

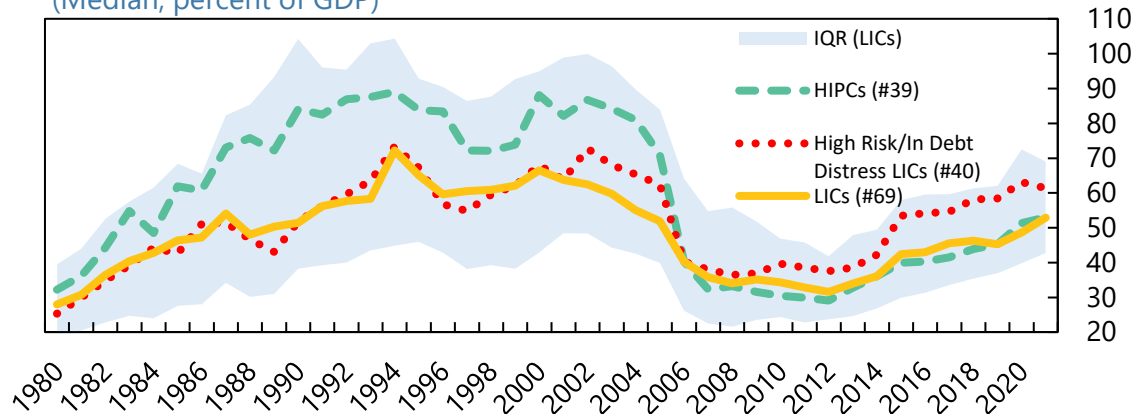
# PRGT LICs: New challenges emerge compared to pre-HIPC era

Compared to the **pre-HIPC era**:

**Debt stocks** are not as high.

## Public Debt-to-GDP Ratio in Country Subgroups

(Median, percent of GDP)

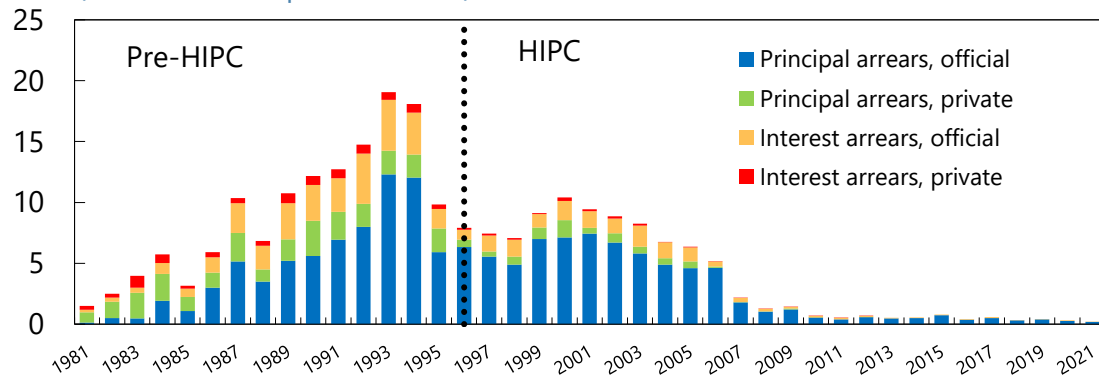


Sources: IMF Global Debt Database, IMF WEO and staff calculations

**Arrears accumulation** also appears to be minimal.

## Outstanding Arrears

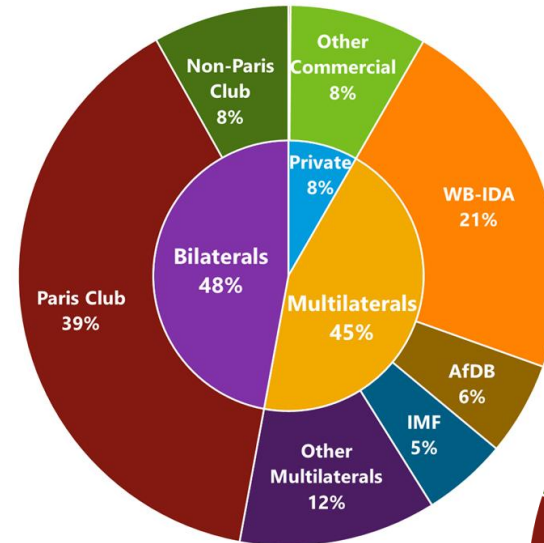
(in Percent of Exports, median)



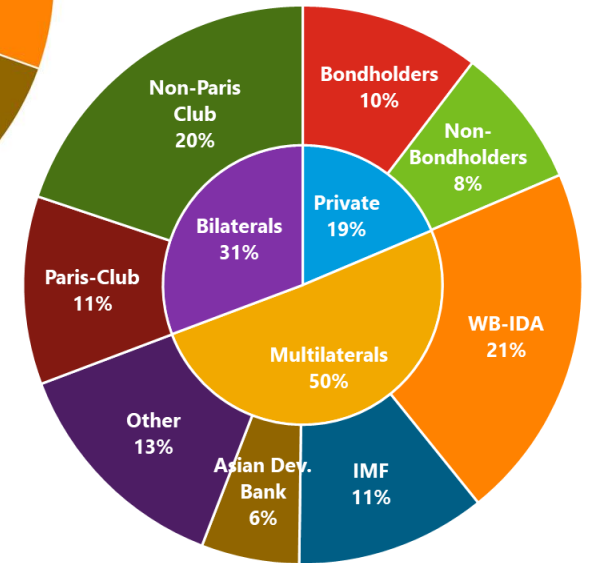
Sources: World Bank IDS and staff calculations

- However, evolving **creditor landscape** with increasing lending from non-Paris Club and private creditors poses new coordination challenges.

