

# LOW-INCOME COUNTRY DEBT SUSTAINABILITY ANALYSIS HOW ARE RISK RATINGS DETERMINED?



**WORLD BANK GROUP**



# WHAT IS THE LIC DSF ?

Analytical framework to assess debt vulnerabilities

Developed by IMF and WB staff

Country coverage: Countries eligible to

- Poverty Reduction and Growth Trust (PRGT) facilities
- International Development Association (IDA) resources

*Choose to use the MAC DSA if the country has durable and substantial access to market financing.*

External

Fiscal

Debt Sustainability

Ability to meet  
current and future  
external financial  
obligations

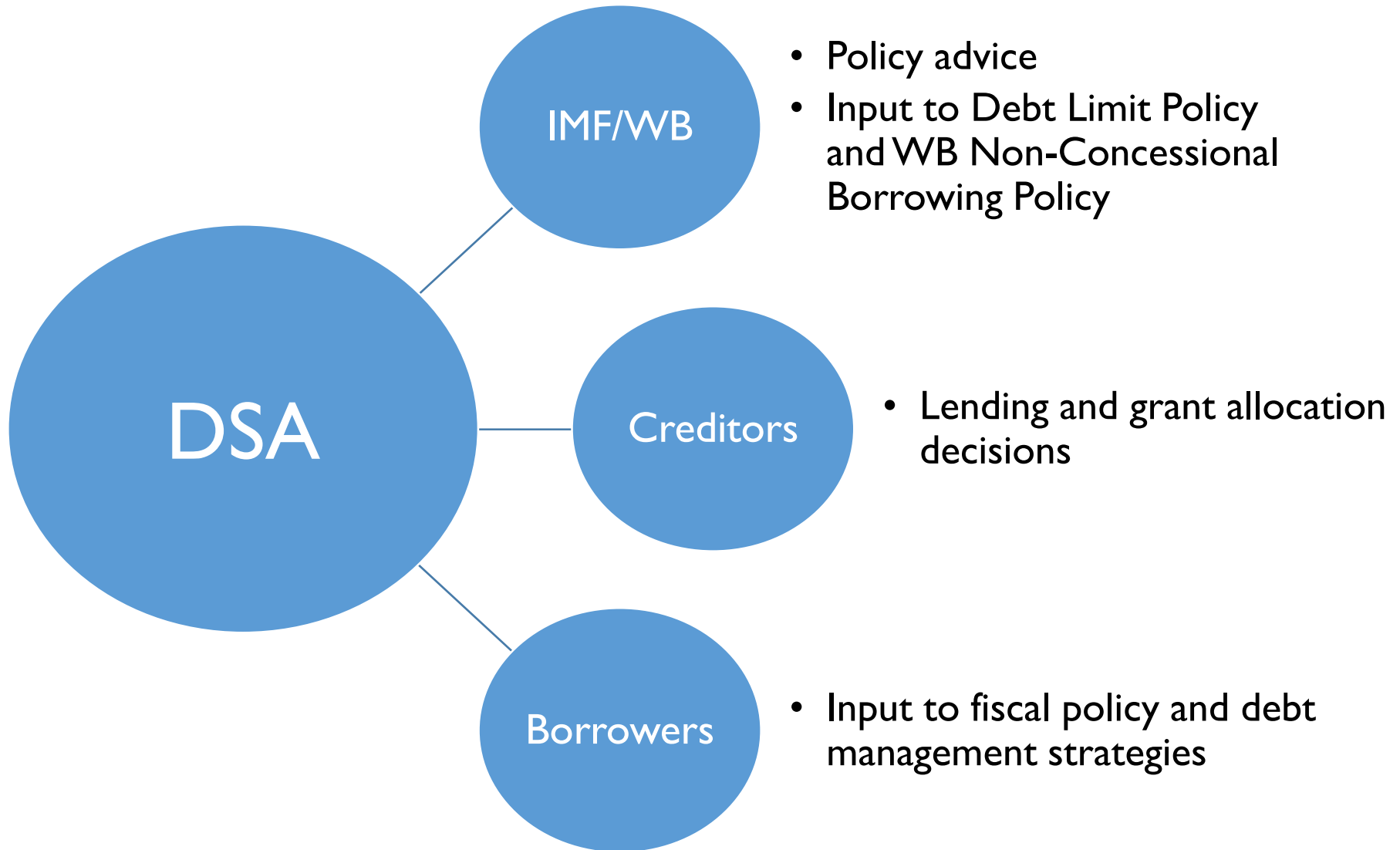
Government's ability  
to maintain current  
and planned policies,  
without major  
adjustments

