Assessment on Public Sector Domestic Debt

Debt Statistics Team
World Bank Development Data Group
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BACKGROUND: Transparent and sustainable public sector debt management calls for improvement in public debt statistics

The financial crisis in 2008 highlighted the importance of understanding the foreign and domestic holdings of public debt.

The Covid-19 pandemic have led to additional exposures where many governments have incurred higher deficits to mitigate the impact of the pandemic and will continue to do so over the next few years.

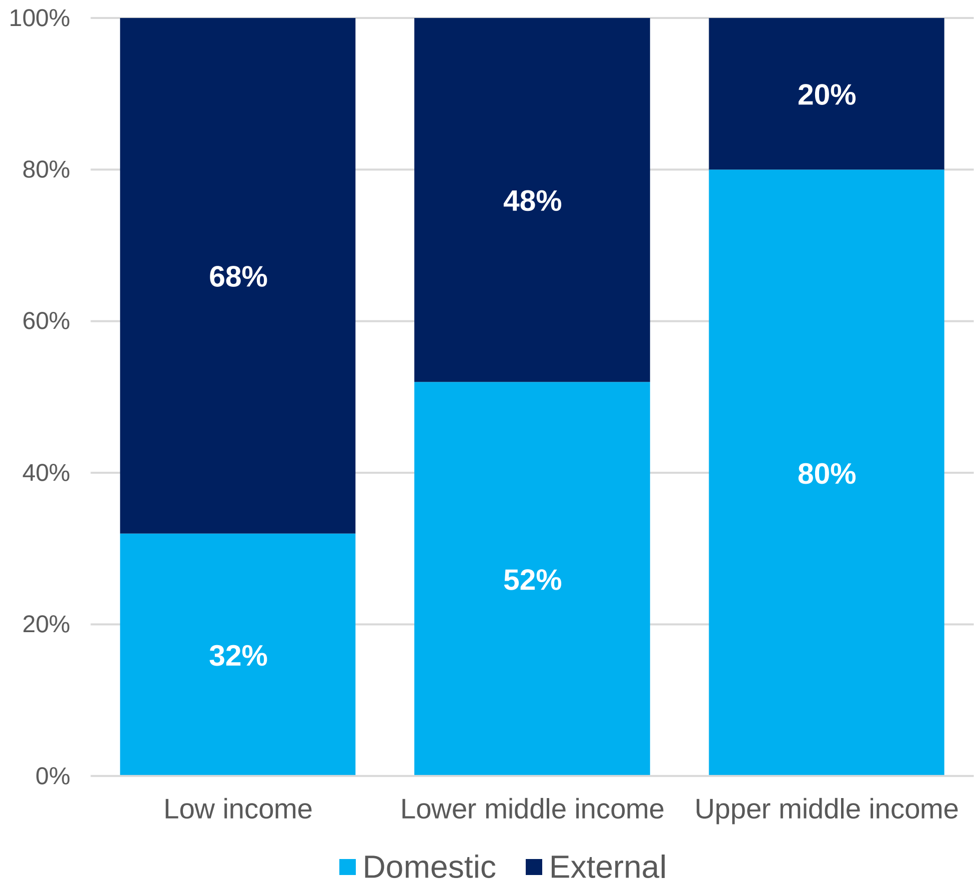
As debt levels and the toll of debt service obligations in government budgets rise, the challenges in debt service capacity of many developing countries have brought the need for public debt transparency into the forefront of national and global policy discussion.

Public Sector Domestic Debt has become an important part of the financing mix in many low- and middle-income countries

While this has helped countries address the currency mismatches in their portfolios, in some cases it also increased their exposure to shorter maturities, especially where a local institutional investor base is yet to be developed.

Accumulation of budgetary arrears has become a method to address financing gaps.

Share of creditor composition of Central Government Debt



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Gaps in public sector domestic debt in Quarterly Public Sector Debt

Although a strong methodological framework exists for comprehensive compilation of debt statistics, several challenges remain for implementing this methodology and achieving full balance sheet transparency for low- and middle-income countries.

