DEBT REPORT

2020

EDITION I

January 2020

WORLD BANK GROUP

DEBT Report 2020

About the Report

This is the first of a new series of Debt Reports for 2020 to be 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 will:

- 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 will be 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 (PSDS) 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.

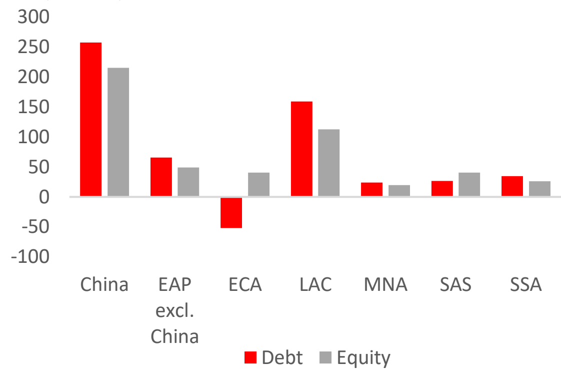
Debt Report Edition I presents an overview of the evolution of external debt stocks and net financial flows (debt and equity) from the regional perspective and draws out the main messages from the regional and country specific data available to users at https://data.worldbank.org/products/ids.

Regional Overview 2018

Net financial flows, debt and equity combined, to low- and middle-income countries totaled $1 trillion in 2018, 19 percent lower than the comparable inflows in the prior year. Driving the downturn was a 31 percent fall in net debt inflows to $516 billion and a 49 percent reduction in portfolio equity inflows. Inflows of foreign direct investment (FDI) $469 billion were little changed from 2017. China was the principal recipient of net financial flows to low- and middle-income countries in 2018, $472 billion, equivalent to 46 percent. At the regional level countries in Latin American and the Caribbean (LAC) accounted for the largest share $272 billion (27 percent), followed by countries in East Asia and Pacific (EAP), other than China, $115 billion (11 percent). Debt inflows surpassed equity inflows in all regions in 2018 except South Asia (SAS) where equity inflows accounted for 60 percent of total inflows and Europe and Central Asia (ECA) where debt flows were negative (-$11 billion).

Figure 1: Net Financial Flows 2018 – Regional Distribution[1]

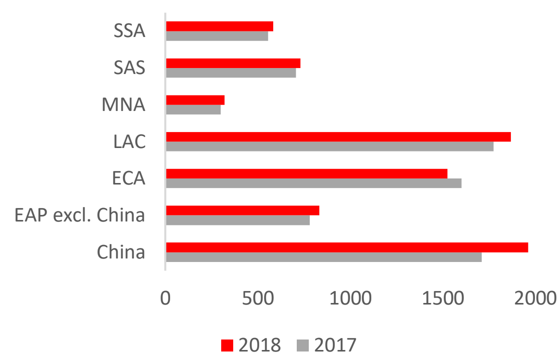
US$ (*billion*)



Source: World Bank Debtor Reporting System, International Monetary Fund and United Nations Conference on Trade and Development (UNCTAD)

Figure 2: Change in External Debt Stock 2017-2018 - Regional Distribution

US$ (*billion*)



Source: World Bank Debtor Reporting System, International Monetary Fund and Bank for International Settlements

Total external debt stocks of low- and middle-income countries rose 5.3 percent in 2018 to $7.8 trillion, almost half the rate of accumulation (10.4 percent) recorded in 2017. The increase in debt stocks resulted from net debt inflows of $516 billion and valuation changes in year-on-year exchange rates in relation to the U.S. dollar (around half the external debt of low- and middle-income countries is denominated in currencies other than the U.S. dollar). The 2018 increase in external debt stock was dominated by China: it accounted for one- quarter of the combined end-2018 external debt stock of low- and middle-income countries combined. China's external debt stock rose 15 percent in 2018 with short-term debt rising 18 percent and long-term debt by 10 percent. Outcomes at the regional level were divergent. Countries in the Middle East and North Africa (MNA) region recorded the fastest accumulation in external debt stocks, on average 7 percent, propelled by the 15 percent rise in Egypt, the region's biggest borrower. Conversely, in Europe and Central Asia external debt stocks fell, on average 4.8 percent, from the 2017 level due in large part to the sharp contraction in the Russia's external debt stock.

[1] SSA stands for Sub-Saharan Africa.

East Asia and Pacific

Net financial flows totaled $587 billion in 2018, a 5 percent decline from the prior year with increased equity inflows largely offsetting a contraction in net debt inflows. But outcomes were dictated by China and, on average, for other countries in the region, net financial inflows fell on average 12 percent reflecting a downturn in both debt and equity inflows.

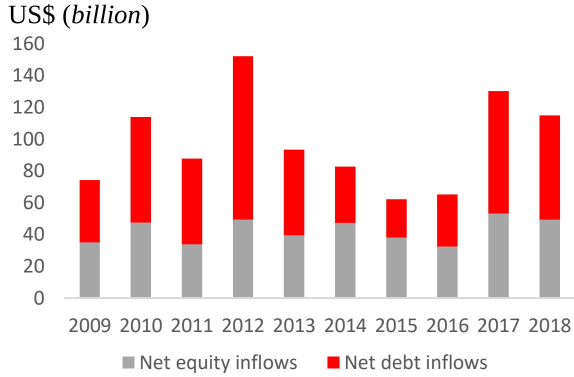
Table 1: External Debt Stock and Net Financial Flows, East Asia and Pacific, 2009-2018
US$ (billion)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
External debt stocks	822	1,183	1,546	1,728	2,091	2,435	2,000	2,117	2,491	2,794
Net financial flows, debt and equity	274	662	657	468	720	606	-104	274	621	587
Percent of GNI (%)	*4*	*8*	*7*	*4*	*6*	*4*	*-1*	*2*	*4*	*4*
Net Debt Inflows	83	358	367	174	382	297	-368	53	391	323
Long-term	15	51	100	130	90	138	63	70	135	138
Official creditors	5	2	3	3	2	4	2	3	3	5
Bilateral	-1	-2	1	0	0	2	-3	-1	0	0
Multilateral	6	4	2	3	2	3	6	4	4	5
World Bank (IBRD and IDA)	2	3	1	1	2	2	3	2	2	2
IMF	0	0	0	0	0	0	0	0	0	0
Other multilateral	3	1	1	2	0	1	3	2	1	3
Private creditors	10	49	97	127	88	133	61	67	132	133
Bonds	13	9	37	76	41	61	25	38	113	99
Banks and other private	-3	40	61	51	46	73	36	29	19	34
Short-term	68	307	266	44	292	159	-432	-17	256	185
Net equity flows	191	304	290	294	337	310	265	221	230	264
Net FDI inflows	151	265	283	259	309	259	261	197	195	215
Net portfolio equity inflows	40	40	7	35	29	51	4	24	35	49

Source: World Bank Debtor Reporting System, International Monetary Fund, and Bank for International Settlement.