Debt Sustainability  
Analysis

Consequences of  
macroeconomic  
policies for external  
debt stock and flows

Consequences of fiscal  
policies for public  
debt stock and flows

## Used by a range of audiences



# Total Debt

External Debt

Domestic  
Debt

External  
Public

External  
Private

Domestic  
Public

Domestic  
Private

# Total Debt

External Debt

Domestic Debt

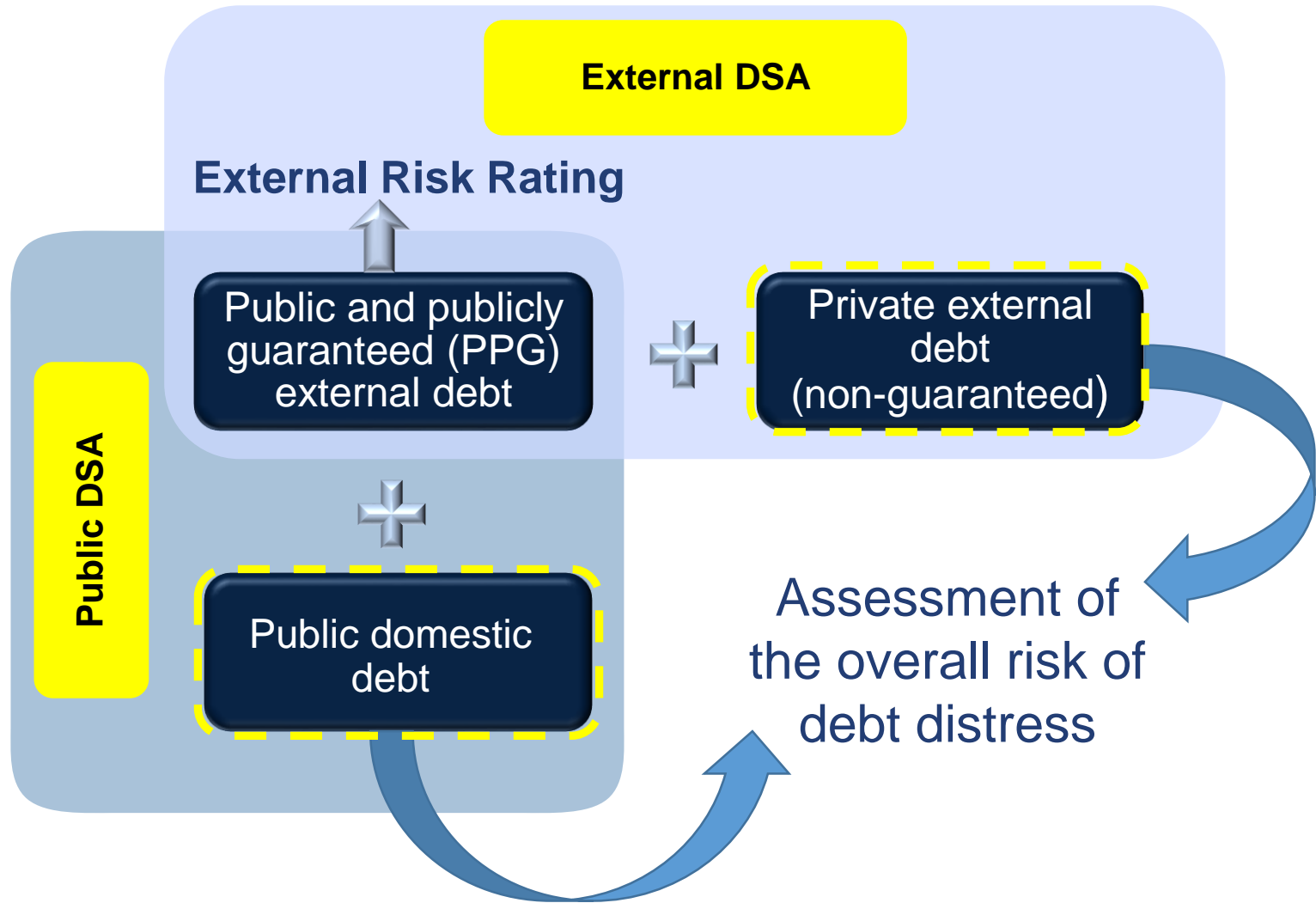
External  
Public

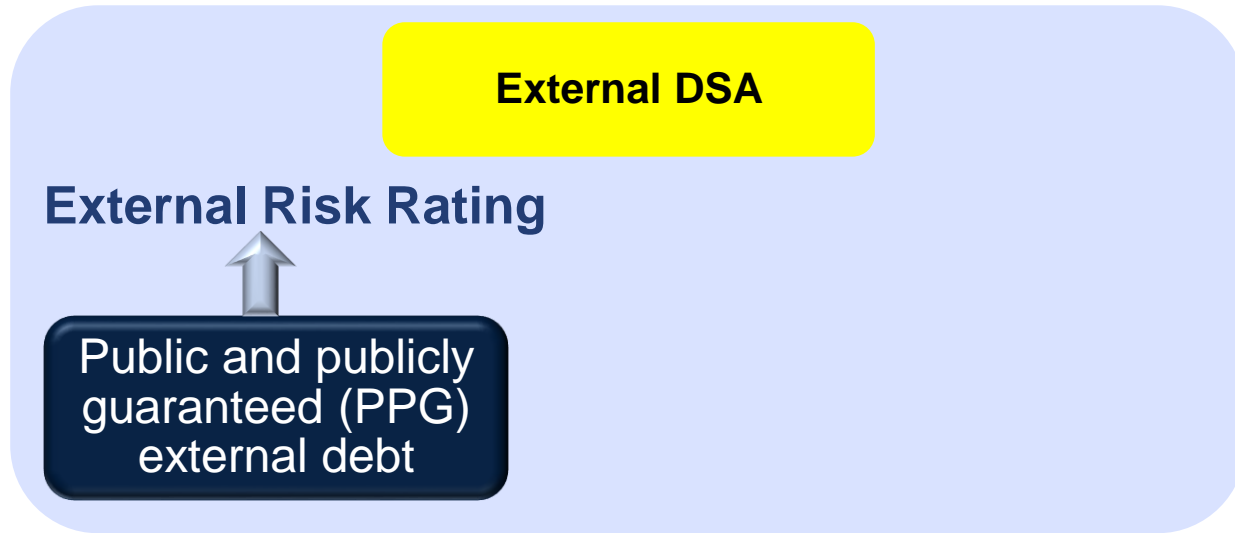
External  
Private

Domestic  
Public

Domestic  
Private

Public debt has driven most debt crises in developing countries





External risk rating has been at the core of the DSF



- Baseline projections
