DEBT REPORT

2020

EDITION III

July 2020

WORLD BANK GROUP

DEBT Report 2020

About the Report

This is the third in the series of Debt Reports for 2020 published online, at regular intervals, over the course of the year. Their aim is to provide users with analyses of evolving trends and developments related to external debt and public debt in individual countries and regional groups, with primary emphasis on low- and middle-income countries, and to keep users abreast of debt-related issues and initiatives.

The reports:

- Complement the summary overview of borrowing trends in 122 low- and middle-income countries presented in International Debt Statistics (IDS 2020), published in October 2019 with regional and country specific analyses on the composition and characteristics of external debt stocks and flows. The analyses are underpinned by the detailed loan-by-loan data on stocks, transactions (commitments, disbursements and debt service payments) and loan terms captured by the World Bank Debtor Reporting System (DRS);

- Draw from the high-frequency, Quarterly External Debt Statistics (QEDS) and Quarterly Public Debt Statistics (QPSD) databases to provide users with syntheses of emergent trends in external and public debt, including borrowing patterns and current debt levels in both high-income countries and low- and middle-income countries;

- Provide users with information briefs on current issues and ongoing initiatives aimed at improving external and public debt measurement and monitoring, filling data gaps, and enhancing the coverage and harmonization of international datasets and related data dissemination.

Debt Report 2020 Edition III highlights the new data series launched in support of the COVID-19 Debt Service Suspension Initiative (DSSI) and gives a brief overview of external debt volumes and composition in eligible countries. The new dataset, which provides users with disaggregated information on the creditor composition of external debt stocks and debt service obligations of DSSI-eligible countries, aims to facilitate analysis of the debt service suspension. The Report elaborates on the impact of public health measures to combat the pandemic on the administrative capacity of low- and middle-income countries to compile external debt data. It also provides a preliminary assessment of bond issuance by public and private sector entities in low- and middle-income countries in 2019, at the aggregate and regional level, and the evolution of bond issuance by DSSI-eligible countries over the past decade.

I. The Debt and Debt Service Suspension Initiative (DSSI)

The COVID-19 Debt Service Suspension Initiative (DSSI) endorsed by the G-20 and the Paris Club on April 15, 2020[1] responded to calls by the World Bank and the IMF (March 25, 2020) on official bilateral creditors to provide a time-bound suspension on debt service to countries that request forbearance[2]. The DSSI applies to all IDA eligible and UN Least Developed Countries with the exception of countries with protracted arrears to official and private creditors.

Under DSSI, bilateral official creditors from G-20 countries agree to reprofile principal and interest payments falling due between May 1 and December 31, 2020 for countries that request a suspension of debt service and are benefiting from or have requested IMF financing. Commercial creditors, working through the Institute of International Finance (IIF), have also been called to participate in the initiative on comparable terms[3]. Countries that benefit from DSSI are expected to make several commitments, including to: i) use fiscal space created for social, health or economic expenditures related to crisis response; ii) disclose all public sector debt, with respect to commercially sensitive information; iii) refrain from contracting new non-concessional debt during the suspension period, other than agreements in the context of DSSI, or in compliance with limits agreed under the IMF Debt Limit Policy (DLP) or WBG policies on non-concessional borrowing.

DECDG has released a new, more disaggregated dataset of the public and publicly guaranteed debt stocks and projected debt service payments due, for DSSI-eligible countries. These data aim to support the initiative, set an example for enhanced debt transparency, and assist policymakers and analysts in assessing the potential impact of debt service suspension in each DSSI-eligible country and related effort and burden-sharing required from creditors. This new dataset disaggregates public and publicly guaranteed debt stocks and projected debt service due by creditor type and by creditor country for official bilateral creditors and by entity for multilateral institutions. Projected debt service payments are presented on an annual and monthly basis. These more detailed tables are available on the World Bank Debt Portal for each DSSI-eligible country and includes access to an interactive dashboard and a link to a comprehensive note for users on definitions and methodology.

The data are drawn from the World Bank Debtor Reporting System (DRS), the single most detailed source of verifiable information on the external indebtedness of low- and middle-income countries. World Bank borrowers report to this system, annually, loan-by-loan, on stocks and flows for long-term external debt owed by a public agency or a private agency with a public guarantee and in aggregate on long-term external debt owed by the private sector with no public guarantee, and quarterly on the terms and conditions of new commitments. DECDG publicly disseminates aggregates of this loan-by-loan information for individual low- and middle-income countries in its annual publication International Debt Statistics and the related online database. The intention is to carry forward the recently released more detailed disaggregation into IDS 2021 and to introduce further disaggregation, while, at the same time, respecting the confidentiality agreement with borrowers regarding loan-by-loan data.