The volume and trend of net financial flows was determined by China which accounted for around 80 percent of the combined debt and equity inflows to countries in the region in 2018. The underlying factors that drove the level and composition of financial inflows to China are discussed in the overview section of IDS 2020. Excluding China, net financial flows to other countries in the region fell, on average, 12 percent in 2018 a consequence of a 15 percent fall in net debt inflows combined with an 8 percent decline in net equity inflows. Net debt inflows totaled $66 billion, of which 46 percent was accounted for by Indonesia and a further 38 percent by the Philippines and Thailand combined. Inflows of foreign direct investment (FDI) rose 11 percent to $61 billion, driven primarily by a 50 percent rise in FDI inflows to Thailand ($13.3 billion) comprising new ventures by Asian investors and reinvestment by new ventures and reinvestment by multinational corporations with a long-time presence in the country. In contrast portfolio equity flows were negative, registering an outflow of $11.7 billion largely from Thailand (-$7.1 billion) and Indonesia (-$3.7 billion). These outflows were mostly a reflection of inter-regional changes with most funds held by Asian investors reinvesting in portfolio equity in China.

Figure 3: Net Debt and Equity Inflows excluding China 2009-2018
US$ (*billion*)



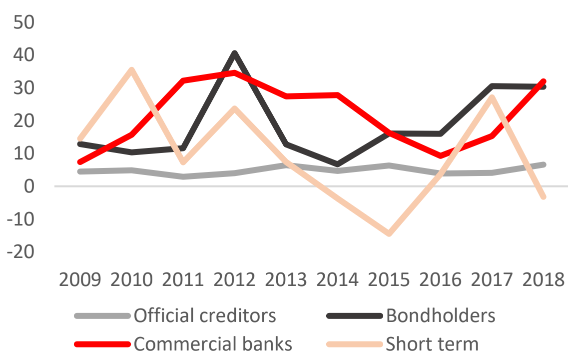
Source: World Bank Debtor Reporting System and International Monetary Fund.

Net debt inflows to the region fell 17 percent in 2018 with a marginal 2 percent rise in long-term debt inflows offset by a 28 percent fall in net short-term debt flows, an outcome driven by a combination of a contraction in net short-debt inflows to China to $188 billion, ($229 billion in 2017), and an outflow of -U.S. 3 billion to other countries in the region, a marked turnaround from the $27 billion inflow in 2017. Excluding China, long-term debt inflows to the region rose 38 percent to $69 billion, underpinned by a doubling of net inflows from private creditors and a 61 percent rise in inflows from official creditors, mostly from multilateral institutions to $6.6 billion. Despite this increase official creditors' share of long-term debt inflows remained moderate, 10 percent.

The rise in inflows from private creditors was propelled by inflows from commercial banks which rose to $32 billion in 2018, more than double the 2017 level. They accounted for 51 percent of long-term debt inflows from private creditors in 2018, as compared to 31 percent the prior year. Net inflows from bond issuance $30 billion in 2018 were virtually unchanged from the comparable issuance in 2017.

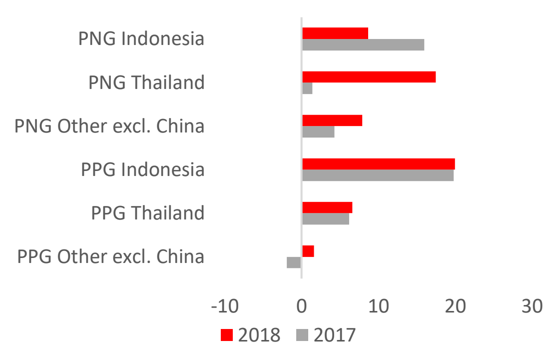
The rise in net long-term debt inflows from private creditors in 2018 to countries in the East Asia and Pacific region, other than China, was characterized by a change in both the creditor composition of these inflows and an important shift in the type of borrower. Of the $62 billion in net inflows from private creditors in 2018, 49 percent constituted inflows related to bond issuance and 51 percent inflows from commercial banks. The comparable shares for 2017 were 67 percent and 33 percent, respectively. Similarly, in 2018, 55 percent of net long-term debt inflows from private creditors went to non-guaranteed private sector entities as compared to 47 percent in 2017. This was driven by a surge in net debt inflows from commercial banks to private sector entities in Thailand, in large measure inter-company lending linked to foreign direct investment. Net long-term debt inflows from private creditors to public sector borrower were up 17 percent in 2018 whereas those to non-guaranteed private sector entities rose 57 percent to $34 billion ($22 billion in 2017) of which Indonesia and Thailand accounted for 77 percent. For some of the smaller borrowers in the region such as Cambodia and the Republic of Lao bond issuance was the primary factor in the rise in net inflows to non-guaranteed private sector entities in 2018.

Figure 4: Creditor Composition of Net Debt Inflows excluding China 2009-2018
US$ *(billion)*



Source: World Bank Debtor Reporting System.

Figure 5: Composition of Long-Term Debt Inflows from Private Creditors - 2017-2018
US$ *(billion)*



Source: World Bank Debtor Reporting System

Europe and Central Asia

Net financial flows turned negative in 2018 with an outflow of $11 billion on debt and equity combined. This was driven by the steep contraction in flows to Russia but mirrored in a downturn in financial flows to most countries in the region in 2018.

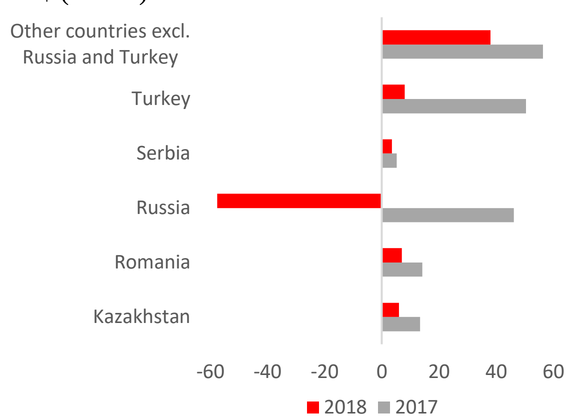
Table 2: External Debt Stock and Net Financial Flows, Europe and Central Asia, 2009-2018
US$ (billion)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
External debt stocks	1190	1264	1428	1533	1708	1576	1452	1539	1601	1525
Net financial flows, debt and equity	49	179	206	230	210	2	-83	150	153	-11
Percent of GNI (%)	*2*	*6*	*6*	*6*	*5*	*0*	*-3*	*5*	*5*	*0*
Net Debt Inflows	-18	114	130	156	142	-50	-131	71	94	-52
Long-term	18	69	108	126	107	-10	-70	73	65	-46
Official creditors	36	26	8	-5	-11	4	9	7	6	1
Bilateral	2	3	-1	-1	1	5	2	2	3	2
Multilateral	33	23	9	-4	-12	-1	6	5	2	-1
World Bank (IBRD and IDA)	3	3	2	2	2	3	2	1	1	1
IMF	20	9	-1	-8	-16	-7	3	1	0	-1
Other multilateral	10	11	8	3	2	4	2	3	1	-1
Private creditors	-17	44	99	131	118	-14	-79	66	59	-47
Bonds	-12	13	25	43	45	4	-7	27	38	3
Banks and other private	-6	31	75	88	72	-18	-72	39	21	-50
Short-term	-36	44	22	30	36	-39	-61	-2	29	-6
Net equity flows	67	65	76	74	67	51	48	79	60	40
Net FDI inflows	60	66	86	66	72	62	55	81	64	47
Net portfolio equity inflows	7	-1	-10	8	-5	-10	-7	-1	-5	-7