- Standard or user-defined stress tests

- Macroeconomic projections

- Solvency (stock) and liquidity (flow) indicators

- Derived from macro framework

- CPIA scores
- Remittance levels

- Empirically estimated danger thresholds

- Debt distress rating
- Overall assessment

-  Low
-  Moderate
-  High
-  In debt distress

Macro scenarios



Debt indicators under those scenarios

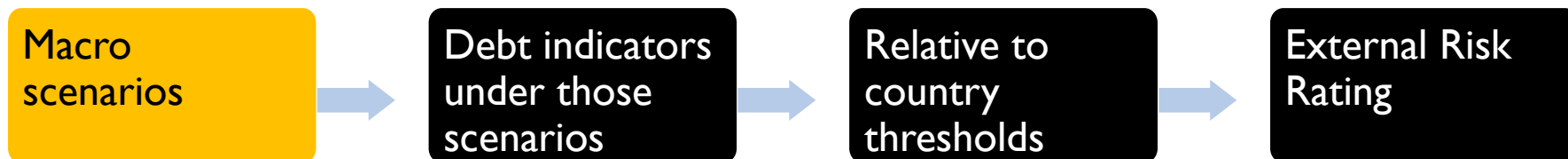


Relative to country thresholds



External Risk Rating

- DSA template is not macroeconomic model
  - Requires consistent and complete baseline scenario
- Template will generate a range of standard shocks
  - Can be complemented with user-defined shocks