The combined public and publicly guaranteed debt of the 68 DSSI-eligible countries that report to the DRS was $489 billion at end 2018[4]. Obligations to multilateral creditors, including the IMF, comprised the largest share, 45 percent. Debt owed to bilateral creditors accounted for 35 percent and non-official creditors (bondholders, commercial banks and other private entities) the remaining 20 percent (Figure 1a). Projected debt service payments in 2019 total $45.8 billion comprising, $32.5 billion in principal payments and $13.3 billion in interest payments. Due to the highly concessional nature of most multilateral lending the creditor distribution of debt service payments is the obverse of that for debt stocks. Multilateral creditors account for the smallest share of debt service payments, 27 percent, and non-official creditors the largest, 39 percent, because interest rates are higher and maturities shorter on loans from these creditors (Figure 1b).

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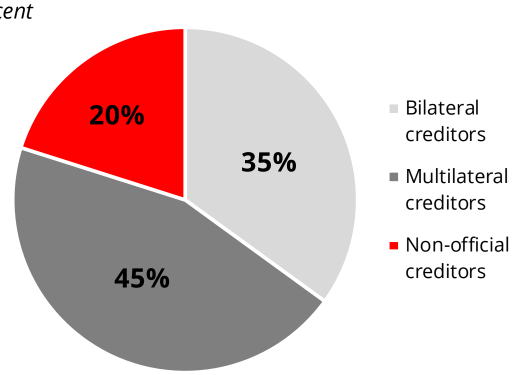
[1] See "G20 Finance Ministers and Central Bank Governors Meeting Communiqué," April 15, 2020.
[2] See "Joint Statement from the World Bank Group and the International Monetary Fund Regarding A Call to Action on the Debt of IDA Countries," March 25, 2020.
[3] In a letter to the IMF, the World Bank, the OECD and the Paris Club (April 9, 2020), the IIF confirmed the willingness of private sector creditors to participate in the DSSI on a voluntary basis.
[4] Kiribati, Marshall Islands, Micronesia and Tuvalu do not have debt obligations to the World Bank and therefore not required to report to the DRS.

Figure 1a: End-2018 External Debt Stock by Creditor Type by DSSI-Eligible Borrowers

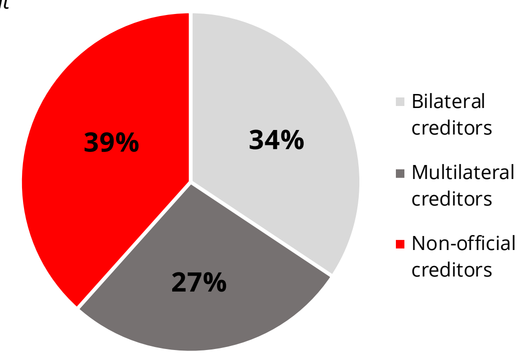
Percent



Source: World Bank Debtor Reporting System

Figure 1b: Projected 2019 Debt Service by Creditor Type for DSSI-Eligible Borrowers

