Contemporary Challenges in Development Finance

Are We Heading for Another Debt Crisis?

Masood Ahmed | February 20, 2019 | Center for Global Development
4. Gross Public Debt

- World
- Major advanced economies\(^2,3\)
- Advanced economies\(^2\)
- Emerging and developing Asia
- Latin America and the Caribbean
- Other emerging market and developing economies

Notes:
- Japan’s latest figures reflect comprehensive methodological revisions adopted in December 2016.
- Data through 2000 exclude the US.
- Major advanced economies include: Canada, France, Germany, Italy, Japan, UK, and US.

Source: IMF WEO October 2018
New Debt Wave Forming:
After a dramatic fall in debt in the wake of a write-off for the most indebted poor countries, debt levels have climbed since 2013.

(median, percent of GDP)

Source:
World Economic Outlook

Note:
HIPC is the Heavily Indebted Poor Countries Initiative.
Composition of Debt

Low-income countries' debt by type of creditor
Change in debt owed as a percentage of GDP 2007 to 2016, percentage points

-6 -5 -4 -3 -2 -1 0 1 2 3 4 5 6 7
Bilateral non-Paris Club
Domestic
China
Commercial lending
Multilateral
Paris Club

Average across 37 nations studied by the IMF
Source: IMF
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How does this compare with last big LIDC debt crisis?

Total Public and Publicly Guaranteed Debt by Creditor in All LIDCs (percent GDP)

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<tbody>
<tr>
<td>Total</td>
<td>..</td>
<td>47.1</td>
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<td>Multilateral</td>
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<td>..</td>
<td>7.4</td>
<td>2.3</td>
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<td>Non-Paris Club</td>
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<td>6.8</td>
<td>9.1</td>
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<td>0.3</td>
<td>2.5</td>
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<tr>
<td>Commercial</td>
<td>4.5</td>
<td>1.1</td>
<td>1.5</td>
<td>3.2</td>
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</tbody>
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Sources:
- World Bank International Debt Statistics
- IMF

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Drivers of Increased Debt

For borrowers

- Push for financing infrastructure and growth
- Compensating for lower commodity prices
- Imprudent or corrupt borrowing decisions

For lenders

- Commercial lenders search for yield in a high liquidity and low interest rate environment
- Stepped up lending by Chinese government and financial institutions
BRI and Debt

Risk Category

High  Significant  Low

Note: This map is for illustrative purposes and does not imply the expression of any opinion on the part of the authors concerning the legal status of any country or territory or concerning the delimitation of frontiers or boundaries.
Is China driving this debt increase?

All LIDCs

Post-HIPC
LIDCs in Debt Difficulties

Source: Center for Global Development
Is debt sustainability a problem in LIDCs?

Evolution of Risk of Debt Distress

(percent of PRGT-Eligible LIDCs with DSAs)

Source: IMF
It's a real risk for about a dozen countries, and more could be drawn in as:

- interest rates, and hence debt servicing costs, go up
- unidentified liabilities, some contingent, come out of the woodwork
- the projected adjustment in fiscal balances and growth upticks fails to materialize
Traditional debt restructuring mechanisms are no longer enough. Is there a new institutional mechanism that can generate a win-win for old and new creditors?
What can be done to reduce the risk?

Focus on debt flows and DRM

Apply non-concessional borrowing limits

Realistic macro projections

Increase transparency & reporting

LIDCs

Lenders

IFIs

Rigorous project selection

Explore new debt resolution mechanisms