DEBT REPORT

2022

EDITION II

June 2022

WORLD BANK GROUP

DEBT Report 2022

About the Report

This is the second of the series of Debt Reports for 2022 to be published online and provide users with data and analysis on external and public debt of low- and middle-income countries.

The Debt Reports for 2022:

- Complement the information for 123 low- and middle-income countries presented in International Debt Statistics (*IDS 2022*), published in October 2021, and updated in January 2022, with regional and country specific analyses on the composition and characteristics of external debt stocks and flows. These analyses are underpinned by the detailed loan-by-loan data on stocks, transactions (commitments, disbursements, and debt service payments) and loan terms reported to the World Bank Debtor Reporting System (DRS).

- Draw from the high-frequency Quarterly External Debt Statistics (QEDS) and Quarterly Public Debt Statistics (QPSD) databases to provide users with syntheses of emergent trends in external and public debt, and preliminary estimates of 2021 external debt stocks.

- Provide information on current issues and ongoing initiatives aimed at improving external and public debt transparency, including improvements in monitoring and reporting public debt in low- and middle-income countries, filling data gaps, and enhancing debt data dissemination, both coverage and ease of access.

Debt Report 2022 Edition II presents preliminary estimates of external debt stocks at end-2021 for low- and middle-income countries and information on new bond issuance in international capital markets in 2021. These estimates build on the regional and country specific external debt data at end-2020 for low- and middle-income countries released in December 2021 and available to users at: https://data.worldbank.org/products/ids. The report also provides an update on new initiatives to enhance debt transparency and broaden the coverage of the debt data collected and disseminated by the World Bank.

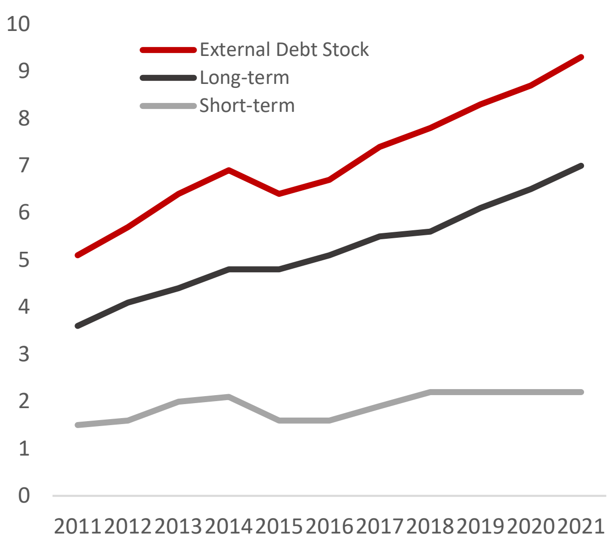
I. Low- and Middle-Income Countries - External Stocks at end-2021, a preliminary estimate

Low- and middle-income countries continued to borrow apace in 2021 in response to the continued disruption to global economic activity and supply chains as the world endured a second year of the COVID-19 pandemic. Preliminary estimates indicate that borrowing to mitigate the economic and social impacts of the pandemic added around $550 billion to low- and middle-income countries' combined external debt obligations in 2021. This followed a decade in which external debt levels had already risen sharply in many countries leaving them exposed to any sudden changes in investor risk appetite and compounding the debt problems of the world's poorest countries where, pre-pandemic, many were already assessed at high risk of debt distress.

Preliminary estimates indicate the external debt stock of low- and middle-income countries rose, on average, 6.9 percent in 2021 to $9.3 trillion. The estimate is based on end-2021 external debt stocks reported to the Quarterly External Debt Statistics (QEDS) by about fifty percent of the 123 low- and middle-income countries reporting to the World Bank Debtor Reporting System (DRS), debt bulletins published by borrowers, and information from creditor sources, both official and private. The estimated 6.9 percent increase in external debt stock in 2021 indicates a faster pace of external debt accumulation than the 5.3 percent increase recorded in 2019 and 2020 and is partly driven by increased short-term borrowing, particularly in the last quarter of 2021 when global trade began to rebound, and long-term borrowing by private sector entities.