Source: World Bank Debtor Reporting System, International Monetary Fund, and Bank for International Settlement.

The regional trend in net financial flows (debt and equity) was dictated by Russia where stagnant oil prices, geopolitical tensions and fiscal consolidation led to a retrenchment in both debt and equity inflows. Outflows totaled $58 billion in 2018 as compared to an inflow of $46 billion in 2017 and masked a divergent trend for other countries in the region where, on average, net financial flows fell by 57 percent. Net financial flows to Turkey remained positive, $8 billion, but down significantly from their 2017 level ($51 billion) and robust inflows of foreign direct investment were not enough to offset the collapse in net debt flows and $1 billion outflow of portfolio equity. Net financial flows to countries in the region, excluding Russia and Turkey, also declined in 2018 but at a more moderate pace, falling to $38 billion, one third the level in the prior year. The only bright spots were in some of the smaller economies of the region. Net financial flows rose 350 percent in Armenia propelled by robust FDI inflows and sharp rise in net debt inflows from private creditors. In Belarus

Figure 6: Net Financial Flows - Select Countries 2017-2018
US$ (*billion*)



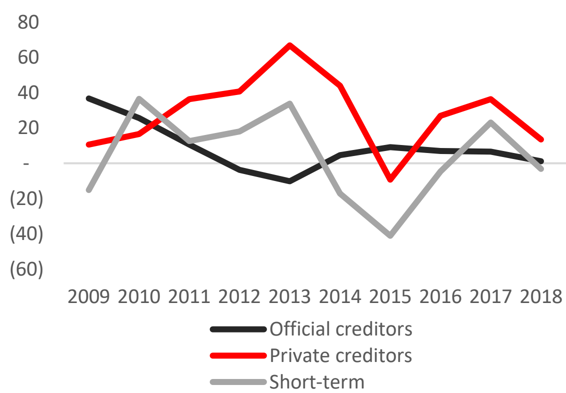
Source: World Bank Debtor Reporting System, International Monetary Fund, and Bank for International Settlement.

they increased by 46 percent on account of increased debt and equity inflows and in Bulgaria they more than doubled as a result of strong FDI inflows.

Net debt flows to the region turned negative in 2018 with countries recording a combined outflow of $52 billion, a marked contrast to the $94 billion in debt inflows recorded in 2017. Long-term debt outcomes were largely dictated by Russia and specifically by the much lower disbursements of new financing and much higher principal repayments by public sector borrowers resulted in an outflow on long-term debt of $61 billion, as compared to an inflow of $22 billion in 2017. Net debt flows to other countries in the region were positive in 2018, $12 billion, but significantly below the comparable figure of $66 billion for 2017. The primary reason for this decline was the pronounced, $23 billion drop in net inflows from private creditors and reversal in the direction of short-term debt flows to an outflow of $3 billion, from an inflow of $23 billion in 2017. In contrast to Russia most of the fall in net inflows was accounted for by a downward trajectory in commercial bank inflows to private sector non-guaranteed entities across the region. The contraction in short-term debt was largely attributable to Turkey: it turned negative in 2018, an outflow of $4 billion compared to an $18 billion inflow in 2018. Short-term debt flows were also negative in other countries in the region in 2018, including Romania and Ukraine.

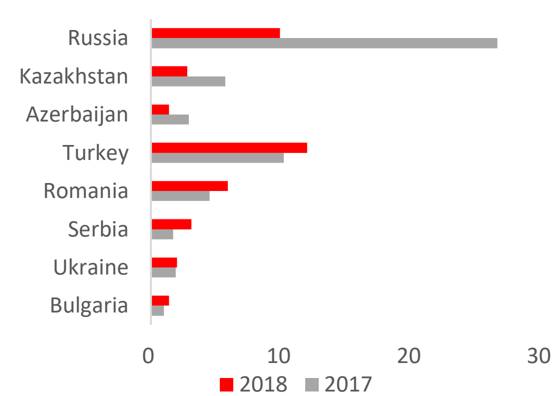
FDI inflows to Russia fell by $17 billion in 2018 in response to geopolitical concerns, sluggish GDP growth and disinvestments (i.e. sale of foreign affiliates to Russian investors). Excluding Russia inflows to other countries were $37 billion in 2018, unchanged from the prior year but at the individual country level the picture was mixed. Weak oil prices and declining rates of return weighed heavily on oil exporters such as Azerbaijan and Kazakhstan; both countries saw FDI inflow fall to half the 2017 level due to a downturn in investments in the oil and gas sector. Conversely, FDI inflows to the region's more diversified economies proved resilient. Serbia recorded the most significant increase, 82 percent to $3 billion, facilitated by the country's strategic location and skilled labor force and it was a similar story for Bulgaria which recorded a 40 percent increase in FDI inflows in 2018. Turkey was the region's largest recipient of FDI in 2018. Inflows rose percent 18 percent to $12 billion, despite slower than usual economic growth and uncertainty surrounding the Turkish lira. The $6.3 billion Star Refinery built by the National Oil Company of Azerbaijan and one the largest foreign investments in Turkey came on stream in late 2018. Other important inflows in 2018 was the acquisition of UN Ro-Ro Isletmeleri, providers of deep-sea freight transport, by DFDS Denmark.

Figure 7: Net Debt Inflows by Creditor Type excluding Russia 2009-2018
US$ (*billions*)



Source: World Bank Debtor Reporting System

Figure 8: Foreign Direct Investment - Select Countries 2017-2018
US$ (*billion*)



Source: International Monetary Fund

Latin America and Caribbean

Net financial flows rose 11 percent in 2018 to $272 billion, their highest level since 2014, despite a 24 percent fall in net equity inflows. It was offset by increased net debt inflows which rose 63 percent to $159 billion driven in large part by the rescue package for Argentina and surge in short-term debt inflows.

