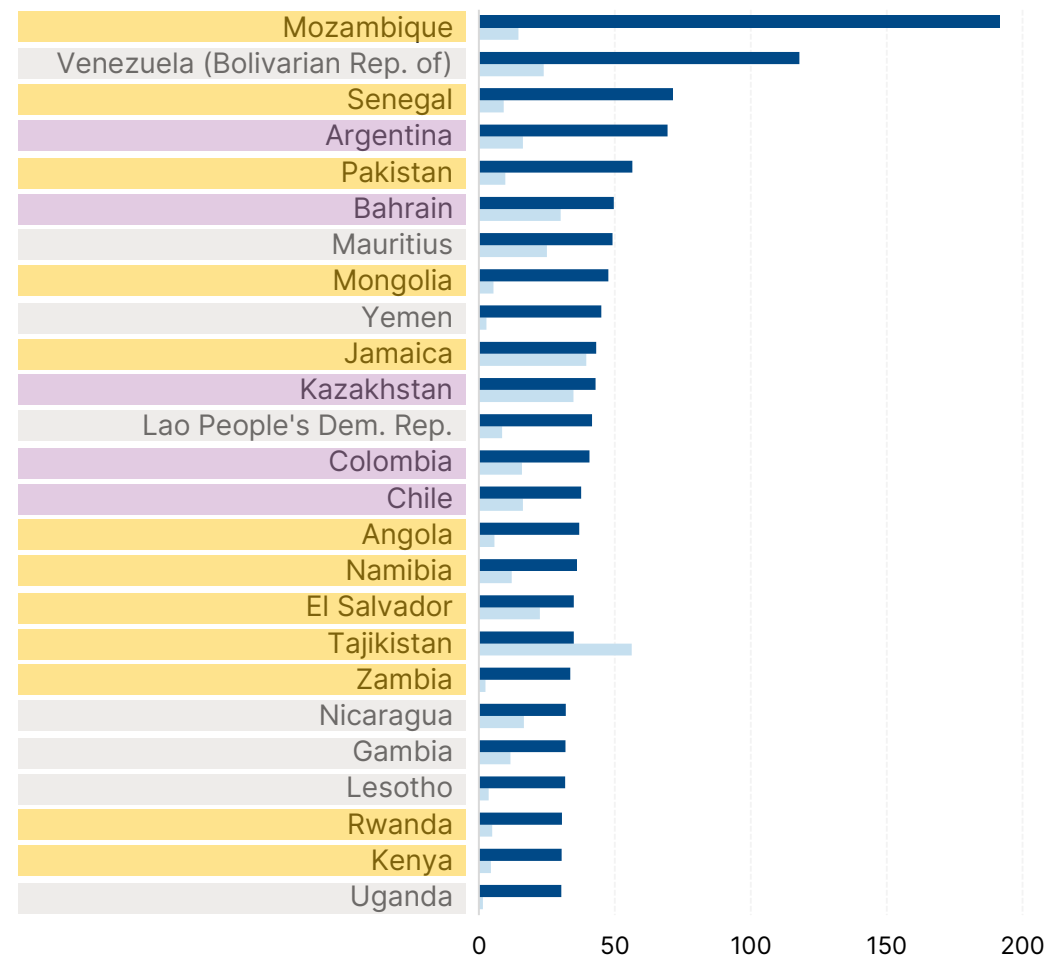


# External debt service costs - top 25 countries

## PPG debt service to government revenue



## Total debt service to export revenue



■ 2023 ■ 2011 ■ EME ■ FME ■ ODE

# Differences in external long-term debt maturity by country group

Country Group	Average Maturity (Years)			
	2020	2021	2022	2023
Emerging Market Economies	8.41	8.19	7.49	10.13
Frontier Market Economies	12.83	10.32	9.11	7.00
Other Developing Economies	30.29	30.13	19.93	25.73

Total debt service is a function of interest costs and principal repayments. While both EMEs and ODEs were able to extend the average maturity of their external borrowing to offset the rapid increase in interest rates in 2023, FMEs were hit from both sides, with higher interest costs and shorter average maturities.

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## ➤ **What determines whether debt is sustainable?**

Accurate assessment can be complicated, but if the costs of servicing debt are persistently rising faster than the resources to pay the servicing costs, debt sustainability will be deteriorating.

So, if:

$\triangle$  **External debt service costs**  $>$   $\triangle$  **Exports + remittances**

External debt sustainability is deteriorating

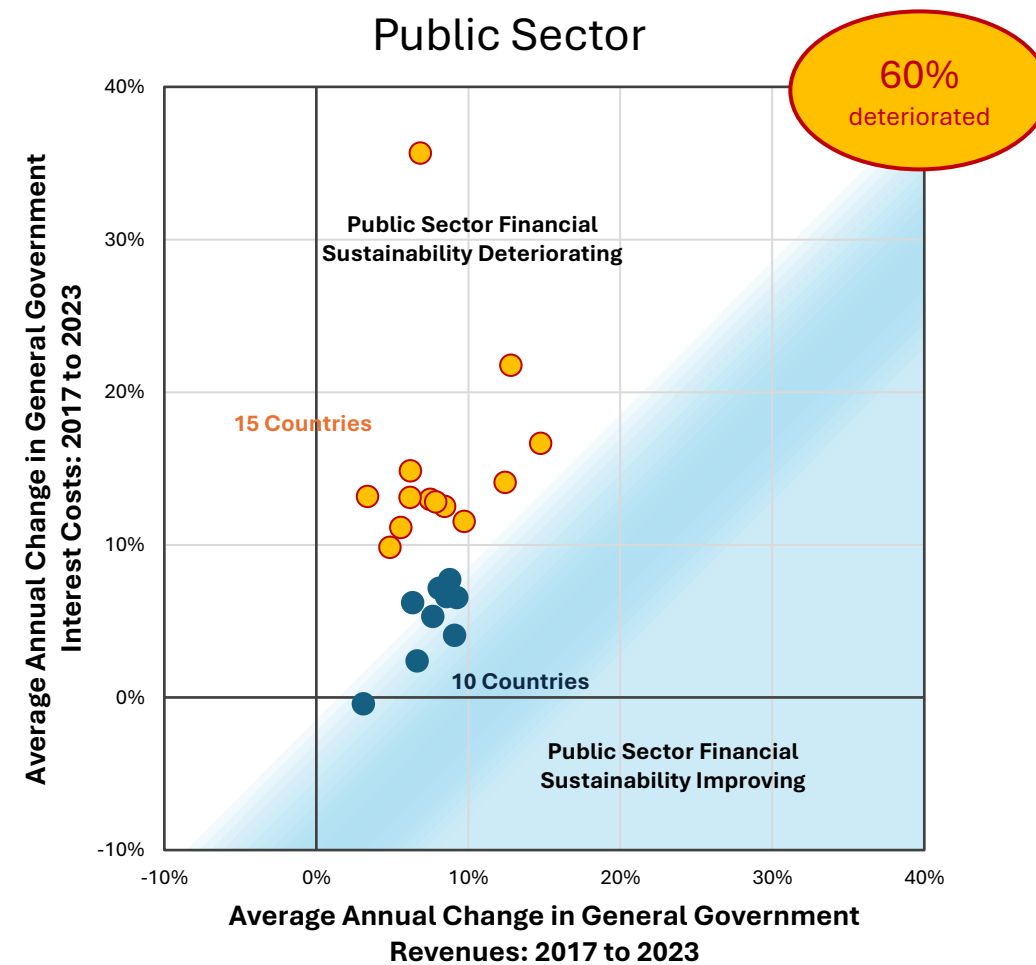
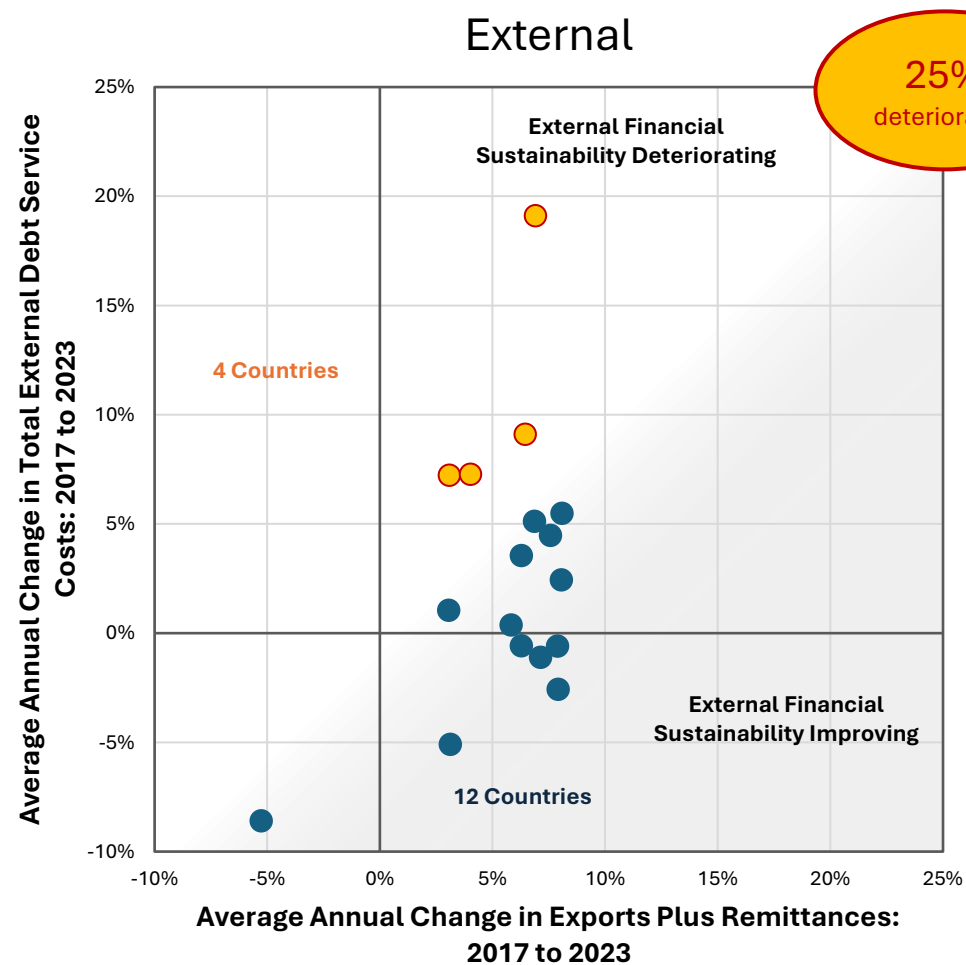
$\triangle$  **Public sector debt service costs**  $>$   $\triangle$  **Government revenues**