End-1996: Distribution of PRGT Creditors  
(in percent of total PPG debt stock)



End-2021: Distribution of PRGT Creditors  
(in percent of total PPG debt stock)

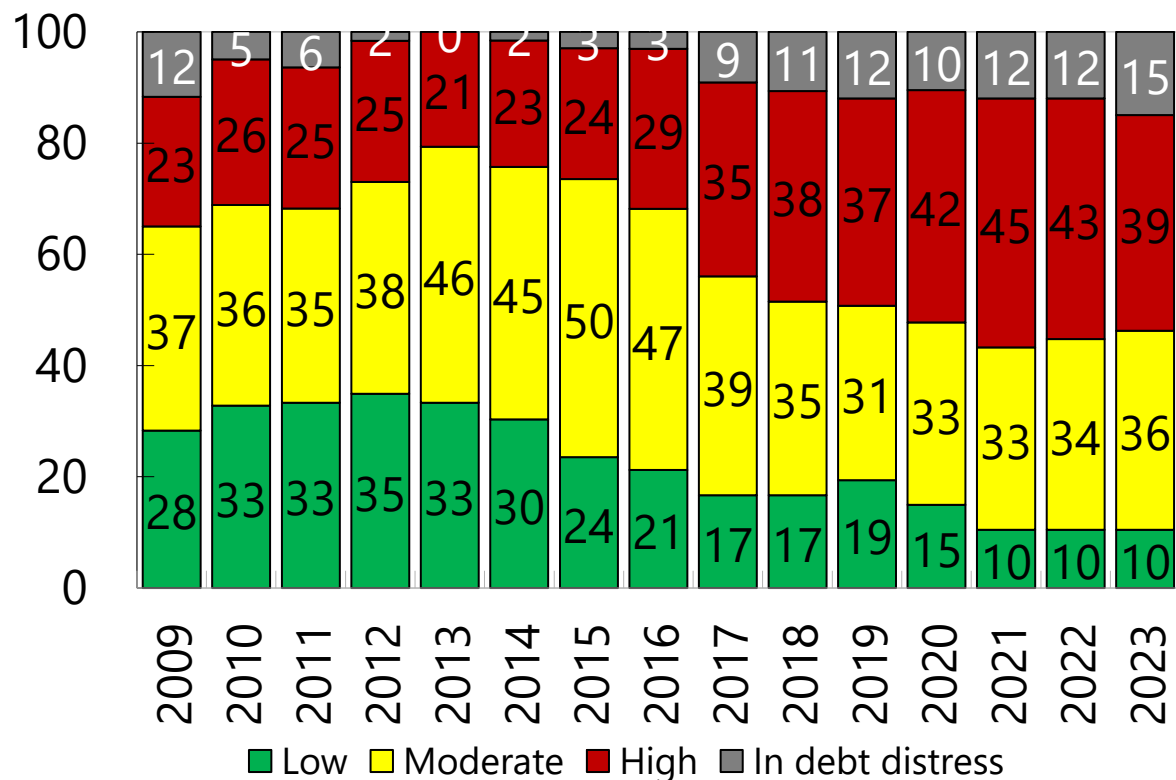


Source: WB IDS and staff calculations

## 39 of the 73 DSSI-eligible countries (53 percent) are at high risk or already in debt distress

### Evolution of the Risk of Debt Distress

(in percent of DSSI-eligible countries with LIC DSAs)

