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Debt Sustainability:
After HIPC Initiative and the Global Crisis

by

Mr. Luc Everaert

Assistant Director

Monetary and Capital Markets Department

International Monetary Fund

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Assistant Director
Monetary and Capital Markets Department

Overview

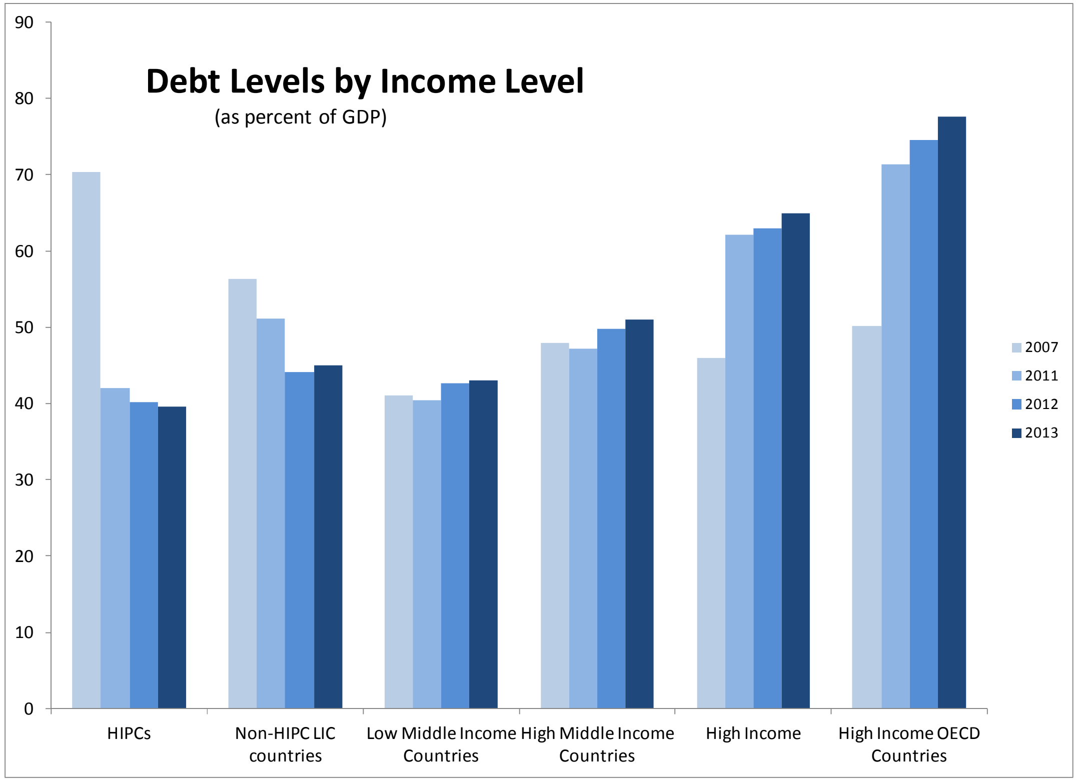
I. **Developments**

II. **Sustainability**

III. **Challenges post HIPC**

IV. **International Policy Responses**

I. Debt Developments



- On average, debt levels highest and increased most among **higher-income economies**
- Since 2004, 23 **EME and LIC** first-time Issuers or re-entries in market
- **LICs and post-HIPCs** speculative, non-investment grade, or no rating

