Debt I : Debt Management Capacity and Debt Sustainability in Low-income Countries

Webinar

November 2021

Webinar objectives

The objective of the webinar is

- to upscale your expertise/understanding of issues related to public debt sustainability analysis
- to provide comprehensive review of methodologies of conducting public debt sustainability analysis (DSA), especially to present the new IMF DSA LIC (low-income countries.
- To cover the topics relating to DSA in low-income countries and discuss them from both theoretical and empirical perspective.

Webinar objectives

At the end of the webinar, the participants should be able to:

- ❑ Explain the concepts of debt sustainability analysis and methodology;
- ❑ Understand the data requirements and procedure for assessing macroeconomic projections;
- ❑ Appraise vulnerability indicators, Sustainability indicators and Financial debt indicators.

Webinar objectives

Content

1.- Basic concepts on public debt sustainability

2.- Debt dynamics & Debt-creating capital flows

3.- Why dealing with debt sustainability in low-income countries?

4.- IMF and World Bank's DSF for low-income countries

Outline of the Webinar

- Webinar objectives

- Webinar content

-Basic concepts on public debt sustainability

- Debt dynamics & Debt-creating capital flows

- IMF and World Bank's DSF for low-income countries

What is public debt?

The definition varies depending on its purpose

- The Commonly used narrow definition = the budgetary central government.

- The Broader definition = general government (budgetary central government, state and local government, extrabudgetary units, and social security funds).

What is public debt?

The definition varies depending on its purpose

- The broadest definition = general government

\+ public nonfinancial corporations

\+ public financial corporations (including the central bank)

\+ publicly guaranteed debt (debt the public sector does not hold but has an obligation to cover) +external public debt (debt held by nonresidents of the country).

What is public debt?

- To properly assess a country’s debt sustainability, it is important to cover all types of debt that pose a risk to a country’s public finances.

- In low-income countries coverage of both *public* and *publicly guaranteed* debt is standard.

- The holders of public debt also matter:

✓ Debt sustainability carried out by IMF and WB considers both domestic and external public sector debt.

✓sovereign credit rating agencies that focus on the risk of debt distress concentrate on market-based external public sector debt.

What is public debt?

- Gross debt : total amount of debt outstanding at any time (all liabilities held in debt instrument)
- Net debt : gross debt minus funds earmarked for repayment (assets held in debt instruments)
- Marketable debts : the securities are traded or negotiable in the open market
- Non-marketable debt : if the bonds are tradable in the stock markets they non-negotiable or non-marketable loans.
- Redeemable debt : those for which the government is committed to repay at an appointed date
- Short/medium/long-term loans: ST (incurred for periods of 3months to 1 year), MT (obtained for >1yr and <10 yrs)

When is debt sustainable?

Theoretical definition

A country's public debt is considered **sustainable** if the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default.

Policy definition

Public debt is **sustainable** when the government can continue servicing it without requiring an unrealistically (from a social and political point of view) large correction to its future revenue or primary expenditure path

When is debt sustainable?

- In practice, debt sustainability is assessed by asking if the current course of fiscal policy (tax and expenditure policies) can be sustained without facing an exploding debt path

- Analysts look at whether policies needed to stabilize debt are feasible and consistent with maintaining growth potential or development progress.

- When countries borrow from financial markets, risks associated with refinancing are important too.

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Debt dynamics & debt creating capital flows

$$D_t = D_{t-1}^d(1+i_t^d) + E_{t-1}D_{t-1}^f(1+i_t^f)(1+e_t) - P_t + H_t$$

D_t = total debt stock at the end of time period t

D^d = domestic debt

D^f = foreign-currency debt (in local currency)

i^d = interest rate on domestic debt

i^f= interest rate on foreign-currency debt

e = nominal exchange rate depreciation

P = primary balance (overall balance excluding interest expense)

H = other debt-creating flows

Note two reasons why changes in debt do not equal the budget deficit: valuation changes related to exchange rate changes and other debt-creating flows

Debt-creating capital flows

Example

$$d_t - d_{t-1} = \frac{[r_t^d d_{t-1}^d + r_t^f d_{t-1}^f] - g_t d_{t-1} + \varepsilon_t (1 + r_t^f) d_{t-1}^f}{(1 + g_t)} - p_t + \eta_t$$

Contribution from real interest rate

Contribution from real GDP growth

Contribution from real exchange rate depreciation

- p Primary deficit

η ***Other identified flows and residual***

Debt dynamics & debt creating capital flows

Simplifying case: there is only domestic currency debt and there are no other debt-creating flows:

$$d_t - d_{t-1} = \frac{(r_t - g_t)}{(1+g_t)} d_{t-1} - p_t$$

automatic debt dynamics

- Then there is a unique constant $p*$ that stabilizes d at a level $d*$:

$$p* = \frac{(r-g)}{(1+g)} d*$$

- $p*$ is the *debt-stabilizing primary surplus*.
  It equals the automatic debt dynamics.

Snowball effect : interest rate growth differential. Happens when r>g (debt explodes)

Debt Dynamics & debt creating capital flows

Critical variables affecting public debt sustainability

- Interest rates (self-fulfilling speculative attacks)
- Growth
- Exchange rate
- Contingent liabilities

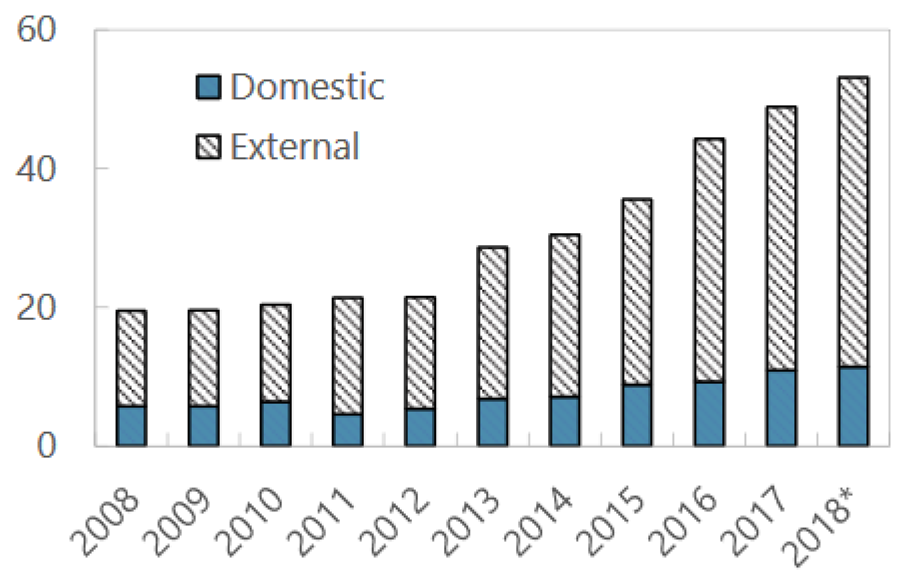
Debt Dynamics & debt creating capital flows

Role of contingent liabilities

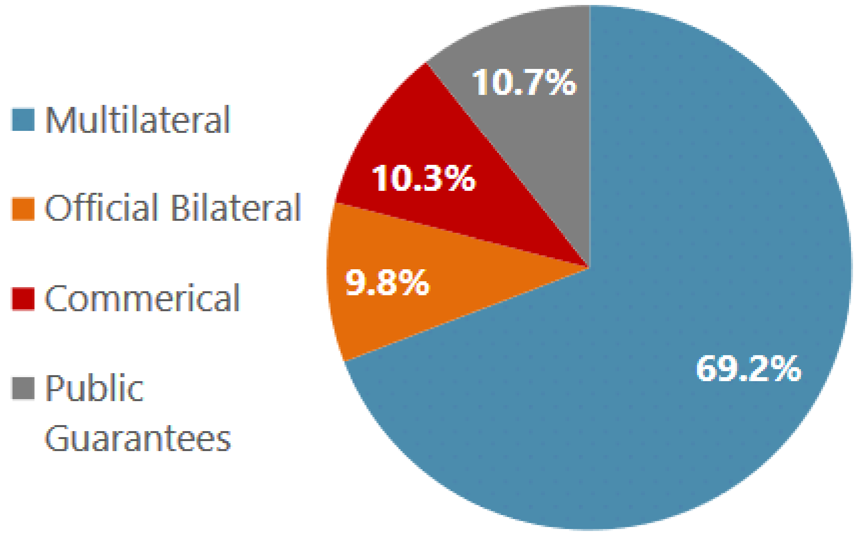
	Direct	Contingent
Explicit	Civil servant pensions	State guarantees Deposit insurance schemes
Implicit	Ageing-related expenditures	“Too big to fail” banks Natural catastrophes

Debt-creating capital flows

Text Figure 1. Nominal Public Debt
(Percent of GDP)



Text Figure 2. Composition of Nominal PPG External Debt
(2018*, Percent of total)



* Preliminary data for 2018

Source: Rwandan authorities and IMF Staff Calculations

Debt-creating capital flows

RWANDA

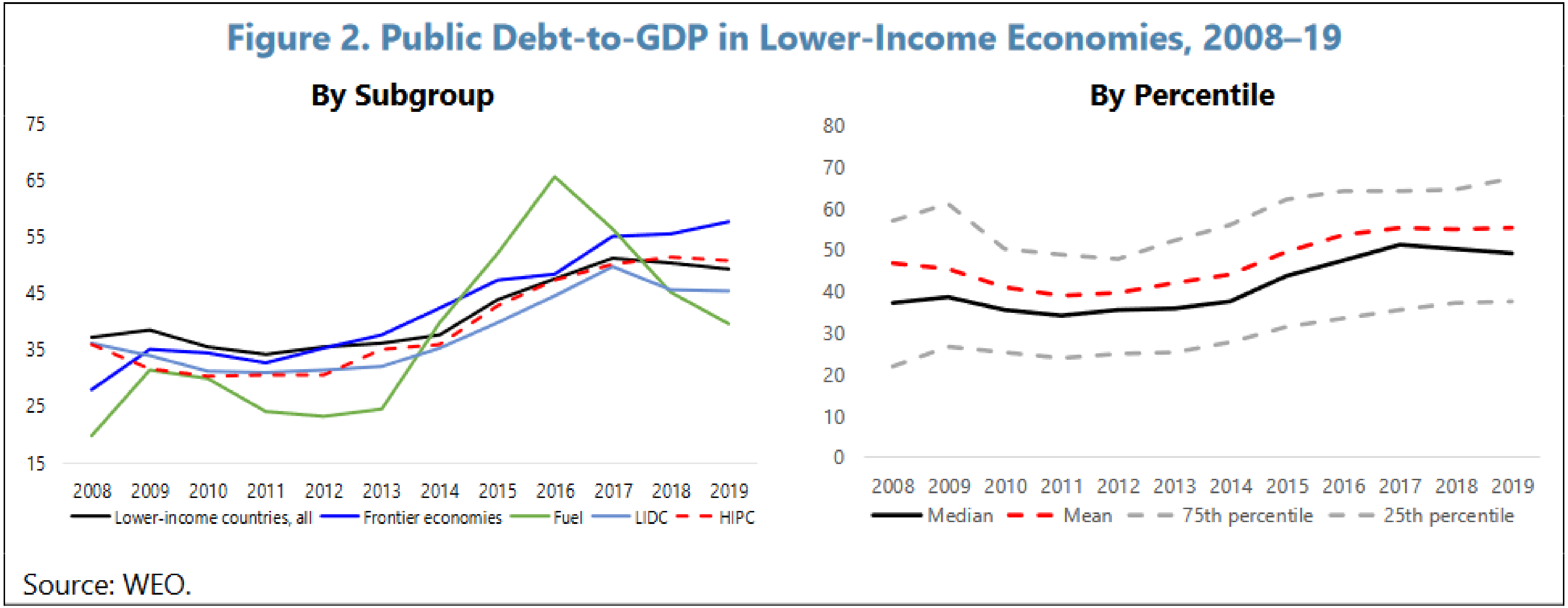
(US$ million, unless otherwise indicated)

