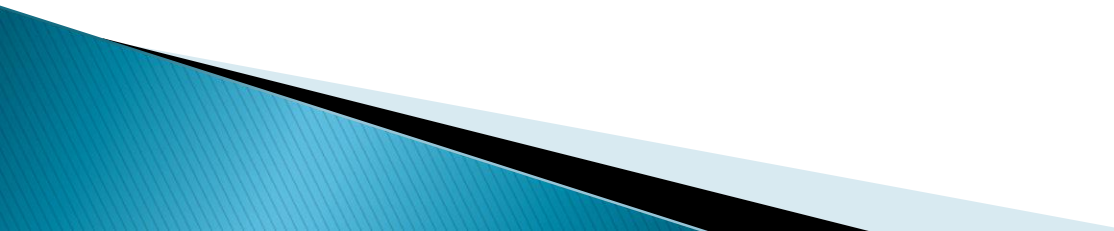


The new face of developing country debt

Presentation by
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January 2015

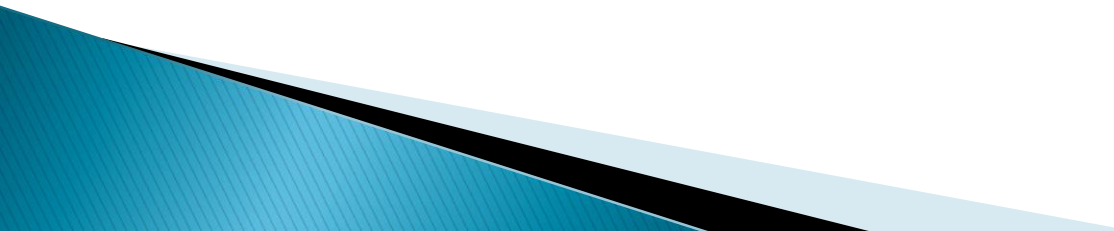
outline

1. Background
 2. Local-currency bond markets
 3. Private non-guaranteed debt and portfolio equity flows
 4. Low-income countries' sovereign debt
 5. Debt restructuring and vulture funds
 6. Institutional framework for debt management
 7. Technical assistance for public debt management
 8. Recommendations
 9. Further research
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Main points

- ▶ The aggregate picture: developing-country debt is growing but remains sustainable
 - ▶ However, there are a number of concerns:
 - Local-currency bond markets: mixed blessing
 - Growth of private non-guaranteed debt: risks
 - LIC recourse to sovereign debt markets: risks
 - Absence of a proper international framework for debt restructuring: vulture funds
 - Weak public debt management systems
 - Need for technical assistance
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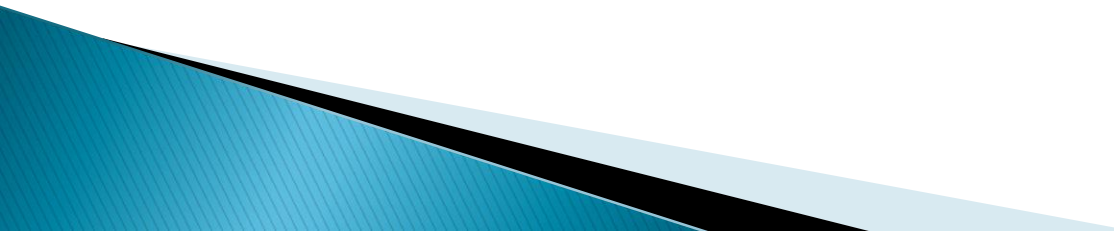
Background

- ▶ Paper emerged from two evaluations of debt management assistance
 - ▶ A long history, going back to the late 1970s
 - ▶ Systemic crises in the 1980s and 1990s
 - ▶ Debt relief and economic reform
 - ▶ By mid-2000s, resolution
 - ▶ Global financial crisis of 2008: developing countries more resilient
 - ▶ Focus shifts to debt sustainability
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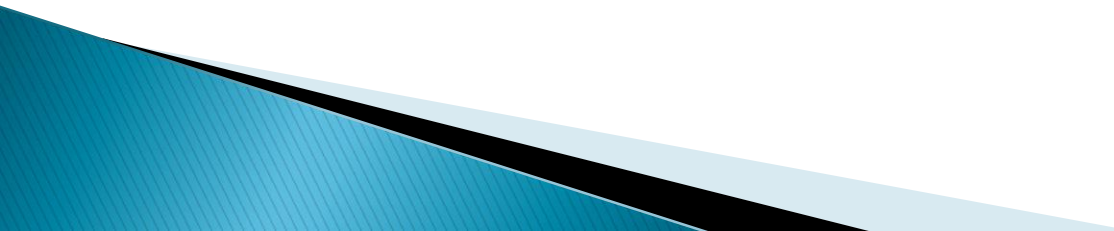
Developing countries' external debt