II. Debt Sustainability

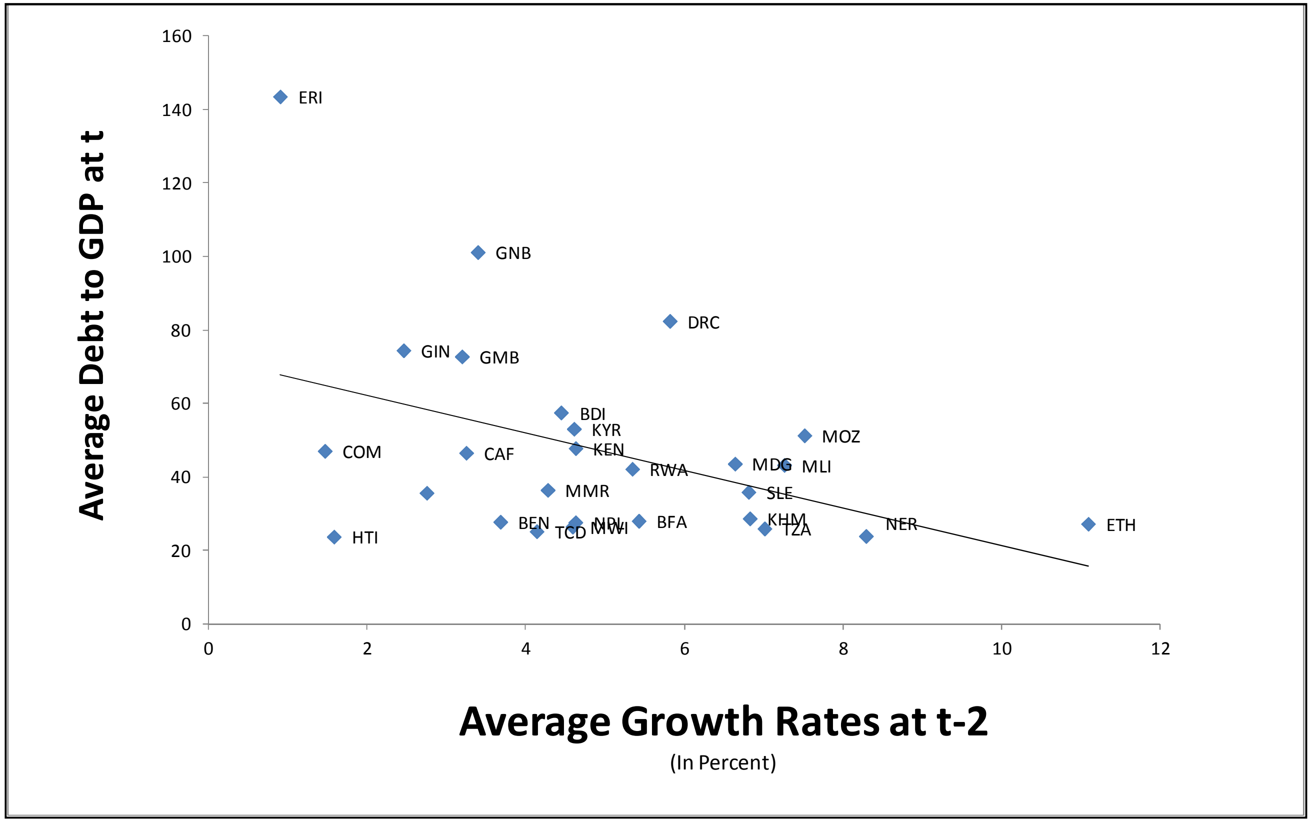
Sustainable development requires sustainable debt

Drivers:

- Growth
- Yields
- Starting Levels of Debt and Deficit
- Refinancing/Liquidity Conditions