	2008	2014	2015	2016	2017	2018
Debt ratios						
External debt stocks to exports (%)	128.9	219.0	232.9	279.8	241.3	266.7
External debt stocks to GNI (%)	19.2	37.1	42.7	52.3	54.0	59.0
Debt service to exports (%)	6.6	12.8	12.5	14.4	12.1	12.5
Short-term to external debt stocks (%)	0.7	0.9	0.3	5.2	1.4	1.9
Multilateral to external debt stocks (%)	60.5	37.9	39.5	38.1	43.0	44.8
Reserves to external debt stocks (%)	82.8	28.9	23.6	18.7	18.4	16.6
Gross national income (GNI)	4,832.8	7,837.7	8,077.9	8,264.8	8,934.6	9,308.1
Summary external debt stock by creditor type						
Long-term External debt stocks	**889.7**	**2,765.4**	**3,329.1**	**3,888.8**	**4,466.3**	**5,075.8**
Public and publicly guaranteed debt from:	649.7	1,755.4	2,057.3	2,353.3	2,820.9	3,306.4
Official creditors	649.7	1,355.4	1,657.3	1,953.3	2,420.9	2,906.4
Multilateral	562.0	1,101.9	1,362.8	1,645.5	2,076.2	2,458.9
of which: World Bank	241.7	605.3	861.9	1,048.5	1,403.5	1,610.5
Bilateral	87.7	253.6	294.6	307.8	344.8	447.5
Private creditors	..	400.0	400.0	400.0	400.0	400.0
Bondholders	..	400.0	400.0	400.0	400.0	400.0
Commercial banks and others	..	..	..	..	..	..
Private nonguaranteed debt from:	240.0	1,010.0	1,271.7	1,535.5	1,645.4	1,769.5
Bondholders	..	..	..	..	..	..
Commercial banks and others	240.0	1,010.0	1,271.7	1,535.5	1,645.4	1,769.5
Use of IMF Credit	32.5	119.4	111.6	203.3	290.7	307.9

Debt-creating capital flows

	Actual			Projections							
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039
Public sector debt 1/	**44.2**	**48.9**	**53.1**	**55.8**	**57.3**	**58.2**	**57.2**	**56.7**	**56.5**	**58.4**	**62.8**
of which: external debt	**35.0**	**37.9**	**41.6**	**43.4**	**44.6**	**45.5**	**45.6**	**45.8**	**46.7**	**49.6**	**50.7**
Change in public sector debt	8.8	4.6	4.2	2.7	1.5	0.9	-0.9	-0.6	-0.1	0.5	0.4
Identified debt-creating flows	**2.3**	**0.4**	**2.9**	**2.7**	**1.6**	**1.1**	**-0.6**	**-0.4**	**0.0**	**0.4**	**0.4**
Primary deficit	**2.7**	**3.6**	**3.5**	**4.9**	**5.0**	**4.8**	**3.6**	**3.6**	**4.1**	**4.3**	**3.8**
Revenue and grants	23.5	22.9	24.1	23.1	22.2	21.6	22.0	22.2	22.1	22.0	23.4
of which: grants	5.1	4.7	4.9	4.8	3.9	3.4	3.6	3.7	3.4	2.3	1.1
Primary (noninterest) expenditure	26.2	26.5	27.6	28.0	27.2	26.4	25.6	25.8	26.3	26.3	27.2
Automatic debt dynamics	**-0.4**	**-3.1**	**-0.6**	**-2.3**	**-3.4**	**-3.7**	**-4.3**	**-4.0**	**-3.9**	**-3.8**	**-3.4**
Contribution from interest rate/growth differential	-1.7	-2.2	-3.0	-3.5	-4.1	-4.2	-4.2	-4.0	-3.9	-3.8	-3.5
of which: contribution from average real interest rate	0.3	0.4	0.8	0.4	0.1	0.1	0.1	0.0	0.1	0.0	0.4
of which: contribution from real GDP growth	-2.0	-2.6	-3.9	-3.8	-4.2	-4.3	-4.3	-4.0	-4.0	-3.9	-3.8
Contribution from real exchange rate depreciation	1.3	-1.0	2.4	...	...	...	...	...	...	...	...
Other identified debt-creating flows	**0.0**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.2**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt creating or reducing flow (use of earmarked fund)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0	0.0
Residual	**6.4**	**4.2**	**1.3**	**1.3**	**0.6**	**0.3**	**-0.3**	**-0.2**	**-0.2**	**0.1**	**0.1**

Why dealing with debt sustainability in LIC?



Source: IMF policy paper 2020, The evolution of public debt vulnerabilities in lower income countries

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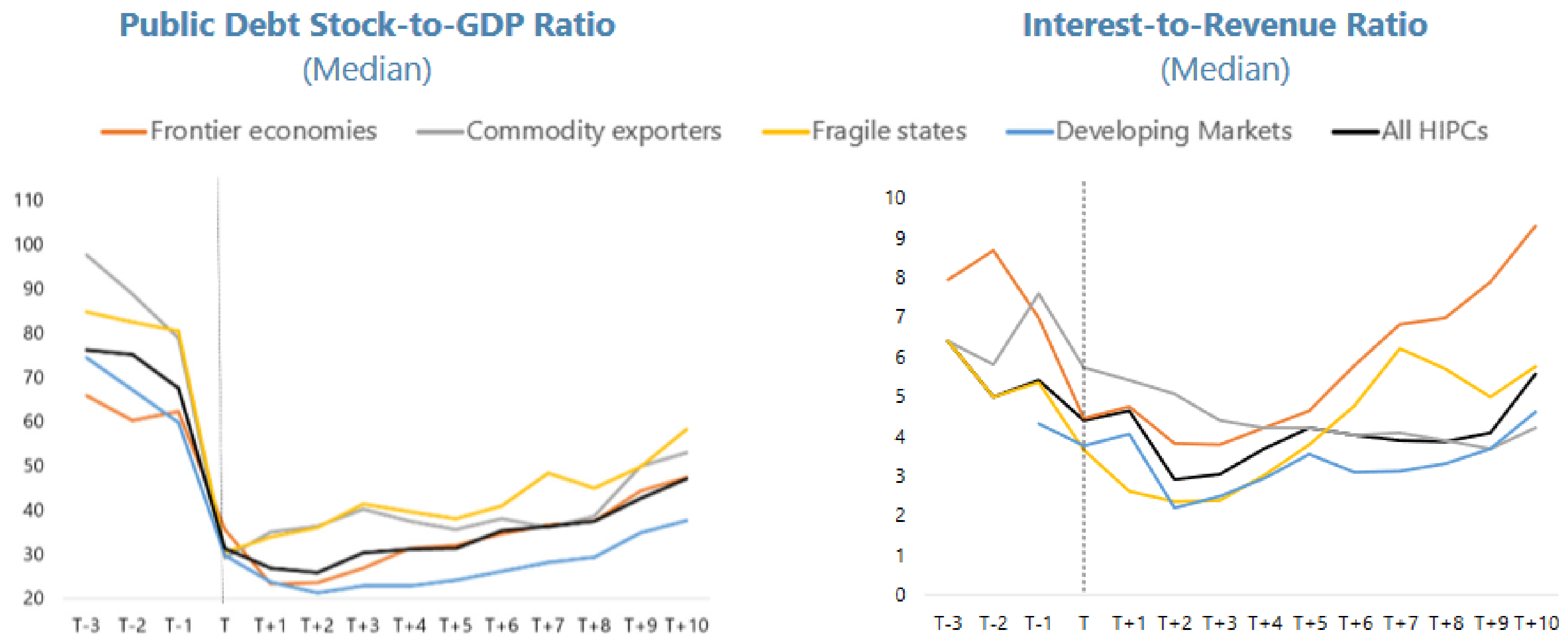


Sources: WEO and country DSAs.
Note: T is set at the year when a country reached HIPC Completion Point or MDRI, whichever came later (HIPC/MDRI completion point). The number of countries in the sample shrinks over time as actual data are available only through 2018. "Completion Point" rather than "Decision Point" is used to determine "T" given a comprehensive stock-based debt relief was provided at the completion point. As a result, the effect of debt relief may be underestimated since some debt relief may have already occurred prior to completion point.

Source: IMF policy paper 2020, The evolution of public debt vulnerabilities in lower income countries

Why dealing with debt sustainability in LIC?

Several indicators

Liquidity: ability to meet maturing obligations

Solvency: the current debt stock is fully covered by the present discounted value of all expected future primary balances

Vulnerability: risk of insolvency or illiquidity

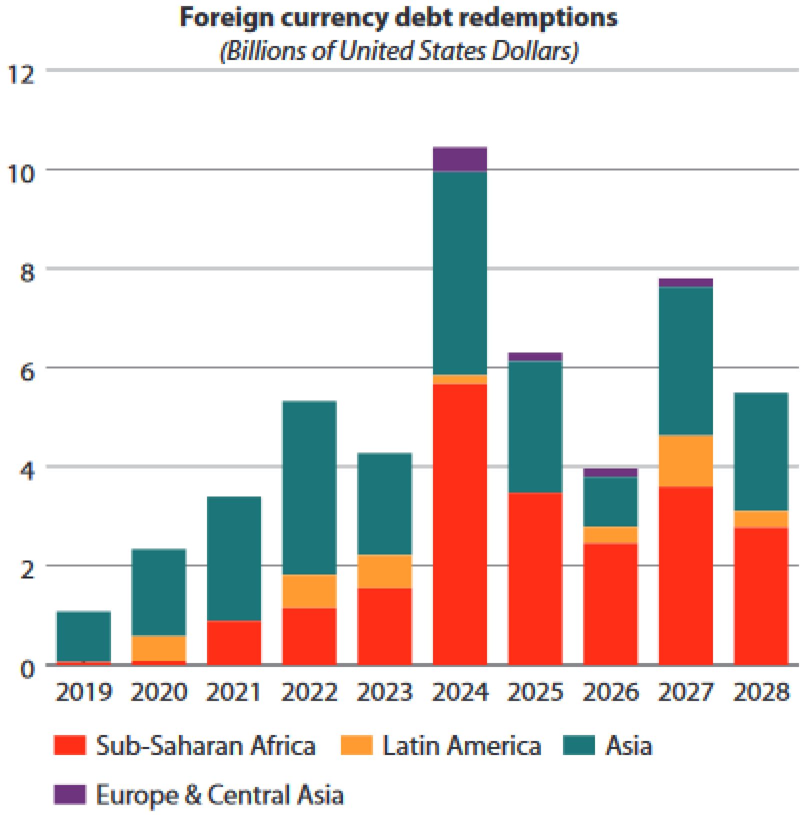
Fiscal space: the capacity to provide additional budgetary resources without prejudice to debt sustainability.