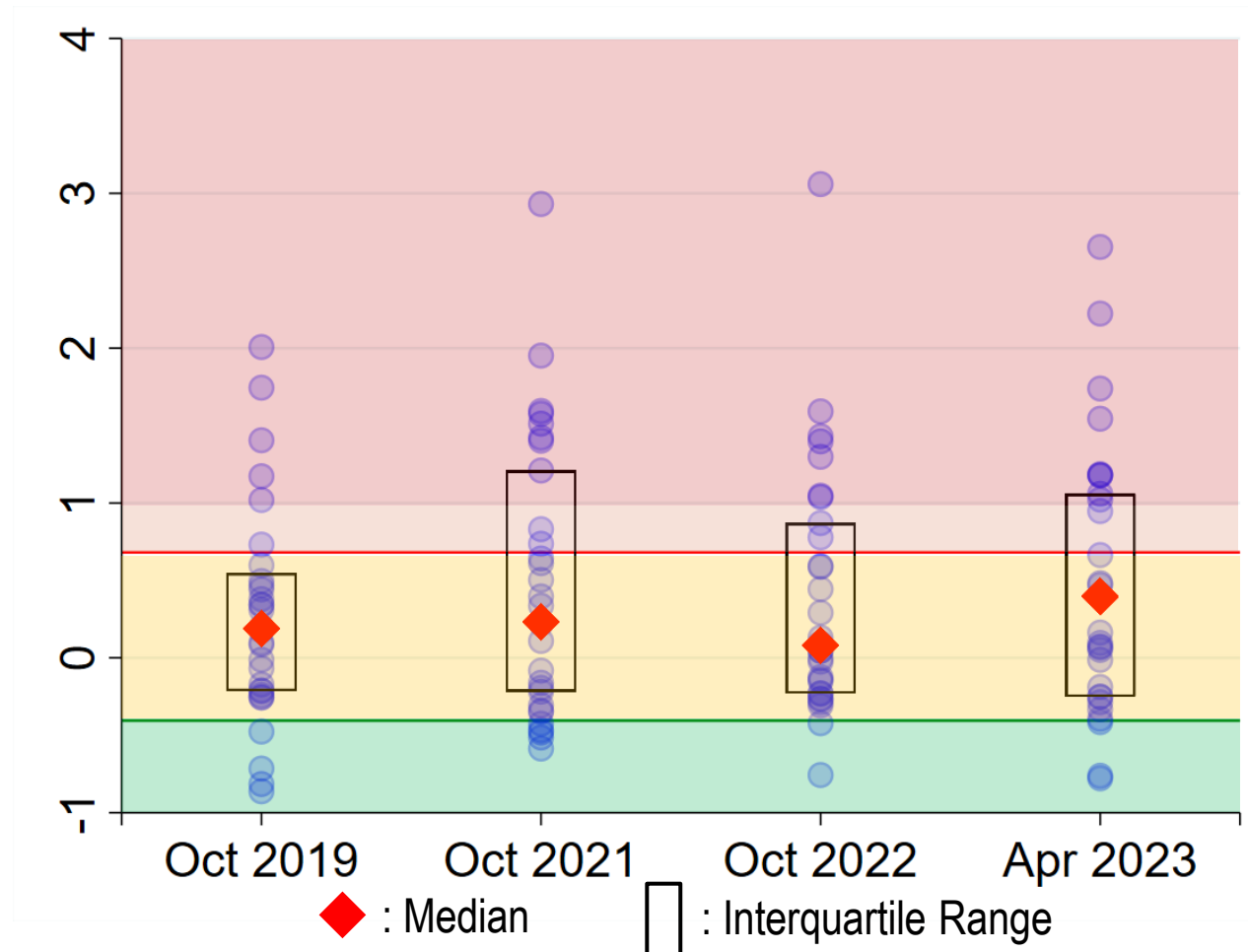


- **29 countries are at high risk of debt distress**, out of which 4-6 countries appear highly vulnerable to significant financing gaps emerging due to low levels of reserves and/or rising GFNs.
- **Spillover risks cannot be ruled out:** On average, a rating downgrade of an individual country's sovereign bond is associated with increases in spreads for other countries (Gande & Parsley, 2005).

Source: LIC DSA database. As of May 31, 2023.

# Medium-term debt distress risks for LMICs have increased

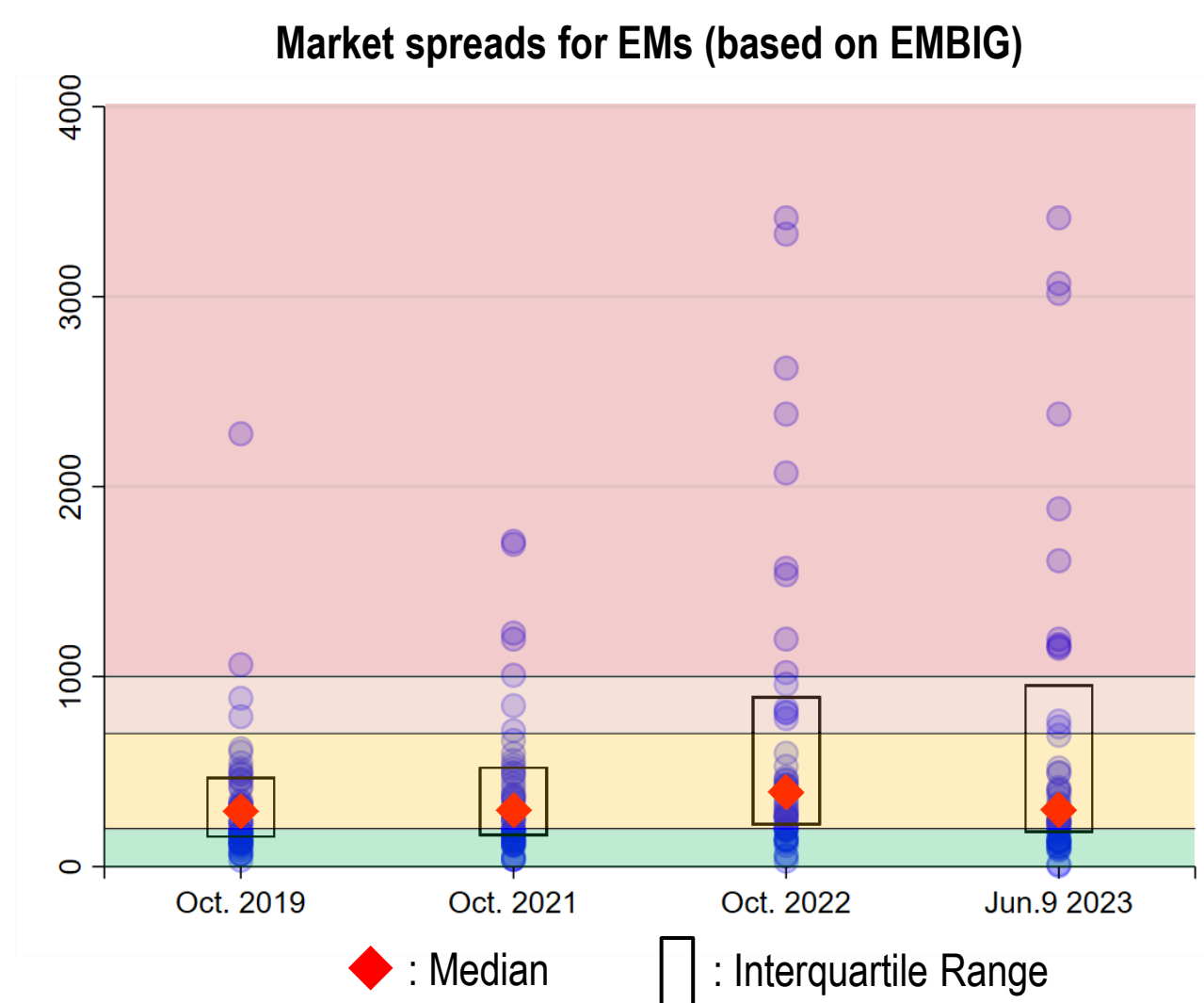
Risk assessment based on Fanchart tool results



Source: IMF, World Economic Outlook (2023); and IMF staff calculations.