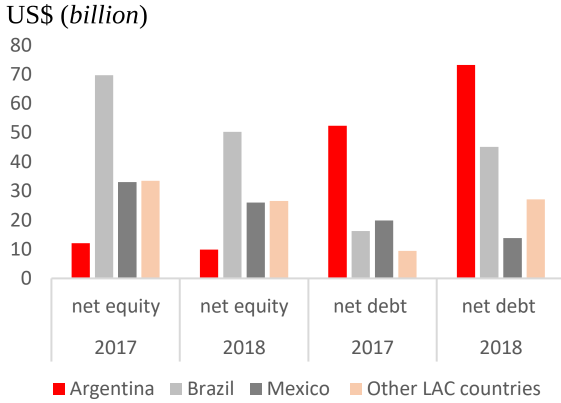
Table 3: External Debt Stock and Net Financial Flows, Latin America & Caribbean, 2009-2018
US$ (billion)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
External debt stocks	898	1064	1221	1361	1503	1657	1669	1693	1774	1868
Net financial flows, debt and equity	163	333	288	300	303	303	208	168	246	272
Percent of GNI (%)	*4*	*7*	*5*	*6*	*6*	*5*	*4*	*4*	*5*	*6*
Net Debt Inflows	61	173	140	147	170	177	88	43	98	159
Long-term	64	117	141	128	141	152	79	72	86	114
Official creditors	16	22	5	12	9	11	6	5	7	34
Bilateral	3	4	3	5	5	6	-2	-2	4	-3
Multilateral	13	18	2	7	4	6	8	6	3	37
World Bank (IBRD and IDA)	6	8	-3	4	3	2	3	2	-1	2
IMF	0	1	0	0	0	-1	0	0	0	29
Other multilateral	7	8	5	3	2	4	6	4	4	7
Private creditors	47	95	136	116	132	140	73	67	79	80
Bonds	42	67	81	78	69	64	26	52	71	36
Banks and other private	5	28	56	38	64	76	47	15	8	43
Short-term	-3	56	-1	19	29	26	8	-29	12	45
Net equity flows	102	160	148	153	133	125	120	125	148	113
Net FDI inflows	61	120	145	138	121	107	106	104	129	118
Net portfolio equity inflows	41	40	3	15	12	19	14	21	20	-5

Source: World Bank Debtor Reporting System, International Monetary Fund, and Bank for International Settlement.

Aggregate net financial inflows to the region rose 11 percent in 2018 despite the downturn in net equity inflows. This was driven primarily by an outflow of portfolio equity in response to investor concerns over global and regional economic uncertainties. In 2018 $5 billion flowed out of the region as compared to an inflow of $20 billion in 2017. Foreign direct investment inflows remained relatively stable in most countries, declining on average 9 percent in 2018 from the prior year level. The big three, Argentina, Brazil and Mexico accounted for 80 percent of net financial flows to the region in 2018 and drove the overall trend but country specific outcomes diverged. For Argentina and Brazil higher net debt inflows more than offset the decline in net equity inflows, notwithstanding in Brazil the negative $10 billion turnaround in portfolio equity flows (from a $6 billion inflow in 2017 to a $6 billion outflow in 2018) and net financial flows rose 29 percent and 11 percent, respectively in 2018. In contrast they fell 25 percent in Mexico on the back of a contraction in both debt and equity inflows. Other countries in the region recorded a 25 percent increase in net financial flows in 2018 with a 21 percent fall in net equity inflows more than offset by a tripling of net debt inflows to $27 billion ($9 billion in 2017).

Figure 9: Net Debt and Equity Inflows to Select Countries 2017-2018
US$ (*billion*)

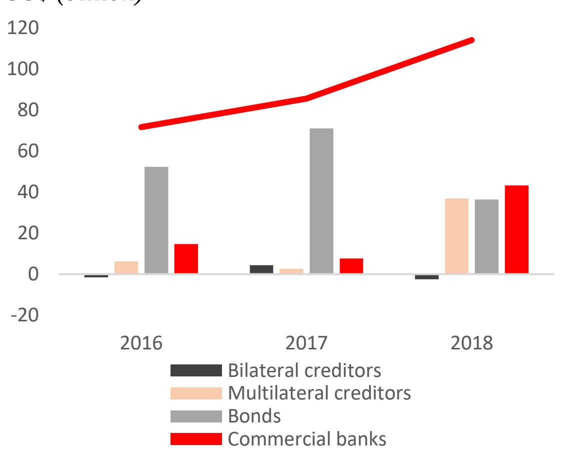


Source: World Bank Debtor Reporting System and International Monetary Fund

The 61 percent rise in net debt inflows in 2018 was accompanied by a change in composition. Short-term debt inflow rose at a much faster pace (275 percent) than long-term debt (33 percent) reflecting a surge in flows to Brazil and, to a lesser extent, Mexico. The principal driver of the 33 percent increase in net long-term debt inflows was the IMF $57 billion bailout package for Argentina against which $29 billion was disbursed in 2018. It pushed multilateral creditors share of net long-term debt inflows to one third, from a negligible 3 percent in 2017. Net inflows from private creditors ($80 billion) were static but characterized by a switch in composition with the decline in net inflows from bonds offset by a comparable increase in net inflows from commercial banks. Underlying this shift was the reduction in bond issuance, notably by Brazil, where borrowers found opportunities in the domestic market. The rise in inflows from commercial banks was propelled by a surge in those to private sector entities to $40 billion ($6 billion in 2017), often inter-company lending associated with foreign direct investment. Brazilian entities were the dominant factor, accounting for 65 percent of total inflows but Colombia and Peru also recorded a sizeable increase in inflows in 2018, as compared to outflows in 2017.

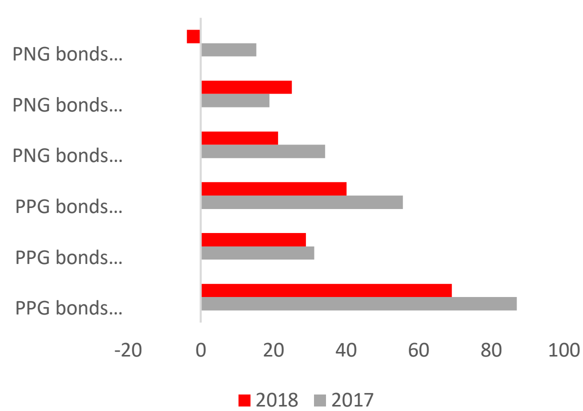
The fall in bond issuance by public and private sector borrowers in 2018 reflected uncertain prospects for the global and U.S. economy to which much of the region is closely tied, and, in some instances, alternative borrowing options in domestic markets. Bond issuance by public and private sector borrowers combined totaled $90 billion in 2018, a 25 percent decline from the comparable figure for 2017. New issuance by public sector borrowers fell 21 percent from the prior year level due in large part to the absence of Brazilian borrowers who eschewed international markets to take advantage of attractive terms in the robust domestic market. New issuance by private sector borrowers in the region fell 38 percent, to $21 billion. A principal factor in this downturn was the sharp contraction in issuance by private sector entities in Mexico in response to uncertainties surrounding trade disputes with the United States. Repayments on maturing bonds were also an important factor in net flow outcomes. Principal repayments on maturing bonds issued by public sector borrowers fell 7 percent in 2018, resulting in a net inflow of $40 billion ($56 billion in 2017) but for maturing bonds issued by private sector entities principal repayments rose 33 percent resulting in a net outflow of $4 billion in 2018, compared to a net inflow of $15 billion in 2017.