Why dealing with debt sustainability in LIC?

Figure III.E.5

Foreign currency debt redemptions of frontier economies

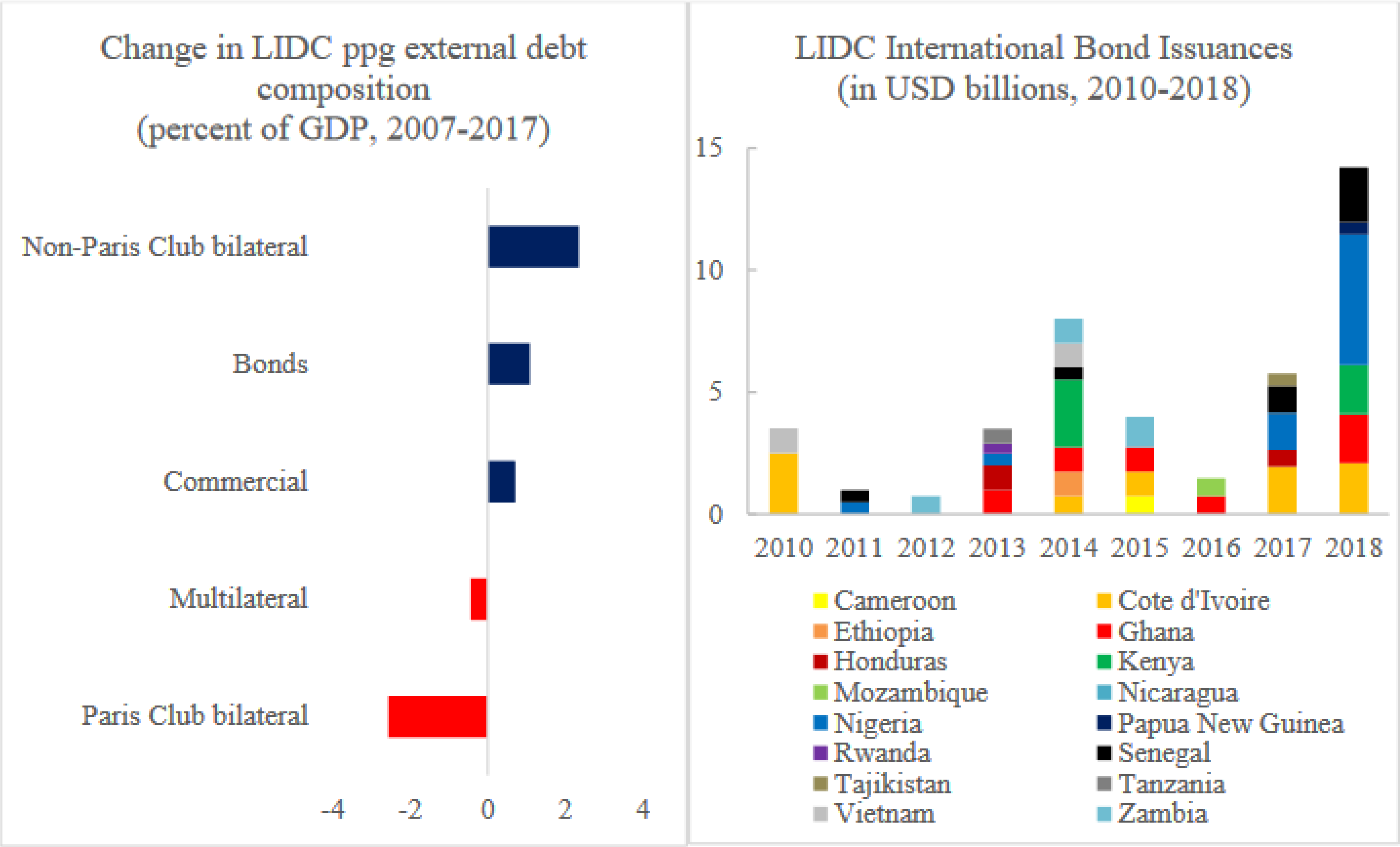
(Dollars and percentage)



Source: United Nations, 2020, Financing for sustainable development report 2020

Why dealing with debt sustainability in LIC?

Figure 1: LIDC: Changing debt composition and international bond issuance



Source: World Bank International Debt Statistics and Bloomberg.

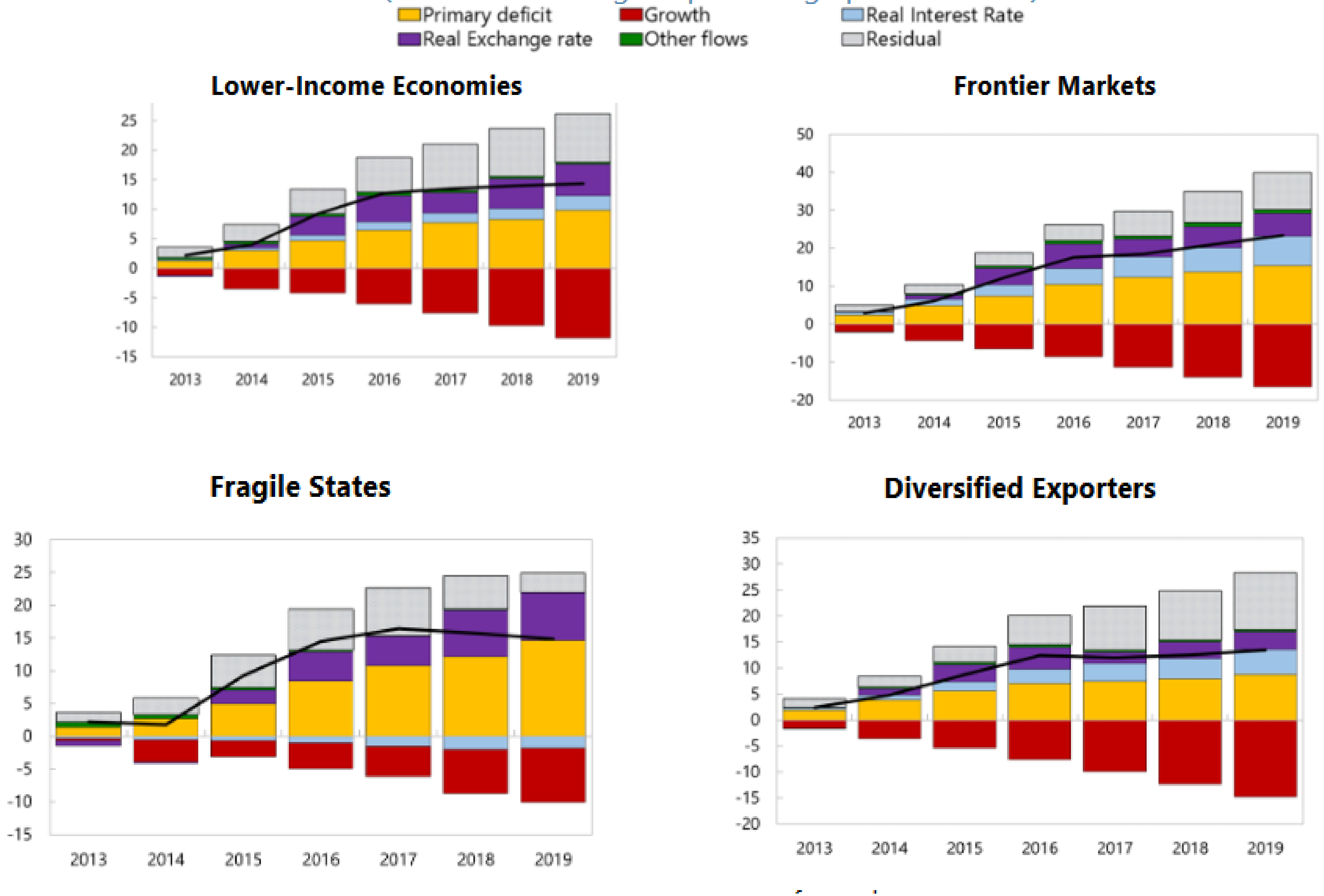
Outline

- Why dealing with debt sustainability in low-income countries?
- Debt dynamics
- IMF and World Bank Debt Sustainability Framework
- Fiscal rules

Public Debt Dynamics

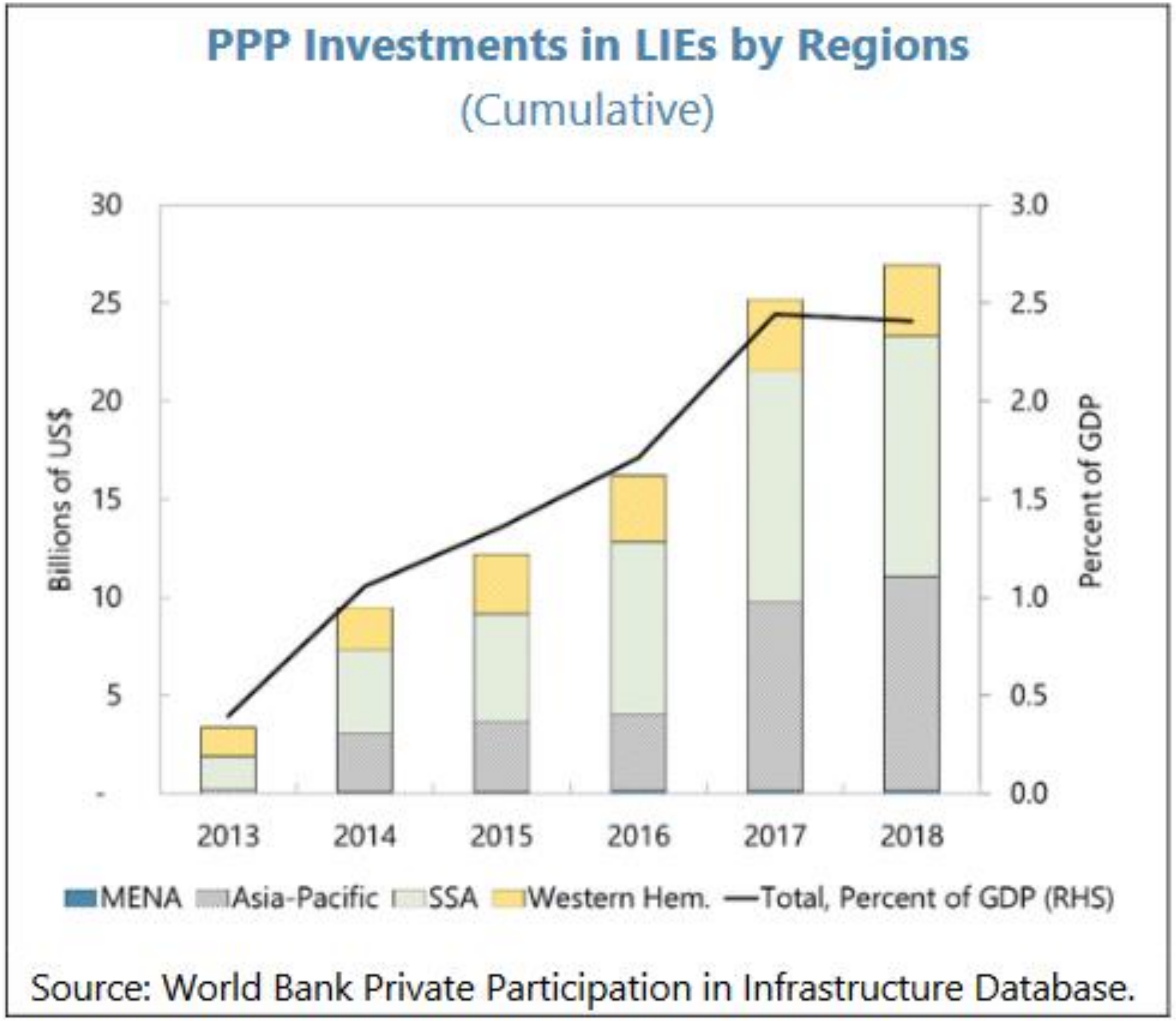
Figure 5. Debt Decomposition 1/

(Cumulative change in percentage points of GDP)