Percent

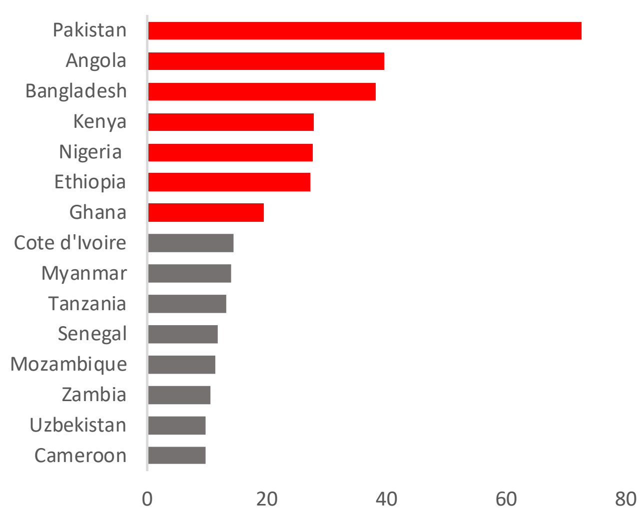


Source: World Bank Debtor Reporting System

The external debt stock of DSSI-eligible countries is highly concentrated. The seven largest borrowers in this group accounted for 52 percent of the end 2018 debt stock and the 15 largest borrowers for over 70 percent (Figure 2). External borrowing patterns are divergent as illustrated by the share of external debt stocks owed to official and non-official creditors (Figure 3). For Pakistan, by far the largest borrower in the group, with an external debt stock of $73 billion at end 2018, 85 percent is owed to official creditors with nearly half accounted for by multilateral creditors. In Bangladesh virtually all obligations are to official creditors; non-official creditors account for less than one percent on the end 2018 external debt stock. Myanmar owes 80 percent of public and publicly guaranteed debt to bilateral creditors whereas in Tanzania multilateral creditors are the dominant group (73 percent). In contrast the external debt of Cote d'Ivoire (52 percent) and Zambia (49 percent) is owed to non-official creditors and for Angola, Ghana and Nigeria their share to non-official creditors is 40 percent and above.

Figure 2: Top DSSI-Eligible Borrowers by End-2018 Public and Publicly Guaranteed External Debt Stock

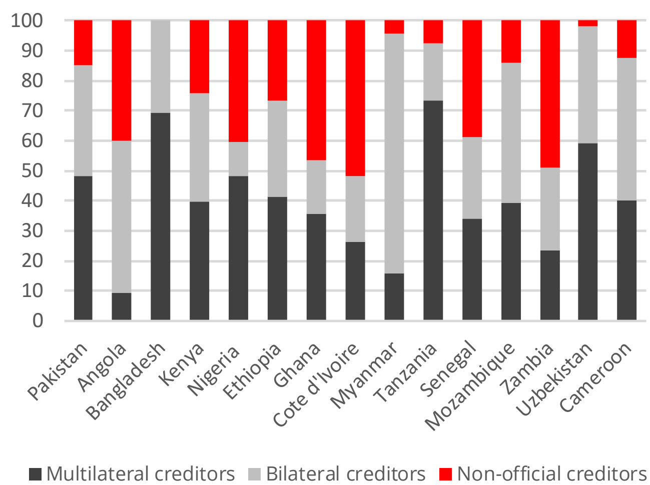
US$ (*billion*)



Source: World Bank Debtor Reporting System

Figure 3: Creditor Composition of Top DSSI-Eligible Borrowers by End-2018 Public and Publicly Guaranteed External Debt Stock

Percent



Source: World Bank Debtor Reporting System

II. The Impact of the Global Pandemic on Reporting of External Debt Data

The COVID-19 pandemic has led to delays in the compilation and dissemination of debt data. Debt service suspension offers an important support mechanism to eligible countries as they grapple with the unanticipated fiscal expenditures of the pandemic. The initiative also, however, brings an administrative cost of reconciling debtor and creditor records for the amounts to be deferred and associated legal documentation. Countries that take up the offer of debt service suspension also commit to full transparency and timely disclosure of all public sector debt. In this context, the impact of the pandemic on borrowers' capacity to compile and disseminate debt data needs to be taken into consideration. The widespread availability of technology has seen lockdowns lead to a relatively smooth transition to home-based work in the world's advanced economies. However, this is not the case in many of the Bank's borrowing countries where government officials access to home wi-fi and computers is limited.

Compliance with the Bank's Debtor Reporting System (DRS) requirements has been impacted by the COVID-19 pandemic. The 2019 year-end reports to the DRS were due by March 31, but this reporting round is characterized by a noticeable downturn in timeliness of submissions, a marked contrast to the continuous improvement observed over the past few years. At end-June 2020 86 countries (72 percent) of the 120 low- and middle-income countries reporting to the DRS had met the reporting requirement and several countries had explicitly requested an extension to the timetable for submission, citing the COVID-19 pandemic as the reason for delay. Similar reporting delays relate to the voluntary reporting to the QEDS and QPSD.

What could these delays in reporting mean for International Debt Statistics 2021? The timetable for publication of IDS 2021 and release of the comprehensive 2019 external debt database is early October, unchanged from last year. The hope is that countries yet to report 2019 data will be able to do so over the next two months (July-August). Separately however, a provision has been made to generate preliminary 2019 estimates, using fiscal accounts, balance of payments statistics and available creditor sources if actual 2019 debt data are not available.