Figure 1: Low- and Middle-Income Countries - External Debt Stock, 2011-2021

US$ (trillion)



Sources: World Bank Debtor Reporting System, Quarterly External Debt Statistics and staff estimates.

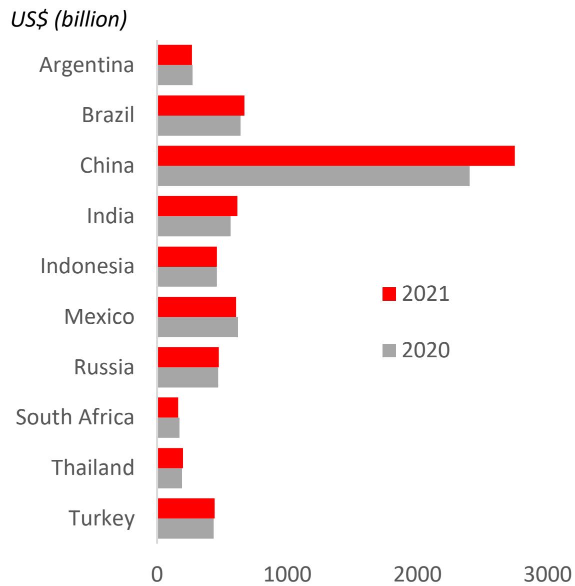
Outcomes in 2021 were driven by the ten largest borrowers, particularly developments in China. The combined external debt stock of the ten largest borrowers was an estimated $6.6 trillion at end-2021, 6.7 percent higher than the comparable figure for end-2020. This increase reflected on average a 5.5 percent rise in long-term external debt stock and a 9.6 percent increase in short-term debt stock but there was wide divergence in outcomes between China and the other nine major borrowers. China recorded a 14.4 percent rise in external debt in 2021 to $2.7 trillion, propelled by an 18.5 percent increase in long-term debt and 10.6 percent rise in short-term obligations. In contrast, the external debt of the largest borrowers, excluding China, rose, on average, a modest 1.9 percent over the same period to $3.9 trillion, underpinned by a small 0.9 percent increase in long-term external debt and a sharper 7.6 percent rise in short-term obligations.

The increase in China's external debt reflected accommodative fiscal policies to support the post-pandemic recovery and earlier measures to open the country's financial markets. The Chinese economy grew by around 8 percent in 2021, with increased imports and exports and parallel rise in trade credit. Chinese borrowers continued to benefit from measures taken in recent years to open the country's financial markets, give broader access to external financing to small and medium-sized private sector entities and implement exchange rate and related policies that facilitated the inclusion of renminbi-denominated bonds in global benchmark indices. A major factor in external debt stock accumulation in 2021 was the increase in foreign investors holdings of renminbi-denominated bonds, including large financial institutions and pension funds and individual investors. In addition, both public and private sector entities continued to issue bonds in international capital markets. These issues included two successive $4 billion sovereign Eurobonds in October 2021 followed by a €4 billion ($4.6 billion) issue in November with tranches ranging from 3-year to 30-year maturity and a $1 billion 5-year green bond 1.625 percent issue by the Industrial and Commercial Bank of China that will be used to finance, or refinance, eligible green assets in the Green Bond Framework. Overall, however, bond issuance by Chinese entities in international markets slowed in 2021, falling 31 percent from the prior year level to $150 billion. China accounted for an estimated 29 percent of the combined external debt stock of low- and middle-income countries and close to 50 percent of their combined gross domestic product (GDP).

For major borrowers, other than China, external debt outcomes were a mixed bag in 2021. As a group, they registered only a modest, 1.9 percent increase in external debt stock in 2021 but for individual countries the change in end-2021 external debt stock, relative to the comparable figure at end-2020, ranged from a 9.1 percent increase for India to a 5.6 percent contraction in South Africa. The rise in India's external debt, to an estimated $615 billion, was driven by an 11.1 percent increase in short-term debt obligations, reflecting a rise in trade credit that paralleled the economic rebound, and an 8.7 percent rise in long-term debt, driven primarily by borrowing by private sector entities. An increase in trade-related short-term external debt was also the primary factor driving the estimated 4.8 percent rise in Brazil's external debt in 2021. It rose an estimated 9.8 percent in 2021 compared to an estimated 3.7 percent increase in Brazil's long-term external debt. In contrast, Thailand borrowed to mitigate the impact of the pandemic which pushed long-term external debt up an estimated 7 percent in 2021, whereas short-term debt, which accounts for around one-third of Thailand's total external debt, contracted by an estimated 1.9 percent. Overall Thailand's external debt rose an estimated 3.7 percent in 2021 to $198 billion. As with 2020, the contraction in South Africa's external debt in 2021 was again largely driven by non-resident investors sell-off of rand-denominated bonds. The external debt stock of Argentina and Mexico are estimated to have fallen moderately in 2021, 1.7 percent and 2.2 percent, respectively, due to a contraction in both countries in long-term external debt stock.