Source: IMF policy paper 2020, The evolution of public debt vulnerabilities in lower income countries

Public Debt Dynamics



Outline of the Webinar

- Webinar objectives
- Webinar content
- Debt-creating capital flows
- **IMF and World Bank's DSF for low-income countries**

IMF and World Bank's DSF for low-income countries

- **Scope: An operational approach to assess debt sustainability in LICs** (external + public debts)**.**

- **Forward-looking: 20-year forecast of debt burden indicators under baseline assumptions and stress tests.**

To capture long maturity and grace period of concessional loans and investment returns.

- **Institutional indicators: combined with policy specific debt thresholds > Lead to a risk scoring.**

- **Countries eligible to:**
  - **Poverty Reduction and Growth Trust (PRGT) facilities**
  - **International Development Association (IDA) resources**

IMF and World Bank’s DSF for low-income countries

- **Vulnerability**
  - **A risk that a country violates the solvency and liquidity conditions and enters a crisis.**

- **Importance of granularity**
  - **Emphasis on the run-up to high debt and debt distress situations.**
  - **Allows a more accurate assessing of risks.**
  - **Early warning signals of increase in debt vulnerabilities** (indicators in % of thresholds)**.**

IMF and World Bank's DSF for low-income countries

Debt carrying capacity

- ❑ **NOT relying exclusively on the CPIA to classify countries' debt-carrying capacity.**
- ❑ **INSTEAD use a composite measure based on a set of economic variables.**

- **Composite index = weighted sum of the non-debt determinants of debt distress and CPIA.**
- **CI = 0.385*CPIA + 2.719*Growth + 4.052*Reserves - 3.990*Reserves^2 + 2.022*Remittances + 13.520*World Growth**

IMF and World Bank’s DSF for low-income countries

A composite index to replace the standard CPIA

- **CI = 0.385*CPIA + 2.719*Growth + 4.052*Reserves - 3.990*Reserves^2 + 2.022*Remittances + 13.520*World Growth**

  - Weights: average estimated coefficients across the statistical models.
  - Reserves and remittances: scaled by imports and GDP, respectively.

- **Country classification depends upon other countries’ situation and global factors.**

- **The CI uses ten years of data** (5 years of history and 5 years of projections) **to smooth out economic cycles and encourage forward-looking policy discussions** (CPIA, growth, reserves, remittances, world growth)**.**

IMF and World Bank's DSF for low-income countries

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Debt carrying capacity rating : WEAK – MEDIUM – STRONG

IMF and World Bank’s DSF for low-income countries

CPIA index

- ❑ **Country Policy and Institutional Assessment (16 indicators)**
  - **Economic management.**
  - **Structural policies.**
  - **Policies for social inclusion and equity.**
  - **Public sector management and institutions.**

Annually compiled by the WB for IDA-eligible countries.

IMF and World Bank's DSF for low-income countries

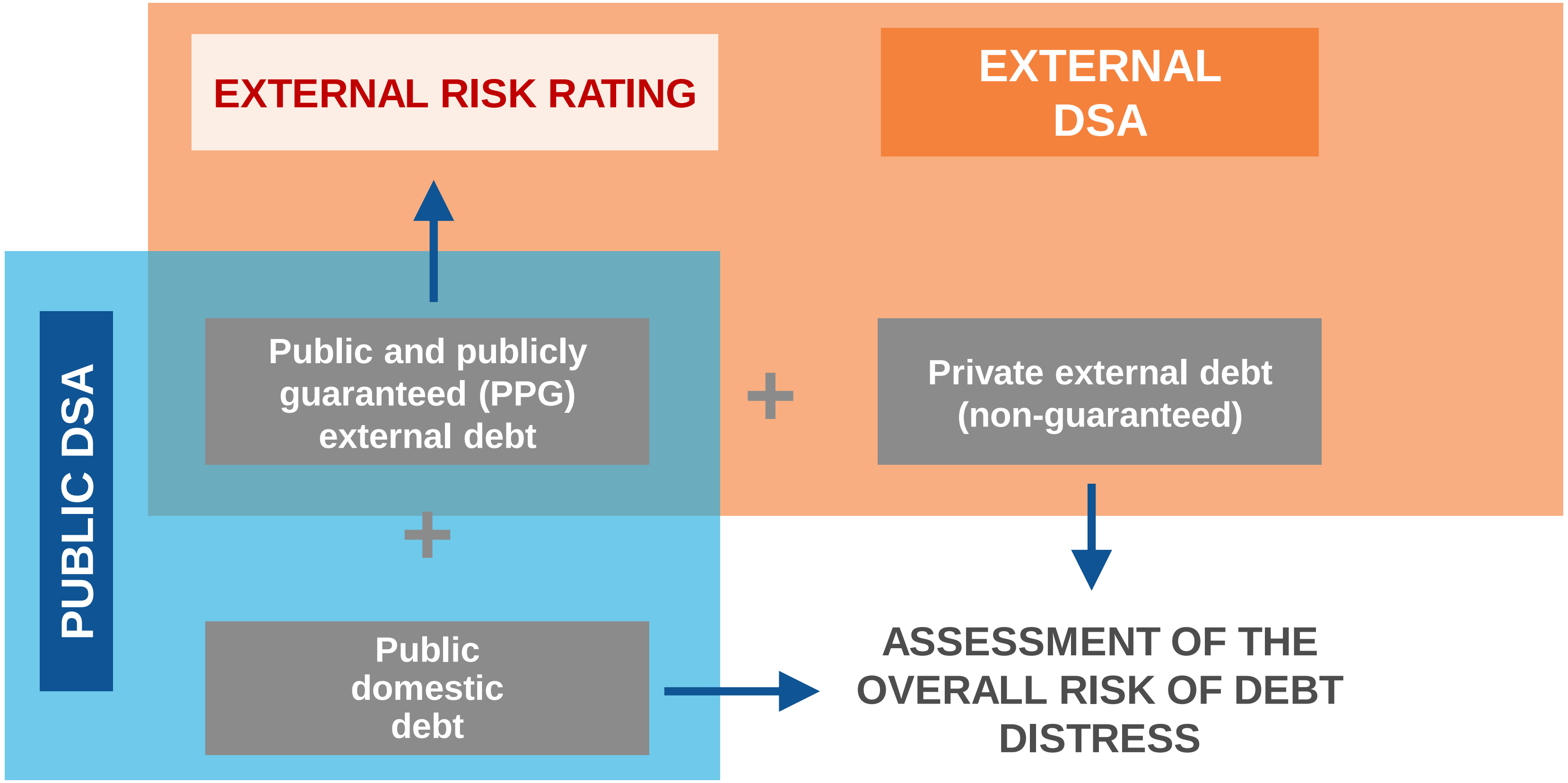
Main features of a DSF: key role of macroeconomic framework

Macroeconomic projections and assumptions → **LIC DSA template** → **Risk assessment**

- **Realistic.**
- **Must reflect the policies of the country authorities.**
- **Stress tests customized: consistent with the specific shocks facing a country.**

IMF and World Bank’s DSF for low-income countries

Main features of a DSF: assessment of the overall risk of debt distress



IMF and World Bank's DSF for low-income countries

Main features of a DSF: rating for the risk of external debt distress

PPG EXTERNAL DEBT

THRESHOLDS

RISK RATING

Four ratings for the risk of external debt distress

- LOW
- MODERATE
- HIGH
- IN DEBT DISTRESS

Table 2. Macroeconomic Variables for the LIC DSA

Variable	Currency	Historical	Projection
Balance of Payments			
Current account balance	U.S. dollars	x	x
Exports of goods and services	U.S. dollars	x	x
o/w fuel and non-fuel commodities	U.S. dollars	x	
Imports of goods and services	U.S. dollars	x	x
Current transfers, net total	U.S. dollars	x	x
Current transfers, official	U.S. dollars	x	x
Gross workers' remittances ("personal transfers" in BPM6)	U.S. dollars	x	x
Net foreign direct investment (excluding debt instruments)	U.S. dollars	x	x
Exceptional financing	U.S. dollars	x	x
Gross reserves	U.S. dollars	x	x
Public sector			
Public sector revenue (including grants)	National currency	x	x
Public sector grants	National currency	x	x
Privatization receipts	National currency	x	x
Public sector expenditure	National currency	x	x
Public sector assets (liquid and readily available)	National currency	x	x
Recognition of implicit or contingent liabilities	National currency	x	x
Other debt creating or reducing flows	National currency	x	x
Debt relief	National currency	x	x

Debt			
Stock of PPG external debt (medium and long term)	U.S. dollars	x	
Stock of PPG external debt (short term)	U.S. dollars	x	x
Stock of private external debt	U.S. dollars	x	x
Stock of public domestic debt	National currency	x	x
Interest due on PPG external existing debt	U.S. dollars	x	
Interest due on private external existing debt	U.S. dollars	x	x
Interest due on public domestic existing debt	National currency	x	x
Amortization due on PPG external debt	U.S. dollars	x	x
Amortization due on private external debt	U.S. dollars	x	x
Amortization due on public domestic existing debt	National currency	x	
Stock of outstanding PPG arrears	U.S. dollars	x	x
Other			
GDP, current prices	National currency	x	x
GDP, constant prices	National currency	x	x
U.S. GDP deflator	None	x	x
Exchange rate versus U.S. dollar, end of period	National currency	x	x
Exchange rate versus U.S. dollar, average	National currency	x	x
Total investment	National currency	x	x
o/w government investment	National currency	x	x

