Global Economic Prospects

HIGHLIGHTS from CHAPTER 4: DEBT IN LOW-INCOME COUNTRIES
EVOLUTION, IMPLICATIONS, AND REMEDIES

Key Points

- *Since 2013, median government debt has risen by 20 percentage points of GDP and increasingly comes from non-concessional and private sources in low-income countries (LICs). As a result, in most LICs interest payments are absorbing an increasing proportion of government revenues.*
- *Rising public debt makes some LICs vulnerable to currency, interest rate, and refinancing risks. Eleven LICs are currently in debt distress or at a high risk of debt distress, compared to only six in 2015. For LICs at low or moderate risk of debt distress, safety margins are eroding.*
- *LICs need to urgently strengthen the effectiveness of domestic resource mobilization, public investment and other spending, and debt management.*

LIC debt: Recent sharp rise. Debt relief under the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI) helped to reduce public debt among LICs from a median debt-to-GDP ratio of close to 100 percent in the early 2000s to a median of just over 30 percent in 2013. This downward trend reversed sharply thereafter, with the median debt ratio rising to above 50 percent by 2017. The rise was especially sharp for commodity exporters.

Uses of debt: Some investment, mostly consumption. Rising debt raises fewer concerns about debt sustainability if it is used to finance investment that raises countries' potential output, and therefore their ability to repay loans in the future. In some LICs, wider fiscal deficits were matched by higher public investment. For most LICs, however, a substantial part of borrowing has been used to finance a rise in current consumption.

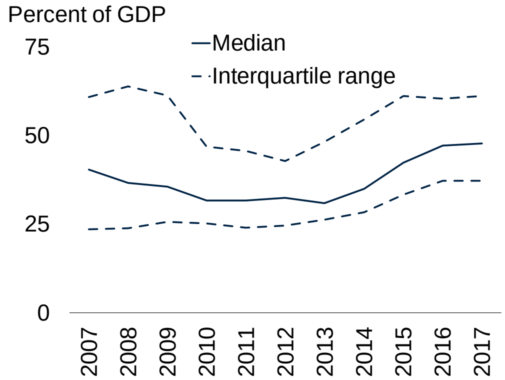
New creditors: Growing non-concessional debt. Increasingly, LIC public debt comes from commercial creditors and non-Paris Club creditors. These loans are more likely to be made at market rather than concessional rates. As a result, interest payments have absorbed a growing share of government revenues, and some LICs are more susceptible to a sudden increase in borrowing costs, especially when they have substantial refinancing needs in coming years or have borrowed in foreign currencies.

Policy priorities: Domestic resource mobilization, debt and investment management. LICs need to increase the effectiveness of domestic resource mobilization, public investment and other spending, and improve debt management practices, with a focus on better data collection. With these reforms, LICs can reduce the probability of costly defaults, enhance debt transparency, support sustainable financial sector development, and reduce economic volatility. Despite some improvement, debt management capacity in many LICs is low. Recent examples of hidden debt and discrepancies in debt statistics point to continued low debt recording capacity, weak legal frameworks, and governance challenges.

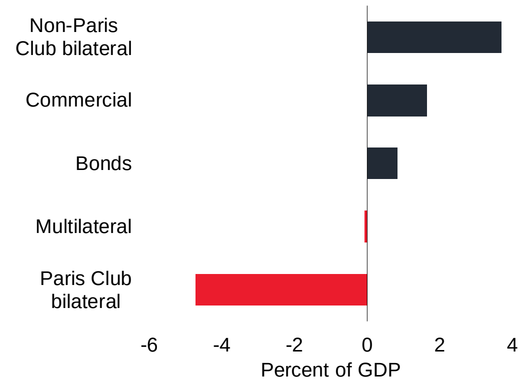
Figure 1: Low-income country debt

Debt vulnerabilities in low-income countries (LICs) have increased substantially in recent years. Since 2013, median government debt has risen by more than 20 percentage points of GDP and increasingly comes from non-concessional and private sources. As a result, in most LICs interest payments are absorbing an increasing proportion of government revenues. A proactive effort to reduce debt-related vulnerabilities is a policy priority for many LICs.

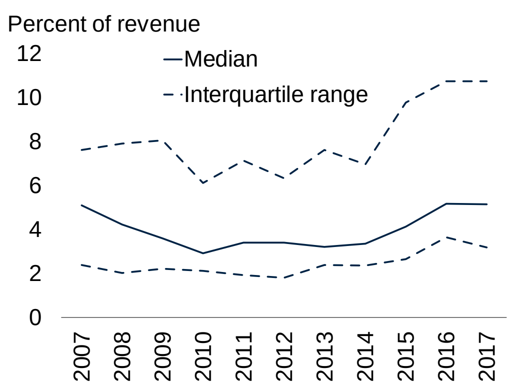
A. Gross LIC government debt



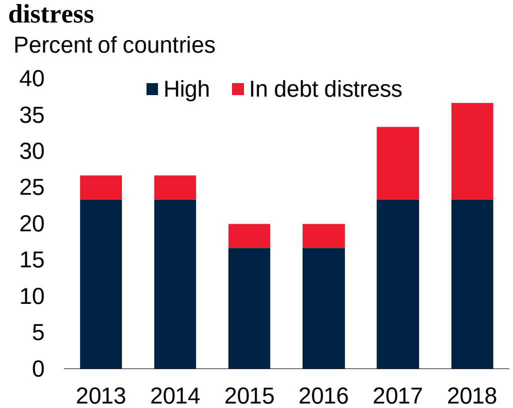
B. Change in creditor composition of public and publicly-guaranteed external debt, 2007-2016



C. Interest payments



D. Share of LICs in debt distress or in high risk of distress



Sources: International Monetary Fund, World Bank.

A. The sample represents a total of 30 low-income countries, 2 oil-exporting LICs, 8 metals-exporting LICs, and 20 others (non-resource intensive LICs). It excludes Somalia, South Sudan, and Syria due to data restrictions. Figure shows median gross government debt as a percentage of GDP.

B. Note: GDP-weighted average across 32 low-income countries. Bilateral includes public and publicly guaranteed (PPG), loans from governments and their agencies (including central banks), loans from autonomous bodies, and direct loans from official export credit agencies. Multilateral includes PPG loans and credits from the World Bank, regional development banks, and other multilateral and intergovernmental agencies. It excludes loans from funds administered by an international organization on behalf of a single donor government. Bonds include PPG bonds that are either publicly issued or privately placed. Commercial includes PPG debt from commercial bank loans from private banks and other private financial institutions, as well as export and supplier credits.

C. Dashed blue lines denote the interquartile range, while solid blue line is the median. Includes 30 low-income countries and excludes Somalia, South Sudan, and Syria due to data restrictions

D. Figure shows the percent of low-income countries eligible to access the IMF's concessional lending facilities that are either at high risk of, or in, debt distress. A country is considered to be in debt distress if it is experiencing difficulties in servicing its debt, as evidenced, for example, by the existence of arrears, ongoing or impending debt restructuring, or if there are indications that a future debt distress event is probable. The sample includes 30 low-income countries and excludes Eritrea, Somalia, and Syria due to data restrictions.