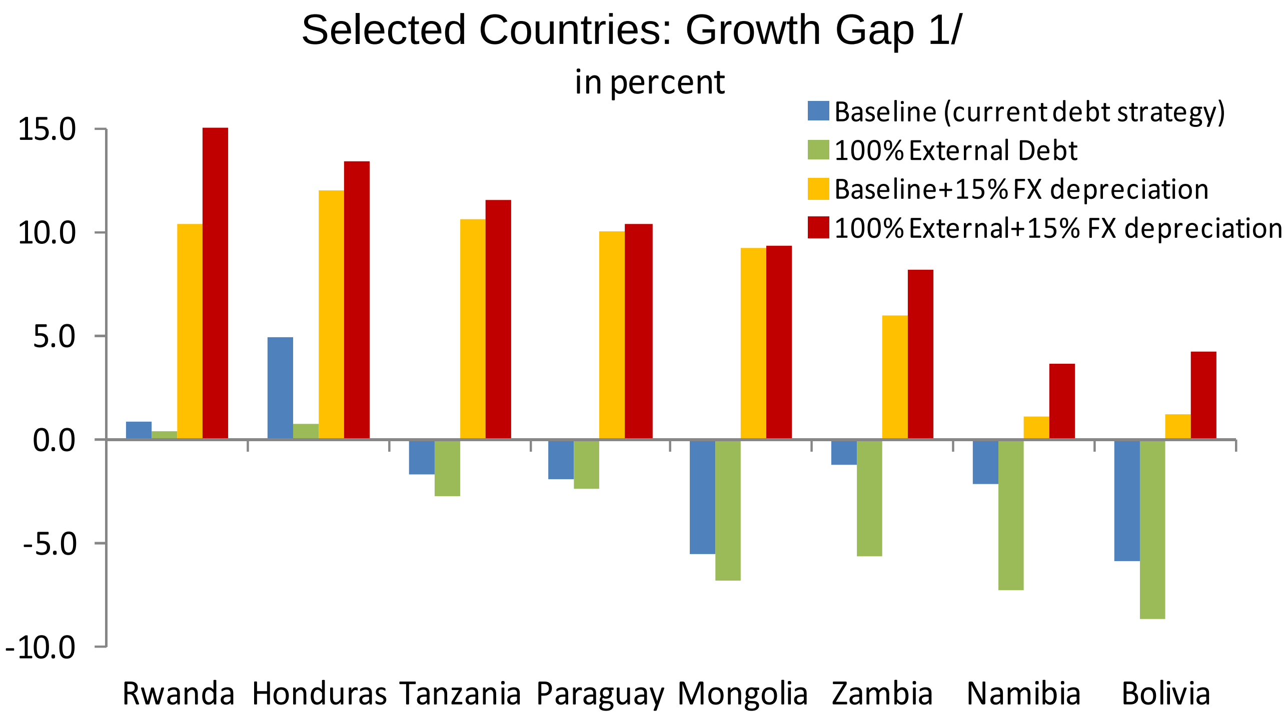
Growth and Debt

Low-income Countries: Growth and Debt Levels



Growth leads to lower debt to GDP ratios with a lag.