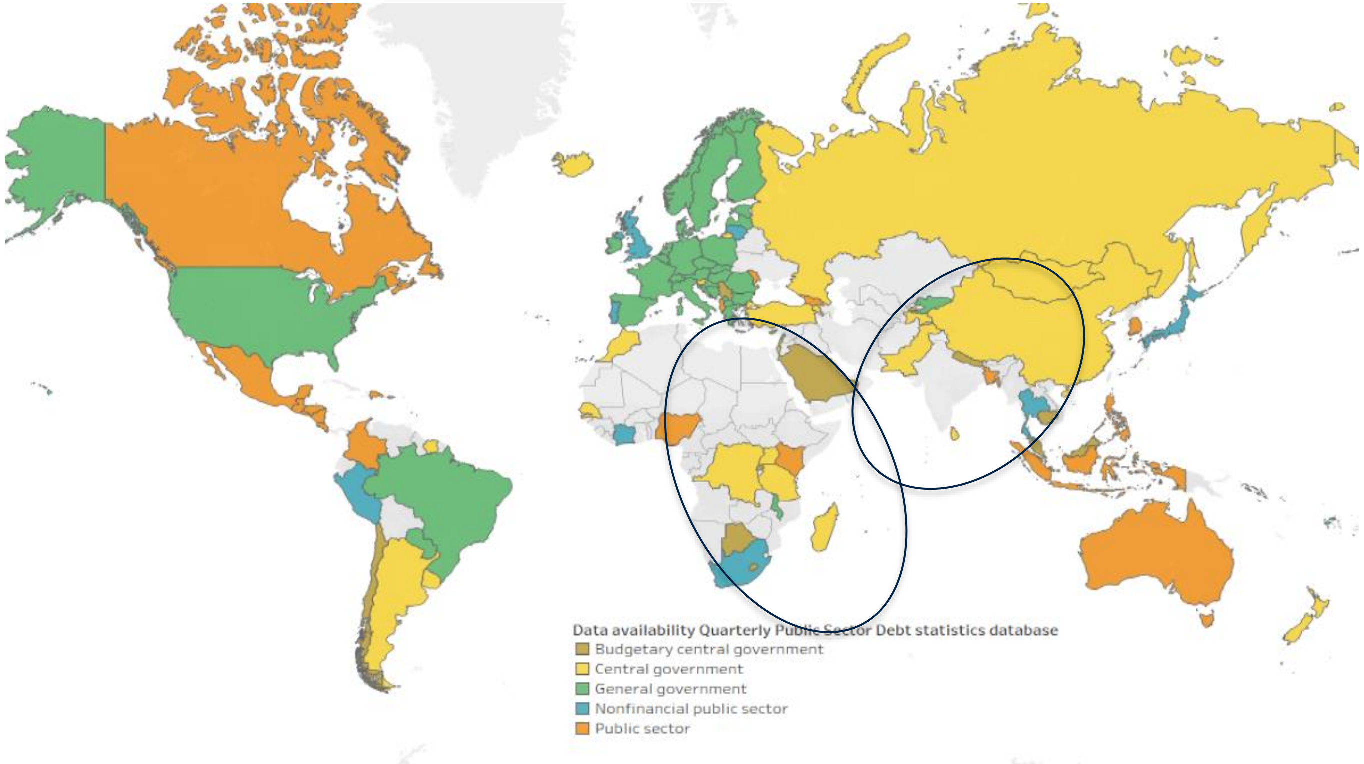
Challenges:

COUNTRY COVERAGE

limited with most of the 50 DRS countries participating in the QPSD being IBRD borrowers.

INSTRUMENT COVERAGE

limited to loans and debt securities, out of which: Domestic debt is reported as a total, making it difficult to assess the composition of debt instruments involved and anticipate fiscal risk and the impact of financial shocks.



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Methodology of the Survey on Public Sector Domestic Debt

TARGET COUNTRIES:

120 low- and middle- income countries presently reporting to the DRS.