Public sector debt sustainability is deteriorating

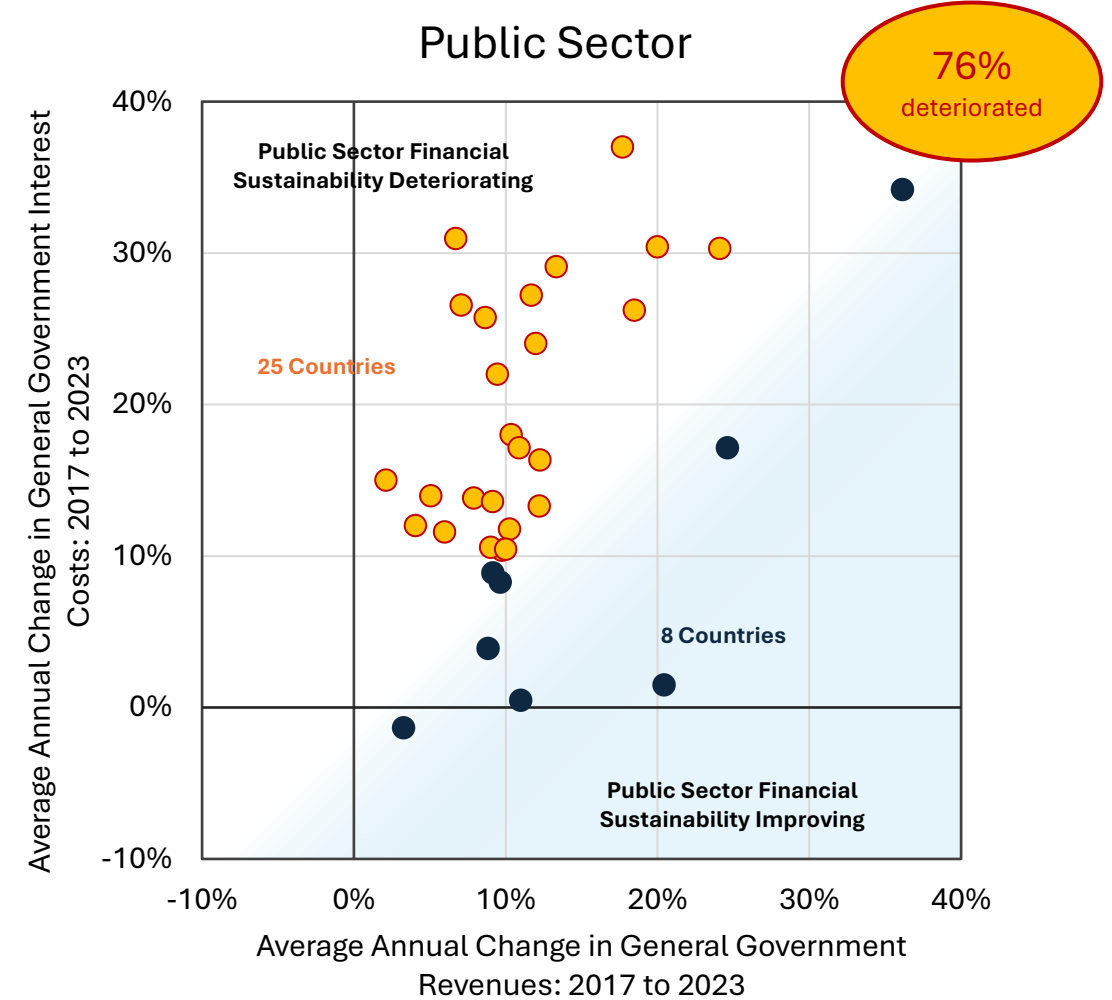
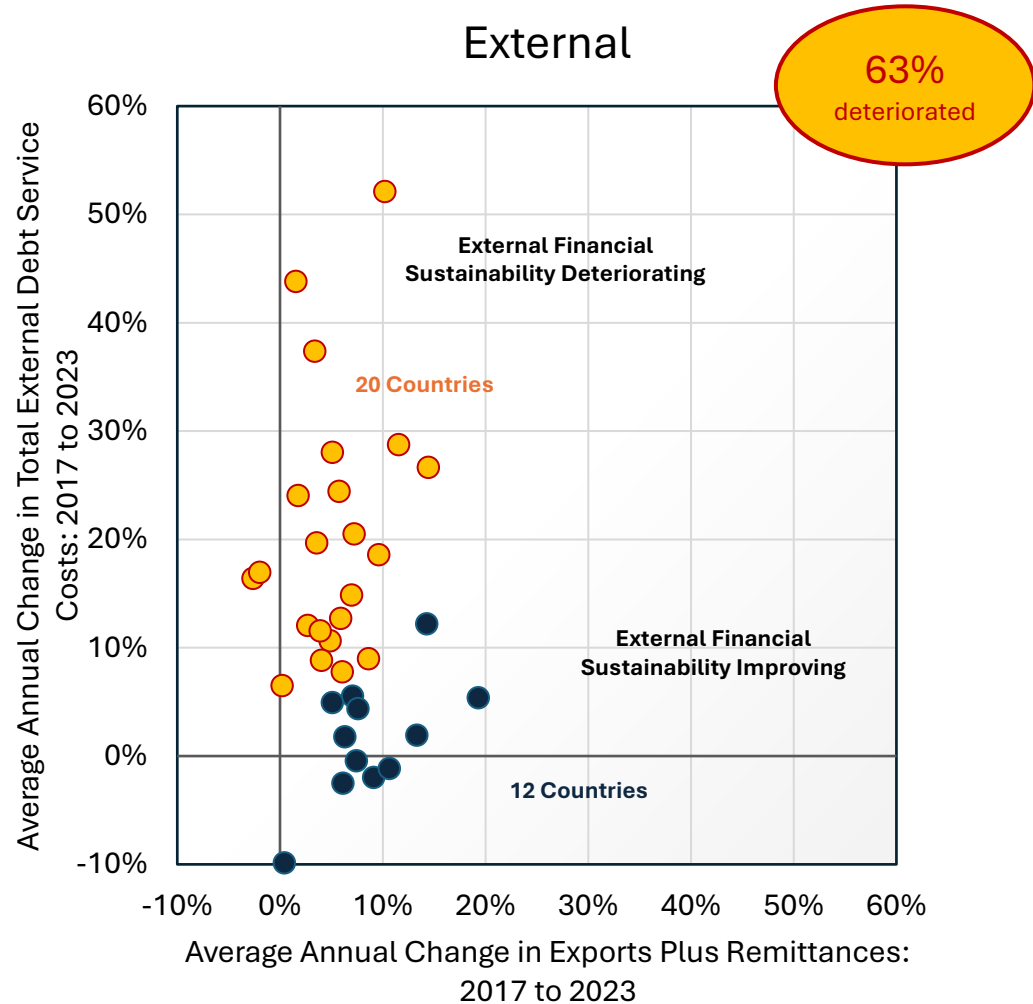