	<u>(\$billions)</u>			<u>(Distribution)</u>		
	<u>2005</u>	<u>2009</u>	<u>2013</u>	<u>2005</u>	<u>2009</u>	<u>2013</u>
Total debt outstanding	\$ 2,352.0	\$3,629.7	\$5,506.4	100.0%	100.0%	100.0%
Long-term external debt	\$ 1,807.8	\$2,705.2	\$3,854.3	76.9%	74.5%	70.0%
Public and publicly guaranteed	\$ 1,240.5	\$1,440.3	\$1,956.2	52.7%	39.7%	35.5%
Private nonguaranteed	\$ 567.3	\$1,264.9	\$1,898.2	24.1%	34.8%	34.5%
Short-term external debt	\$ 481.4	\$ 775.1	\$1,530.8	20.5%	21.4%	27.8%
SOURCE: World Bank (2015)						

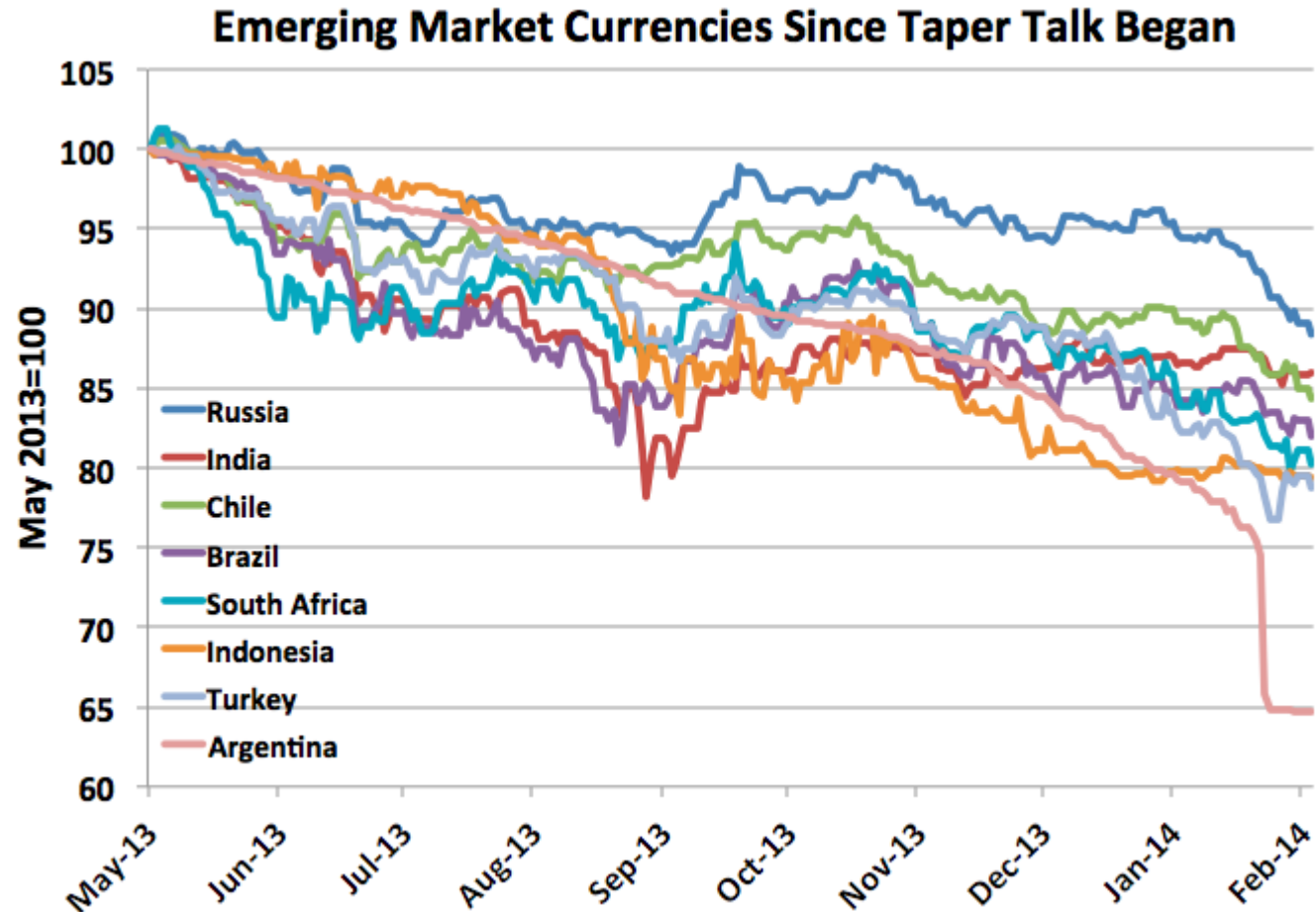
From external to domestic debt

- ▶ Rise of local currency bond markets a reaction to prior debt crises
 - ▶ LICs following the EMCs
 - ▶ Domestic debt is estimated at more than 50% of total in all developing regions, more than 80% in emerging markets
 - ▶ Problem of data on domestic debt despite WB's PSDS
 - ▶ Promises and pitfalls of domestic debt
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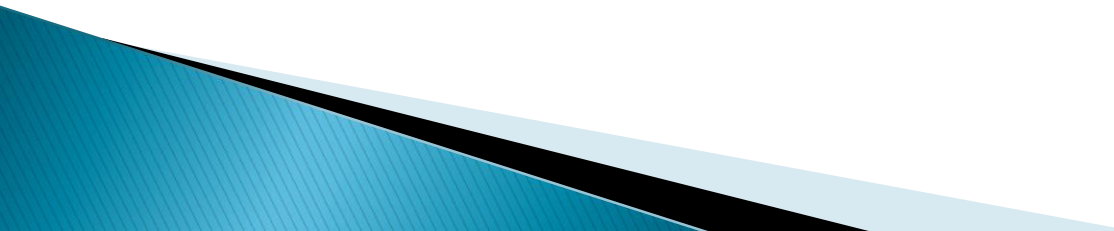