Note: Chart excludes (Bangladesh, Bolivia, Cabo Verde, Cambodia, Congo, Rep., Iran, Islamic Rep., Kiribati, Lao PDR, Micronesia, Fed. Sts., Myanmar, Nigeria, Papua New Guinea, Samoa, São Tomé and Príncipe, Solomon Islands, Tajikistan, Timor-Leste, Uzbekistan) due to data unavailability.

# Market sentiment is mixed: spread variance is up, but median has decreased

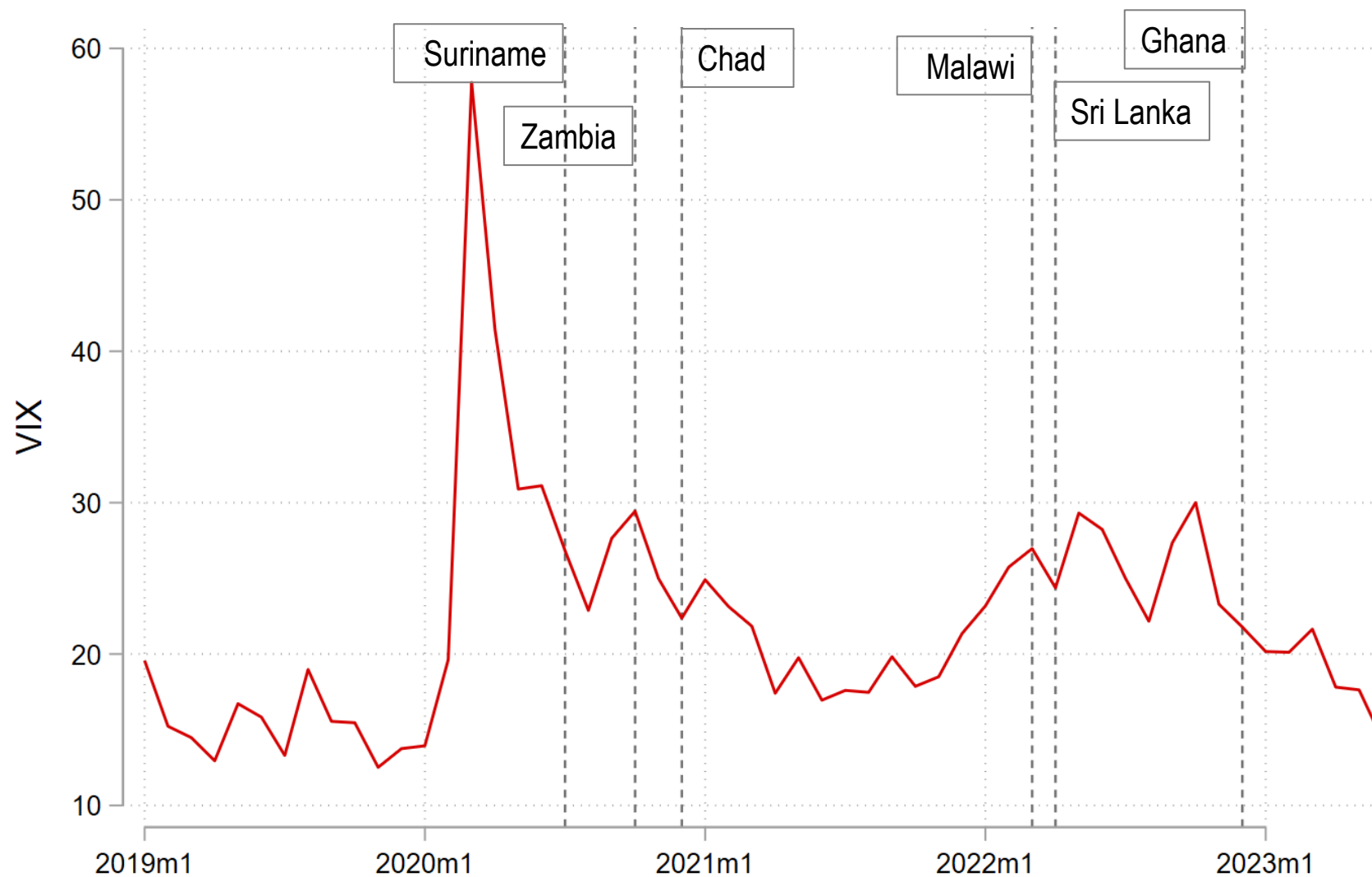


Source: IMF, World Economic Outlook (2023); and IMF staff calculations.