# Debt sustainability of Emerging Market Economies

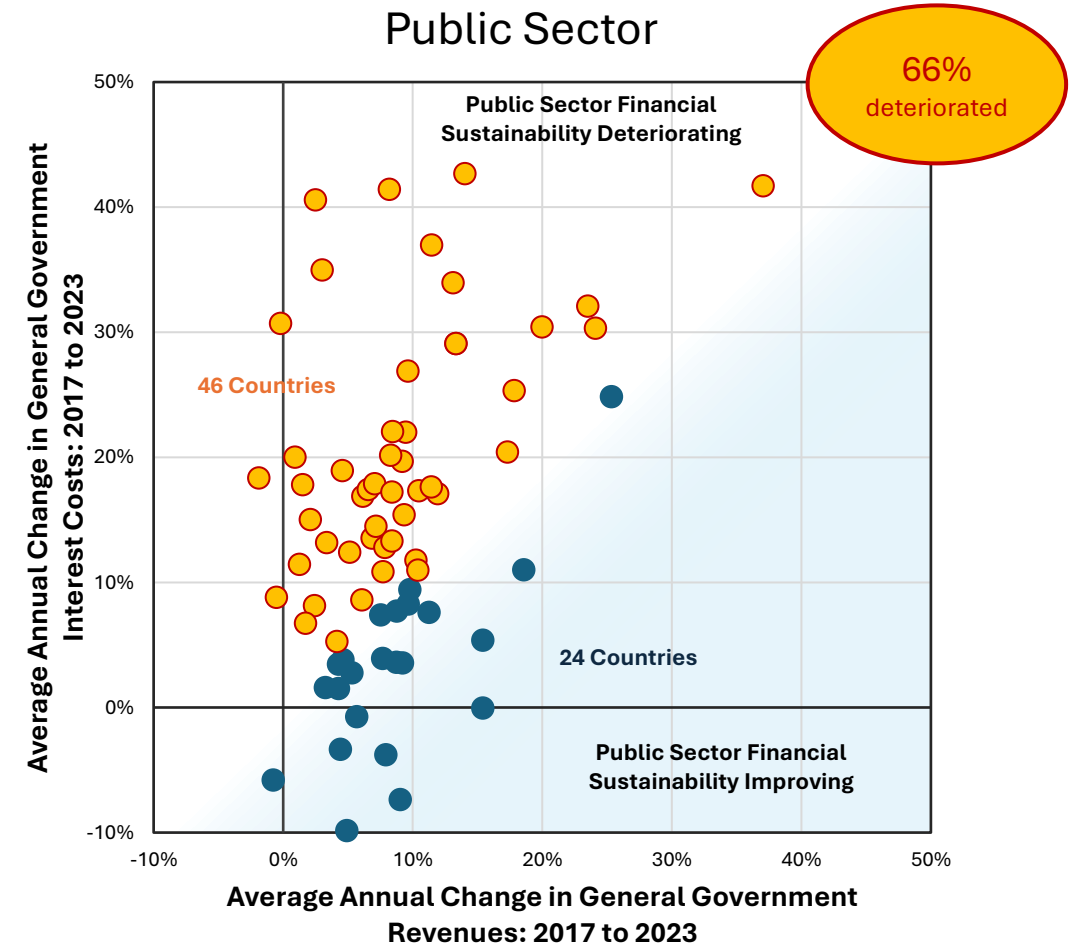
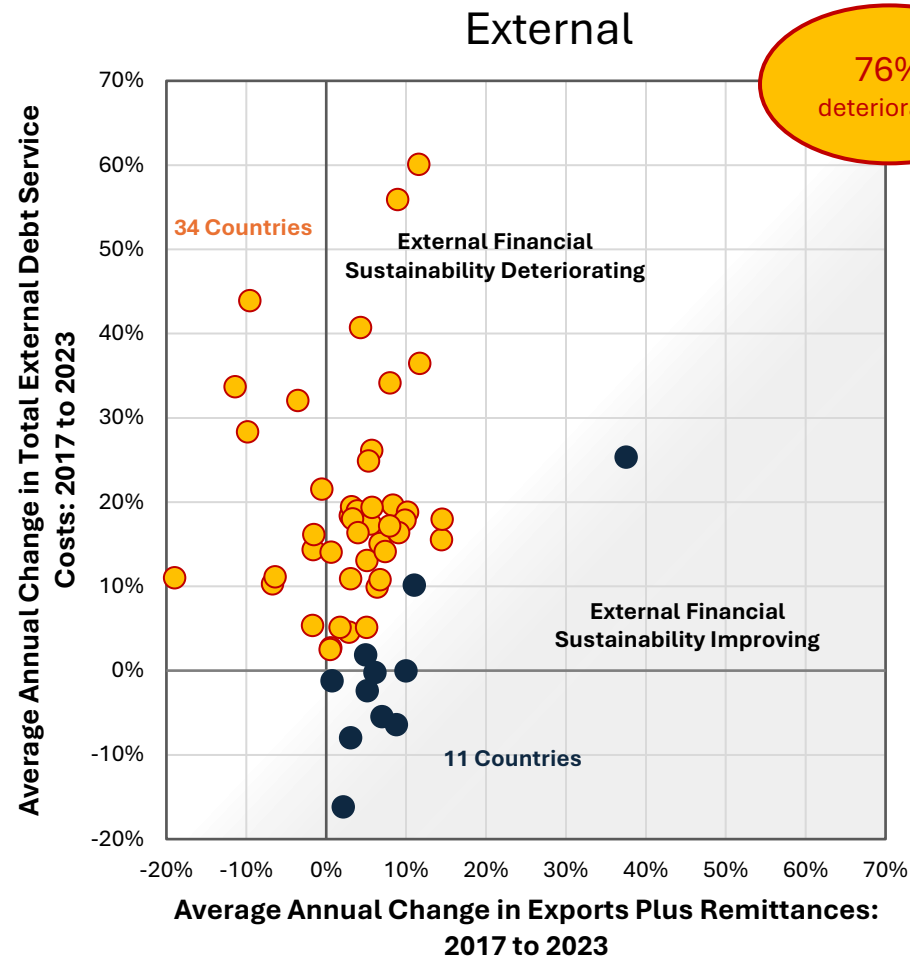