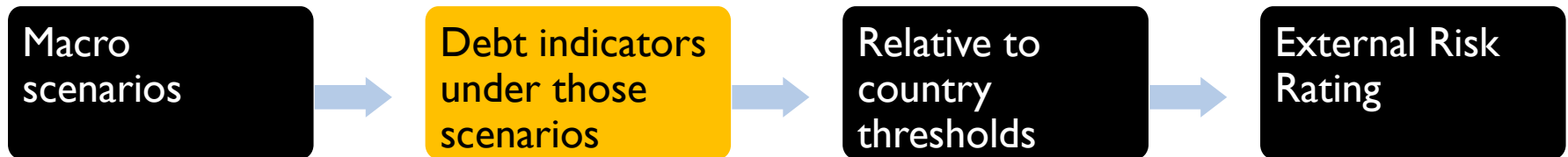
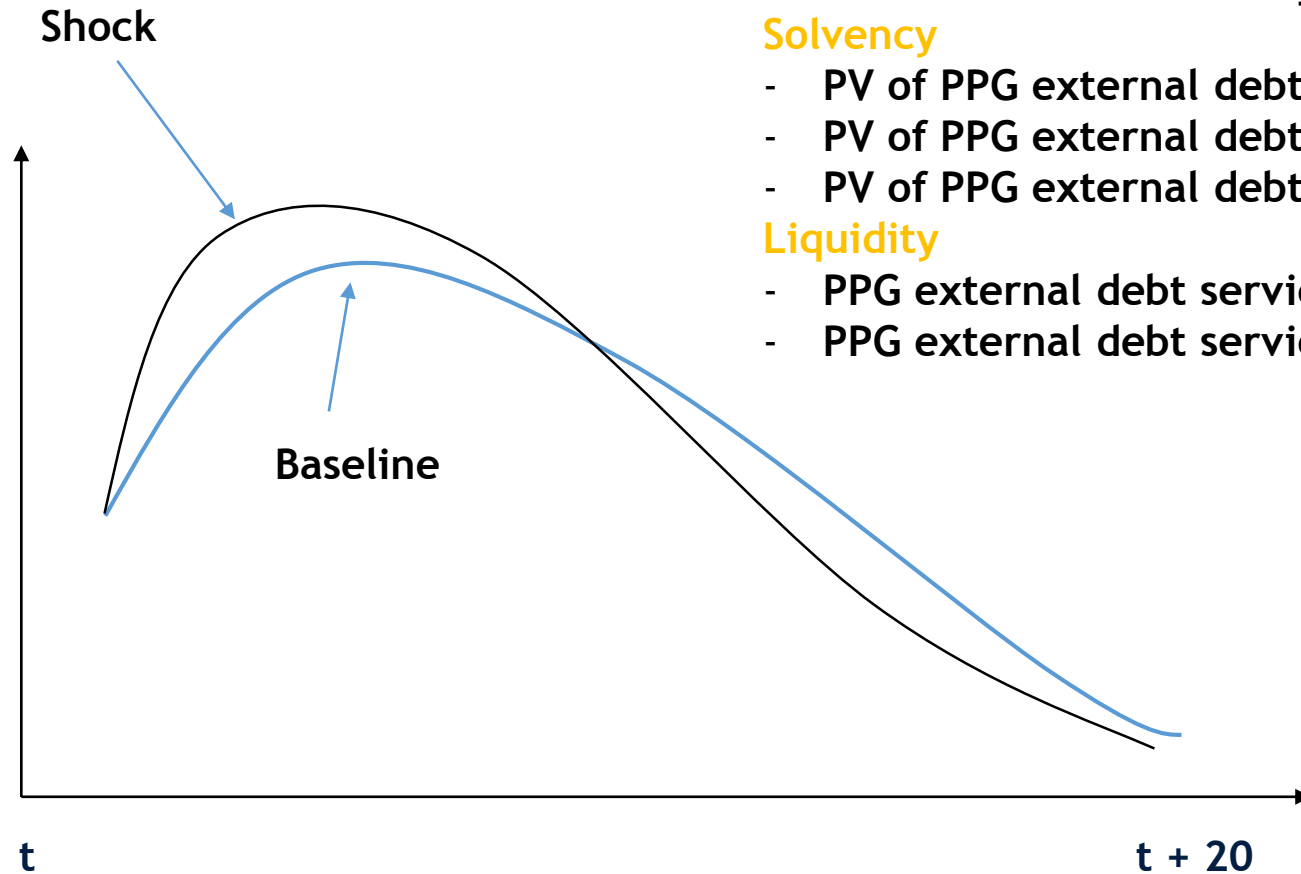
## External Debt Sustainability Indicators