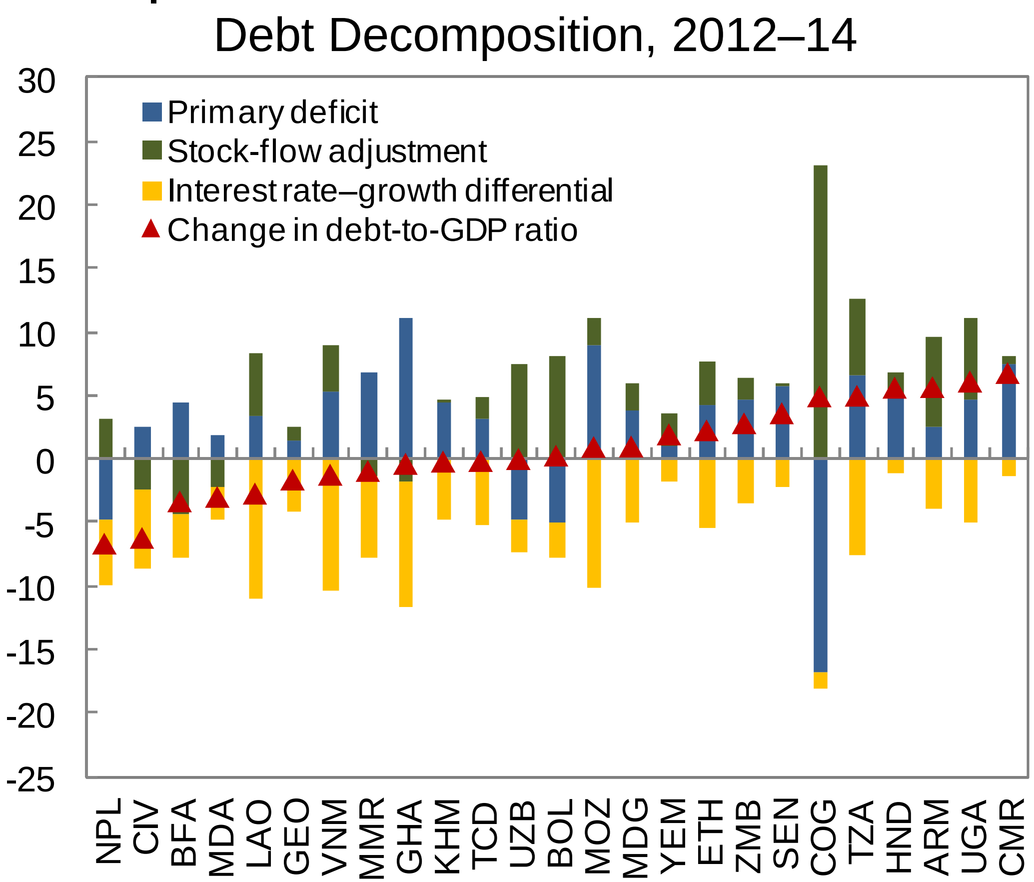
Growth Gap



Source: Country desks and IMF calculations.
Note: Growth gap is the difference between the average expected growth rate and the required (implied) growth rate that makes the debt stock remains constant at current level, over the projection period .

First-time issuers have to maintain robust growth rates to prevent the debt ratio from raising.

Yields and Fiscal Deficit

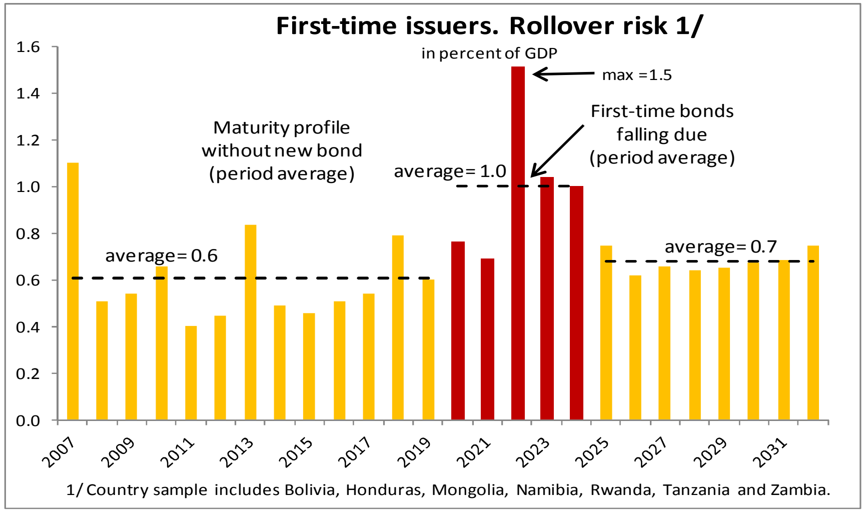


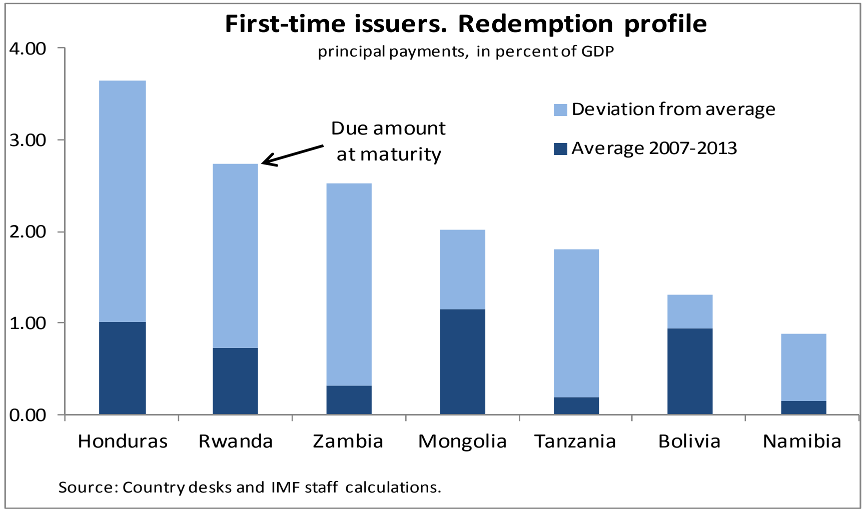
Strong spending growth (e.g., public investment) is pushing up debt ratios, despite negative interest rate–growth differentials.