Note: Chart excludes Albania, Algeria, Antigua and Barbuda, Aruba, Bahamas, Bosnia and Herzegovina, Botswana, Brunei Darussalam, Bulgaria, Equatorial Guinea, Eswatini, Fiji, Iran, Kosovo, Libya, Mauritius, Montenegro, Rep. of, North Macedonia, Palau, Seychelles, St. Kitts and Nevis, St. Lucia, Syria, Thailand, Turkmenistan, Uzbekistan

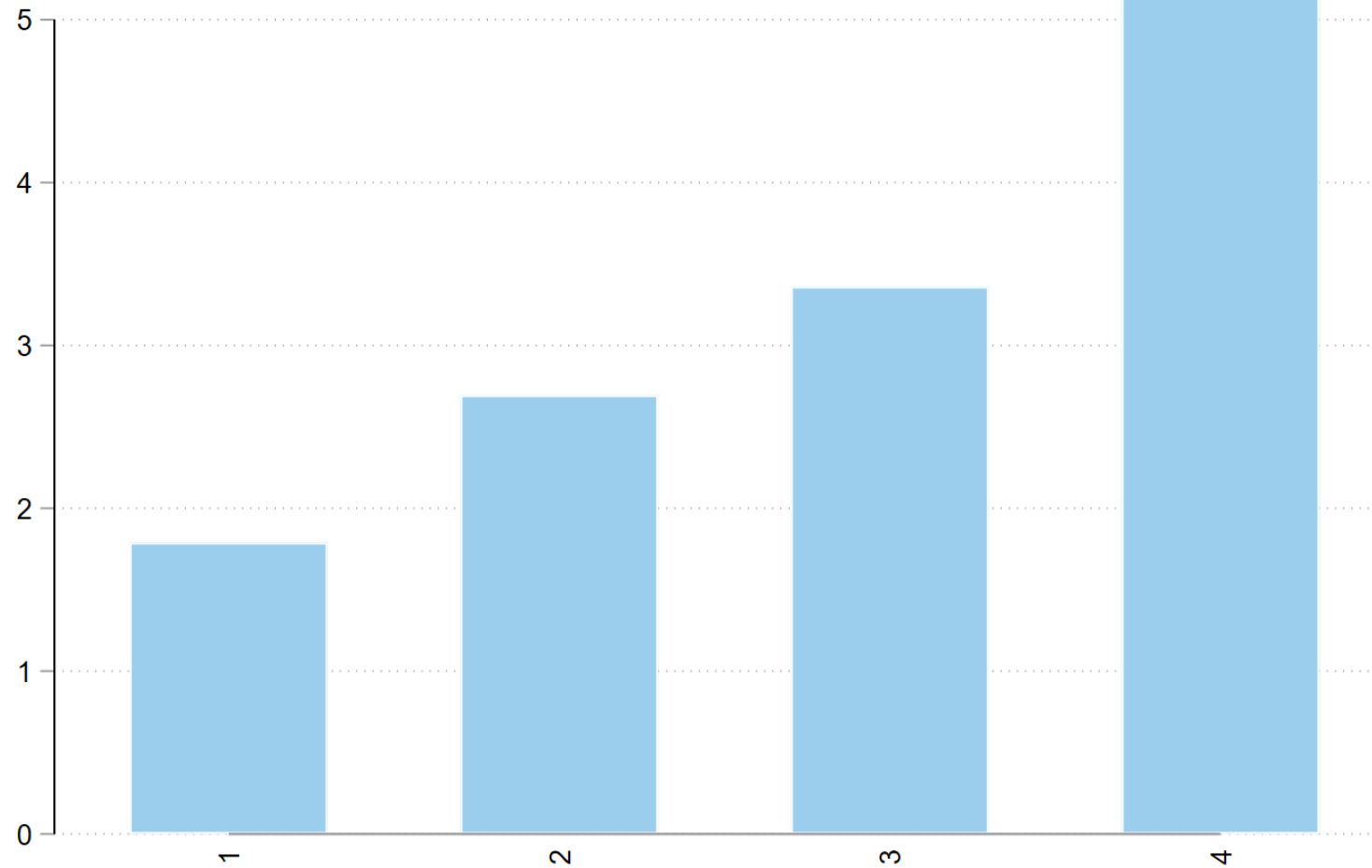
# Market risk aversion has gone hand-in-hand with debt distress