IMF and World Bank’s DSF for low-income countries

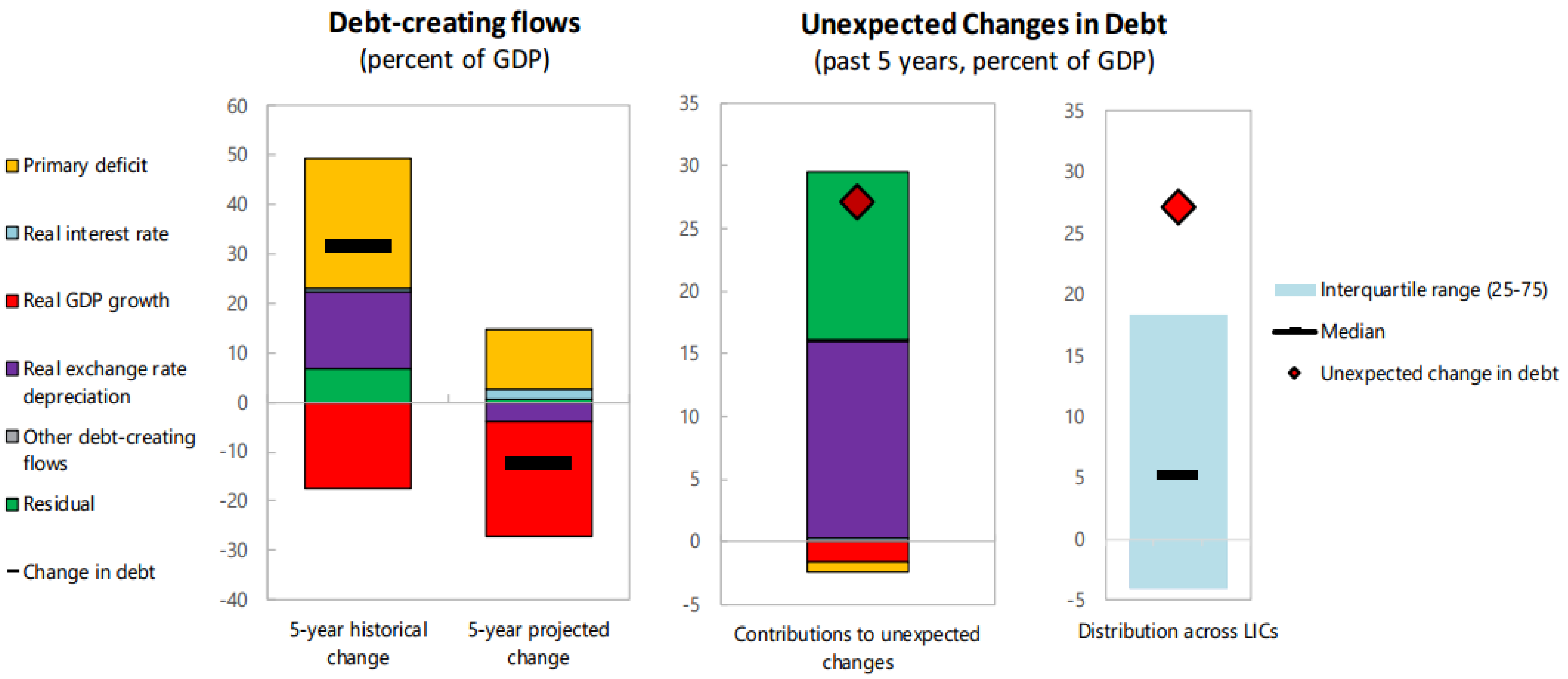
Realism of assumptions and projections

- **Determinants of debt dynamics**
  - 3 vintages of debt dynamics: current, past year(5yrs) , forecasts (5yrs ahead).
  - Are there any breakdown in the determinants of debts dynamics.
  - Analyses of past forecast errors: contribution of each factor.
  - Contribution of errors to unexpected changes and revision.

- **Are the projected drivers of growth likely to materialize? What were their respective contribution in the past?**
  - Low/high contribution of growth/interest differential in past debt accumulation?
  - Prediction of the real exchange rate should be tighten to realistic assumptions on the current account balance.
  - Realism of fiscal adjustment.

IMF and World Bank's DSF for low-income countries

Example



IMF and World Bank's DSF for low-income countries

External debt and contingent liabilities

- **External Debt > Definition**
  - **GROSS TOTAL EXTERNAL DEBT =**
  - **PPG** (public and publicly guaranteed)
  - **+ PNG** (publicly non-guaranteed)
  - **+ short-term debt** (public and private)

- **Contingent Liabilities > Definition**
  - **EXPLICIT =**
  - **Guarantees for borrowing** (local gvts, private entities, sectoral : agriculture, SME)**.**
  - **State insurance schemes** (crop, flood insurances)**.**
  - **IMPLICIT = Defaults** (local gvts, private entities) **+ Bank failures +**
  - **Liabilities clean-up in entities privatized +**
  - **Failure of pension and social security funds**

IMF and World Bank’s DSF for low-income countries

PPG total debt

- **Total Debt > Definition = External PPG + Domestic PPG**
  - **DOMESTIC PPG**
  - **Payable in domestic currency**
  - **May include arrears (wage, suppliers)**
  - **Drivers : budget deficits, domestic interest rates and term structure**

IMF and World Bank's DSF for low-income countries

Indicative thresholds depends on the quality of policies and institutions (CI indicators)

		Quality of policies and institutions		
		Weak CI<2.69		Strong CI>3.05
Solvency ratio	NPV PPG external Debt/GDP	30	40	55
	NPV PPG external Debt/EXPORT	140	180	240
	NPV PPG TOTAL Debt/EXPORT	35	55	70
Liquidity ratio	NPV PPG external Debt service/Exports	10	15	21
	NPV PPG external Debt service/revenue	14	18	23

- **When the CI is high enough (a country has a good capacity of debt management)**
  - **It will be more able to absorb large shocks on external and public debts.**
  - **Higher thresholds indicate that the Fund and WB tolerate higher ceilings** (corresponding to larger shocks on debt)**.**

IMF and World Bank’s DSF for low-income countries

Stress tests

- **Very important**
  - **Shocks customized** (not general) **to the countries’ situation and specificities.**
  - **3 dimensions : Nature of shock, trigger** (When? How long?)**, How to quantify the shock.**

IMF and World Bank's DSF for low-income countries

Stress tests

Nature of the shock	Trigger	Quantification
Natural disasters (small states)	• **2 disasters every 3 yrs** • **Economic losses (>5% GDP per year)**	• **One-off shock of 10% GDP to debt-to-GDP ratio**
Commodity price (countries = countries with exports >50% of total exports, previous 3 yrs)	• **10% contraction of commodity prices**	• **Commodity price gap closing over 6 yrs** • **GDP growth: ↘ 2%** • **Fiscal revenues: ↘1%**
Interest rate shocks (countries = outstanding Eurobonds)		▪400 bps : ↗ for 3 yrs for external commercial borrowing ▪One-off FX depreciation ≈15%
Financial needs risks	• **Countries undergoing a debt restructuring**	• **Customized scenario** • **Impacts of grants of DSA risk rating**

European Commission

IMF and World Bank’s DSF for low-income countries

External risk rating

❑ Low risk of debt distress

- **None of Debt burden thresholds breached under the baseline scenario or stress tests.**

❑ Moderate risk of debt distress

- **None of Debt burden thresholds breached under the baseline scenario and at least one is breached under the stress tests.**

❑ High risk of debt distress

- **At least one of the debt burden threshold is breached under the baseline.**

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Total debt

❑ Low risk of debt distress

- **PPG external has a low risk signal.**
- **Total PPG debt ratio below threshold under the baseline and stress tests.**

❑ Moderate risk of debt distress

- **PPG external : moderate risk signal.**
- **OR PPG total : low risk + public stock debt threshold is breached under stress test.**

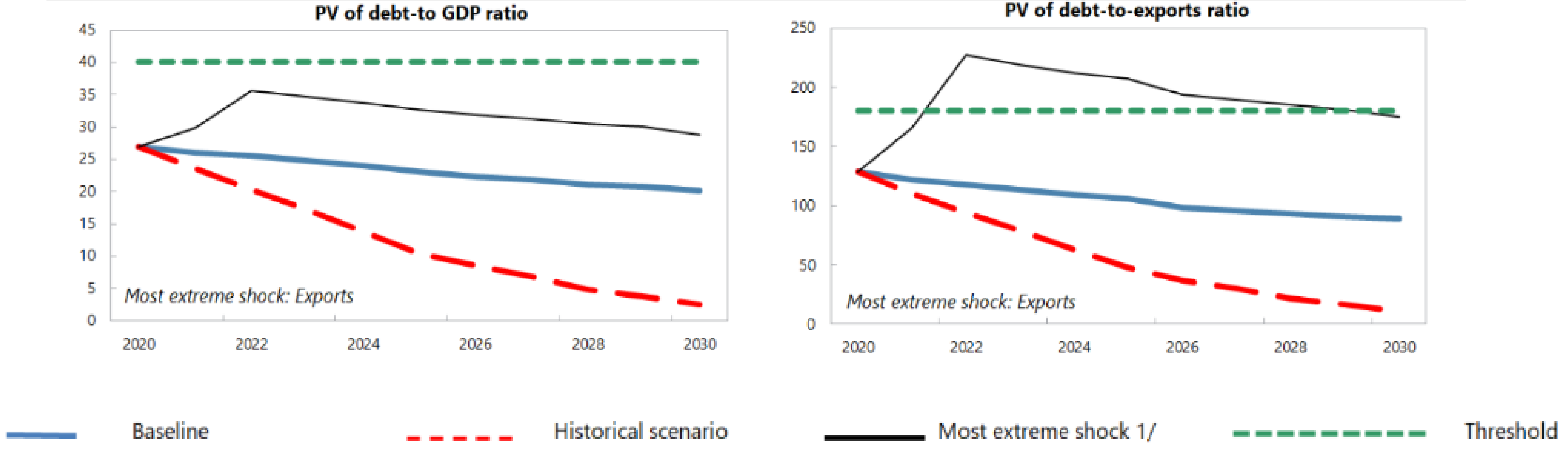
❑ High risk of debt distress

- **PPG external OR total public debt breaches their threshold under the baseline scenario.**

IMF and World Bank's DSF for low-income countries

Example moderate risk : Côte d'Ivoire

Annex Figure 1. Cote d'Ivoire: Indicators of Public and Publicly Guaranteed External Debt, 2020–30