Source: Fiscal Monitor, April 2013

Note: Effective interest rate defined as interest payments at t divided by debt at t-1 in nominal terms.

Refinancing/Liquidity Conditions





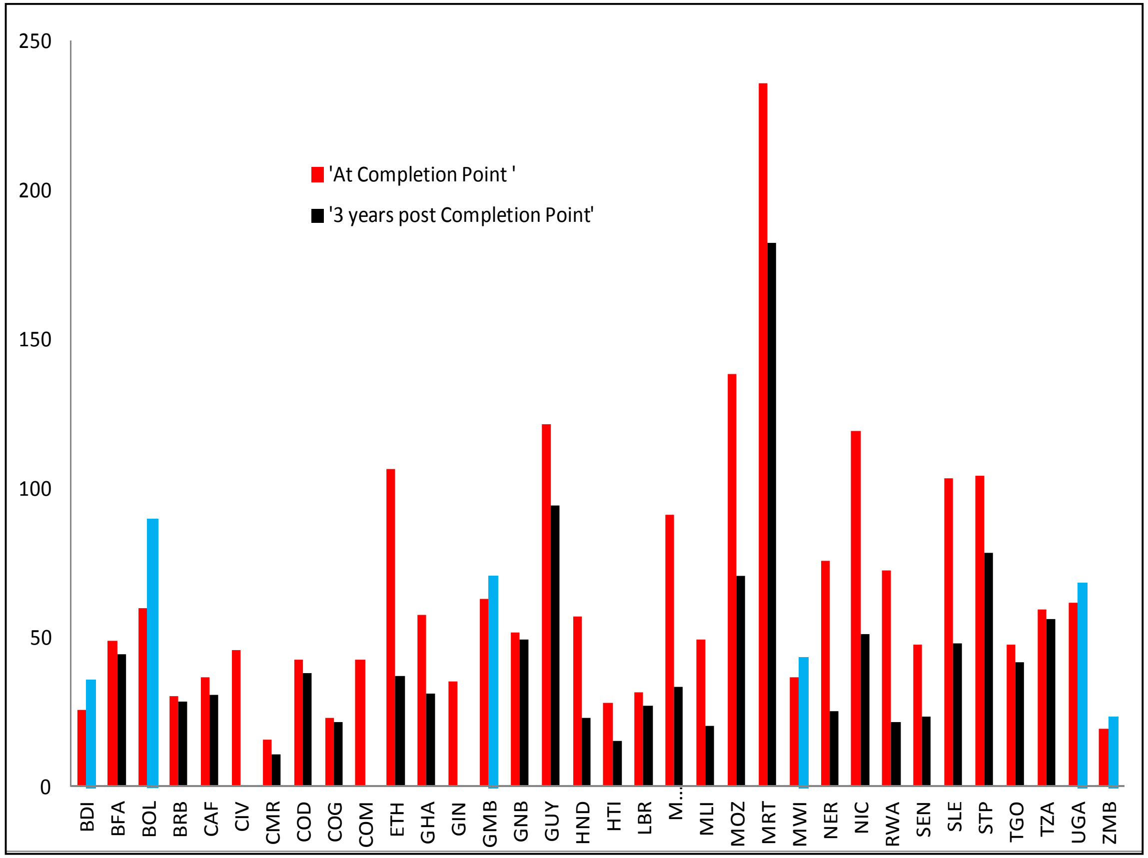
Refinancing risks…

…driven by

amortization spikes

III. Challenges Post-HIPC

Pre- and Post-Completion-Point HIPCs Debt Levels
(as percent of GDP)