External debt stock accumulation in 2021 varied widely at the regional level. Countries in the ***South Asia*** region seem to have the sharpest rise in external debt stocks in 2021, an estimated 10.2 percent increase to $900 billion. This was driven largely by the estimated 9 percent rise in the external debt of India, which accounts for around 70 percent of the combined external debt of the region, but Bangladesh and Pakistan also recorded a sharp rise in long-term external public and publicly guaranteed debt with estimated increases of 23 percent and 12 percent, respectively, in 2021. External debt stocks of countries in ***Sub-Saharan Africa*** are estimated to have risen, on

Figure 2: Top Ten Borrowers - External Debt Stocks, end-2020 and end-2021

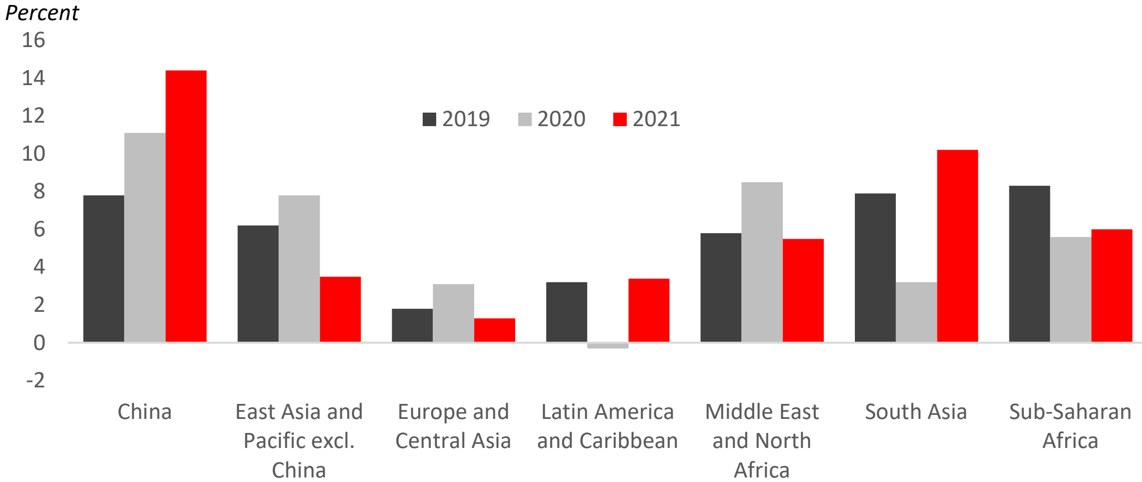


Source: Quarterly External Debt Statistics.

average, 6 percent in 2021, slightly faster than in 2020, notwithstanding the 5.6 percent contraction in South Africa's external debt stock. This reflected double-digit increases in the external public and publicly guaranteed external debt of several countries in the region including estimated increases of around 15 percent for Ghana and Nigeria. In the ***Middle East and North Africa*** region external debt accumulation is estimated to have slowed to 5.5 percent in 2021, from 8.5 percent in 2020, with an estimated 13 percent rise in external debt stock recorded by Egypt, the region's largest borrower, offset by a 1 percent contraction in Morocco and a moderate, estimated 2 percent, increase in Lebanon.