In terms of coverage the 86 countries that have reported for 2019 account for around 80 percent of total external debt stock of low- and middle-income countries. At the regional level the share ranges from 100 percent coverage for the South Asia region, where all countries have reported, to 61 percent in Latin America and the Caribbean and 67 percent in Europe and Central Asia where reports by the largest borrowers, Brazil, particularly hard hit by the pandemic, and Russia, have not been submitted.

A review of the 34 countries where the 2019 report is outstanding shows that 8 countries (Table 1) have debt levels significant in the regional and global context. Collectively they account for around 17 percent of low-and middle-income countries external debt stock. In terms of country coverage, the biggest gap in reporting relates to DSSI-eligible countries where reports from 20 countries (30 percent) of the 68 DRS reporters in this group are outstanding. The combined external debt stock of these countries is small, in relation to the overall debt stock of low- and middle-income countries (2 percent) but accounts for around 25 percent of the external debt stock of DSSI-eligible countries.

Table 1: Status of DRS Reporting for 2019 as of June 30, 2020

Region	Number of countries		Coverage of Reported Countries	Non-reporters as of 6/30/2020
	DRS Reporters	Reported for 2019	% of External Debt Stock	Major borrowers
East Asia and Pacific	16	10	94	Vietnam
Europe and Central Asia	20	15	67	Russia
Latin America and Caribbean	23	20	61	Brazil, Venezuela
Middle East North Africa	10	7	71	Lebanon
South Asia	8	8	100	
Sub-Saharan Africa	43	26	83	Ghana, Senegal, Tanzania
All regions	120	86	80	

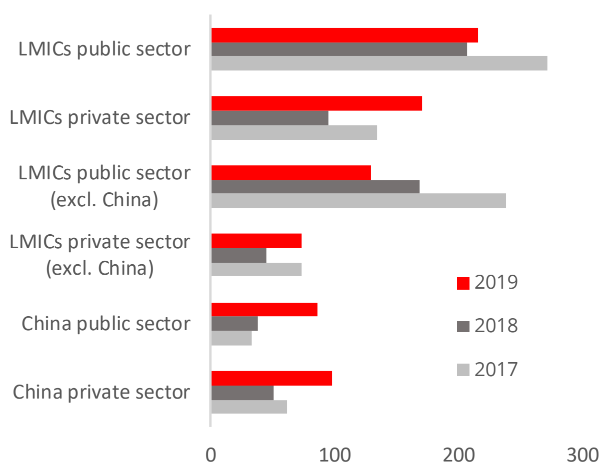
Source: World Bank Debtor Reporting System

III. Bond Issuance by Low- and Middle-Income Countries in 2019

Bonds issued in international capital markets remained an important source of new financing for many borrowers in low- and middle-income countries in 2019. Data compiled by Dealogic, from creditor and other market-based sources, show overall bond issuance by low- and middle-income countries totaled $386 billion in 2019, an increase of 28 percent over the prior year but below the record high of 2017 ($405 billion). Issuance in 2019 was characterized by a surge in bond issues by private sector entities which rose 80 percent to $171 billion. In contrast new issuance by sovereign governments and other public sector entities was up only a moderate 4 percent to $215 billion. The dominant factor was China with bond issuance of $183 billion in 2019, equivalent to 47 percent of the combined issuance by all low- and middle-income countries, up from a comparable 29 percent share in 2018. Bond issuances by private sector entities in China rose 93 percent in 2019 (to $97 billion) and those of public sector entities 125 percent (to $86 billion). In contrast, bond issuance by low- and middle-income countries, other than China, fell, on average, 5 percent in 2019 to $73 billion with a sharp 65 percent rise in issuance by private entities which more than offset the 23 percent contraction in new issues by the public sector (Figure 4).