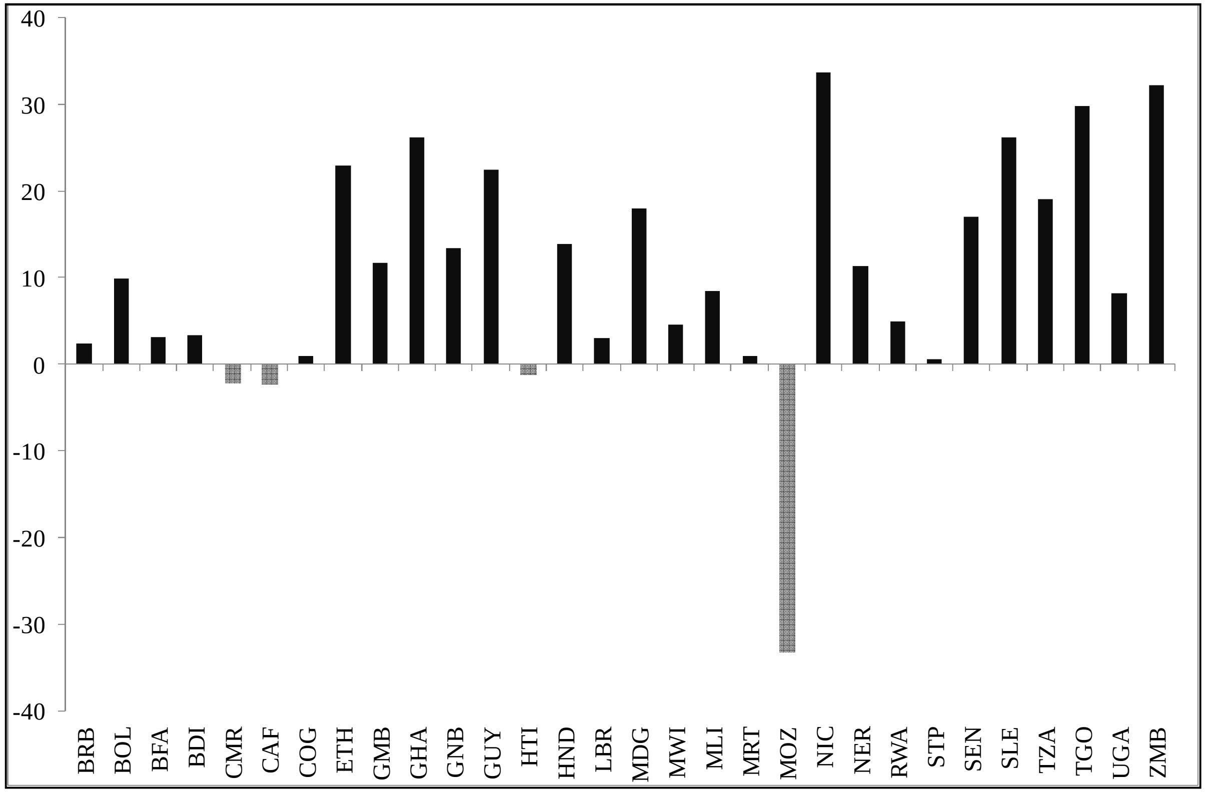


Three years after completion point, six HIPCs show higher debt than at completion point.

Nonconcessional Debt in Post-HIPCs

HIPC Countries' Reliance on Nonconcessional Debt Post-HIPC

(Change in Nonconcessional Share of external debt, from CP to 2011)