TARGET INSTITUTIONS:

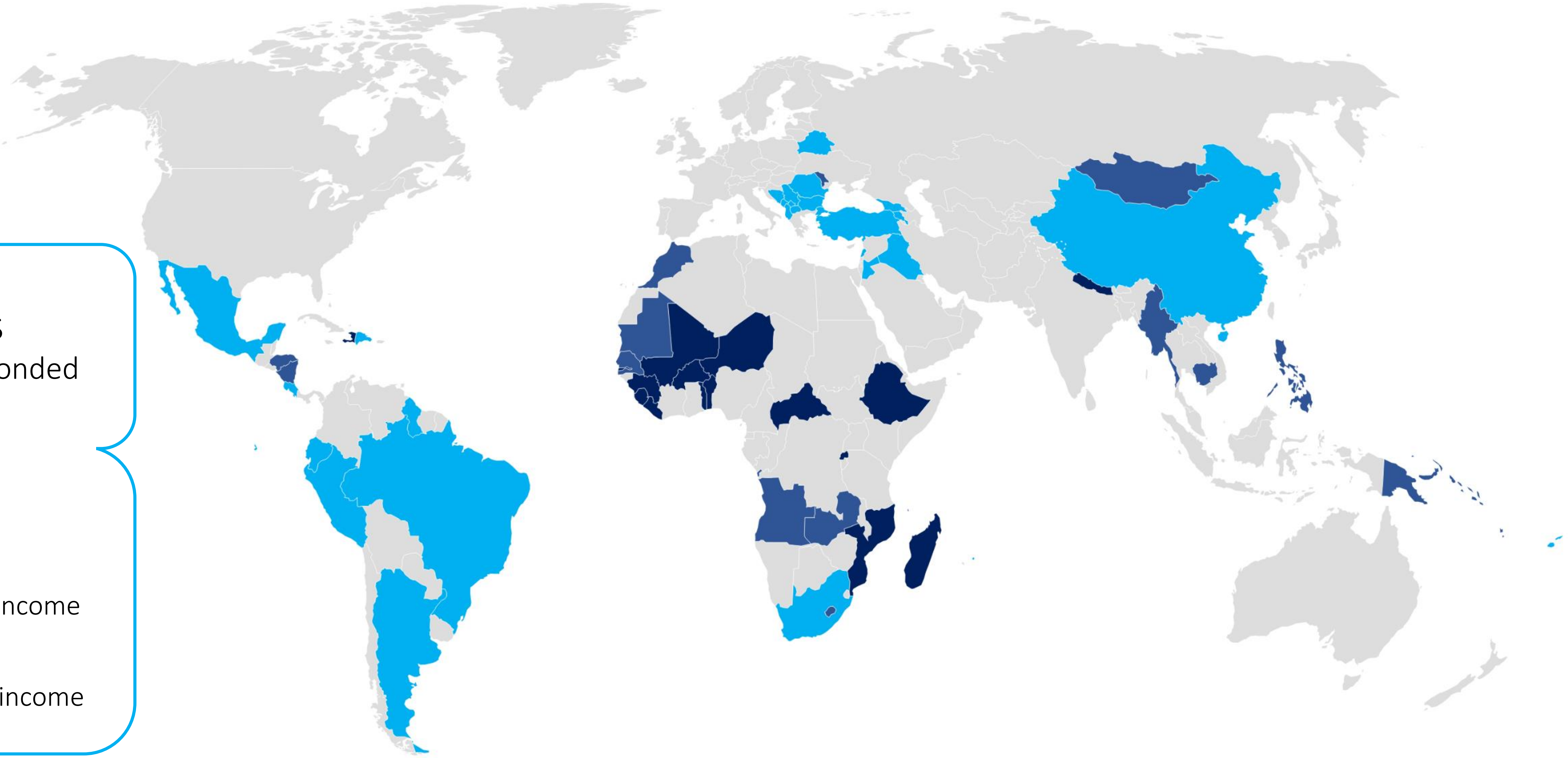
- Ministry of Finance
- Debt Management Offices
- Statistics Offices

QUESTIONNAIRE:

7 sections (42 questions) related to:

- Legal Framework
- Methodology and definitions
- Institutional and instrument coverage
- Data Sources and data Availability
- Transparency and dissemination