Figure 10: Composition of long-term net debt inflows 2016-2018
US$ *(billion)*



Source: World Bank Debtor Reporting System

Figure 11: Bonds by Borrower Type- Gross and Net Flow 2017-2018
US$ (*billion*)



Source: World Bank Debtor Reporting System

Middle East North Africa

Net financial flows US$43.8 billion in 2018 were little changed from the prior year but characterized by a shift in composition of debt flows with a sharp decline in inflows from official creditors and outflow of short-term debt offset by a 67 percent rise in long-term debt inflows from private creditors.

Table 4: External Debt Stock and Net Financial Flows, Middle East North Africa, 2009-2018
US$ (billion)

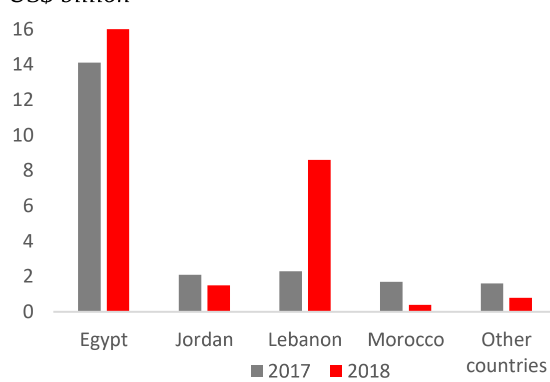
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
External debt stocks	182.9	192.2	191.9	200.7	223.5	225.5	239	267.6	299.5	320.7
Net financial flows, debt and equity	33.0	33.9	14.4	28.4	40.3	28.9	34.5	49.7	43.3	43.8
Percent of GNI (%)	*3.3*	*2.9*	*1.1*	*2.0*	*3.1*	*2.2*	*2.9*	*4.0*	*3.7*	..
Net Debt Inflows	5.3	9.3	0.5	8.9	22.2	10.9	19.6	29.9	23.0	24.2
Long-term	2.1	4.4	1.2	12.3	20.3	6.6	18.4	19.2	21.8	27.3
Official creditors	2.5	1.3	1.0	4.7	10.3	2.6	8.3	15.9	9.0	5.7
Bilateral	-0.9	-1.1	-1.5	1.8	6.8	-0.4	4.8	6.4	1.7	1.9
Multilateral	3.4	2.4	2.5	2.9	3.5	3.0	3.5	9.5	7.3	3.8
World Bank (IBRD and IDA)	0.9	0.8	0.9	0.7	1.1	0.8	1.8	2.3	2.5	2.5
IMF	-0.1	..	..	0.5	0.9	1.5	0.9	2.8	2.8	1.7
Other multilateral	2.6	1.6	1.6	1.7	1.5	0.7	0.8	4.4	2.0	-0.4
Private creditors	-0.4	3.1	0.2	7.6	10.0	4.0	10.1	3.3	12.8	21.6
Bonds	0.1	3.2	-0.8	5.8	7.8	0.5	5.6	1.3	11.4	10.6
Banks and other private	-0.5	-0.1	1.0	1.8	2.2	3.5	4.5	2.0	1.4	11.0
Short-term	3.2	4.9	-0.7	-3.4	1.9	4.3	1.2	10.7	1.2	-3.1
Net equity flows	27.7	24.6	13.9	19.5	18.1	18.0	14.9	19.8	20.3	19.6
Net FDI inflows	26.5	22.6	14.5	20.7	18.1	17.3	15.7	19.1	20.9	19.6
Net portfolio equity inflows	1.2	2.0	-0.6	-1.2	..	0.7	-0.8	0.7	-0.6	..

Source: World Bank Debtor Reporting System, International Monetary Fund, and Bank for International Settlement.

Net debt inflows to the region rose 5 percent in 2018 to $24.2 billion with a $3.1 billion contraction in short-term debt inflows offset by a 25 percent increase in long-term debt inflows to $27.3 billion (including the IMF), and characterized by a shift in creditor composition. Net inflows from official creditors fell 37 percent in 2018, to $5.7 billion while those from private creditors rose 67 percent to $21.6 billion, divided broadly evenly between bond issuance and financing from commercial banks.

Trends at the individual country level were mixed. Lebanon recorded the sharpest rise in long-term debt inflows in 2018, an increase of 275 percent from the 2017 level; driven by a more than fourfold rise in inflows from private creditors, largely commercial banks to non-guaranteed private sector borrowers. In Egypt, the region's largest borrower, net long-term debt inflows rose 13 percent to $16 billion with a 20 percent fall in inflows from official creditors, primarily the IMF and regional multilateral institutions, more than offset by increased inflows from commercial banks to public sector entities. Together Egypt and Lebanon absorbed 90 percent of net long-term debt inflows to the region in 2018. Most countries saw net debt

Figure 12: Net long-term debt inflows 2017-2018
US$ billion

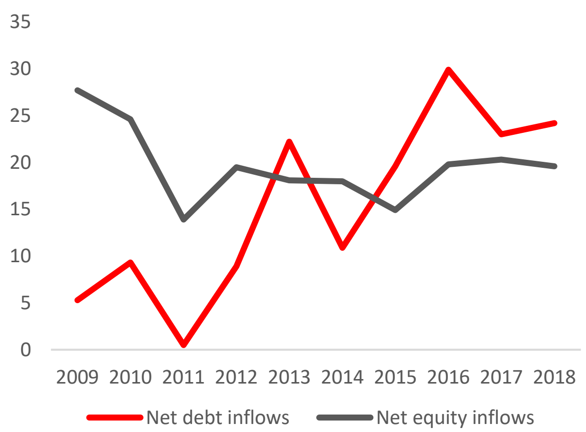


Source: World Bank Debtor Reporting System inflows decline. In Morocco they fell 76 percent to $425 million, their lowest level in a decade following a sharp contraction in flows from official creditors, including a net outflow to bilateral creditors. Jordan recorded a 29 percent drop in net debt flows and in the remaining countries in the region they fell, on average, to half the prior year level.