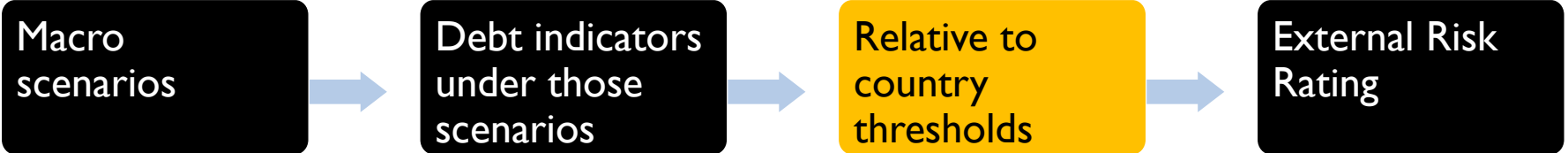
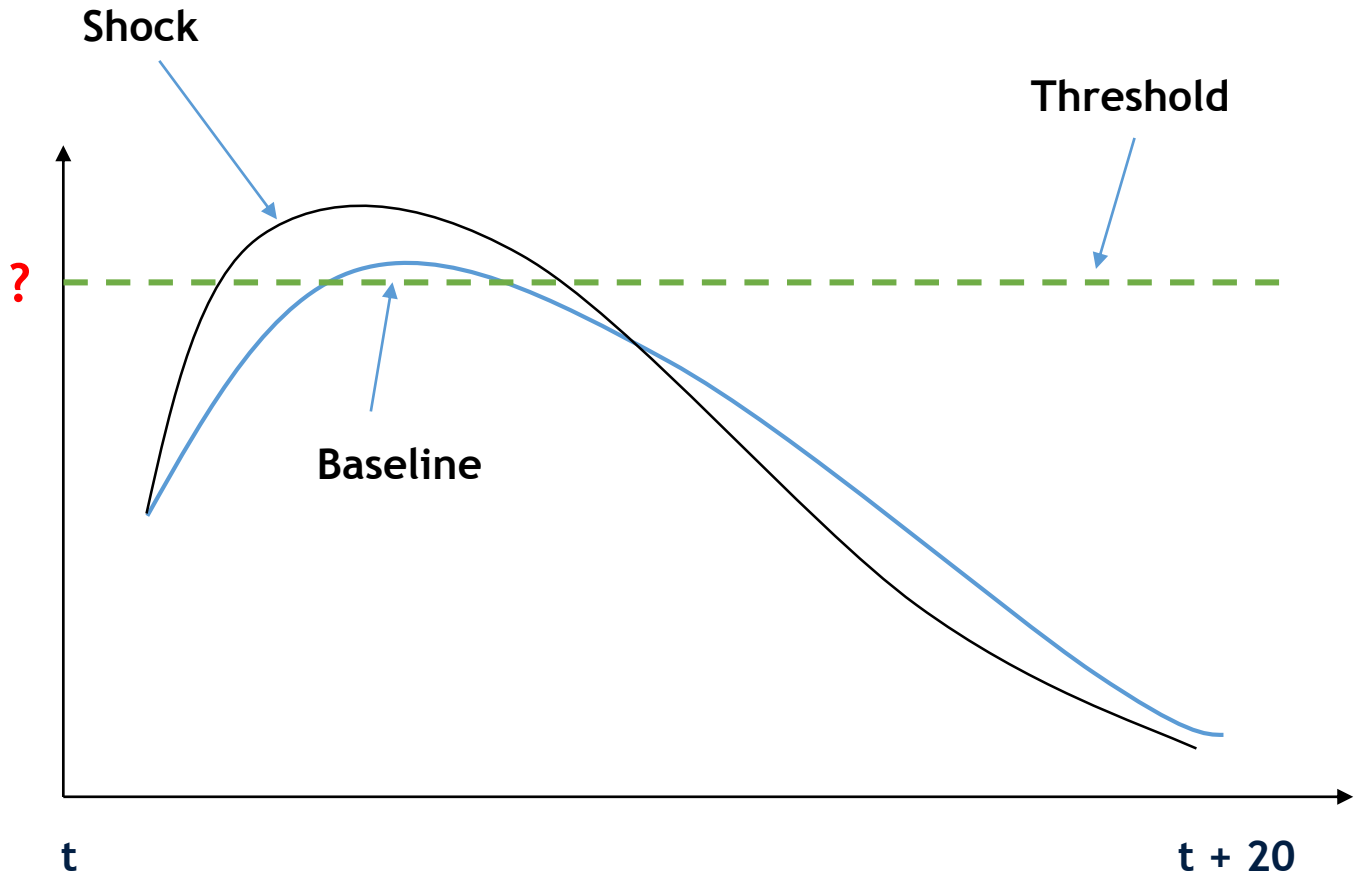
### Solvency

- PV of PPG external debt to GDP
- PV of PPG external debt to exports
- PV of PPG external debt to revenue