Turning to the three regions that account for the largest share of low- and middle-income countries' external debt in ***Latin America and the Caribbean*** external debt stocks rose an estimated 3.4 percent in 2021, a marked contrast to the 0.3 percent contraction recorded in 2020. The rise in 2021 was propelled by the estimated 4.8 percent increase in Brazil's external debt, which offset the estimated 2.2 percent contraction in Mexico, and sharp increase in external debt accumulation in other countries in the region, including Colombia and Peru, up an estimated 11 percent and 22 percent, respectively, over the prior year. In contrast, external debt stocks in the ***Europe and Central Asia*** region accumulated at a much slower pace in 2021, rising on average an estimated 1.3 per-

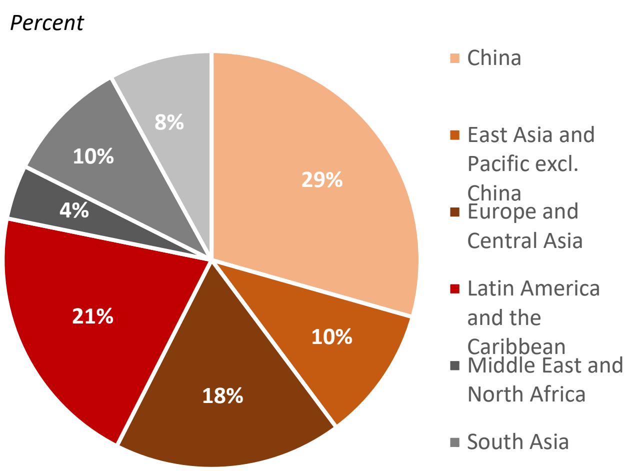
Figure 3: External Debt Stock by Region - Percent Change, 2019-2021



Sources: World Bank Debtor Reporting System, Quarterly External Debt Statistics and staff estimates.

cent as compared to an increase of 3.1 percent in 2020. The downturn reflected a general slowdown in external borrowing across the region and, in some countries e.g., Romania, an estimated 2 percent contraction in external debt stocks. The pace of debt accumulation also slowed in the ***East Asia and the Pacific*** region, excluding China, with external debt stocks rising an estimated 3.5 percent in 2021, less than half the 7.8 percent increase in 2021, due in part to a small contraction in Indonesia's external debt. However, the average masks an increase of 20 percent or more in the external debt stock of several Pacific islands that were particularly hard hit by the pandemic and climate-change induced natural disasters.

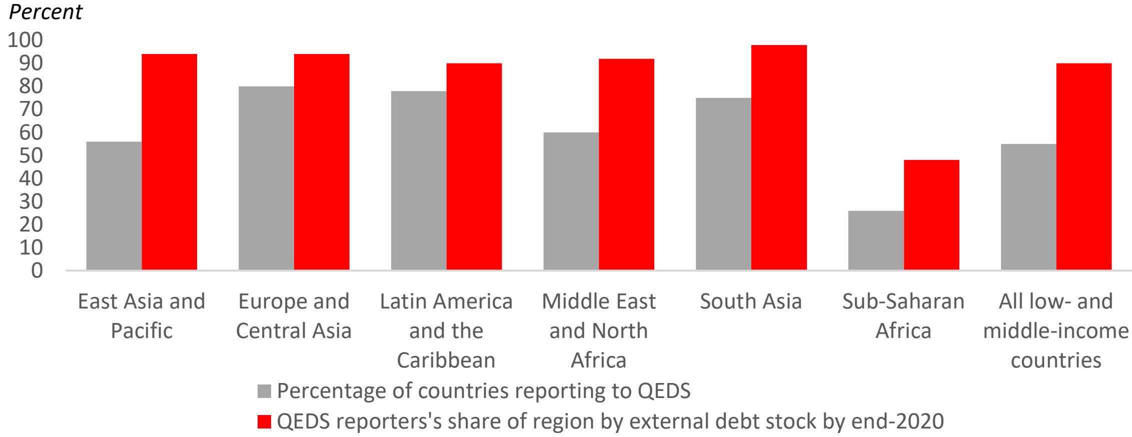
Figure 4: External Debt Stock Regional Share, end-2021



Sources: Quarterly External Debt Statistics, creditor sources and staff estimates.