Aggregate net financial inflows to the region rose marginally in 2018 with the 5 percent increase in net debt inflows offsetting the 6 percent fall in net equity inflows. The downturn in net equity flows was driven by reduced inflows of foreign direct investment (FDI) to the Arab Republic of Egypt, Jordan and Iran. FDI inflows to Egypt fell 8 percent in 2018 but remained robust, $6.8 billion, directed primarily at the oil and gas sector, and equivalent to 35 percent of all FDI inflows to the region that year. Stable economic performance attracted investment in Morocco. It stood out as the country to record the largest increase in FDI inflows in 2018, up 54 percent to $3 billion, mostly into infrastructure and the automotive sector. After falling sharply in 2011 in the wake of the economic turbulence and social unrest across the region precipitated by the Arab Spring, aggregate net financial flows have been on a broadly upward trajectory, rising from an average of $35 billion in 2013-2015 to $46 billion in 2016-2018. Equity inflows have remained the most stable element of these flows but have been outpaced by debt inflows and their share of net financial flows has eroded. In 2018 equity inflows accounted for 45 percent of net financial flows as compared to an average of 80 percent in 2009-2012.

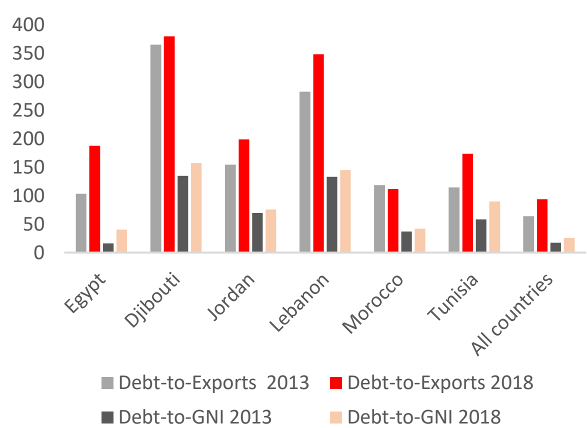
Historically, the ratio of external debt-to-GNI and to exports for countries in the region has, on average, been low, a consequence of the high share of equity in net financial flows and robust export earnings. More recently, the impact of the downturn in global oil prices and other export earnings, coupled with increased debt creating inflows, has resulted in an appreciable rise in external debt-to-export ratios. They rose, on average, from 64 percent in 2013 to 94 percent at end 2018. In parallel the external debt-to-GNI rose from an average of 17 percent to an estimated 26 percent at end 2018. While moderate in comparison with many other low- and middle-income countries, the averages reflect Algeria's very low external debt-to-export and debt-to-GNI ratios, 12.5 percent and 3.2 percent, respectively, at end 2018 and masks wide divergence across the region. For Djibouti and Lebanon, the external debt-to-export ratio was 380 percent and 349 percent, respectively at end 2018 and in Jordan it was close to 200 percent. Djibouti, Lebanon and Tunisia had the highest external debt-to-GNI ratio at end 2018, 158 percent, 145 percent and 90 percent, respectively.

Figure 13: Debt and Equity Inflows 2009-2018
Percent



Source: World Bank Debtor Reporting System and International Monetary Fund

Figure 14: Debt to Exports/GNI 2013, 2018
Percent



Source: World Bank Debtor Reporting System and International Monetary Fund

South Asia

Net financial flows fell to $67.3 billion in 2018, 45 percent lower than 2017 on account of the steep, 50 percent downturn in inflows to India. Net financial inflows to other countries in the region also declined but at a slower pace, on average 27 percent.

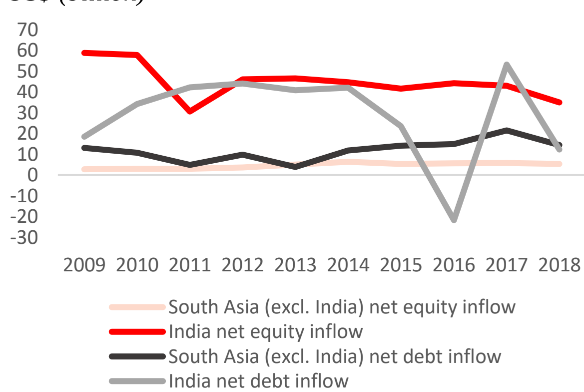
Table 5: External Debt Stock and Net Financial Flows, South Asia, 2009-2018
US$ (billion)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
External debt stocks	366.2	410	460.5	528.3	566.2	604.5	635.6	624.5	707.2	730.1
Net financial flows, debt and equity	89.6	103.7	80.8	104.9	99.0	105.4	83.4	42.3	123.3	67.3
Percent of GNI (%)	*5.3*	*5.0*	*3.6*	*4.6*	*4.2*	*4.1*	*3.1*	*1.4*	*3.7*	*1.9*
Net Debt Inflows	27.9	42.9	47.1	55.4	47.4	54.3	36.5	-7.7	74.5	26.9
Long-term	24.0	30.4	26.2	36.9	45.2	59.6	36.6	-11.7	55.7	22.7
Official creditors	11.0	9.4	5.3	4.6	2.4	6.9	7.3	9.3	11.5	16.5
Bilateral	1.8	1.6	1.5	3.4	4.0	3.5	2.2	4.3	7.0	11.2
Multilateral	9.2	7.8	3.8	1.2	-1.6	3.4	5.1	5.0	4.5	5.3
World Bank (IBRD and IDA)	2.4	3.3	2.2	0.9	0.7	0.7	2.4	2.3	1.5	1.7
IMF	3.6	2.0	0.0	-1.5	-2.8	-0.5	1.3	0.9	0.1	0.0
Other multilateral	3.2	2.5	1.6	1.8	0.5	3.2	1.4	1.8	2.9	3.6
Private creditors	13.0	21.0	20.9	32.3	42.8	52.7	29.3	-21.0	44.2	6.2
Bonds	1.9	10.1	0.7	5.5	-0.5	32.4	12.7	-1.7	36.3	-7.2
Banks and other private	11.1	10.9	20.2	26.8	43.3	20.3	16.6	-19.3	7.9	13.4
Short-term	3.9	12.5	20.9	18.5	2.2	-5.3	-0.1	4.0	18.8	4.2
Net equity flows	61.7	60.8	33.7	49.5	51.6	51.1	46.9	50.0	48.8	40.4
Net FDI inflows	37.5	31.0	37.8	26.1	31.1	37.4	44.6	47.9	42.6	45.3
Net portfolio equity inflows	24.2	29.8	-4.1	23.4	20.5	13.7	2.3	2.1	6.2	-4.9

Source: World Bank Debtor Reporting System, International Monetary Fund, and Bank for International Settlement.