# Financial sustainability of Frontier Market Economies

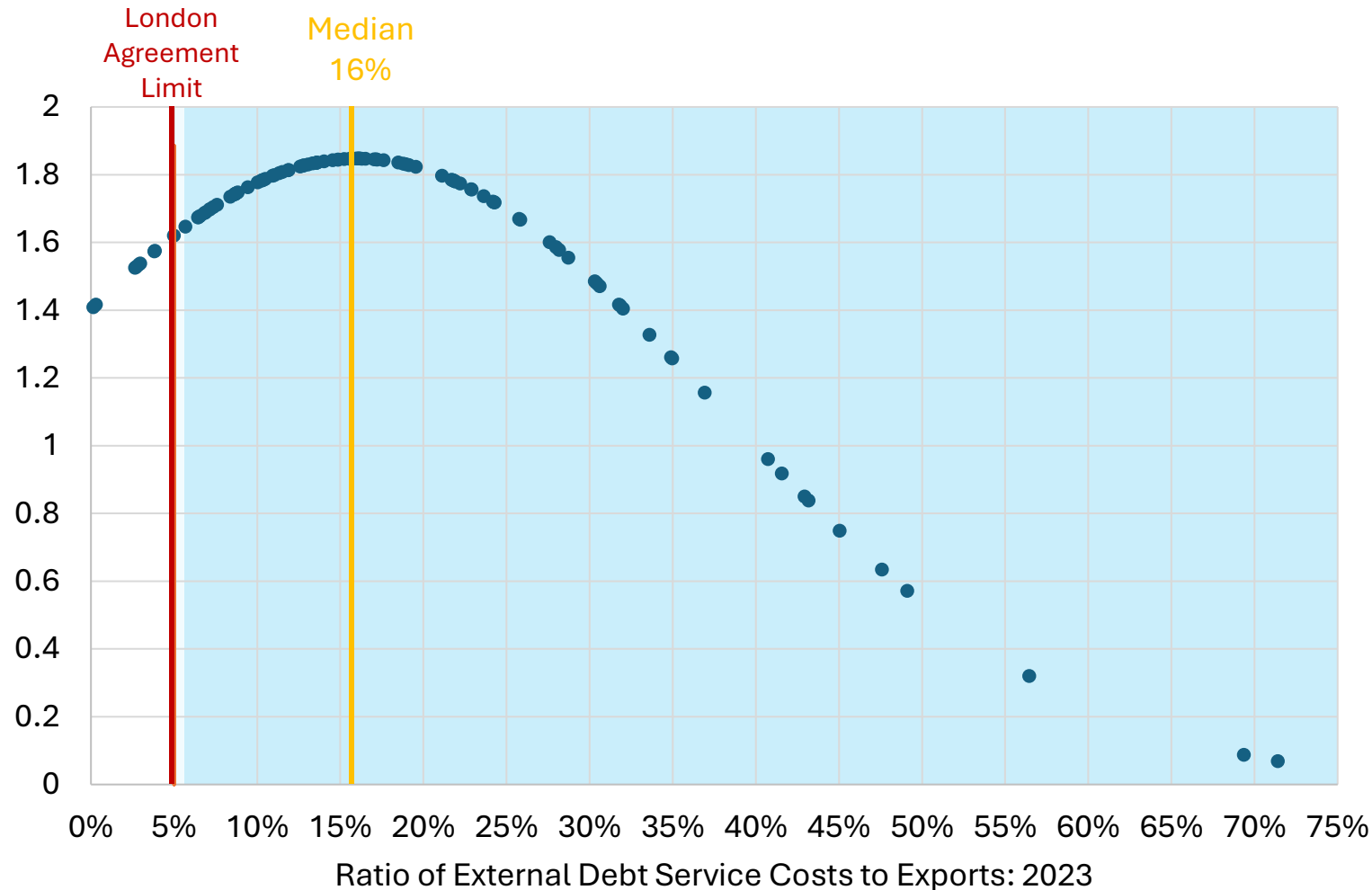




# Financial sustainability of Other Developing Economies



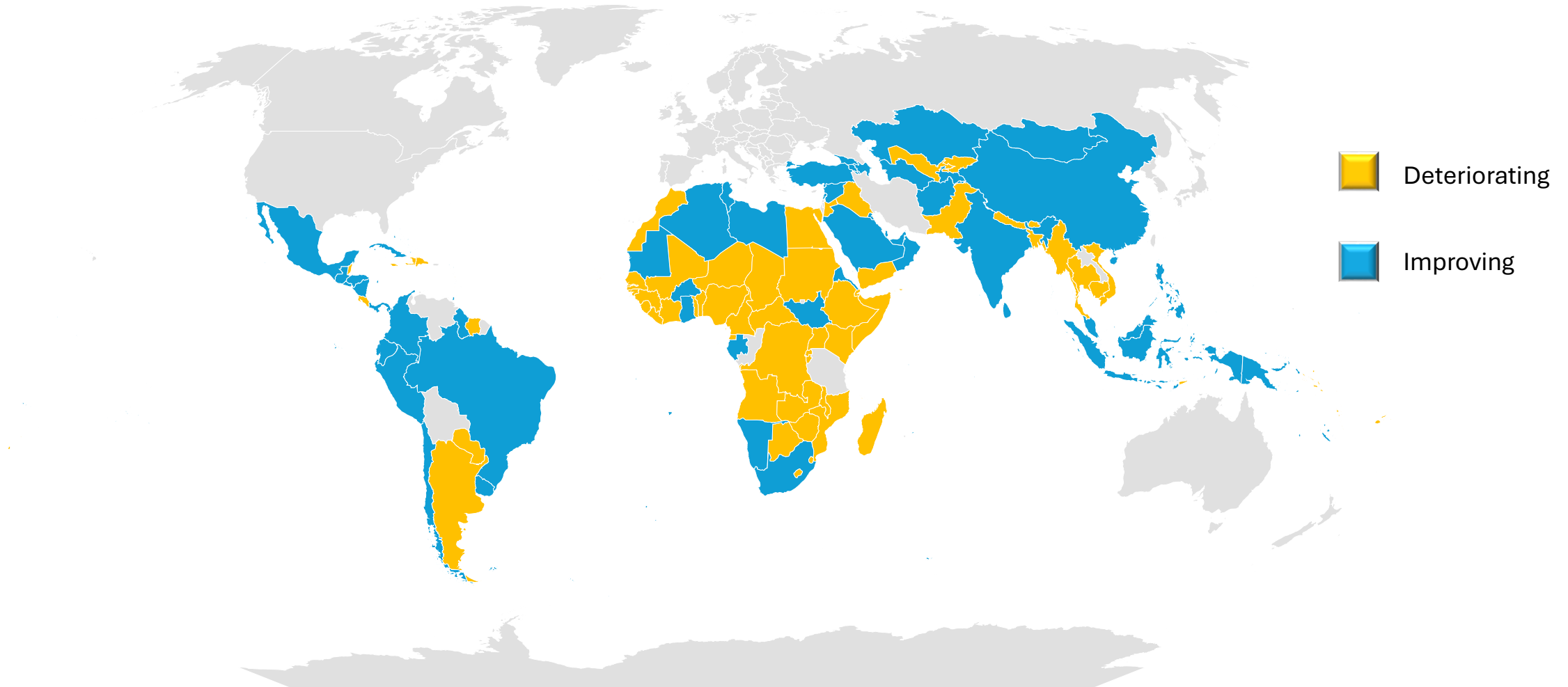
# ➤ External debt servicing costs are not consistent with development progress



In 2023, 92% of developing countries were paying more in external debt service costs than the limit contained in the 1953 London Agreement on Germany's Post WWII reconstruction.