### Liquidity

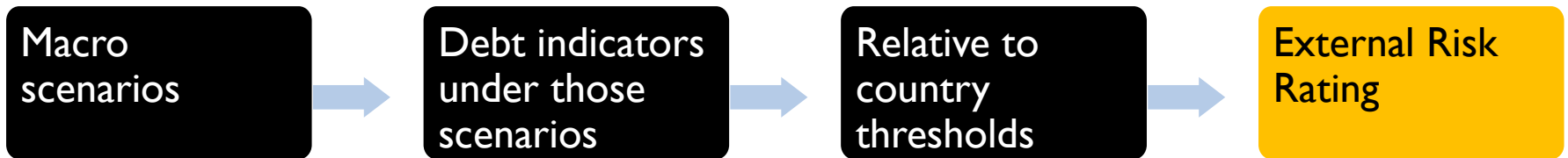
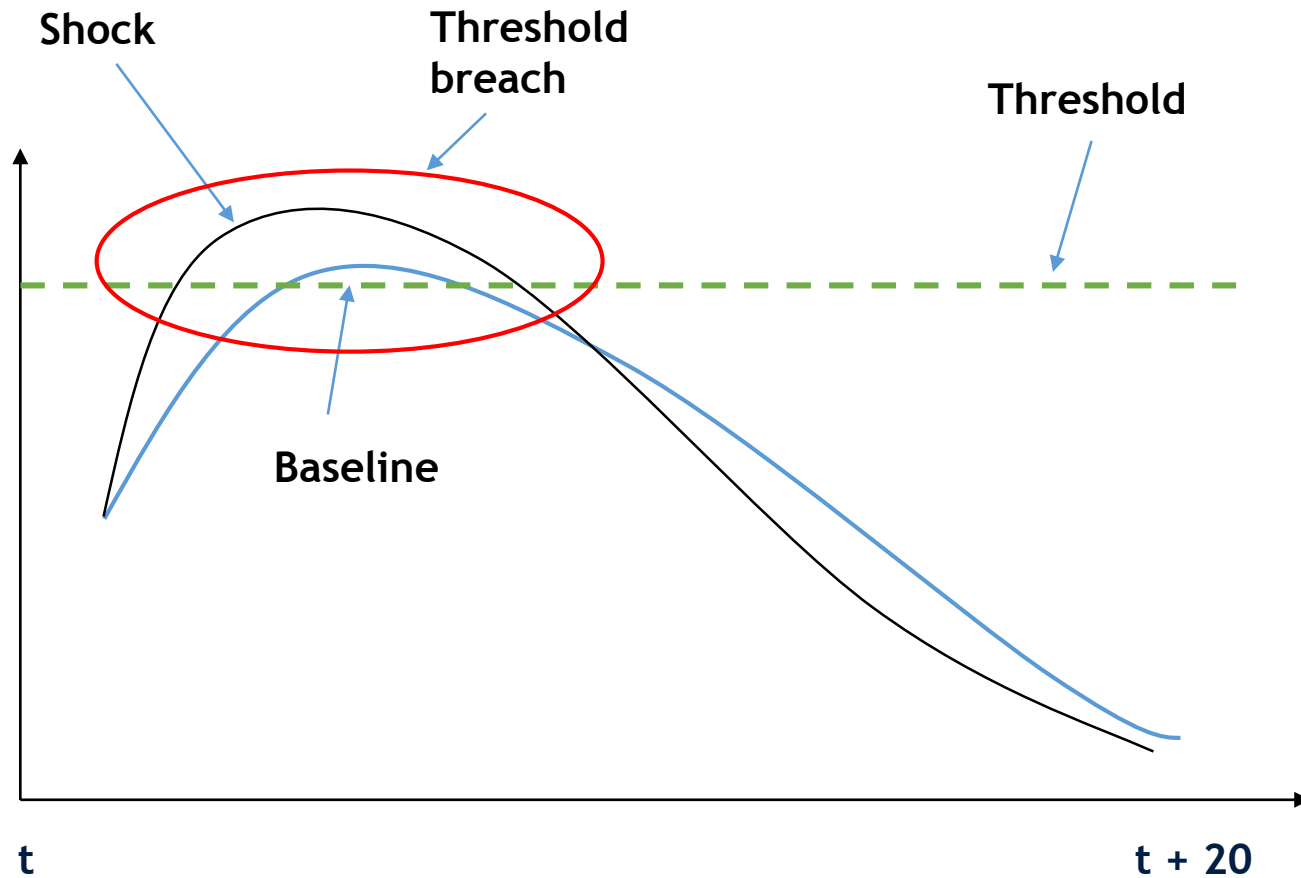
- PPG external debt service to exports
- PPG external debt service to revenues