Private non-guaranteed debt

- ▶ PNG debt: data problems need attention
 - ▶ Not considered as serious as PPG debt but should be
 - ▶ Private equity flows: not debt, but can precipitate volatility in capital surges and exchange rates
 - ▶ Increase in short-term debt: share of private debt over 60% of total external debt
 - ▶ LICs: the new frontier
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Currency volatility



LIC sovereign bonds

- ▶ Demand side: investors' search for yield in a low-interest rate environment
 - ▶ Supply side: search for affirmation of creditworthiness by governments
 - ▶ In 2013, \$4.6 billion African sovereign bonds:
 - 5% of total issuance by all developing countries
 - But 12% of FDI inflows and 20% of ODA inflows
 - ▶ Borrowing costs lower than domestic debt but higher than costs in OECD markets
 - ▶ Excessive borrowing?
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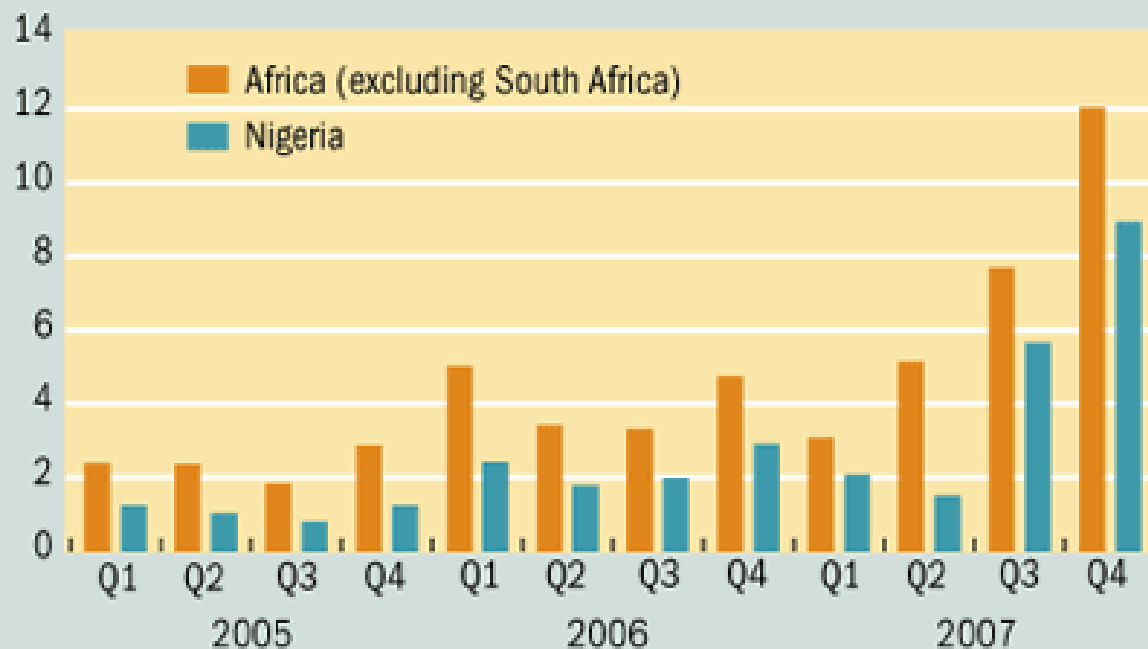
LICs and sovereign debt markets