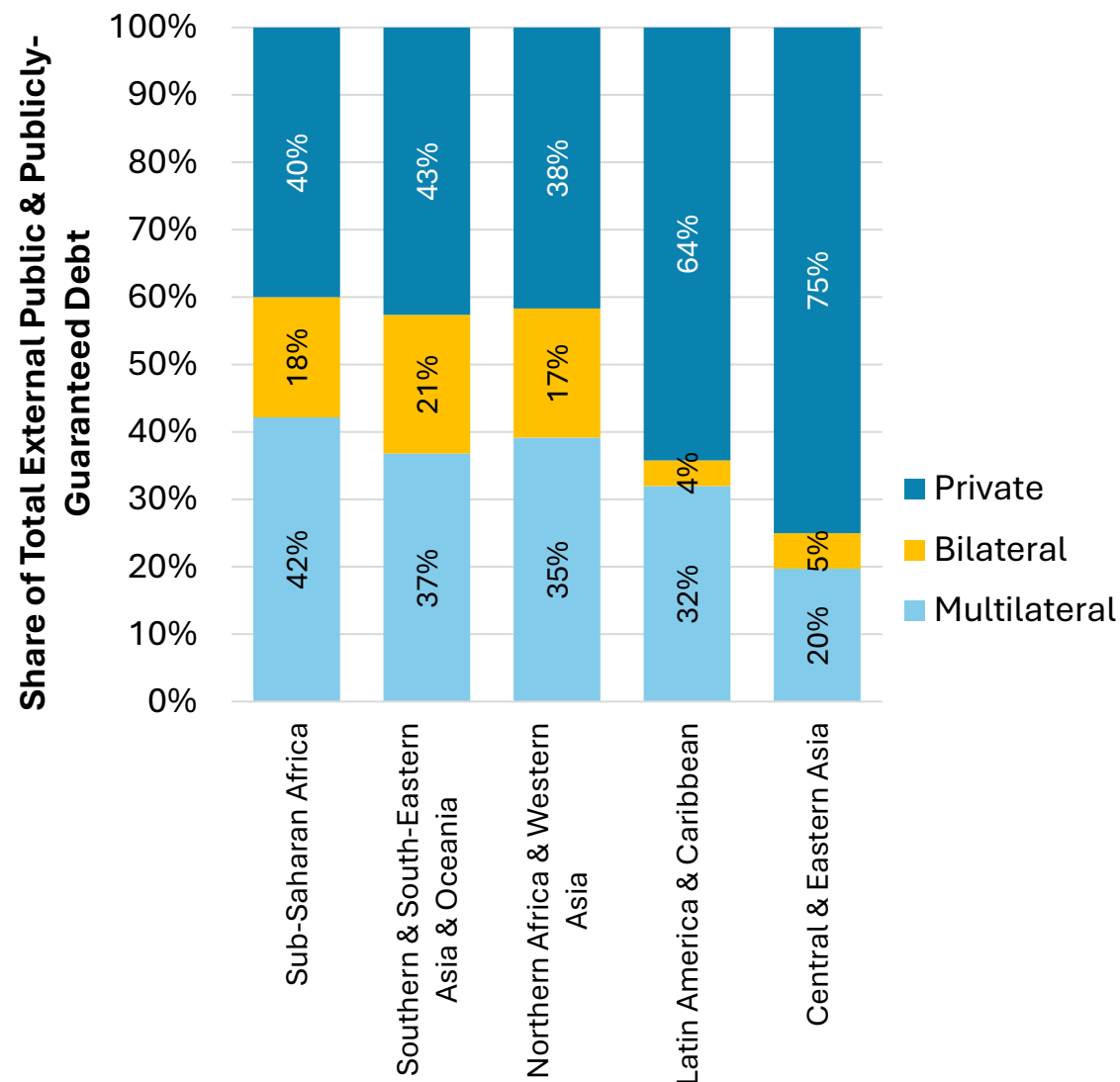
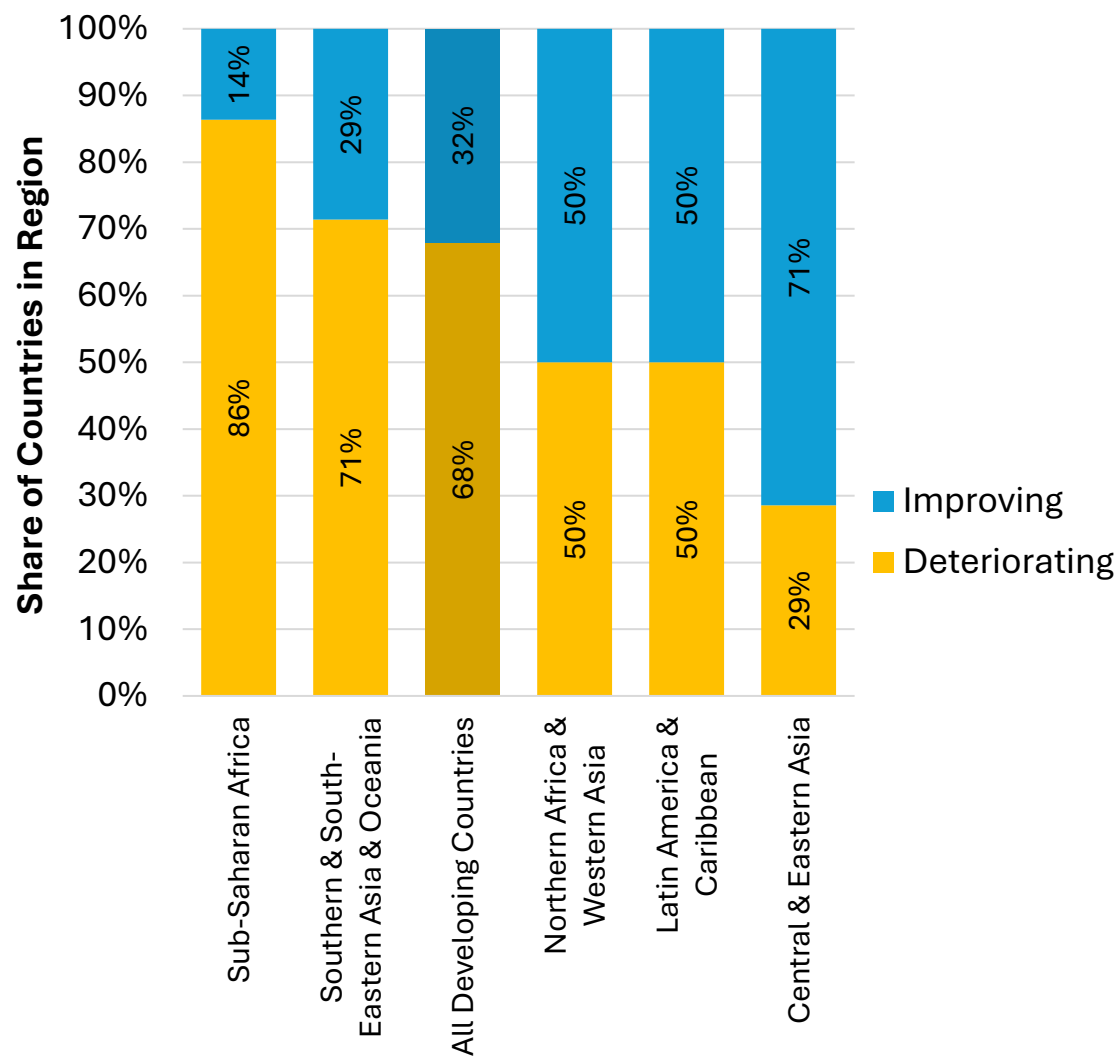
The median ratio was 16% - implying more than half developing economies were paying over 3 times the limit set in 1953