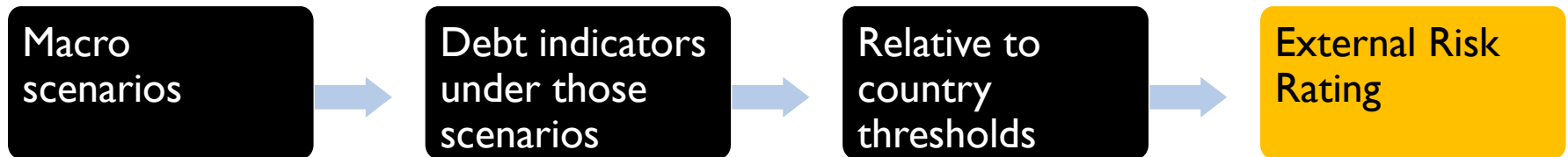
Quality of policies and institutions (CPIA)	PV of PPG external debt in percent of			PPG external debt service in percent of	
	GDP	Exports	Revenue	Exports	Revenue
Weak	30	100	200	15	18
Medium	40	150	250	20	20
Strong	50	200	300	25	22



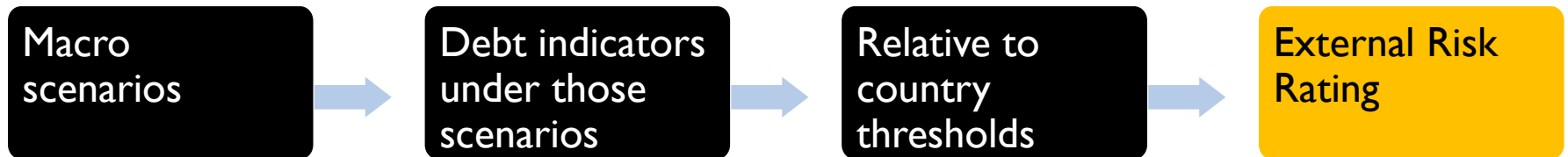
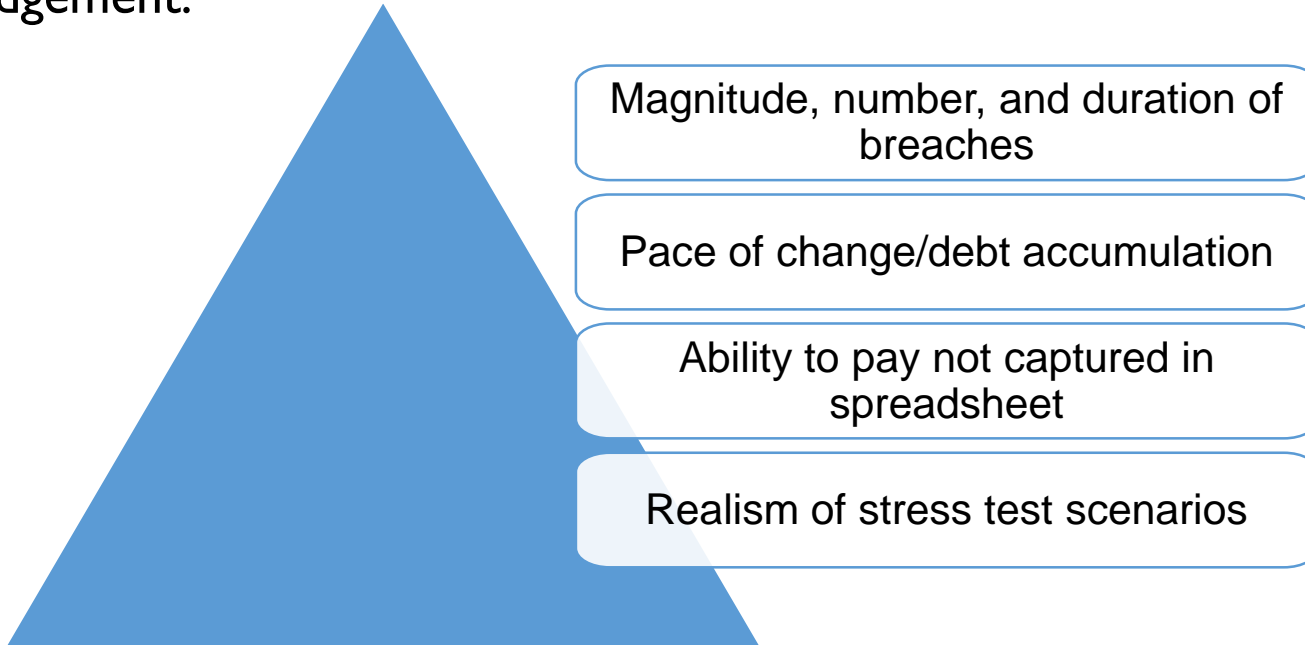