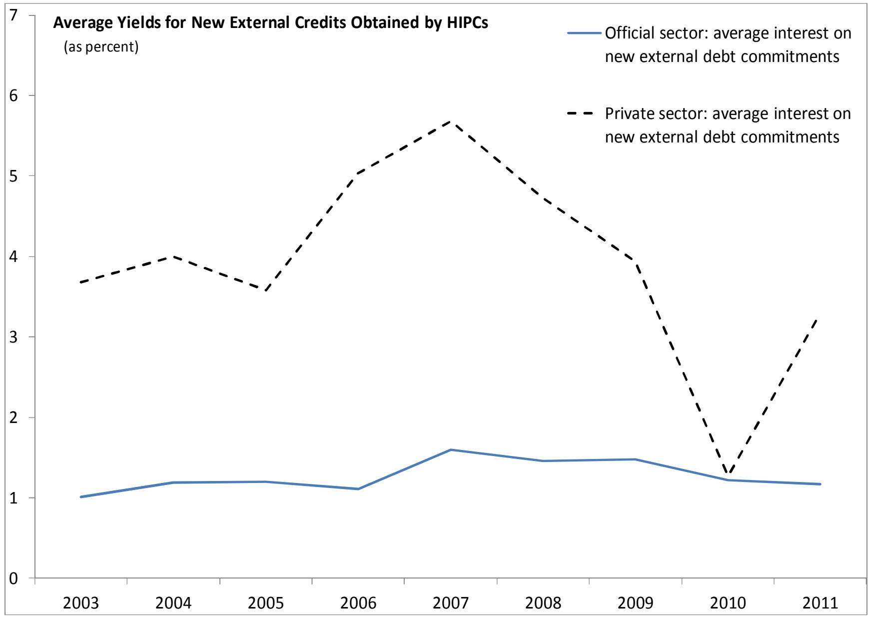


Nonconcessional external debt increased significantly for many

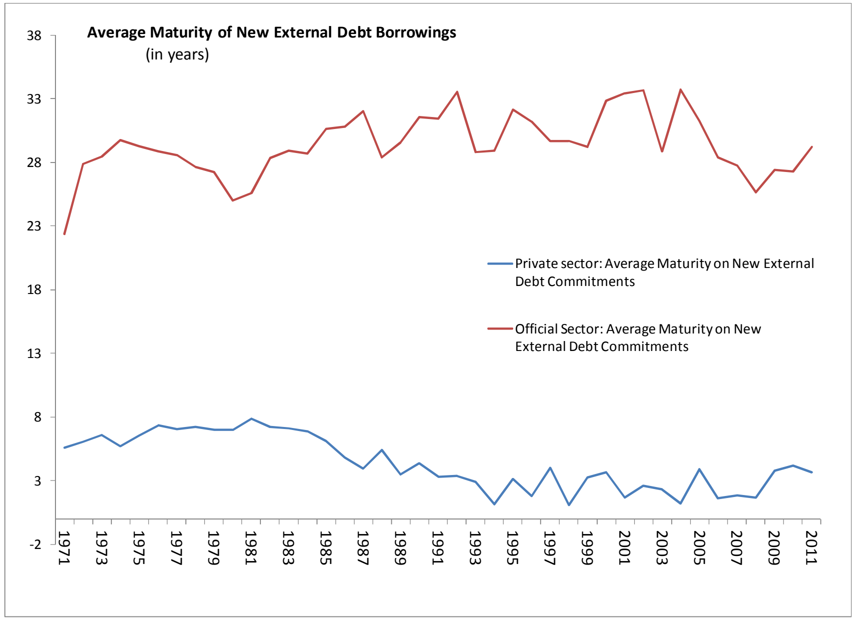
Post-HIPC life requires more active debt management …