Chart 3

Debt trading booms

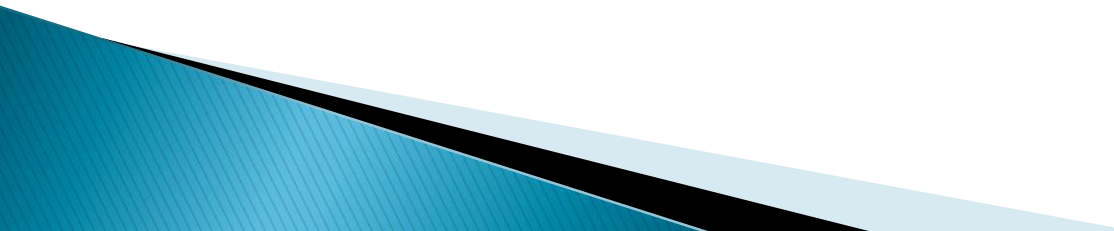
Foreign trading in Africa's debt markets more than tripled in 2007, reaching about \$12 billion, with Nigeria dominating.

(billion dollars)

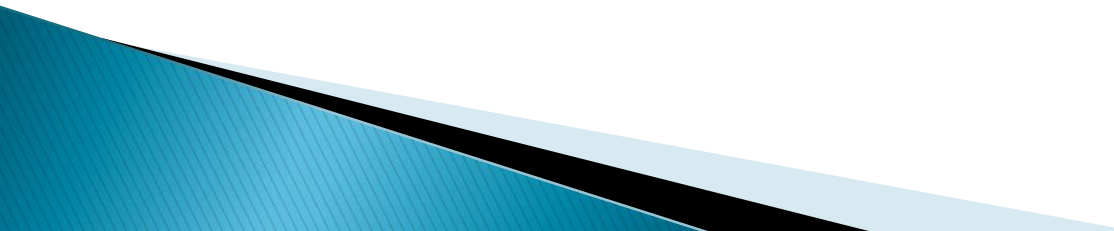


Source: Emerging Markets Traders Association.