The downturn in net financial inflows to the region in 2018 was driven by outcomes in India where debt and equity inflows fell sharply because of a selloff of domestically issued bonds held by nonresidents, a marked, 50 percent, contraction in short term debt inflows and a $5 billion outflow of portfolio equity. Net debt flows to India were down 77 percent from the 2017 level and net equity inflows fell 17 percent, reducing India's share of net financial inflows to the region in 2018 to 70 percent (78 percent in 2017). Net debt inflows to other countries in the region fell, on average, 33 percent in 2018 but Pakistan drove the downward trajectory. It saw net debt inflows fall close to 50 percent as a result of the combined effect of a marked contraction in inflows from multilateral creditors and an outflow of short-term debt. In Bangladesh the 20 percent downturn in net debt inflows in 2018 resulted from an outflow of short-term debt; in Sri Lanka where the comparable fall was 35 percent, an outflow on debt of non-guaranteed private sector entities was the principal driver. Foreign direct investment (FDI) proved resilient, rising 6 percent in 2018 to $45 billion driven primarily by inflows to India. They rose 6 percent to $39 billion, reflecting new investment in the manufacturing and service sectors, and cross-

Figure 15: Net Debt and Equity Inflows 2009-2018
US$ (billion)



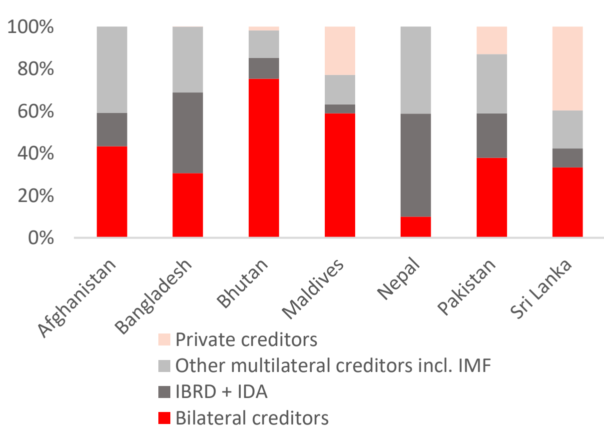
Source: World Bank Debtor Reporting System, and International Monetary Fund.

border mergers and acquisitions, including Walmart (USA) and India's biggest e-commerce platform FlipKart. India is the third largest recipient of FDI amongst low- and middle-income countries and the tenth largest recipient worldwide. Bangladesh recorded the largest rise in FDI inflows in the region; up 40 percent, to $2.1 billion on account of investment in power generation and acquisition of United Dhaka Tobacco by Japan Tobacco.

The external borrowing patterns of India and other South Asian countries differ considerably, and this is reflected in the composition of outstanding external debt stocks. For India public and publicly guaranteed debt accounted for 56 percent of long-term external debt at end 2018 as compared 14 percent for other South Asian countries. There was a similar divergence in the creditor composition of public and publicly guaranteed debt. India owed 52 percent of such debt to private creditors (bondholders and commercial banks) at end 2018 as compared to other countries in the region where, on average, 82 percent was owed to official bilateral and multilateral creditors: except for Sri Lanka these countries are all IDA-eligible and thus the reliance on official creditors for external financing. The combined long-term public and publicly guaranteed external debt stock of this group (excluding India) was $163 billion at end 2018 of which close to half was owed to multilateral creditors and 34 percent to bilateral creditors primarily other Asian countries, notably China and Japan, and inter-regional lending by India to smaller countries like Bhutan and Nepal. IDA, the single largest multilateral creditor, accounted for, on average, 22 percent, but for a much larger share in some countries e.g. Bangladesh (38 percent) and Nepal (49 percent).

The ratio of external debt stock to GNI and to exports for the region fell marginally in 2018, to an average of 21 percent and 109 percent, respectively at year end. The GNI and export earnings of India was a key determinant of these ratios, given the size of the Indian economy, relative to that of neighboring countries. Across the region there was significant divergence in debt burdens. Bhutan recorded the highest debt-to-export and debt-to GNI ratio at end 2018, 313 percent and 109 percent, respectively. Debt in relation to exports (256 percent) and GNI (61 percent) was also elevated in Sri Lanka. Elsewhere, the external debt-to-export ratio ranged from 295 percent in Pakistan to 119 percent for Bangladesh while external debt-to-GNI ratios were moderate in both countries, Pakistan 28 percent and Bangladesh 18 percent. The regional average for the ratio of international reserves to external debt, 59 percent at end 2018, was also heavily weighted by India which had reserves equivalent to 72 percent of external debt stock at end 2018. This ratio varied considerably for other countries from 60 percent in Bangladesh to a low of just 10 percent for Pakistan.

Figure 16: External Public Debt Stock -Creditor Composition, end-2018
Percent



Source: World Bank Debtor Reporting System

Figure 17: External Debt Indicators end-2018
Percent

Source: World Bank Debtor Reporting System and International Monetary Fund.

Sub-Saharan Africa

The 37 percent decline in net financial flows in 2018 was driven by the sharp contraction in net debt inflows to South Africa. Other countries in the region recorded, on average, a 23 percent increase in net debt inflows, partially offset by a 17 percent decline in net equity inflows.