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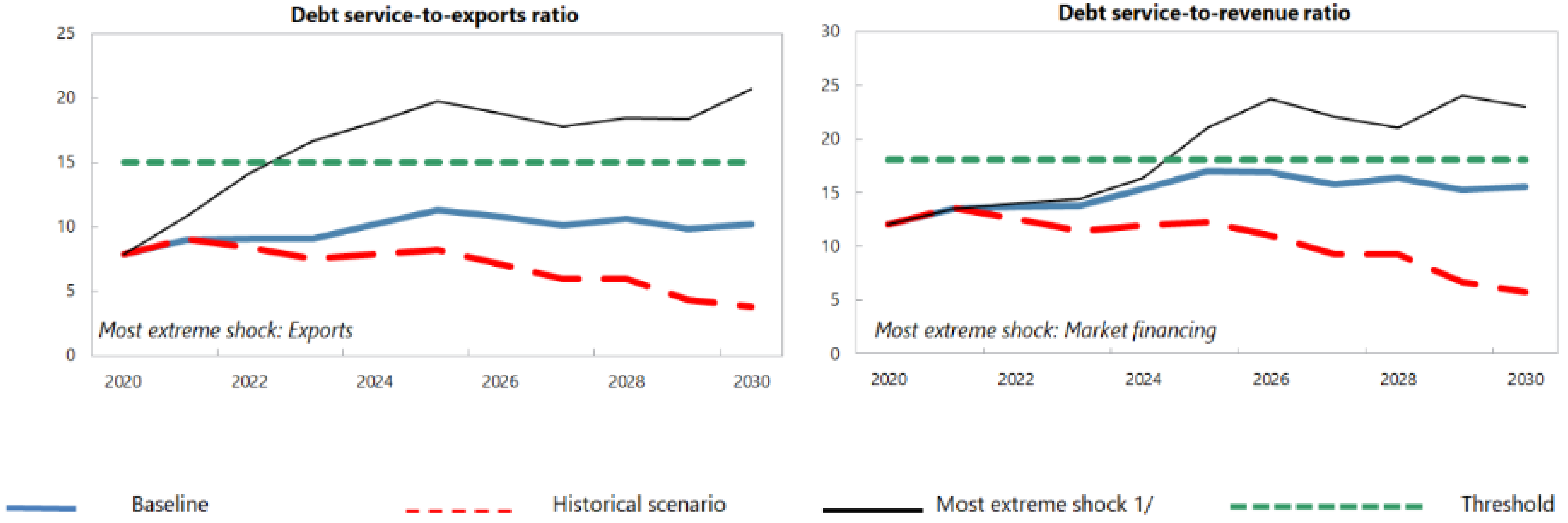
Example moderate risk : Côte d’Ivoire



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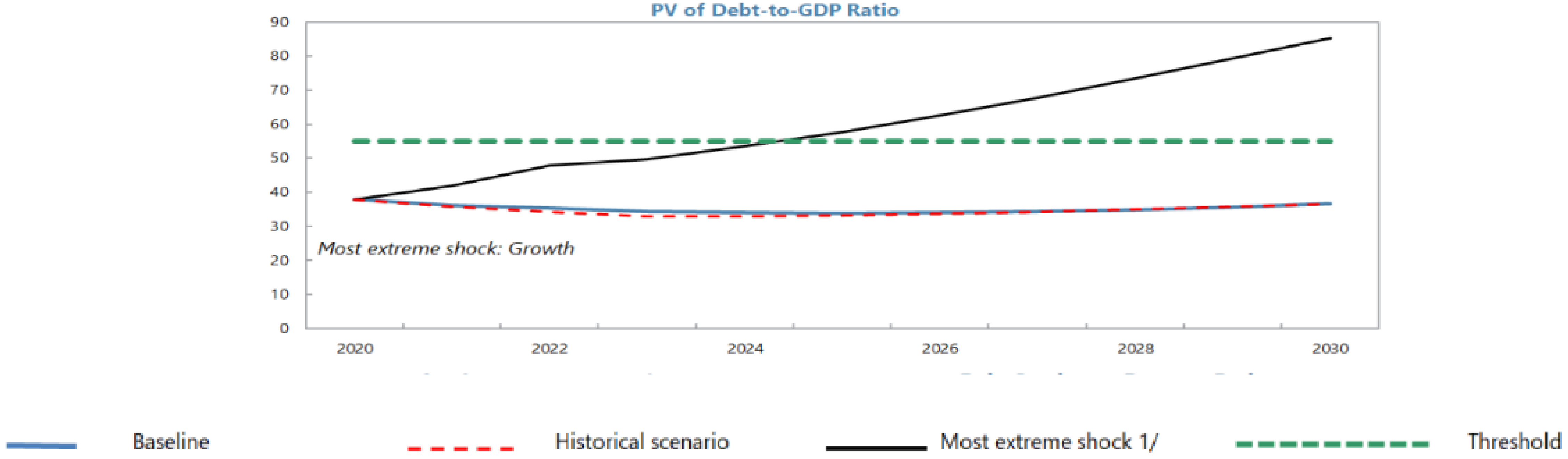
Example moderate risk : Côte d'Ivoire

Annex Figure 2. Cote d'Ivoire: Indicators of Public Debt Under Alternative Scenarios, 2020–30



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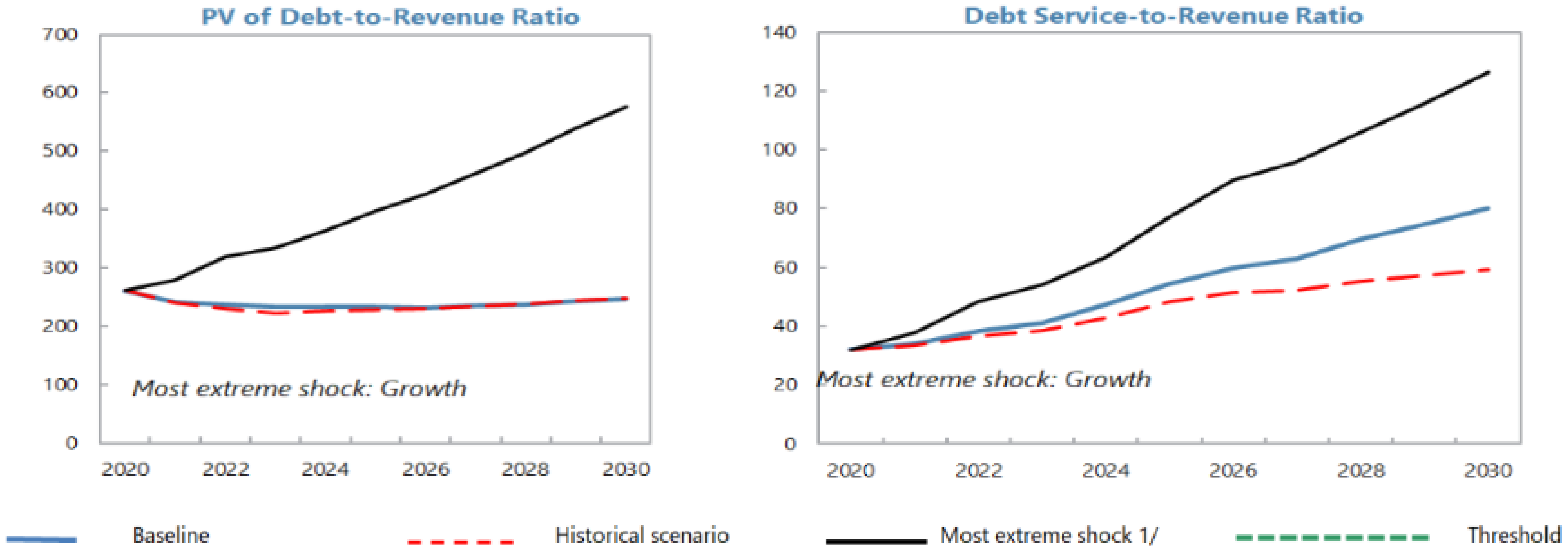
Example moderate risk : Côte d'Ivoire



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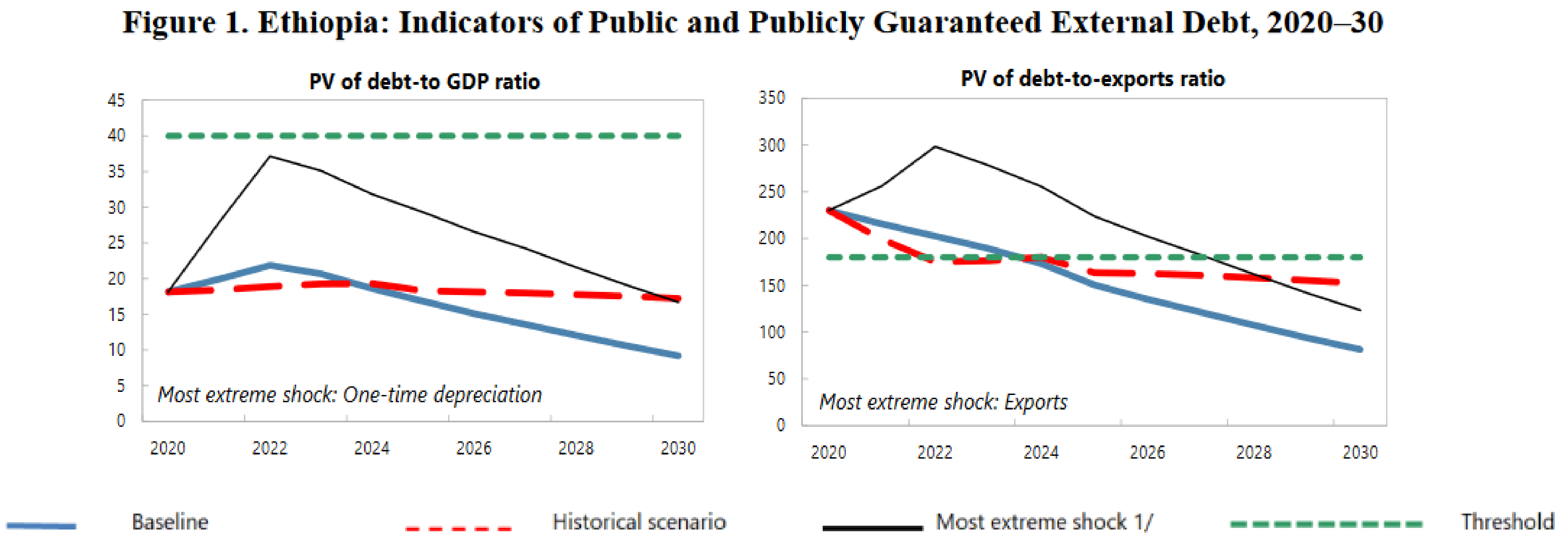
Example High risk : Ethiopia