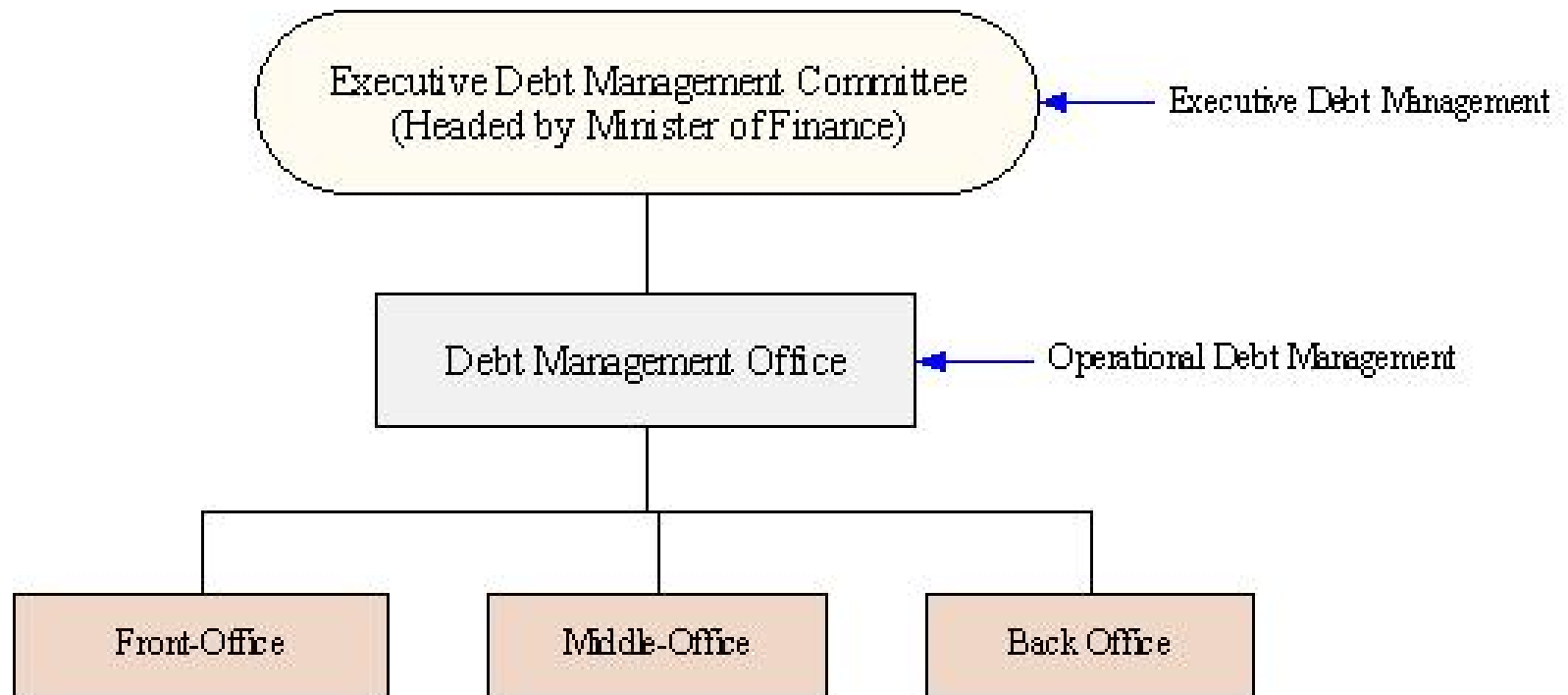
Debt restructuring

- ▶ Restructuring distressed debt has fallen to ad hoc mechanisms on a case-by-case basis (Paris and London Clubs)
 - ▶ The need for a more systemic approach led to the initiation of collective action clauses
 - ▶ However this has left the door open to free riders and “vulture funds”
 - ▶ Institutional framework needed to restructure debt raised in capital markets
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Debt Management: institutional framework

- ▶ Legislative and regulatory framework
 - ▶ Coordination with monetary, fiscal and financial sector policies
 - ▶ Current institutional arrangements
 - ▶ Need for unified Public Debt Management Offices
 - ▶ Proposed structure
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Basic Structure

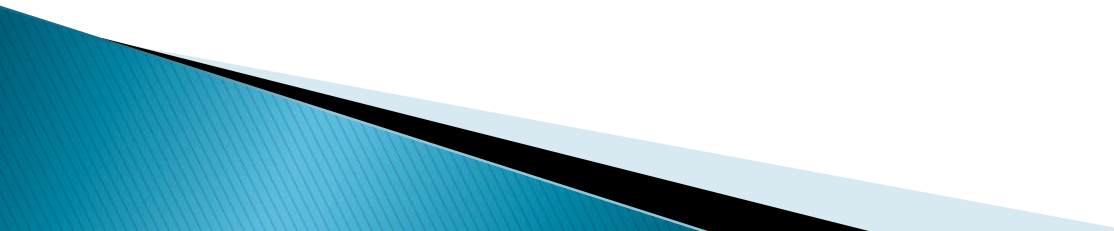


Front Office


▶ Resource Mobilization

- . Capital Markets
 - Domestic
 - International
- . Concessional Loans
 - Bilateral
 - Multilateral
- . Commercial Loans
- . Government Guarantees and On-lending