Survey Response Rate



70 out of 120 DRS countries responded

62% of low income

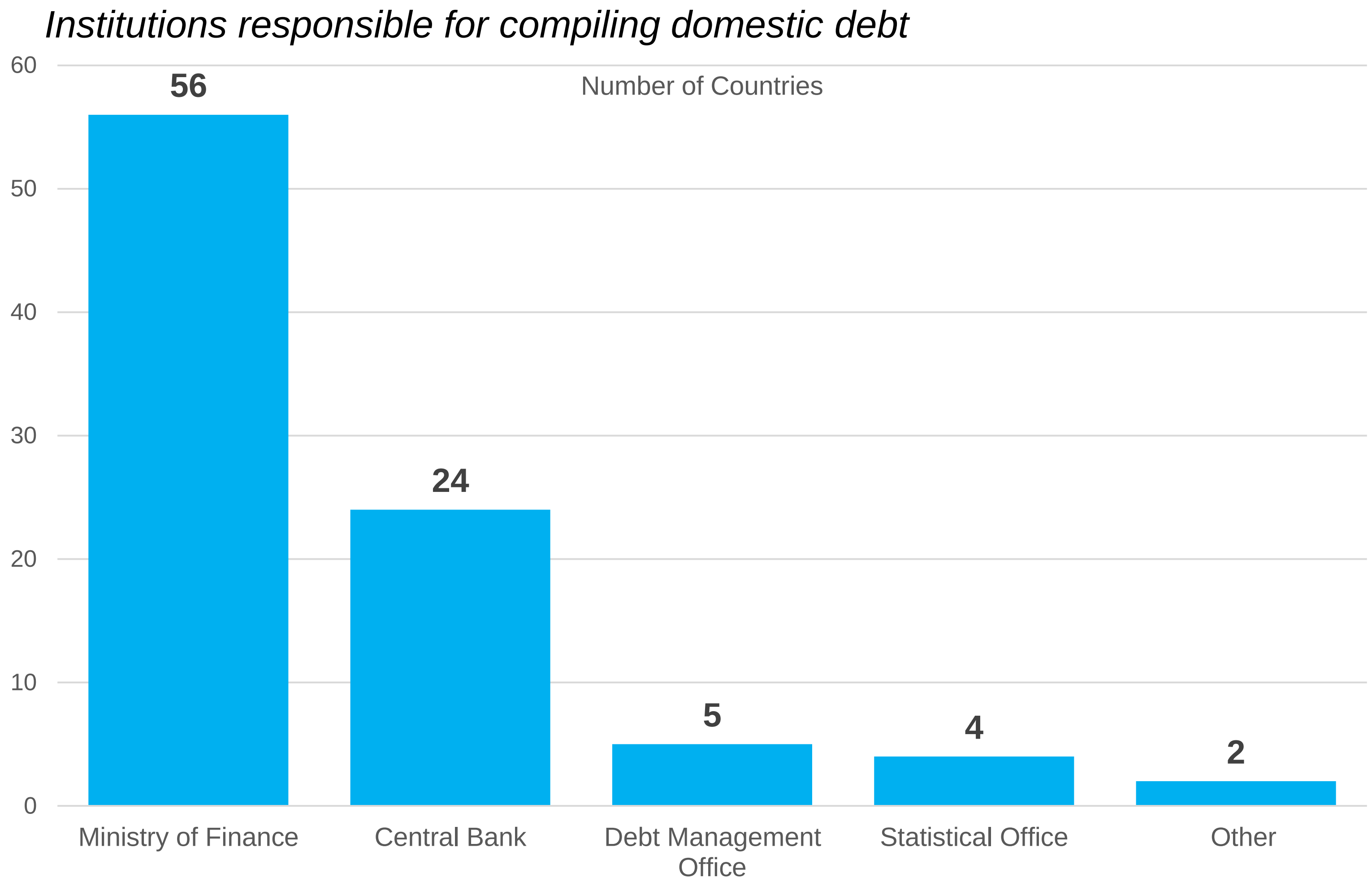
48% of lower middle income

63% of upper middle income

Legal and Statistical Framework

Almost all countries have a clear legal framework that supports the compilation of domestic debt statistics

Most of the countries have more than one agency that collects domestic debt information.