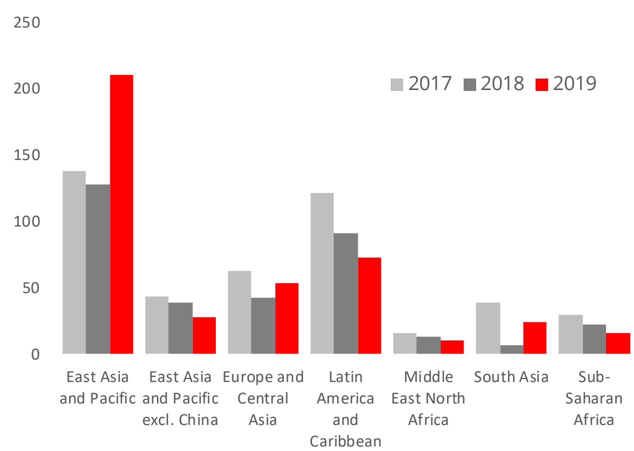
The outcomes at the regional level were divergent. Countries in South Asia recorded $12 billion in bond issues in 2019, a fourfold increase over the comparable figure for 2018. Driving the increase was a surge in issuance by private sector entities in India, particularly those in the energy and financial sector, and sovereign bond issues totaling $4.4 billion by Sri Lanka. In Europe and Central Asia issuance rose 25 percent in 2019 to $53 billion of which $36 billion (69 percent) were issues by public sector borrowers and $17 billion (31 percent) accounted for by private entities. The principal players were Russia and Turkey who together accounted for two thirds of both public sector and private issuance. In the other four regions bond issuance declined on average 23 percent in 2019 but with dissimilarity in the distribution of issues between public and private entities. Countries in Latin America and the Caribbean issued bonds totaling $73 billion in 2019, 20 percent lower than the comparable figure for the prior year, with a 42 percent contraction in issuance by public sector entities, led by Argentina, which more than offset a 52 percent increase by private entities, primarily in Brazil. It was a similar story for countries in the East Asia and Pacific region, excluding China, where overall issuance fell 30 percent in 2019 underpinned by a steep 44 percent decline in issuance by public sector entities and a 17 percent rise in private entity issuance (Figure 5).

Figure 4: Bond Issuance by Low- and Middle-Income Countries (LMICs) by Debtor Type
US$ (*billion*)



Sources: World Bank Debtor Reporting System and Dealogic

Figure 5: Regional Distribution of Bond Issuance by Low- and Middle-Income Countries
US$ (*billion*)

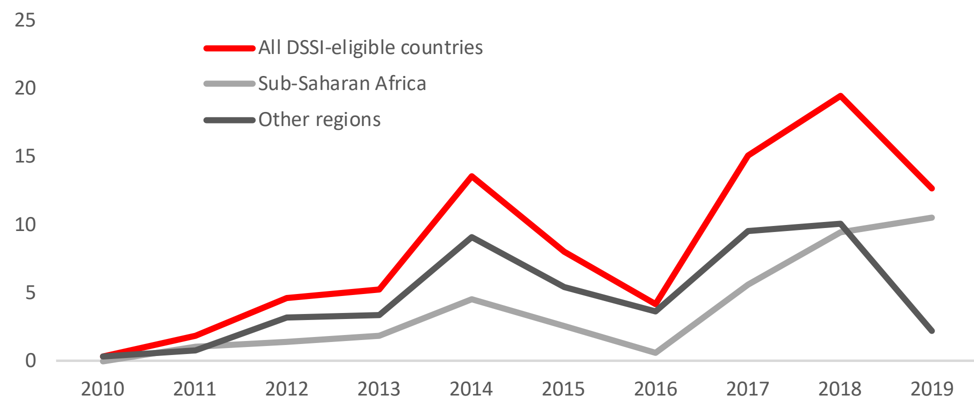


Sources: World Bank Debtor Reporting System and Dealogic

Bond issuance in international capital markets has also become an important source of financing for some DSSI-eligible countries. Over the past decade (2010-2019) 30 countries in this group, issued bonds in international capital market (Figure 6). The combined issuance totaled $87 billion of which the majority, 85 percent, were issues by sovereign governments and public sector entities. Issuance by the private sector was confined to 6 countries (Cambodia, Ghana, the Republic of Lao, Nigeria, Mongolia and Pakistan) with private entities in Nigeria as the most significant issuers. In terms of regional distribution countries in Sub-Saharan Africa were the most active players in international bond markets with total issuance of $66 billion compared to $21 billion by DSSI-eligible countries in other regions, notably East Asia and the Pacific and South Asia. Following an all-time high of $19 billion in 2018 bonds issued by DSSI eligible countries fell 23 percent in 2019 to $15 billion of which 83 percent was accounted for by issuers in Sub-Saharan Africa (Angola, Benin, Cote d'Ivoire, Ghana and Kenya). Proceeds from bonds have been used for a variety of purposes, including infrastructure financing, budget support, debt servicing and in some instances for refinancing of earlier issues to take advantage of improved market terms and lengthened maturities.

Figure 6: Bond Issuance by DSSI-Eligible Countries

US$ (*billion)*



Sources: World Bank Debtor Reporting System and Dealogic