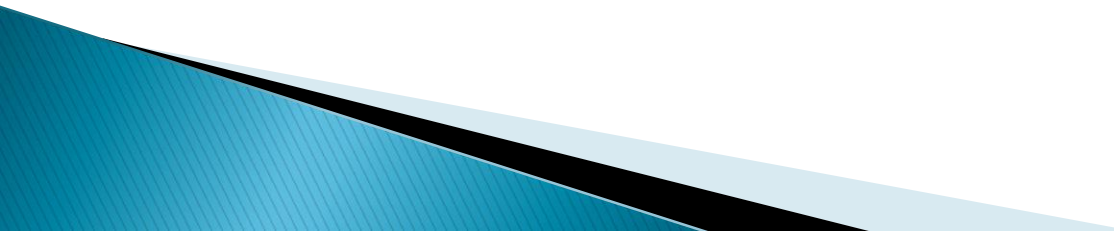
Middle Office

- ▶ Debt Analysis and Risk Management
 - . Debt Analysis
 - . Risk Management
 - . Borrowing Policy, Strategy and Plan
 - . Policies for Government Guarantees, On-lending and Loan Loss Provisioning
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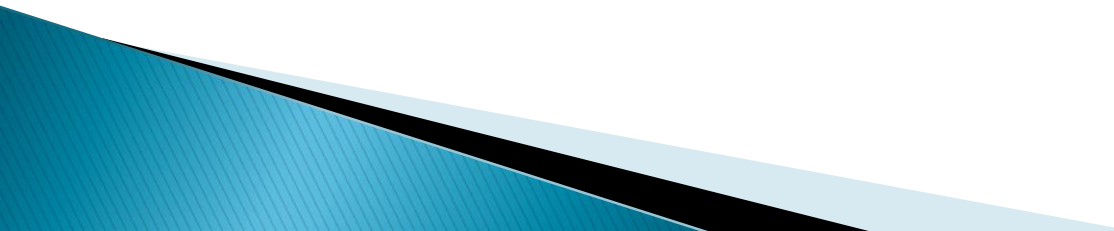
Back Office

- ▶ Management Information System and Settlements
 - . Disbursements and Repayments
 - . Loan Database and IT Support
 - . Debt Recording
 - . Statistical Reporting
 - . Contingent Liabilities
- 

TA for public debt management

- ▶ Provision of assistance initiated in IMF Standby Agreements and WB Country Programs
 - ▶ Systematic provision of TA began in the 1980s
 - ▶ Assistance in building up loan databases to feed into the WB Debtor Reporting System
 - ▶ Comprehensive TA in debt management began with UNCTAD and COMSEC. They provided the DMFAS and CSDRMS software to build up loan databases and undertake debt analysis
 - ▶ Developments since 2006: DMF I and II
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Case study: Indonesia

- ▶ A LMIC experiencing sustained growth 6–6.5% p.a. over last decade and a half
 - ▶ While debt rose from \$120 billion to \$206 billion 2000–2012, D/GDP fell from 61% to 24%
 - ▶ Risk of debt distress low
 - ▶ Sophisticated debt management systems
 - ▶ However, data on debt outside central government (subnational, private) not well monitored
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Case study: Senegal

- ▶ A LIC moving from low to moderate risk of debt distress
- ▶ Debt management system requires reform
 - Integration of domestic and external debt management systems problematic
- ▶ \$700 million in Eurobonds issued in 2011 despite concern of IMF and World Bank (9% coupon, below investment grade); “far in excess of Senegal’s investment requirements”

Policy recommendations (1)

1. Domestic debt should be integrated into the current DSA framework
 2. LICs need to deepen financial markets and reduce domestic interest rates
 3. Data on PNG debt need to be improved for greater comprehensiveness and reliability
 4. Recourse to the international bond market by LICs should be viewed as a growing risk
 5. The international community should (again) seriously consider a sovereign debt restructuring mechanism
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Policy recommendations (2)

- 6. Technical assistance for public debt management deserves higher priority by donors
- 7. The current provision of TA for PDM should be streamlined

Further research

- ▶ Short-term debt
 - Data issues
 - Sources of vulnerability
- ▶ The new creditors—Emerging Markets
 - Data issues
 - Implications for debt sustainability
- ▶ Debt sustainability indicators
 - Integrating domestic and external debt