QEDS provide a strong indicator of evolving trends in external debt stocks of low- and middle-income countries. Currently, 67 countries (55 percent) of the 123 low- and middle-income countries reporting to the DRS and included in IDS2022, report regularly to the high frequency QEDS database. Although the number of DRS-reporters reporting to QEDS is relatively low, the 67 countries that do report to QEDS include most of the low- and middle-income countries largest borrowers. The combined external debt stock of countries reporting to QEDS accounted for 90 percent of low- and middle-income countries with $8.7 trillion external debt stock outstanding at end-2020 and is estimated to account for a comparable share of the $9.3 trillion estimated to be outstanding at end-2021. At the regional level, QEDS reporters' share of the combined external debt stock ranged from 98 percent in South Asia to 48 percent for Sub-Saharan Africa where several of the region's large borrowers, including Angola and Nigeria, do not report to QEDS. Reporting to the DRS is mandatory for all World Bank borrowers whereas reporting to QEDS is voluntary, although strongly encouraged, and new countries opt in on a continuous basis. Low- and middle-income countries not currently reporting to QEDS are largely the poorest, IDA-eligible countries, including those classified as fragile states, where debt management capacity is often weak. Over half are in Sub-Saharan Africa where only 11 countries actively participate in QEDS at present, i.e., 26 percent of the 43 Sub-Saharan African countries reporting to the DRS. In contrast 80 percent of DRS reporting countries in Europe and Central Asia, 78 percent of those in Latin America and the Caribbean and 75 percent in the South Asia region provide comprehensive quarterly information to QEDS.

Figure 5: Low- and Middle-Income Countries Reporting to QEDS by Region



Sources: World Bank Debtor Reporting System and Quarterly External Debt Statistics.

II. Bond Issuance in international capital markets in 2021

Bond issuance in international capital markets by low- and middle-income countries fell 16 percent in 2021 following a drop in issuance by both public and private sector borrowers. Data compiled by the private data collection service Dealogic, from creditor and other market-based sources, report bond issuance in international capital markets by 123 low- and middle-income countries reporting to the DRS totaled $381 billion in 2021, 16 percent below the prior year issuance of $455 billion. The downturn in 2021 was driven by a 21 percent fall in new issues by sovereign governments and other public sector entities to $227 billion, from $286 billion in 2020. New issuances by private sector entities without a government guarantee fell 9 percent in 2021 to $154 billion.

China drove the downturn in bond issuance by low- and middle-income countries in 2021. Public and private sector borrowers in China issued $150 billion in international capital markets in 2021, 31 percent lower than the $218 billion issued in 2020. Issuance by public sector entities in China, including policy banks such as China Exim-bank, fell 23 percent in 2021 to $84 billion and issuance by private sector entities fell 40 percent to $66 billion. China accounted for 39 percent of bond issuance by low- and middle-income countries in 2021, down from a comparable 48 percent share in 2020. The fall in bond issuance by Chinese borrowers, both public and private, stemmed in large part from the increase in non-resident investors purchase of bonds issued in China's domestic debt market.

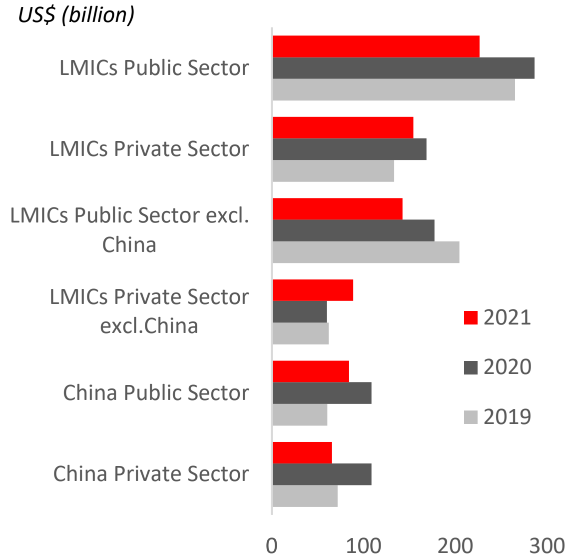
In low- and middle-income countries, other than China, bond issuance was down only marginally in 2021. Public and private sector borrowers in these countries issued a combined total of $231 billion in international capital markets in 2021, 3 percent below the 2020 issuance of $238 billion. However, in contrast to 2020, when 75 percent of total bond issuance was by sovereign governments and public sector borrowers, **2021 was characterized by a surge in new bond issues by private sector entities without a government guarantee.** They rose 48 percent over the 2020 level to $89 billion and accounted for 39 percent of 2021 bond issuance by low- and middle-income countries, excluding China. Bond issues by sovereign governments and other public and publicly guaranteed borrowers in low and middle-income countries, other than China, fell 17 percent in 2021 to $142 billion.