Debt Recording and Reporting Capacity

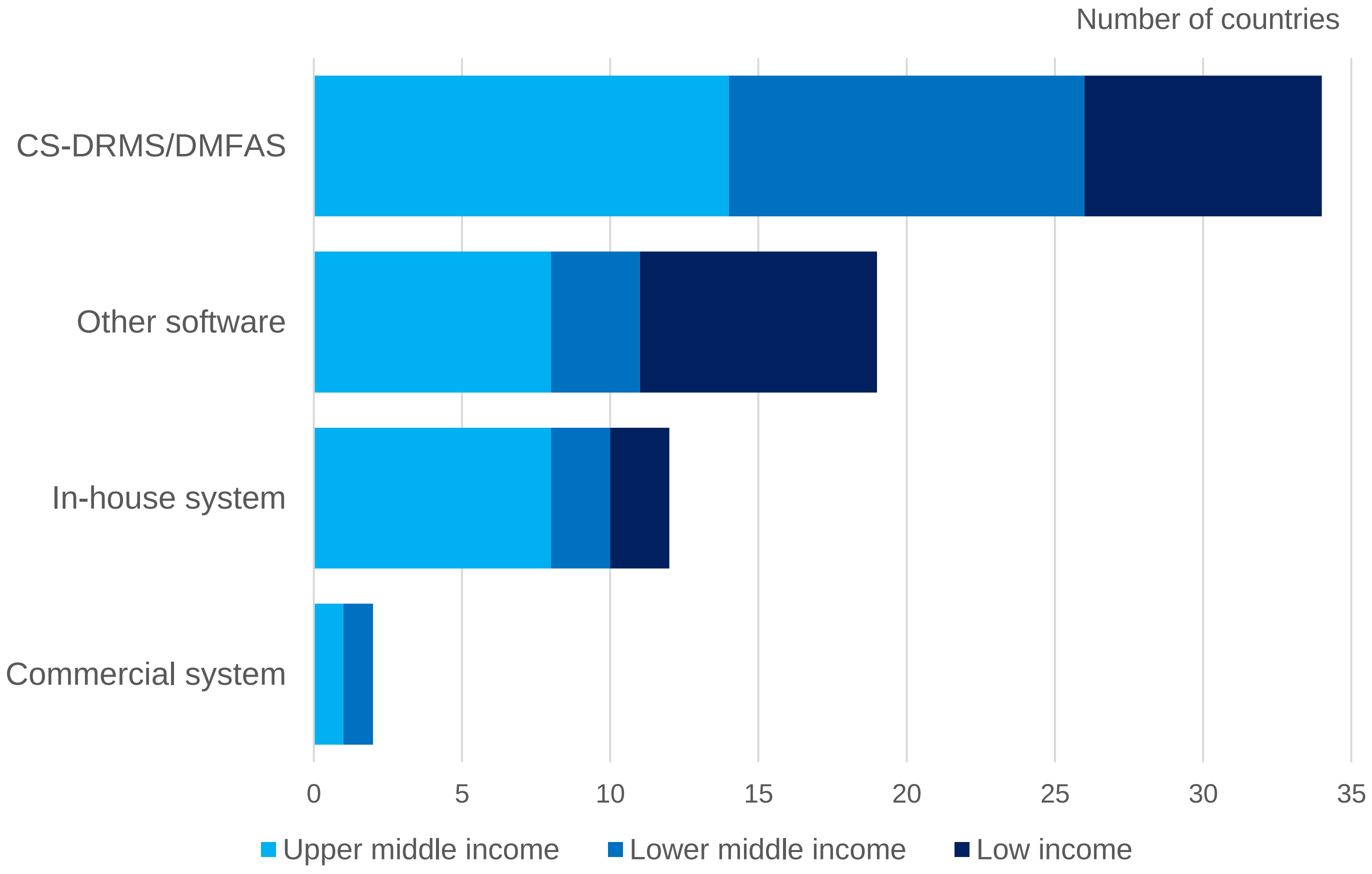
The capacity to record and report domestic debt varies by type of indicator:

66% of countries can record basic statistics, including outstanding debt, payment schedule, original maturity structure, currency, interest and instrument type breakdown.