Restructuring announcements over time, plotted against the VIX



# Risks to the downside may lead to further rises in debt in LMICs

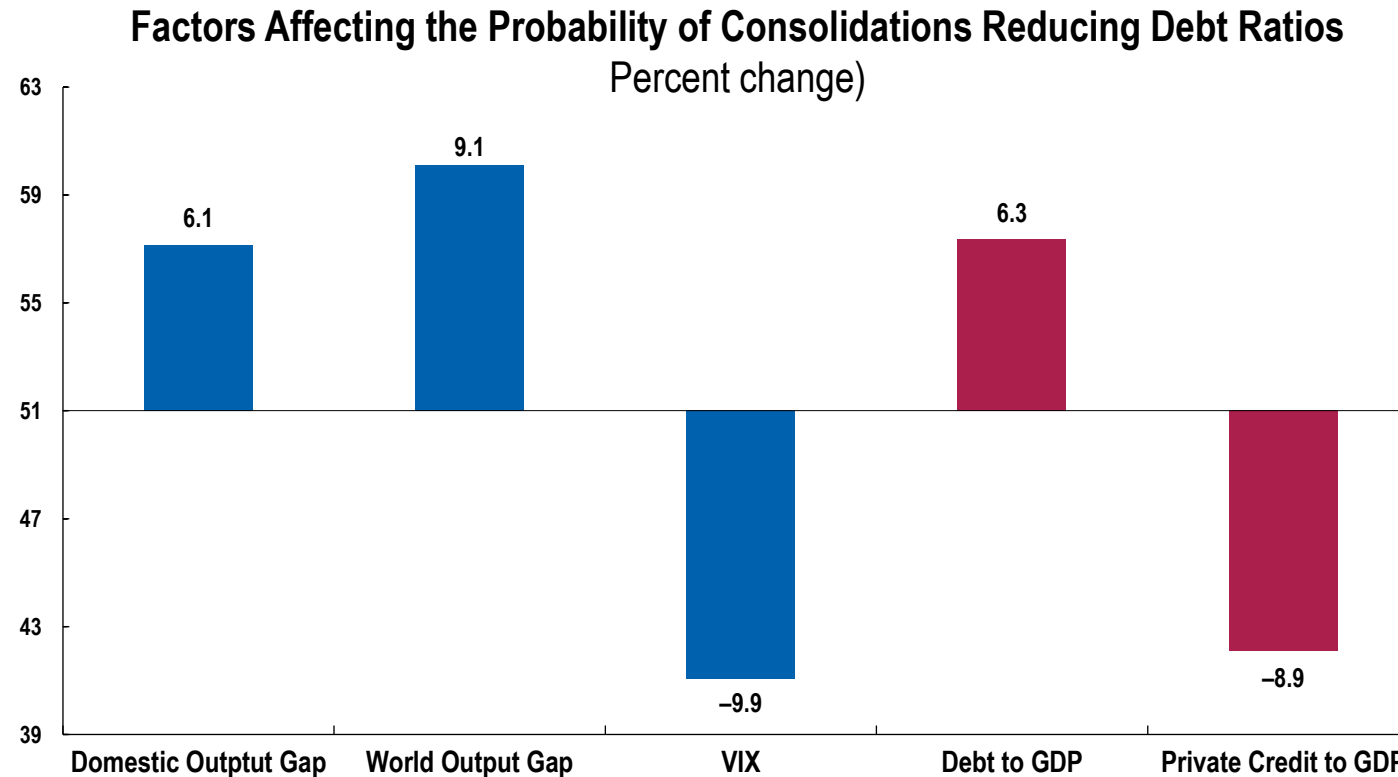
Apr. WEO 2023 Downside Scenario: Change in Debt/GDP for 2024 (LMICs)  
by quartile



Source: IMF, World Economic Outlook (2023); IMF staff calculations.

# Debt reduction: when does fiscal consolidation work?

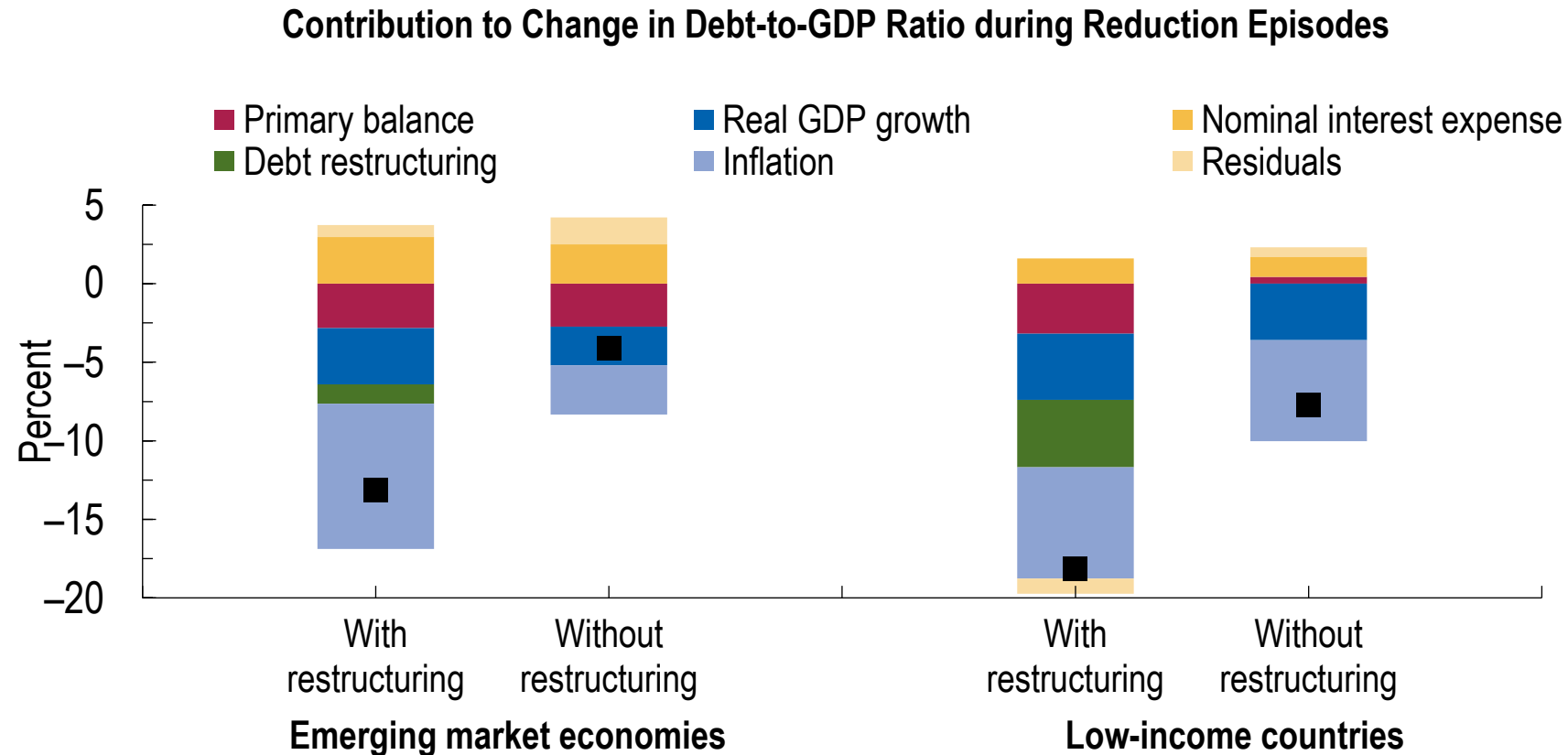
Economic expansions, favorable financial conditions and high crowding-out effects boost the probability of consolidation reducing debt ratios.