Bond issuance by the world's poorest, IDA-eligible, countries rebounded in 2021. The combined bond issuance by IDA-eligible countries surged to $29.4 billion, four and half times the $6.6 billion issued in 2020 and triple the $9 billion raised in international capital markets in 2019. Almost 90 percent of the 2021 issuance was by sovereign governments, or public sector entities with a government guarantee such as the Water and Power Development Authority (Pakistan) and Uzbekneftegaz JFC (Uzbekistan). Private sector entities issued a combined total of $3.3 billion in international bond markets in 2021, of which 81 percent were accounted for by entities in Nigeria in the oil and gas and financial sector.

Outcomes at the regional level in 2021 were disparate ranging from a 225 percent rise in bond issuance in the Sub-Saharan Africa re-

Figure 6: Bond Issuance by Low- and Middle-Income Countries (LMICs) by Debtor Type

US$ (billion)



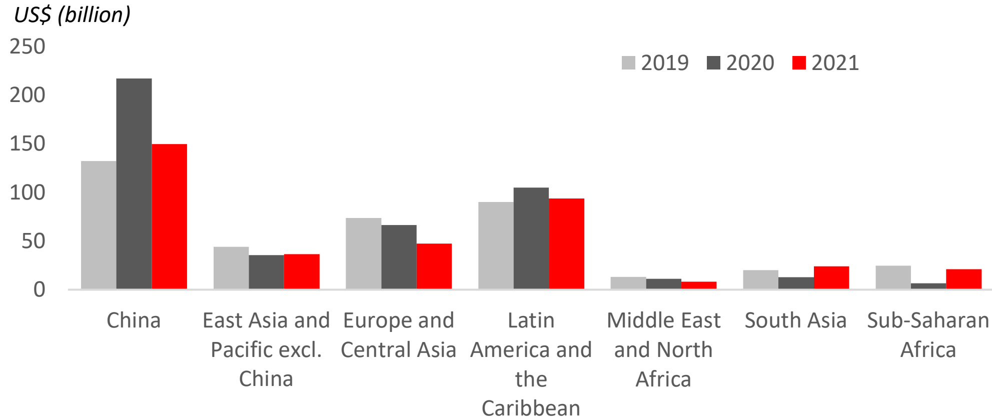
Sources: World Bank Debtor Reporting System and Dealogic.

gion to a 29 percent contraction in Europe and Central Asia. A resumption of sovereign bond issues, used in part to refinance prior, more expensive issues, was a principal factor in the rise in bonds issued by Sub-Saharan African countries in 2021. New issuance was also up 84 percent in the South Asia region due to 48 percent rise in bond issues in India to $19.4 billion, driven primarily by increased issuance by private sector entities, and Pakistan's return to the bond markets after a 3-year hiatus. Bond issues by countries in the East Asia and Pacific region in 2021, other than China, were largely on a par with the prior year, rising a modest 3 percent. The sharp downturn in issuance by countries in Europe and Central Asia was largely attributable to the steep contraction in issues by public sector entities in Russia which fell to $3.3 billion in 2021 from $17.6 billion in 2020 and the 39 percent fall in those by comparable entities in Romania, to $8.2 billion. Bond issuance also fell sharply, by 25 percent, in the Middle East and North Africa region where only Egypt and Morocco were active in international markets in 2021 and because their combined issuance was 13 percent lower than that of 2020. In the Latin America and the Caribbean region bond issuance fell 11 percent in 2021 to $94 billion of which 58 percent was accounted for by Brazil and Mexico. Their combined issuance of $54 billion in 2021 was broadly in line with 2020 but the share of issues by private sector entities rose to 61 percent, from 36 percent in 2020. This reflected a surge in issuance by private sector entities in Brazil to $21 billion, from $5.7 billion in 2020.