…as nonconcessional funding

is more expensive…



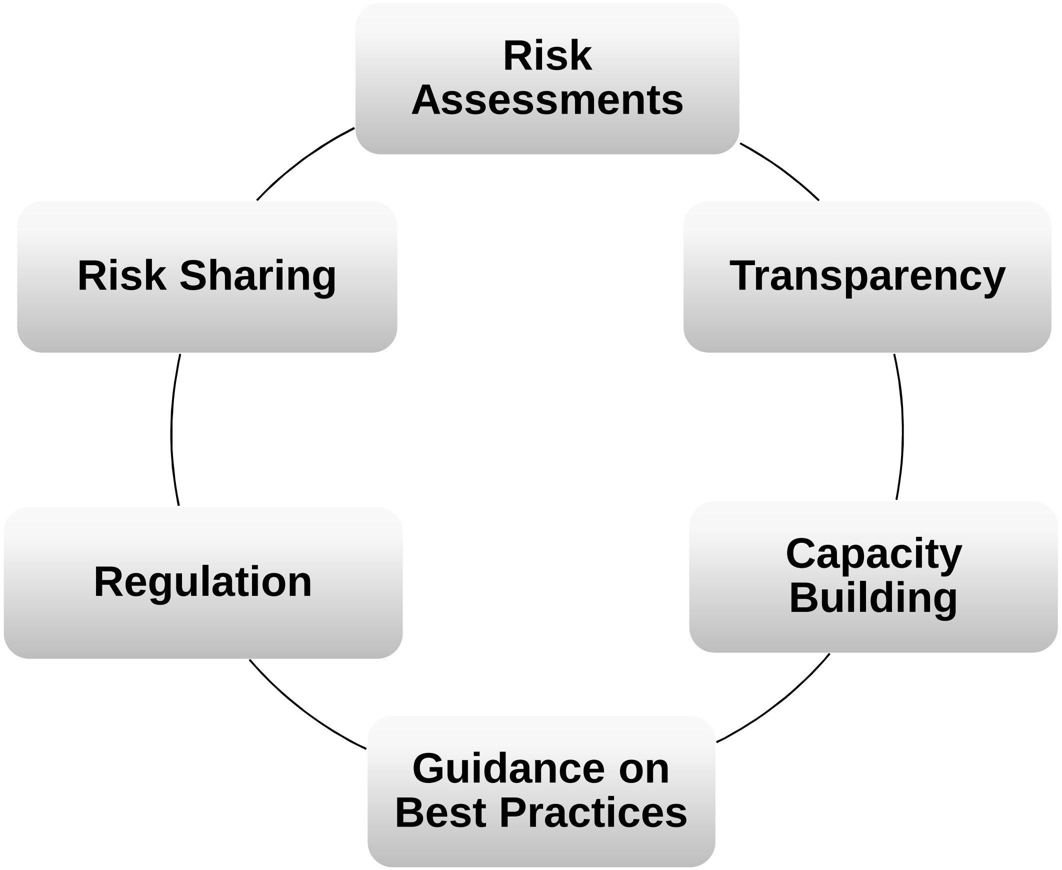
and maturities are shorter



Main Challenges

- Mitigating higher risk of debt distress
- Switching safely from official sector to private sector funding
- Closely coordinating domestic policies
- Overcoming domestic institutional fragmentation
- Managing first international issuances
- Deepening domestic capital markets

IV.International Policy Response



Risk Assessments

Early Warning Indicators on Risk Sustainability

- Risk maps
- EWE/VEE analysis
- Debt stability reports

Risk measurement

Transparency

Creation of an Agency

- Database on sovereign outstanding obligations, payment patterns of various types of obligations, and records of arrears and bad debt;
- Database on countries' updated debt management strategies;
- Updates on new international issuances and terms across countries;
- Updates on grant/aid disbursements according to schedule; and evaluates its predictability/conditions attached to the disbursements, etc.

Enhancing transparency on debt issuances to avoid unnecessary competition on issuances

- Publication of a listing of countries' bond issuances calendar;
- Publication of countries' issuances with terms (yield, maturity, and allotments).

Building Capacity

- In-house training programs
- Long-term experts in the region to ensure continuous training/follow-up
- Regional Training Centers with more course offering [IMF-type or other]
- DMOs/Central Bank/MoFs collaboration, e.g., enhancing countries' bilateral exchanges on specific topics
- Courses/e-learning tools

Guidance on Best Practices

Guiding Practices Manual on Borrowing/Lending to LICs	• Sequencing in accessing nonconcessional borrowing/lending; • How to develop a local debt market: key factors, preconditions, etc.; • First debt issuances: key considerations, preconditions, etc.; • Instruments and associated risk/cost characteristics; • Key aspects when analyzing the terms of a loan/bond; • Risk analysis tools of a debt portfolio.
Minimum best practice requirements to project related borrowing and lending with	• Cost-benefit analyses of funding uses; • Closer monitoring on debt profiles; • “Reasonable” terms comparable to other economies/market conditions.
End-year budget document should include:	• Updated DSA with t-1 and t budgeted debt profiles; • Updated debt management strategy with underlying reforms’ strategy.

Regulation

Designing macroprudential policies in financial centers	
Risk weights on exposures	Provisioning mechanisms and buffers

Risk Sharing

- Provide credit enhancements
- Support risk pooling
- Sell default protection
- Promote new instruments: GDP linked, contingent bonds

THANK YOU