## Mechanical rating:

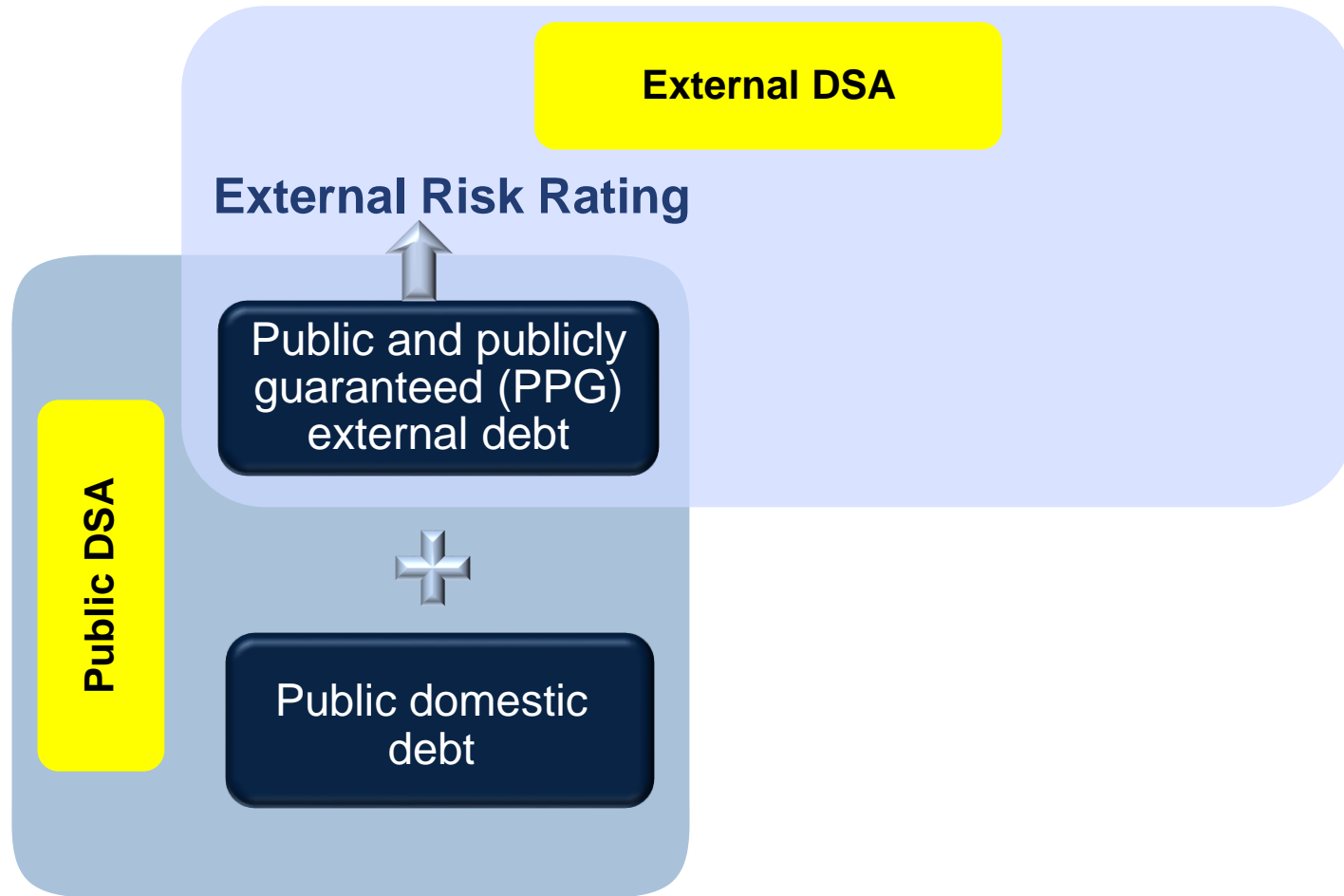
	Baseline Breaches	Shock Breaches
 Low	0	0
 Moderate	0	1+
 High	1+	1+
 In debt distress	Already facing problems with repayment	



Use judgement:







DSF also considers total public debt



Deeper analysis of domestic public debt when:

- Total public debt to GDP ratio is moving towards or exceeding benchmark under the baseline

Discuss:

- Trends
- Financing terms
- Composition of public debt
- Contingent liabilities



Deeper analysis of private external debt when:

- Private external debt is substantial or projected to grow rapidly

Discuss risks from:

- Sudden stops
- Exchange rate pressures

## Key messages:

- Debt sustainability analysis helps avoid sharp macroeconomic adjustments that have negative development impacts
- The IMF/World Bank DSF is both a useful analytical tool and informs resource allocation
- The framework relies on macroeconomic projections and comparison of forecast debt indicators relative to risk thresholds

# Low-Income Country Debt Sustainability Analysis

HOW ARE RISK RATINGS DETERMINED?



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