# ➤ **Developing countries with deteriorating and improving external debt sustainability: 2017 to 2023**



Sources of data: World Bank, IMF, UNCTAD estimates

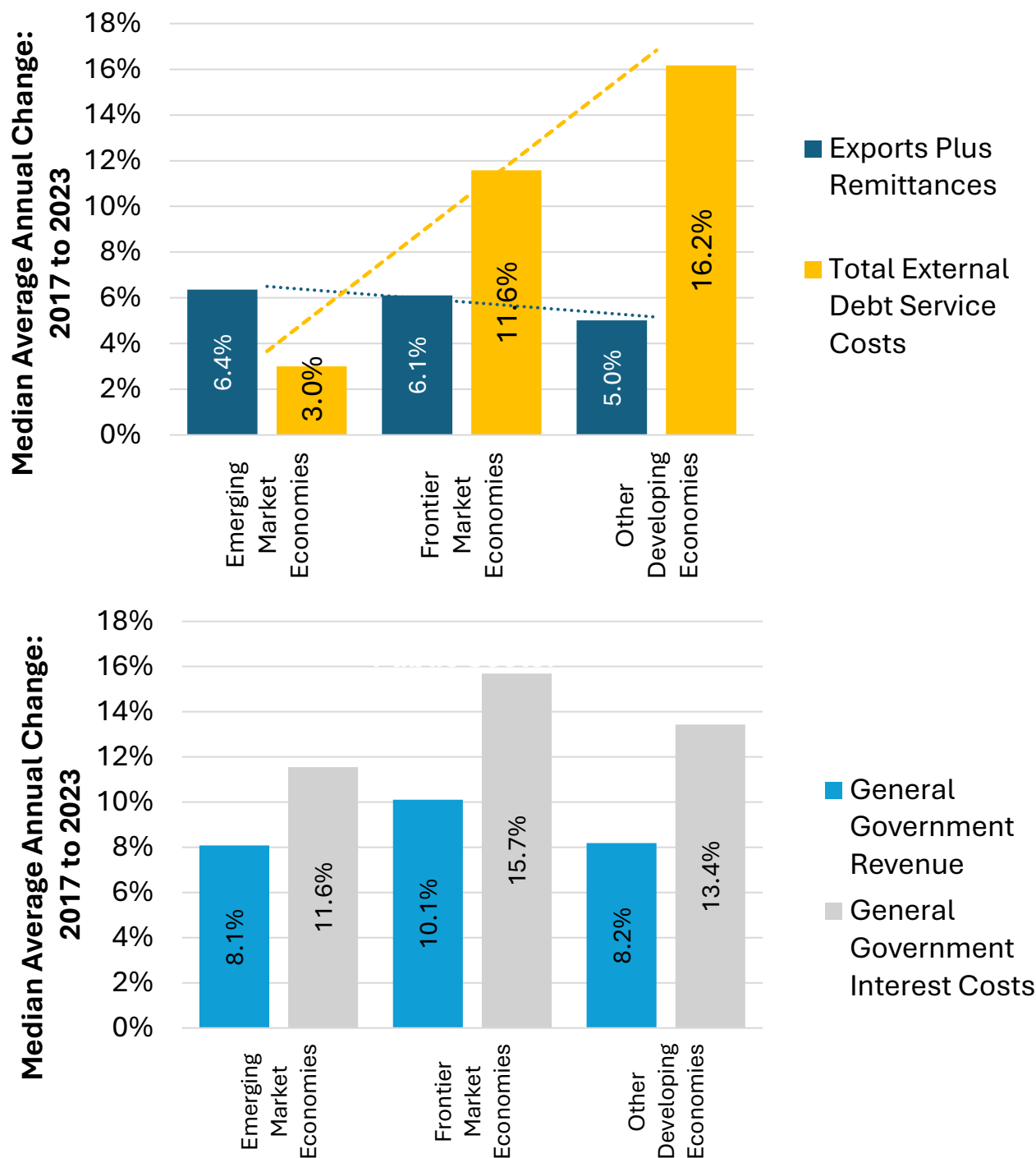
# Regional variations in external debt sustainability and creditor composition



# Diverging debt sustainability experiences & impacts

- Relative to EMEs, FMEs and ODEs experienced progressively lower export growth and progressively higher external debt service cost increases
- BUT FMEs had a greater gap between the growth in government revenues and government interest costs.

Sources of data: World Bank, IMF, UNCTAD estimates

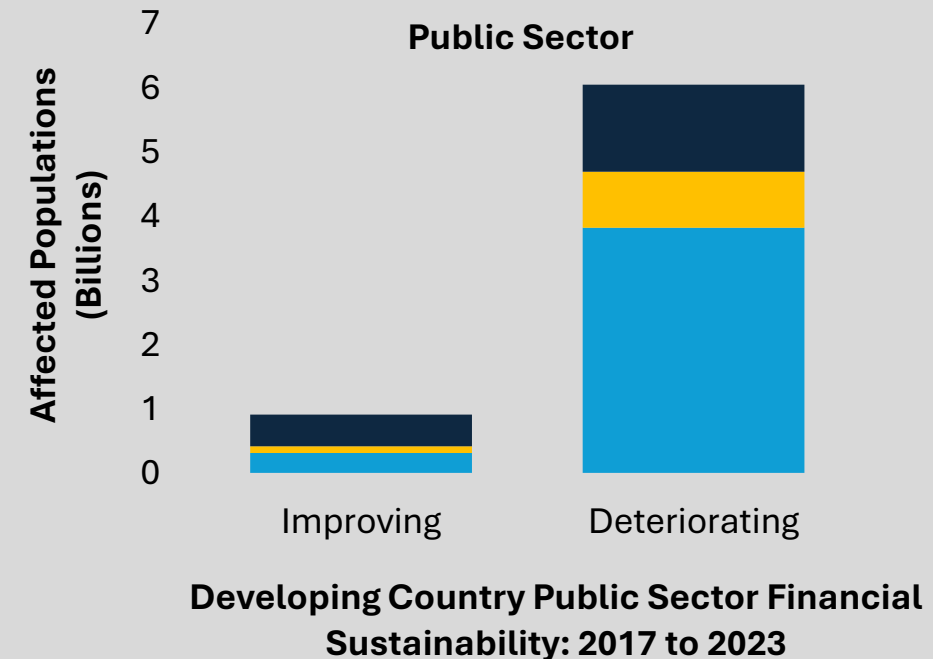
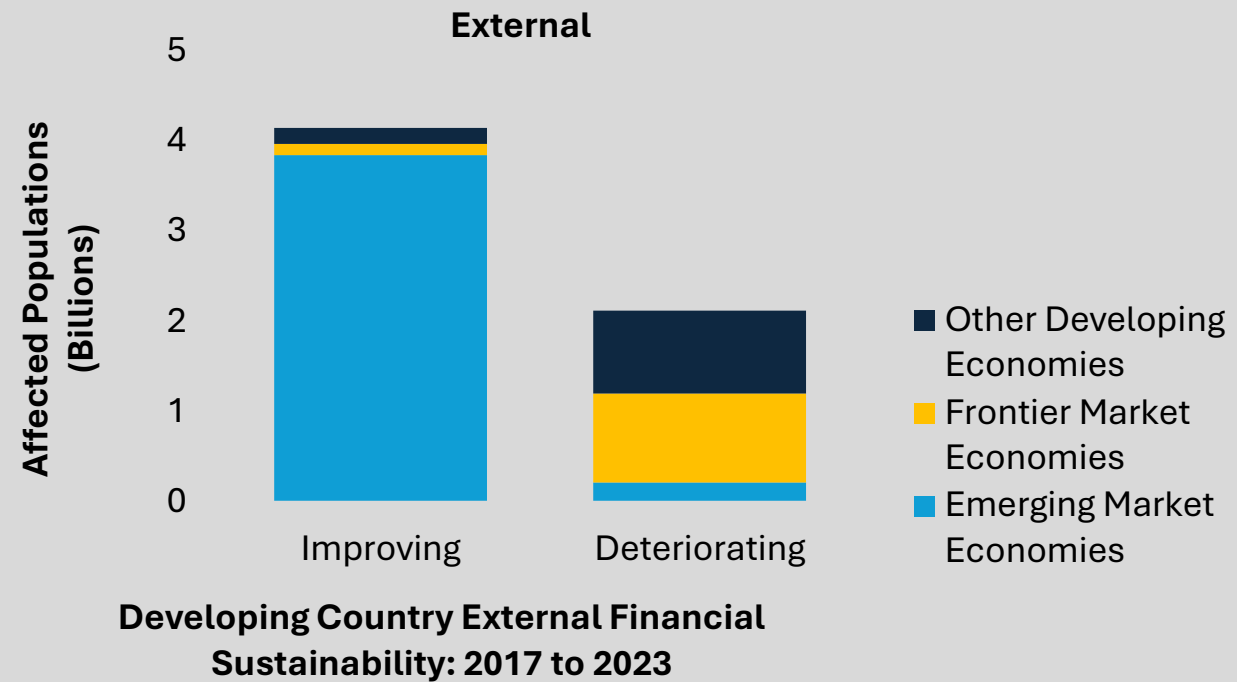


# Diverging debt sustainability experiences & impacts



- Over **2 billion** people live in countries that experienced deteriorating external financial sustainability between 2017 and 2023.
- Over **6 billion** people live in countries that experienced deteriorating public sector financial sustainability between 2017 and 2023.