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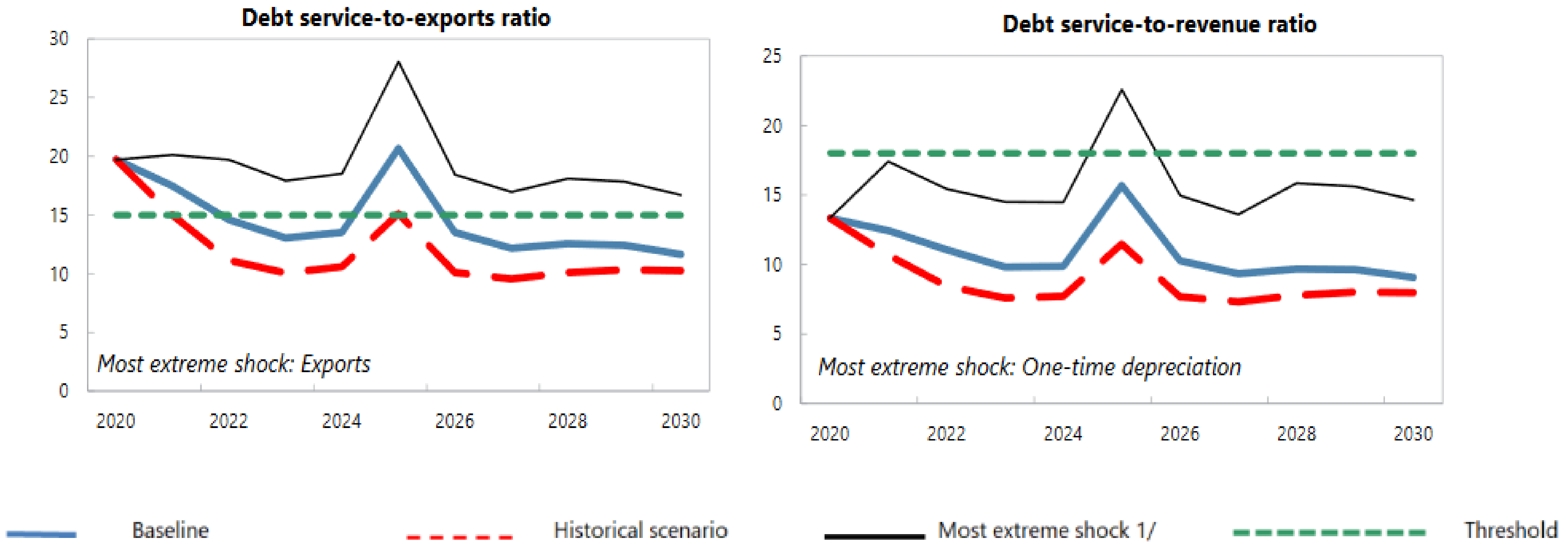
Example High risk : Ethiopia



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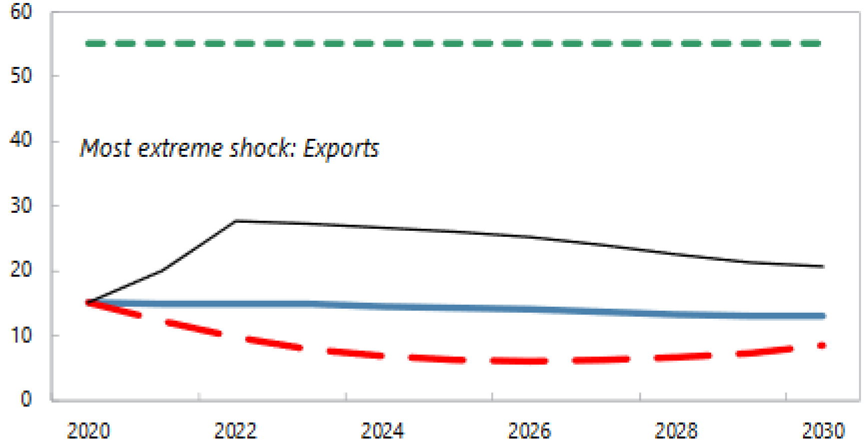
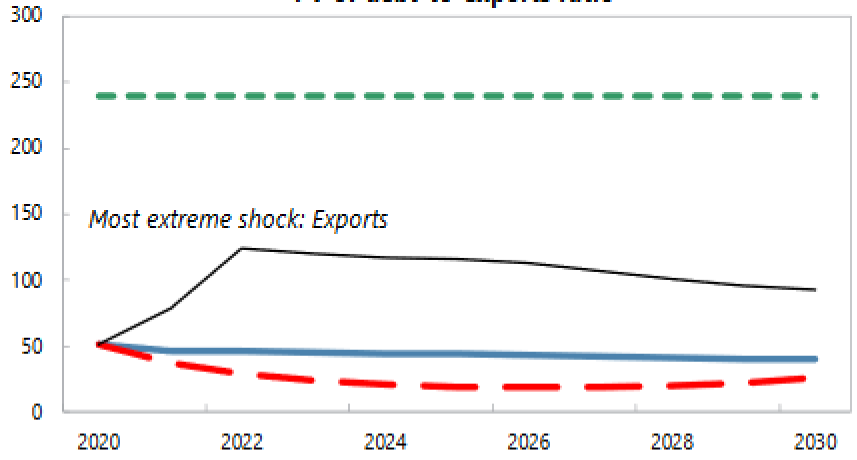
Example Low risk : Moldova

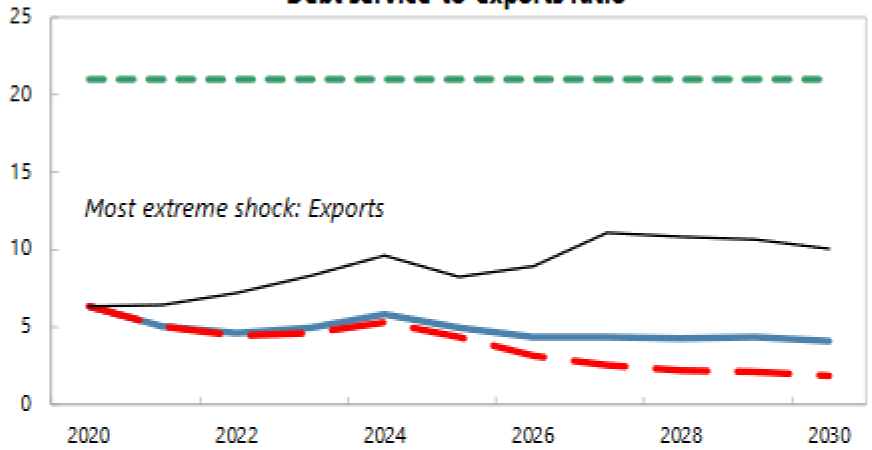
PV of debt-to GDP ratio



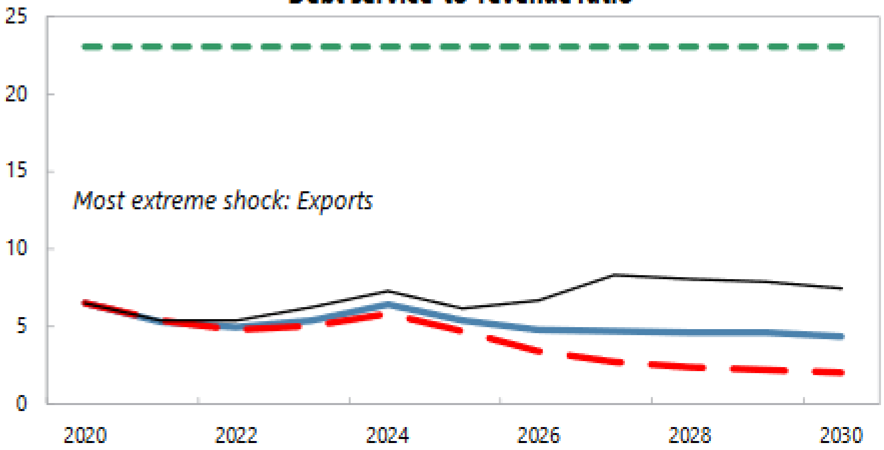
PV of debt-to-exports ratio



Debt service-to-exports ratio



Debt service-to-revenue ratio



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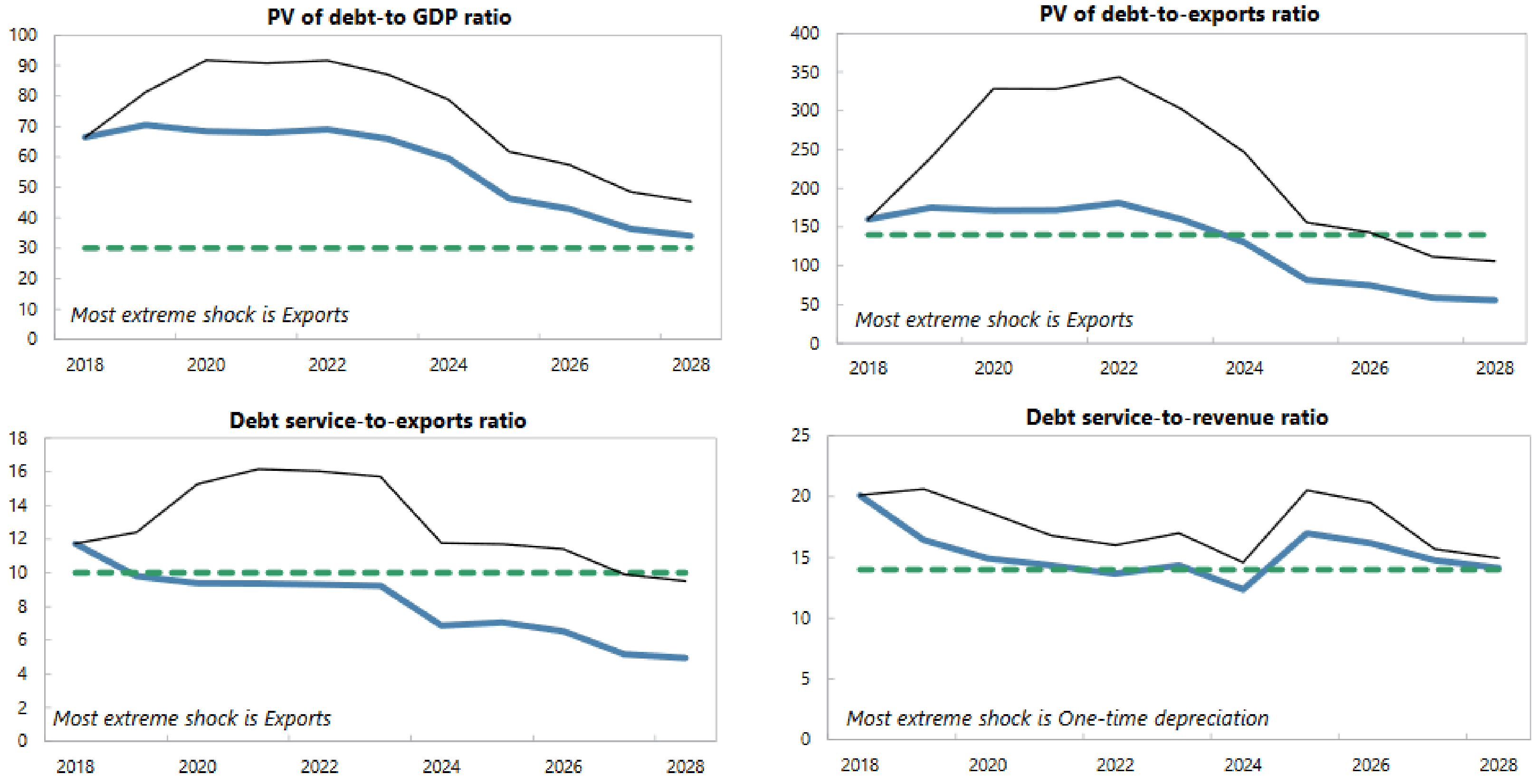
Example in distress: Mozambique

Figure 1. Mozambique: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2018-28



IMF and World Bank's DSF for low-income countries

LIC-DSF USED TO INFORM IMF AND WB DEBT-LIMIT POLICIES

DSF

EXTERNAL DSA

PUBLIC DSA

Results used

IMF and WB debt-limit policies

IMF DLP (2015)
Limits on debt accumulation in countries with Fund-supported programs

IDA's NCB policies
Limits on NCB in countries that receive IDA grants or that have benefited from MDRI