50% of the countries can produce indicators such as remaining maturity structure, residency and type of creditors

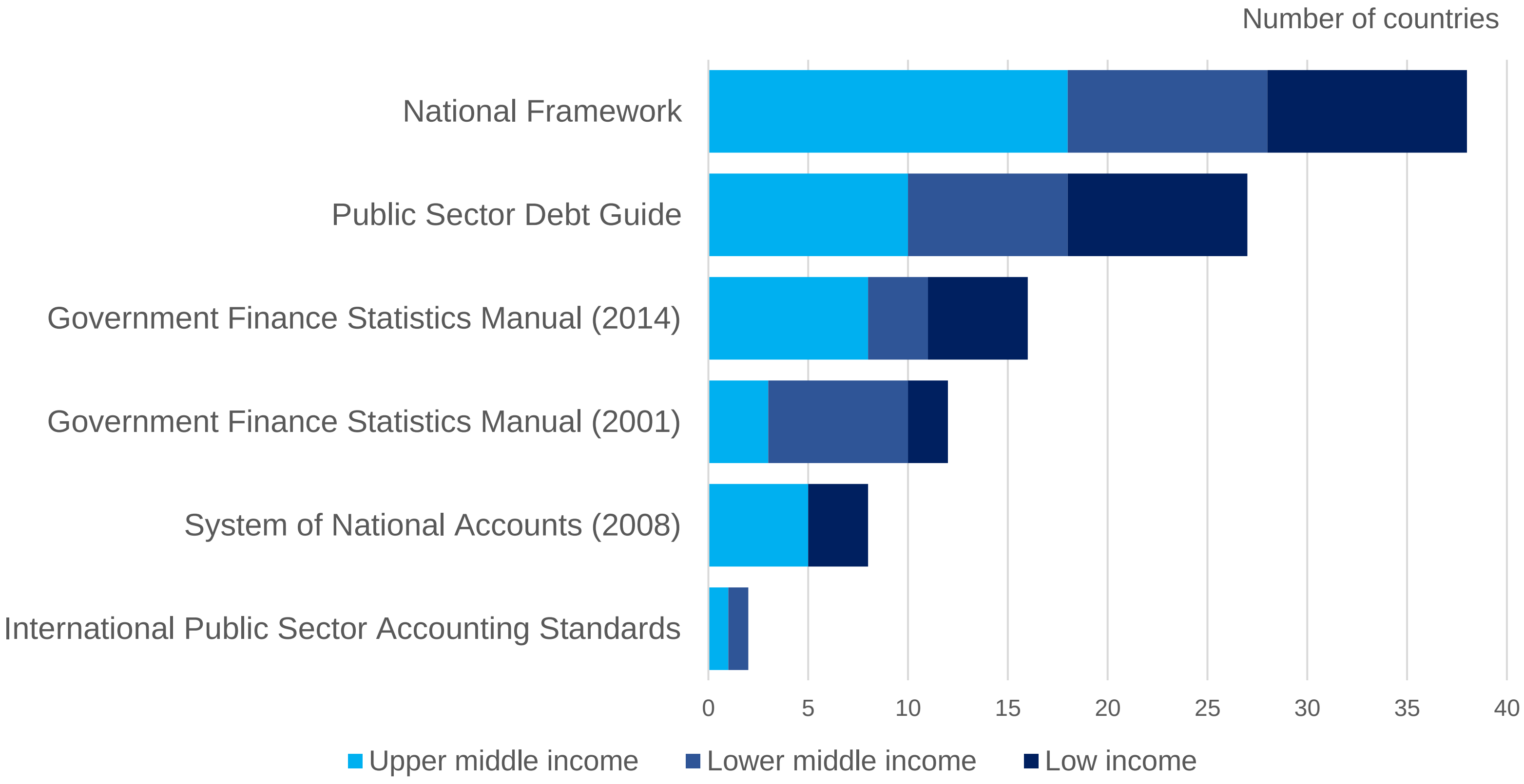
28% of the countries have the capability to produce risk indicators.