Sources of data: World Bank, IMF, UNCTAD estimates





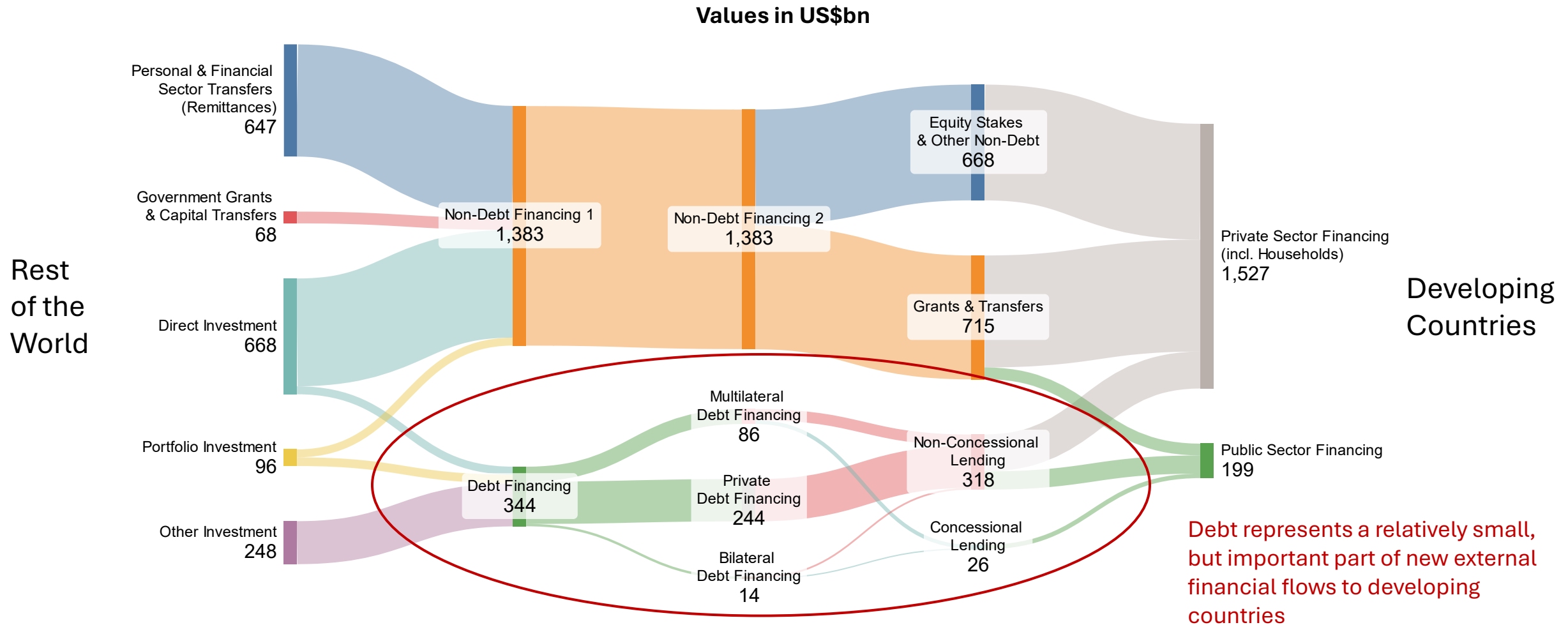
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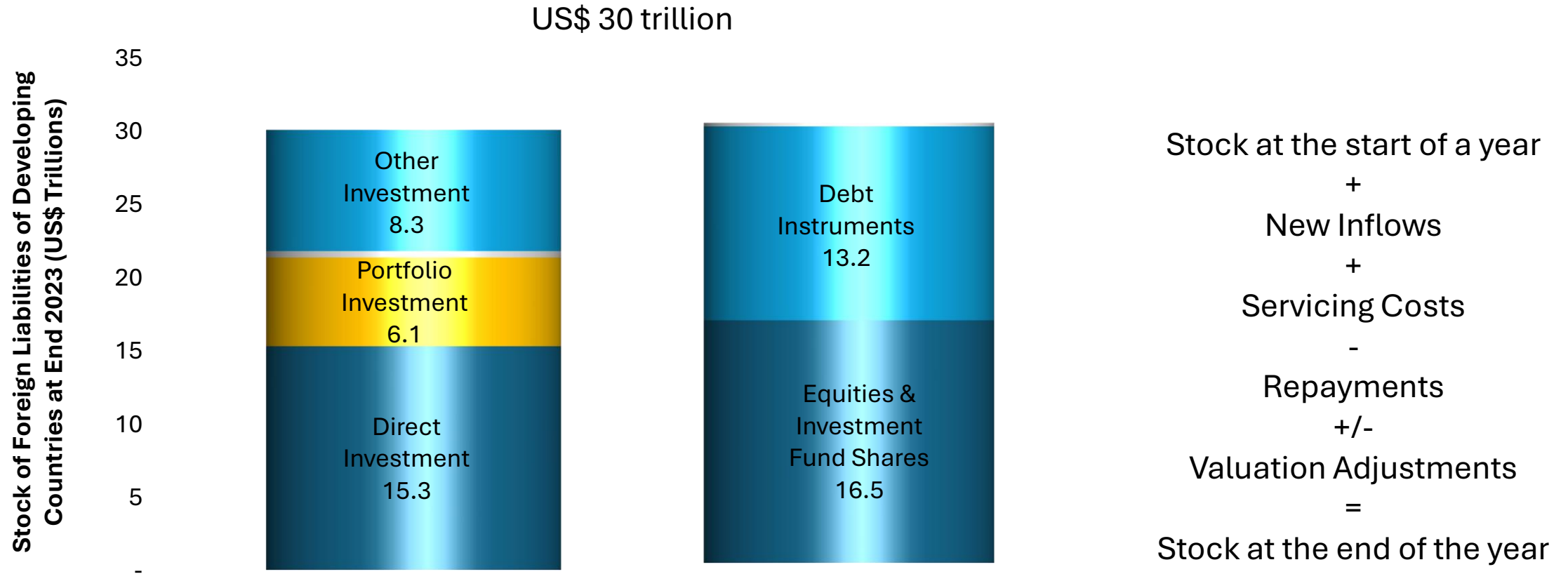
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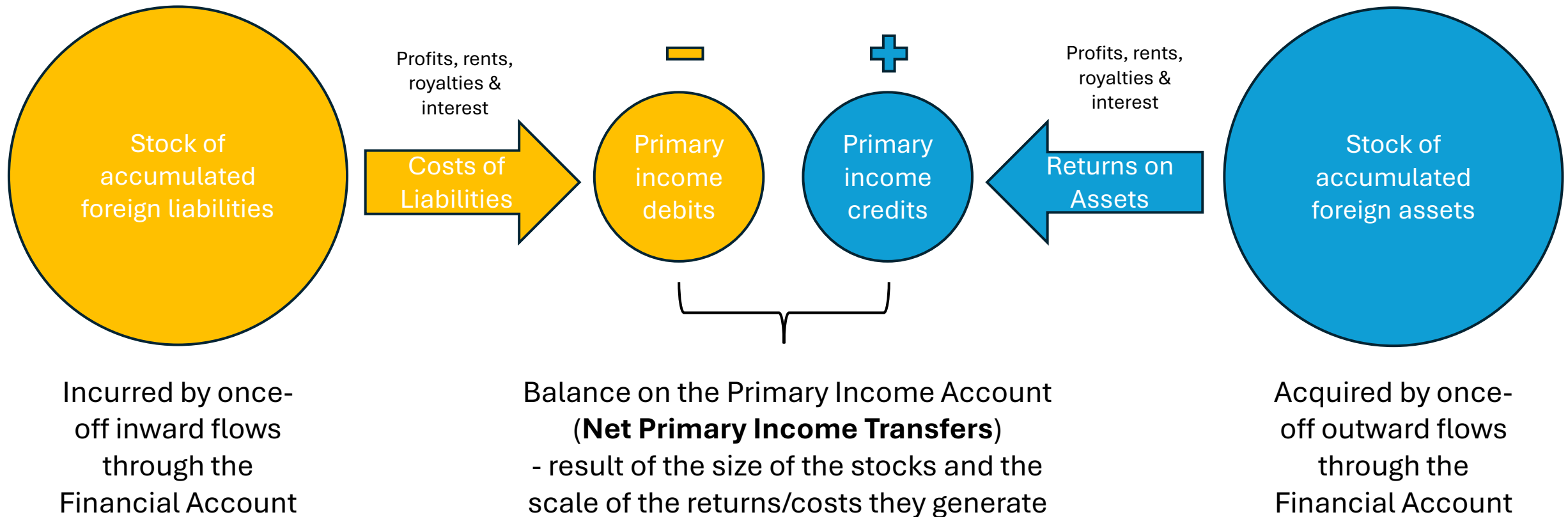
# Putting debt into context – estimated new external financial flows to developing countries in 2023