Bond issuance by countries in Sub-Saharan Africa resurged in 2021 to $21.1 billion. This was 225 per percent higher than the issuance in 2020 and largely reflected sovereign governments return to international bond markets after the shutdown in 2020 due to the impact of the COVID-19 pandemic on investor sentiment and market conditions. Only three Sub-Saharan African countries raised sovereign Eurobond in 2020, Gabon, Ghana in 2020 prior to the onset of the pandemic and Côte d'Ivoire late in the year when market conditions eased; for a combined issuance of $5.3 billion. In contrast, in 2021 nine countries in the region came to the market for a total of $14 billion in sovereign bond issues including a $500 million 6-year, 4.3 percent issue by the public utility company Eskom (South Africa) guaranteed by the Republic of South Africa. In addition, private non-guaranteed borrowers, primarily Nigerian and South African entities, issued $6.6 billion in bonds, a sixfold increase from the $1.1 billion issued in 2020.

Figure 7: Regional Distribution of Bond Issuance by Low- and Middle-Income Countries, 2019-2021

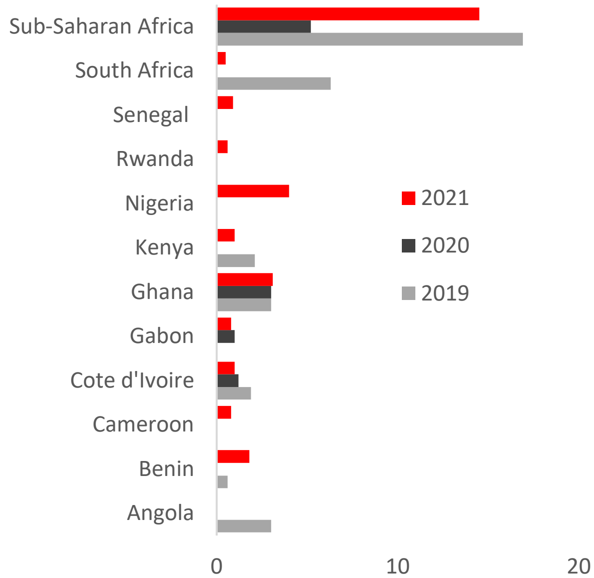
US$ (billion)



Sources: World Bank Debtor Reporting System and Dealogic.

Figure 8: Bond Issuance by Sovereigns and Public Sector Entities in Sub-Saharan Africa, 2019-2021

US$ (billion)



Sources: World Bank Debtor Reporting System and Dealogic.

Proceeds of the 2021 sovereign Eurobond issues by Sub-Saharan African countries were used to refinance prior issues. Active debt management of public debt portfolios enabled borrowers to moderate repayment risks and/or reduce borrowing costs with a lower coupon (interest) than that of prior issues. The Republic of Benin was the first Sub-Saharan African country to issue a Eurobond in international markets in 2021. It raised €1 billion (US$1.2 billion) in a two-tranche operation, €700 million with a final maturity of 11 years at 4.875 percent and €300 million with a 31-year maturity at 6.875 percent. The issue included a liability management operation which allowed for early repayment of 65 percent of Benin's debut 2019 Eurobond due in 2026 thereby enabling Benin to limit the risk of refinancing, extend the maturity of the public debt portfolio and reduce the average borrowing costs. The bond proceeds were also used to finance the budget and flagship projects in the national development plan. Several other countries used longer-dated, lower coupon Eurobonds to refinance prior issues. For example, Cameroon's €685 million ($816 million) 11-year 5.95 percent issue in June 2021 will be used to refinance its debut 2015, 9.5 percent Eurobond. Similarly, Rwanda's $620 million 10-year, 5.5 percent 2021 issue which will be used in part to repay its $400 million 6.875 percent debut bond issued in 2013 and due in 2023. Senegal raised €775 million ($946 million) with a 16-year maturity at 5.375 percent in June 2021. It will be used in part to buyback 70 percent of the Eurobond maturing in 2024 and denominated in US dollars.