Debt System used to record and report domestic debt



Statistical Frameworks Used

Standards used to record and report domestic debt



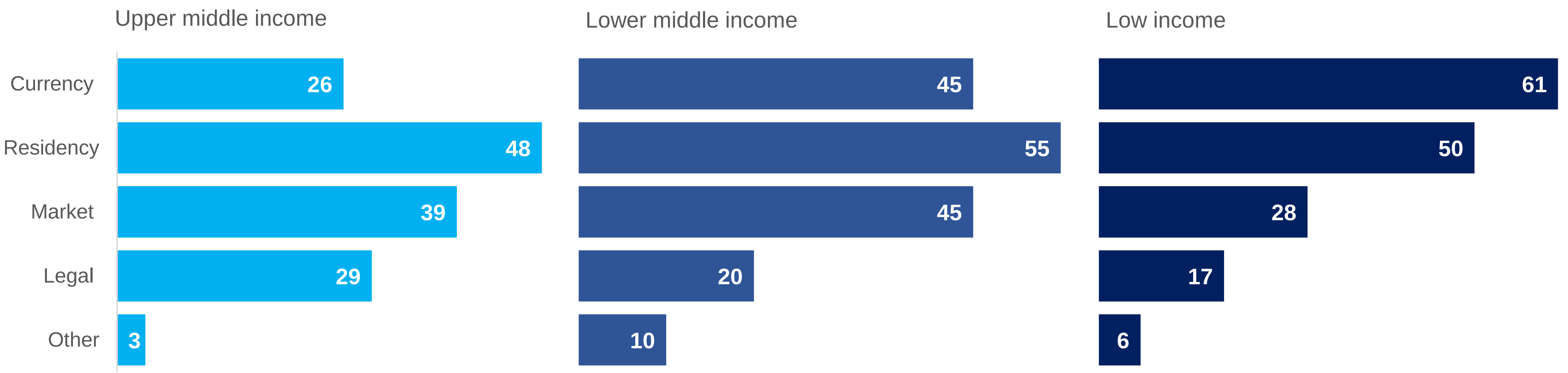
More than 50% of the countries rely mainly on their national statistics frameworks in compiling and producing debt statistics

The second most widely used framework is the PSDS Guide for Compilers and Users (IMF, 2011).

Domestic Debt Definition Criteria

The survey results reveal that there are discrepancies in the definition and coverage of domestic debt across countries. Residency of creditors is the most common norm to define domestic debt (50% of countries apply the residency criteria) followed by currency of denomination and market issuance.

Domestic Debt definition criteria by income level



Sectoral Coverage

Sectoral coverage of public sector domestic debt compiled varies widely among countries.

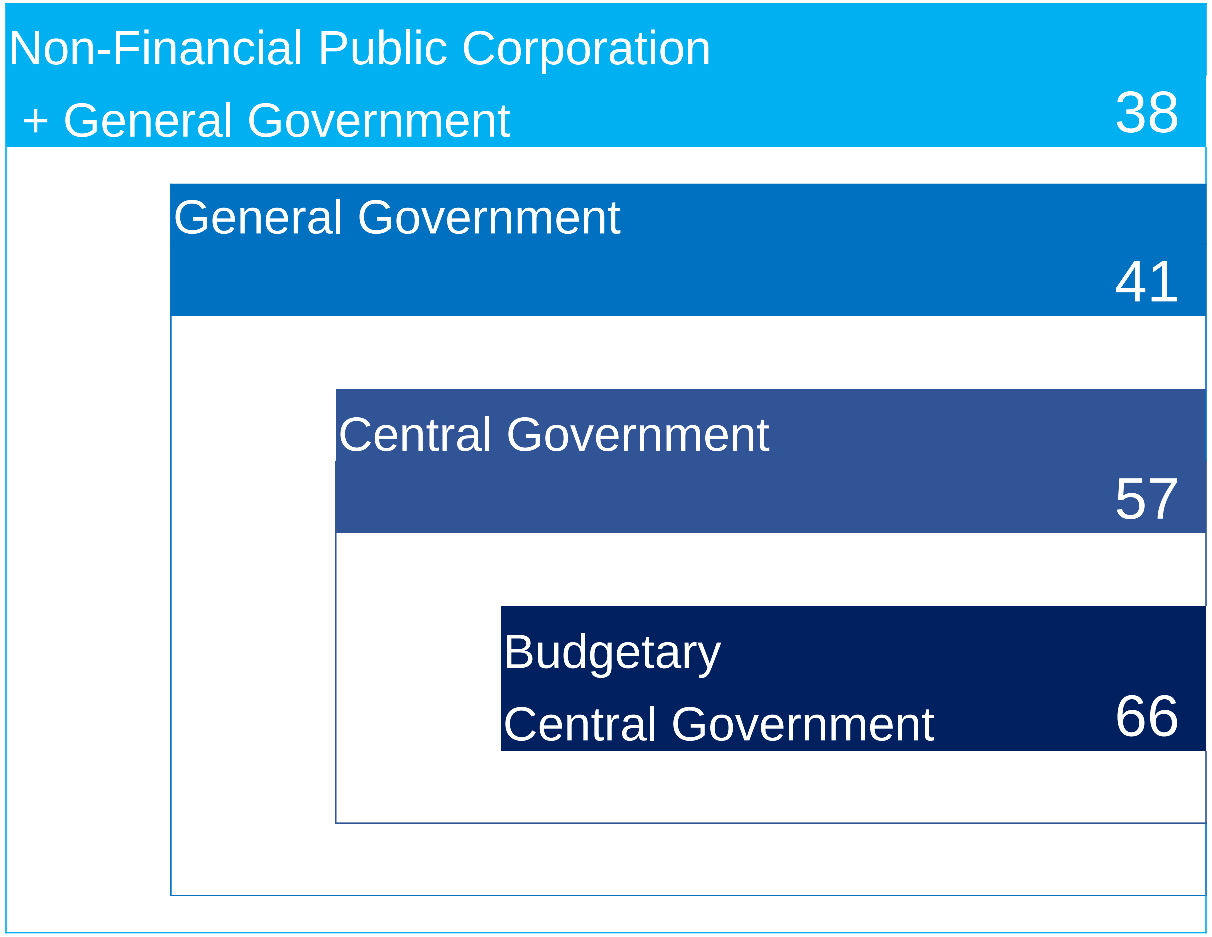
Sub-sectors are recorded but **not included** in the compiled statistics.