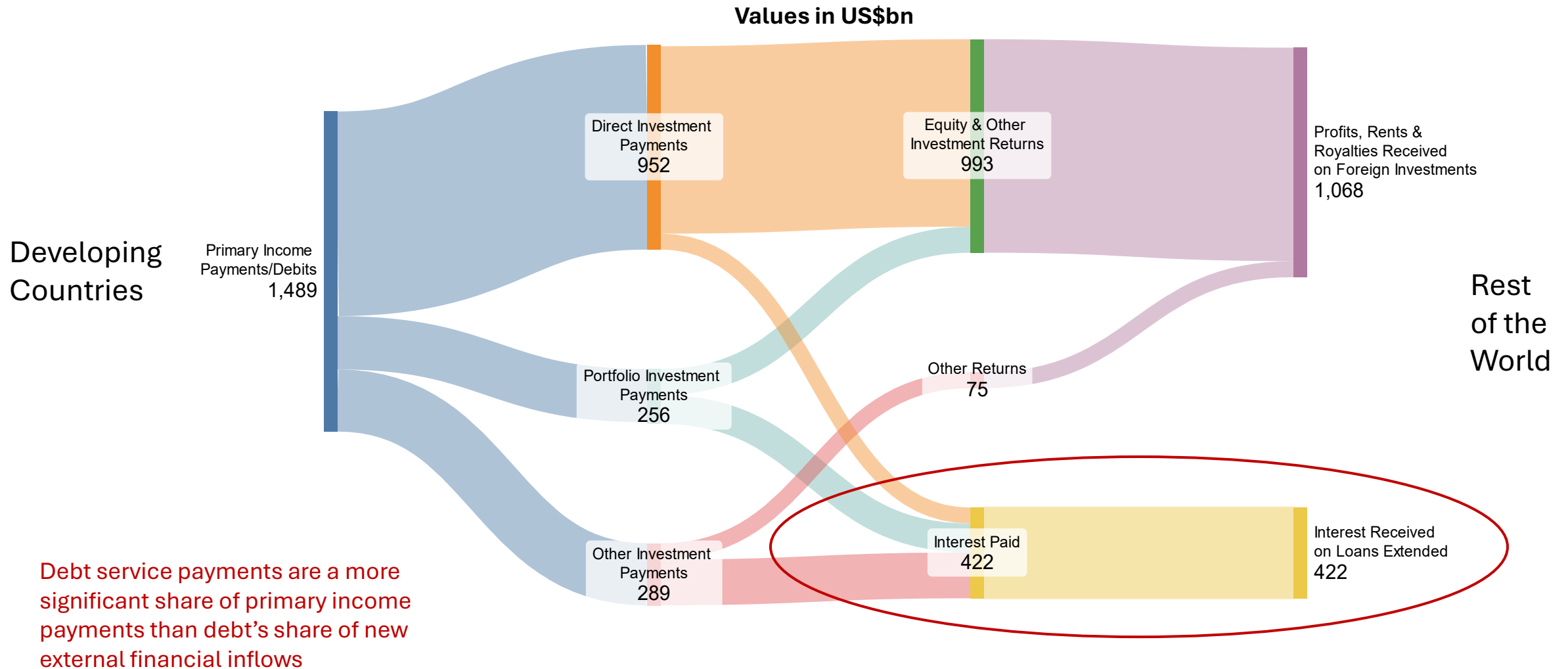
# ➤ Annual financial inflows give rise to stocks of foreign liabilities



# ➤ Returns on stocks generate income flows



# ➤ The servicing of stocks of foreign liabilities is reflected in a country's primary income account



Sources of data: IMF Balance of Payments database and World Bank IDS

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# ➤ What can be done to assist developing countries with unsustainable debt get their development agendas back on track?

## Reduce the Cost of New Debt

- Increase concessional lending (multilateral, bilateral)
- Increase use of de-risking instruments to reduce cost of private finance

## Increase the Quantity of New Long-Term Debt Available

- Regular recapitalisation of multilateral development banks (SDRs, gold sales etc) to facilitate expanded lending
- Extending maturities to match development outcomes
- Use innovative instruments to create fiscal space

## Reduce the Cost of Existing Debt

- Re-profiling and rescheduling of debt
- Replacing existing expensive debt with lower cost and/or longer tenor debt
- Replacing existing foreign currency debt with local currency debt to reduce FX exposure
- New debt service suspension initiatives
- Use of debt-for-development swaps

## Reduce the Level of Existing Debt

- Multilateral debt relief programmes (HIPC 2.0?)
- Debt restructuring with reductions in net present value of outstanding debt
- Use of debt-for-development swaps that incorporate NPV reduction

Also need to focus on the capacity to service foreign liabilities (including debt). Needs supportive multilateral trade system and international investment, technology transfer and intellectual property frameworks.

Otherwise, progress made on one front will be undermined on others.

**REQUIRES MULTILATERAL EFFORT**

# ➤ What can developing countries do to address unfavourable debt dynamics & become more resilient?

## Have a Plan/Strategy that:

- Coherently seeks to develop the country, diversify economic capacity, expand exports and enhance resilience to shocks (economic, climate & other)
- Invests in the right areas (infrastructure, human capital, technological & natural capital) to support the plan/strategy's desired outcomes & impact

## Build Trust with Investors

- Improve data & debt management systems
- Develop transparent & effective communication strategies that allow you to tell your own stories and define your own futures without relying on intermediaries (like CRAs)
- Market opportunities to traditional & non-traditional investors

## Develop a Pipeline of Projects Consistent with Plan/Strategy

- Identify initial public sector investments required
- Identify projects that are feasible & attractive to investors (with credit enhancement where required)
- Keep building and marketing pipeline to traditional and non-traditional investors
- Share experiences with other developing countries

## Match Financing Sources to Development Outcomes

- Match financing maturity with the time it will take for the investment being funded to generate development returns
- Remember non-debt financing also carries costs
- Use innovative financing instruments where appropriate





# Thank you!

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