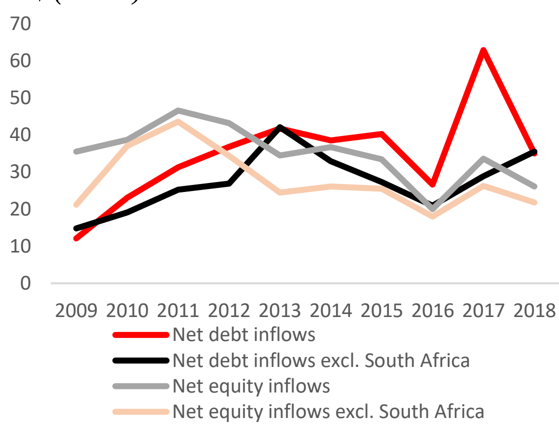
Table 6: External Debt Stock and Net Financial Flows, Sub-Saharan Africa, 2009-2018
US$ (billion)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
External debt stocks	269	300.8	330.7	379.5	416.4	441.8	458.8	485.4	556.5	584.3
Net financial flows, debt and equity	47.6	61.8	77.9	80.0	76.2	75.2	73.7	46.6	96.5	61.1
Percent of GNI (%)	*4.5*	*4.9*	*5.4*	*5.2*	*4.8*	*4.4*	*4.7*	*3.2*	*6.0*	*3.8*
Net Debt Inflows	12.1	23.1	31.3	36.8	41.7	38.5	40.3	26.6	62.9	35.0
Long-term	15.0	18.4	29.9	24.8	37.7	40.4	37.8	30.3	54.6	36.8
Official creditors	10.4	14.0	13.5	12.2	15.8	17.4	15.4	23.0	20.2	16.0
Bilateral	2.8	6.5	6.4	4.8	7.9	9.3	7.0	15.4	7.9	4.8
Multilateral	7.6	7.5	7.1	7.4	7.9	8.1	8.4	7.6	12.3	11.2
World Bank (IBRD and IDA)	3.1	4.0	3.2	3.9	5.0	5.7	5.7	5.0	6.1	6.1
IMF	2.2	1.2	1.4	0.9	0.2	-0.3	-0.1	0.0	0.6	1.5
Other multilateral	2.3	2.3	2.5	2.6	2.7	2.7	2.8	2.6	5.6	3.6
Private creditors	4.6	4.4	16.4	12.6	21.9	23.0	22.4	7.3	34.4	20.8
Bonds	2.1	2.3	8.7	4.4	4.3	10.6	8.3	4.3	26.3	12.6
Banks and other private	2.5	2.1	7.7	8.2	17.6	12.4	14.1	3.0	8.1	8.2
Short-term	-2.9	4.7	1.4	12.0	4.0	-1.9	2.5	-3.7	8.3	-1.8
Net equity flows	35.5	38.7	46.6	43.2	34.5	36.7	33.4	20.0	33.6	26.1
Net FDI inflows	24.7	22.8	37.8	28.9	20.5	26.3	24.0	21.9	20.0	23.6
Net portfolio equity inflows	10.8	15.9	8.8	14.3	14.0	10.4	9.4	-1.9	13.6	2.5

Source: World Bank Debtor Reporting System, International Monetary Fund, and Bank for International Settlement.

A sell-off by foreign holders of South African bonds in 2018 following investor concern over macro-economic and fiscal policies was the primary factor behind the sharp contraction in net debt inflows to the region in 2018. South Africa is by far the region's largest borrower, accounting for 31 percent of the combined external debt stock at end 2018. In contrast, a surge in net inflows from bondholders was the main driver of the 23 percent rise in debt inflows to other countries in the region in 2018. They totaled $14.7 billion ($8 billion in 2017) and accounted for almost 40 percent of net long-term debt inflows, excluding South Africa. The 17 percent downturn in net equity inflows in 2018 was driven by South Africa where heightened risk perceptions reduced portfolio equity flows by $4.7 billion from the 2017 level. Conversely, a rebound in inflows of foreign direct investment (FDI) to South Africa helped the net inflow of FDI to the region rise 20 percent in 2018, a larger increase than any other region. Other factors contributing to the increase in FDI were a slowdown in repatriation of earnings by investors in Angola, strong inflows into the oil and gas sector in Uganda and record level of inflows to diverse sectors in Kenya in response to improved 'Doing Business' scores.

Figure 18: Net Debt and Equity Inflows 2009-2018
US$ (billion)

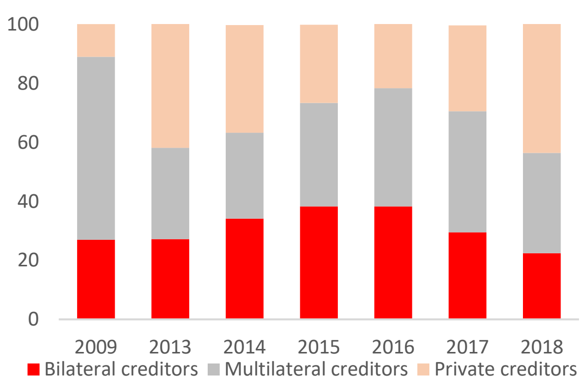


Source: World Bank Debtor Reporting System and International Monetary Fund.

In recent years there has been a significant increase in external debt stock for many countries in the region. This has been accompanied by important shifts in borrowing patterns, included increased reliance on non-traditional bilateral creditors like China, and a sharp rise in loans from private creditors including international bond issuance facilitated by accommodative global financial conditions. These trends are evidenced by the marked change in creditor composition of new debt flows, particularly those to the 33 countries in the region classified as IDA-only and eligible for highly concessional financing from official creditors. Disbursements from long term loan commitments to this group of countries totaled $24.6 billion in 2018, an increase of 25 percent from the 2017 level. Private creditors share of disbursements rose to 46 percent in 2018 (29 percent in 2017) primarily on account of large Eurobond issues by Cote d'Ivoire, Ghana and Senegal. In all, one quarter of IDA-only countries in the region have now issued Eurobonds. Disbursements by multilateral creditors, $8 billion in 2018, were little changed from 2017 but their share of total disbursements fell to 34 percent, down from 41 percent in 2017 while disbursements from bilateral creditors fell 5 percent to $5.4 billion.

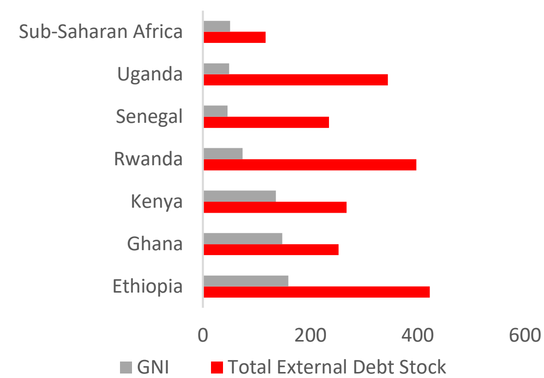
The rise in external debt stocks outpaced economic growth in many Sub-Saharan African countries over the past decade. The combined ratio of external debt-to-GNI averaged 36 percent at end 2018, a marginal change from the prior year, but over 40 percent higher than 2009. Between 2009-2018 the combined GNI of countries in the region rose 51 percent, measured in U.S. dollar terms, while the combined external stock increased, on average, by 117 percent. For some countries the pace of increase in external debt was far more accelerated over this period. External debt stocks rose 423 percent in Ethiopia, 38 percent in Rwanda and 345 percent in Uganda compared to increases of 159 percent, 74 percent and 49 percent, respectively in GNI. The ratio of external debt-to-export earnings followed a similar trajectory. It averaged 134 percent at end 2018, an small improvement over the prior year (144 percent in 2009) but well over double the comparable ratio at the start of the decade and masking the fact that in over 30 percent of countries, mostly ones that benefitted from HIPC and MDRI, the end 2018 ratio was close to, or above, 250 percent.

Figure 19: Disbursements to IDA-only countries – Creditor composition 2009-2018
Percent



Source: World Bank Debtor Reporting System.

Figure 20: External Debt Stock and GNI Percentage Increase 2009-2018
Percent



Source: World Bank Debtor Reporting System and International Monetary Fund.