The coverage of sub-sectors only extends to cross-holdings of assets and liabilities with the central government.

Domestic guarantees issued by the central government to the public sector is a common practice and underscores the need for domestic debt to cover sub-sectors.

Sectoral coverage of Public Domestic Debt

Number of countries

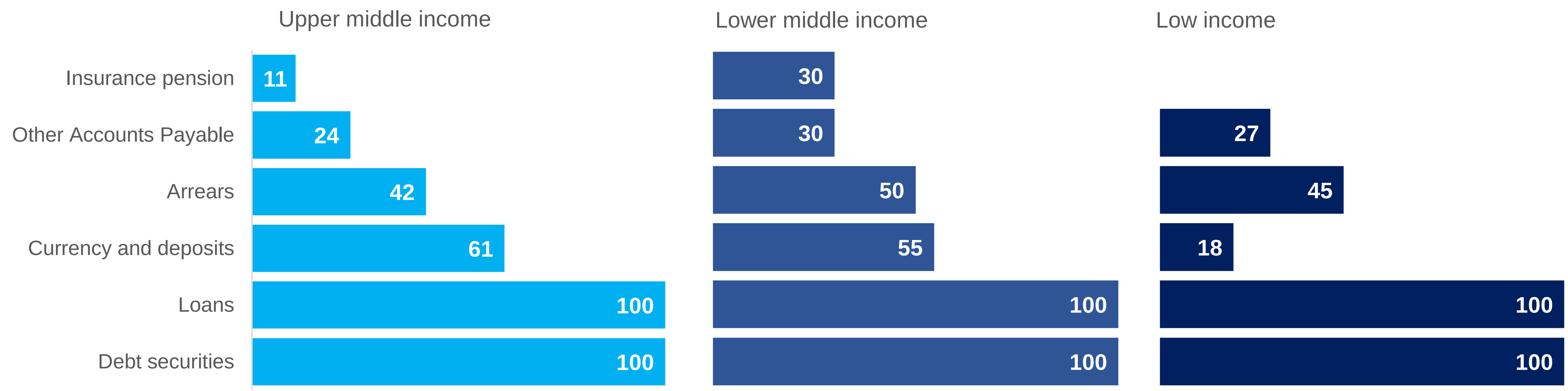


Instrument Coverage

Instrument coverage varies widely even for the budgetary central government, for which data is mostly available:

- Loans and debt securities are the most common debt instruments covered.
- 45 percent countries include arrears in domestic debt.
- Within debt securities, treasury bills and fixed rate bonds are the most common types covered.

Instrument coverage (%) for budgetary central government



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