Sources: Canova and Ferroni (2022); IMF, Global Debt Database; IMF, Historical Public Debt Database; and IMF staff calculations.

# Debt reduction: optimal approaches

Large debt restructurings typically require a joint effort via timely debt restructuring and growth-friendly fiscal consolidation. A sound policy mix with contained interest bill and supportive terms of trade are key factors in non-restructuring cases.



Source: : Asonuma, Niepelt, and Ranciere (2023); Asonuma and Trebesch (2016); Asonuma and Wright (2022); Cheng, Díaz-Cassou, and Erce (2018); Cruces and Trebesch (2013); Horn, Reinhart, and Trebesch (2022); IMF (2021); IMF, Global Debt Database; Mauro and others (2013); and IMF staff calculations.



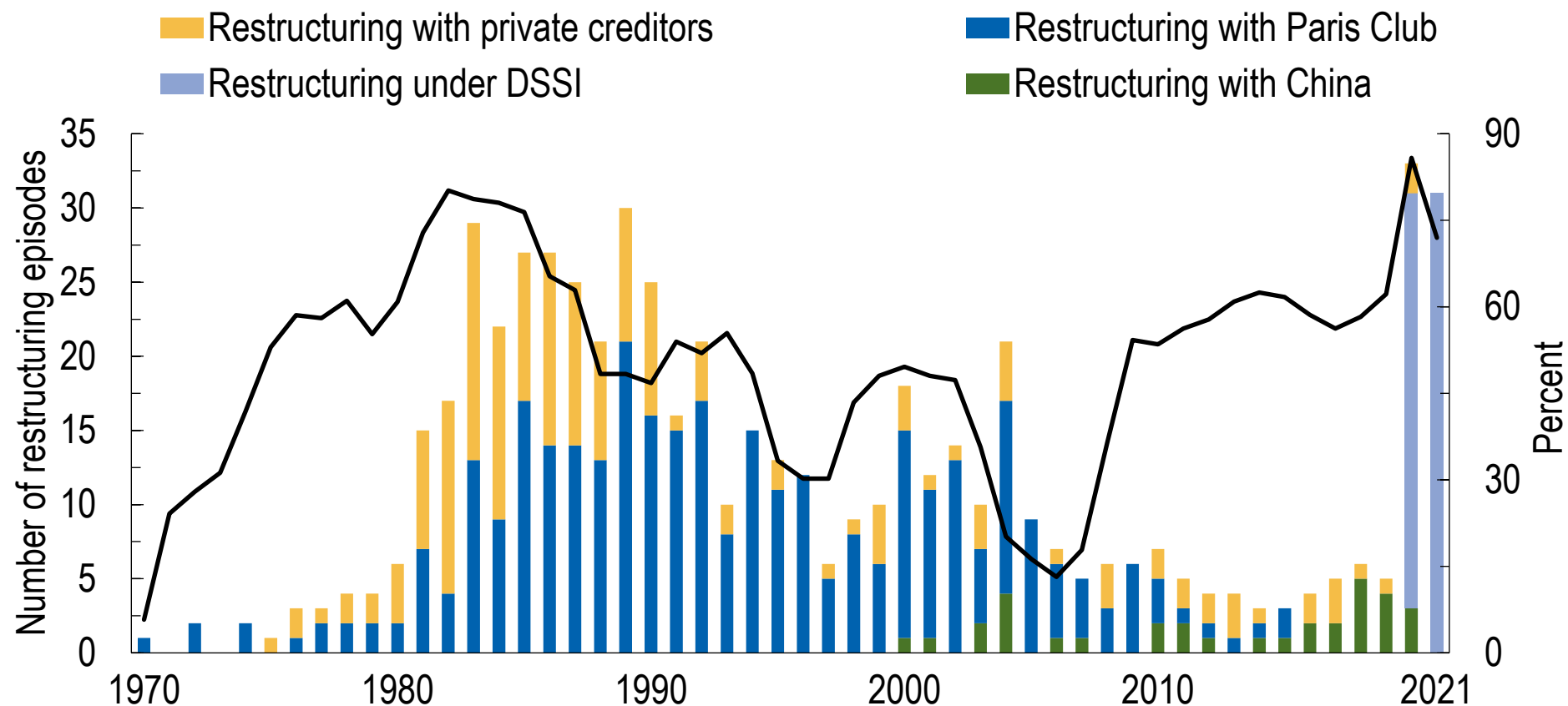
# Appendix

## Slow progress on debt restructuring cases

	Country	Status of the negotiations
<b>COMMON FRAMEWORK (CF)</b>	Chad	MOU signed in Dec. 2022. Maiden CF treatment (actual debt relief in 2024 and possible additional relief contingent on oil price developments).
	Ethiopia	Discussions on a Fund-supported program ongoing following progress with the peace process. OCC formed.
	Ghana	OCC formed and financing assurances (FA) provided in May 2023 (5 months after SLA). Third country with a Fund program approved with CF FA.