IMF and World Bank's DSF for low-income countries

NEW IMF DEBT LIMIT POLICY

For countries that normally rely on official concessional financing	For countries that do not normally rely on concessional external financing
▪ **The assessment of debt vulnerabilities is informed by the low-income countries debt sustainability framework** (LIC-DSF)**.** ▪ **An external risk of debt distress rating of "moderate", "high", or "in debt distress" would signal the presence of significant external public debt vulnerabilities.**	▪ **Judgments on debt vulnerabilities are informed by a set of tools provided within the DSF for market access countries** (MAC-DSA)**.** ▪ **A heat map summarizes the risks to debt sustainability in the MAC-DSA. For example, heat map indicators flashing "red",** i.e. exceeding their benchmarks under the baseline would signal significant debt vulnerabilities**. In such circumstances, debt targets would take the form of limits on total public debt or targeted debt limits, taking into account country-specific circumstances.**

IMF and World Bank's DSF for low-income countries

Debt limit policy : ceilings on public external borrowings

Risk of external debt distress[1]	WEAK quality of debt monitoring[2]	SUFFICIENT quality of debt monitoring	
		limited financial integration	significant links to international capital markets
High	PC on nominal external NCB + Memo item on nominal external CB + Target on domestic borrowing, if needed[3]	PC on nominal external NCB + PC /IT on nominal external CB + Target on domestic borrowing, if needed[3]	PC on nominal foreign currency NCB+ PC/IT on nominal foreign currency CB+ Target on domestic borrowing, if needed[3]
Moderate	PC on Nominal external NCB + Memo item on nominal external CB + Target on domestic borrowing, if needed[3]	PC on PV of new external debt + Target on domestic borrowing, if needed[3]	PC on total nominal public debt
Low	The design of debt limits, if needed, would be country specific[4]		

Three criteria:

- **Risk of external debt distress (LOW, MODERATE, HIGH)**
- **Quality of debt monitoring (WEAK, SUFFICIENT)**
- **Financial integration (LIMITED, SIGNIFICANT)**

IMF and World Bank’s DSF for low-income countries

Debt limit policy : ceilings on public external borrowings

Risk of external debt distress[1]	WEAK quality of debt monitoring[2]	SUFFICIENT quality of debt monitoring	
		limited financial integration	significant links to international capital markets
High	PC on nominal external NCB + Memo item on nominal external CB + Target on domestic borrowing, if needed[3]	PC on nominal external NCB + PC /IT on nominal external CB + Target on domestic borrowing, if needed[3]	PC on nominal foreign currency NCB+ PC/IT on nominal foreign currency CB+ Target on domestic borrowing, if needed[3]
Moderate	PC on Nominal external NCB + Memo item on nominal external CB + Target on domestic borrowing, if needed[3]	PC on PV of new external debt + Target on domestic borrowing, if needed[3]	PC on total nominal public debt
Low	The design of debt limits, if needed, would be country specific[4]		

FOR COUNTRIES IN LOW RISK OF EXTERNAL DEBT DISTRESS

- Normally : NO LIMIT on external debt required
- But : if OVERALL risk of debt distress shows significant risks related to domestic public debt ☞ ceiling on domestic borrowing

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IMF and World Bank's DSF for low-income countries

Debt limit policy : ceilings on public external borrowings

Risk of external debt distress[1]	WEAK quality of debt monitoring[2]	SUFFICIENT quality of debt monitoring: limited financial integration	SUFFICIENT quality of debt monitoring: significant links to international capital markets
High	PC on nominal external NCB + Memo item on nominal external CB + Target on domestic borrowing, if needed[3]	PC on nominal external NCB + PC /IT on nominal external CB + Target on domestic borrowing, if needed[3]	PC on nominal foreign currency NCB+ PC/IT on nominal foreign currency CB+ Target on domestic borrowing, if needed[3]
Moderate	PC on Nominal external NCB + Memo item on nominal external CB + Target on domestic borrowing, if needed[3]	PC on PV of new external debt + Target on domestic borrowing, if needed[3]	PC on total nominal public debt
Low	The design of debt limits, if needed, would be country specific[4]		

FOR COUNTRIES AT MODERATE RISK OF EXTERNAL DEBT

- **Debt conditionality would typically take the form of a limit on the present value of new external debt** (NCB and CB)**.**
- **In addition: if overall risk of debt distress shows significant risks related to domestic public debt.**
- **Ceiling on domestic borrowing.**

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IMF and World Bank's DSF for low-income countries

Debt limit policy : ceilings on public external borrowings

Risk of external debt distress[1]	WEAK quality of debt monitoring[2]	SUFFICIENT quality of debt monitoring	
		limited financial integration	significant links to international capital markets
High	PC on nominal external NCB + Memo item on nominal external CB + Target on domestic borrowing, if needed[3]	PC on nominal external NCB + PC /IT on nominal external CB + Target on domestic borrowing, if needed[3]	PC on nominal foreign currency NCB+ PC/IT on nominal foreign currency CB+ Target on domestic borrowing, if needed[3]
Moderate	PC on Nominal external NCB + Memo item on nominal external CB + Target on domestic borrowing, if needed[3]	PC on PV of new external debt + Target on domestic borrowing, if needed[3]	PC on total nominal public debt
Low	The design of debt limits, if needed, would be country specific[4]		

FOR COUNTRIES AT HIGH RISK OF EXTERNAL DEBT

- **Debt conditionality would mostly be set on the nominal levels of external debt.**
- **In addition: if overall risk of debt distress shows significant risks related to domestic public debt.**
- **Ceiling on domestic borrowing.**

LIST OF IDA-ONLY AND PRGT-ELIGIBLE COUNTRIES SUBJECT TO IMF/WORLD BANK GROUP DEBT LIMITS CONDITIONALITY (MAY 2020)

I. Zero-NCB Limit Countries

Country	Guiding debt limit policy	Other limits (test date) 3/			Utilized (as of date) 4/	
Cabo Verde	IMF	CB limit: CVE 5.928M CB limit: CVE 12.137M	(Jun-20) (Dec-20)			
Central African Republic	IMF & WBG	CB limit: CFAF 25B CB limit: CFAF 25B	(Jun-20) (Dec-20)	8/ 8/		
Chad	IMF & WBG	CB limit: zero	(Mar-20)	8/	US$ 100M	(SEP-19)
Congo, Republic	IMF	Debt contracted/gmtee w/ future nat. res. deliveries: zero CB limit: CFAF 62B	(Jun-20)			
Gambia, The	IMF & WBG	CB limit: US 60M CB limit: US 60M	(Jun-20) (Dec-20)			
Ethiopia	IMF & WBG	CB limit: US$1,825M CB limit: US$1,825M	(Jun-20) (Dec-20)	8/ 8/		
Malawi	IMF & WBG	CB limit: US$ 134.4M CB limit: US$ 39.2M	(Jun-20) (Sep-20)	8/ 11/ 8/ 11/		
Sao Tome & Principe	IMF & WBG	CB limit: US$ 14M CB limit: US$ 14M	(Jun-20) (Dec-20)	8/ 8/		
Sierra Leone	IMF & WBG	CB limit: US$ 100M	(Mar-20)		US$ 42M	(Mar-19)
Somalia	IMF	CB limit: zero CB limit: zero	(Jun-20) (Dec-20)	8/ 8/		
Togo	IMF & WBG	CB limit: CFAF 78.3B Debt mgmt: NPV CFAF 260.3B	(Dec-19)	8/	CB: CFAF 17B [illegible]	(Jun-19)

LIST OF IDA-ONLY AND PRGT-ELIGIBLE COUNTRIES SUBJECT TO IMF/WORLD BANK GROUP DEBT LIMITS CONDITIONALITY (MAY 2020)

II. Non-zero NCB Limit Countries

Country	Guiding debt limit policy	Type of debt limit (test date) 3/			Utilized (as of date) 4/	
Benin	IMF & WBG	PV limit: CFAF 797B	(Dec-19)		CFAF 379.2B (PV)	(Dec-18)
Burkina Faso	IMF & WBG	PV limit: CFAF 410B PV limit: CFAF 410B	(Jun-20) (Dec-20)		CFAF 6B (PV)	(Mar-19)
Comoros	WBG	NCB limit: EUR 25M	(Dec-19)			
Côte d'Ivoire	IMF	PV limit: US$ 2265.3M PV limit: US$ 3694.6M	(Jun-20) (Dec-20)		US$ 1376.8M (PV)	(Jun-19)
Guinea	IMF & WBG	NCB limit: US$ 650M CB limit: US$ 530M	(Jun-20)	8/ 12/	NCB: US$ 650M CB: US$ 405M	(Mar-19)
		NCB limit: US$ 650M CB limit: US$ 610M	(Dec-20)	8/ 12/		
Liberia	IMF & WBG	NCB Limit: US$ 125M CB disbmt: US$ 130M	(Jun-20)	8/		
		NCB Limit: US$ 125M CB disbmt: US$ 100M	(Dec-20)			
Mali	IMF & WBG	PV limit: CFAF 526B PV limit: CFAF 526B	(Jun-20) (Dec-20)	12/	PV limit: CFAF 229B	(Sep-19)
Niger	IMF & WBG	PV Limit: CFAF 325B	(Dec-19)		CFAF 158B	(Sep-19)
Senegal	IMF & WBG	CFAF 9563B	(Dec-20)			

LIST OF IDA-ONLY AND PRGT-ELIGIBLE COUNTRIES SUBJECT TO IMF/WORLD BANK GROUP DEBT LIMITS CONDITIONALITY (MAY 2020)

III. Other Debt Limits (No debt limits/Targeted debt limits) 6/

Country	Guiding debt limit policy	Limits (test date) 3/			Utilized (as of date) 4/	
A) No debt limits						
Honduras	IMF	no limits			n/a	
B) Targeted debt limits						
Rwanda	IMF & WBG	Contract/grntee of new ext. debt by NFPEs: US$ 700m	(Jun-20)	8/	US$ 475M	(Jun-19)
C) Option to request ceiling *(If no ceiling requested, loan-by-loan exception applies)*						
Tanzania	WBG					
Uganda	WBG	waiver granted for Euro 249.9 million.	n/a			
D) Debt limits in GRA arrangements *(For reference only)*						
Angola	IMF	Contract. new oil-collateralized ext. debt: zero Disbmt. of oil-collateralized ext. debt by CG: US$ 400M Gross debt of CG and Sonangol: Kz 41,879B	(Jun-20)		Contract. new oil-collateralized ext. debt: zero Disbmt. of oil-collateralized ext. debt by CG: US$17M Gross debt of CG and Sonangol: Kz 28,109B	(Sep-19)
		Contract. new oil-collateralized ext. debt: zero Disbmt. of oil-collateralized ext. debt by CG: US$ 1,160M Gross debt of CG and Sonangol: Kz 41,879B	(Dec-20)			
Armenia	IMF	New gov. grnteed ext. debt: US$100M Avg. concessionality of new ext. debt: 30%	(Jun-20)		New gov. grnteed ext. debt: US$100M	(Sep-19)
		New gov. grnteed ext. debt: US$100M Avg. concessionality of new ext. debt: 30%	(Dec-20)			

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