Some 2021 sovereign Eurobond issues had innovative features. Ghana's sovereign four tranche Eurobond issue in April 2021 included a $525 million 4-year zero coupon bond. Priced at 78 US cents per dollar to attract investors, it lowers debt service obligations between issue and maturity in 2025, compared to a standard coupon (interest) paying Eurobond. Bondholders will receive $525 million at maturity and the Ghanian government pledged to use some of the bond proceeds and the interim reduction in debt servicing costs to repay domestic currency public debt. The Republic of Benin's €500 million Eurobond 4.95 percent due 2035 was the first sovereign issue by a Sub-Saharan African to be linked directly to the United Nations Sustainable Development Goals (SDGs). The proceeds will be used to finance or refinance green or social eligible expenditures, in line with Benin's SDG bond framework, which in turn will contribute to the country's commitments to achieving the SDGs.

Table 1: Sub-Saharan African Eurobond Sovereign Issuance 2021

Country	*Issue Date*	*Amount US$ (million)*	*Tenor (Years)*	*Coupon*
Benin	Jan-21	852	11	4.875
Benin	Jan-21	365	31	6.875
Benin	Jul-21	590	13.5	4.95
Cameroon	Jun-21	816	11	5.95
Cote d'Ivoire	Feb-21	726	11	4.3
Cote d'Ivoire	Feb-21	302	27	5.75
Gabon	Nov-21	800	10	7
Ghana	Mar-21	1,000	7	7.75
Ghana	Mar-21	1,000	12	8.625
Ghana	Mar-21	500	20	8.875
Ghana	Mar-21	525	4	0
Kenya	Jun-21	1,000	12.6	6.3
Kenya	Sep-21	1,250	7	6.125
Nigeria	Sep-21	1,500	12	7.375
Nigeria	Sep-21	1,250	20	8.25
Rwanda	Aug-21	620	10	5.5
Senegal	Jun-21	948	16	5.375

***Sources*: Dealogic, Bond Prospectus and national debt office press releases.**

III. Raising the Bar on Debt Data Transparency – New Initiatives

Comprehensive, accurate, and timely information on public debt is essential for sound policy decisions and robust debt management. Debt transparency facilitates new, high-quality investment, reduces corruption, and brings accountability. All too often, however the public debt liabilities of low- and middle-income countries are hard to pin down. Many do not publish public debt data or publish incomplete data that understate the true level of liabilities. The opacity of some domestic debt markets, the increased use of central bank currency-swaps, and proliferation of borrowing by state-owned and private sector entities with various forms of government guarantee pose significant challenges to global surveillance of debt levels. The recent surge in debt levels in low- and middle-income countries and the increased risk of a global debt crisis have led to a wide consensus in the international community about the need to achieve a greater level of public debt transparency. This demand has been heightened by the fallout from the COVID-19 pandemic which has seen public revenues decline, public-sector deficits widen and public borrowing surge, with increased risk that unreported liabilities may emerge. Lack of transparency makes it harder for borrowers to service their public debt and for creditors to support them if restructuring is necessary.

Robust debt data recording and reporting are the cornerstone of sound debt management practices. To promote debt data transparency, the World Bank organized an online seminar Raising the Bar on Debt Transparency in April 2022. The seminar, organized in collaboration with the Executive Director for Japan at the World Bank, brought together experts from borrower and creditor countries and academia to discuss ongoing efforts and concrete actions to enhance debt reporting and recording at the national level as well as reconciliation of debtor and creditor records and information captured in datasets compiled by academia.

The seminar also offered an opportunity for the World Bank to unveil ongoing enhancements to the DRS to support the debt transparency agenda. Instituted in the 1950s, the DRS is the recognized international database for the external debt of low- and middle-income countries and the established debtor-side repository. It is a one-stop source of external debt data compiled in accordance with agreed international standards and definitions to support cross-country analyses of the debt obligations of low- and middle-income countries and the terms and conditions on which they were contracted. **The four-point agenda to enhance the DRS centers on: redesigning the DRS to align with borrowing patterns and support current data needs; extending the coverage of the DRS to domestic public debt; closing data gaps to enhance DRS data quality and coverage; and expanding and facilitating access to the DRS data.**