	Zambia	August 2022 Board approval. Next step: MOU with OCC. Discussions on MOU still ongoing 9 months from Board approval. Reaching agreement on the deep debt relief required will be a breakthrough for CF.
<b>NON-COMMON FRAMEWORK</b>	Suriname	SLA of the 2 <sup>nd</sup> review announced. Deals with bondholders and India reached in May. Discussions with China on a debt restructuring remain ongoing.
	Sri Lanka	Program approved in March 2023 following FA from all official creditors. Japan, India, and France formed OCC. Light coordination expected with some non-PC creditors. Novel approach for a non-CF-eligible country.
	Malawi	Good faith negotiations with key creditors and progress with bilateral creditors. Timing uncertain.

# Debt reduction: challenges

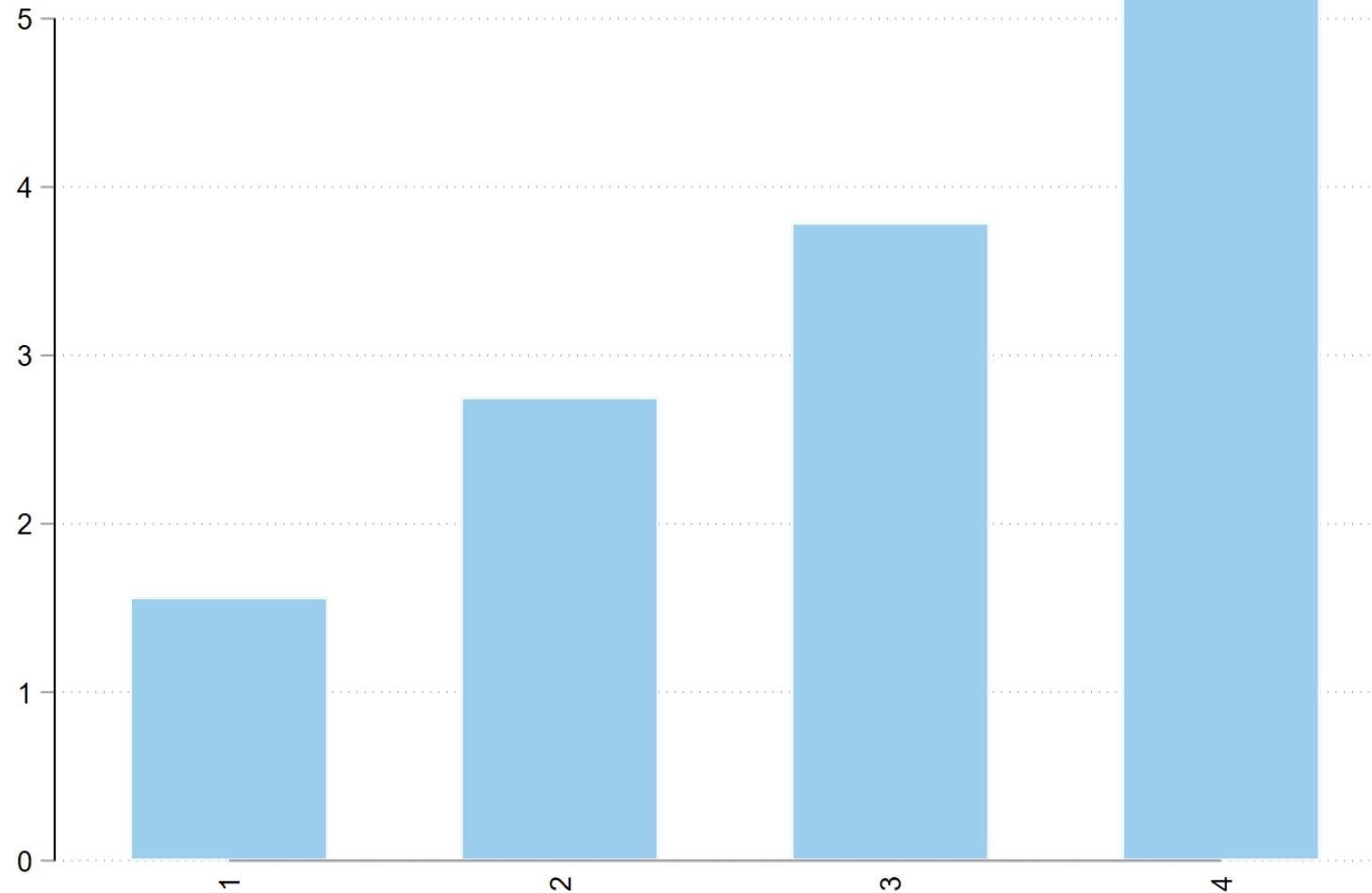
Going forward, restructuring cases may become more complicated due to the changing landscape in creditor composition.



Source: : Asonuma and Trebesch (2016); Asonuma and Wright (2022); Horn, Reinhart, and Trebesch (2022); IMF (2021a); IMF, Global Debt Database; Mauro and others (2013); World Bank, International Debt Statistics; and IMF staff calculations.

# Risks to the downside may lead to further rises in debt in EMs as well

Apr. WEO 2023 Downside Scenario: Change in Debt/GDP for 2024 (EMs)  
by quartile



Source: IMF, World Economic Outlook (2023); IMF staff calculations.