

DEBT REPORT

2020

EDITION II

April 2020



WORLD BANK GROUP

DEBT Report 2020

About the Report

This is the second of a new series of Debt Reports for 2020 to be published online, at regular intervals, over the course of the year. Debt Report 2020 Edition II is published at a time when many countries are struggling to cope with the deadly impact of COVID-19 and a large part of the global economy is shut down, generating both demand and supply side shocks. It is too soon to assess what the economic and financial costs will be, much less predict the impact on capital flows. However, learning from past global crises, low- and middle-income countries face serious risks. Pre-COVID-19 debt inflows from private creditors were forecast as subdued on account of the downturn in the global economy in 2019 and pre-crisis projections are for only a moderate recovery in 2020. This crisis is putting even more pressure on global economic growth and capital flows. As always in times of crisis, the World Bank and the IMF have stepped up to the plate, pledging a total of \$62 billion of fast-disbursing funds to support low- and middle-income countries to mitigate the impact of the virus. They have issued a joint communique calling on official bilateral creditors in G20 countries to suspend debt payments from any of the world's poorest countries that request forbearance, to allow time for an assessment of the impact of the crisis and the possible debt relief needs of each country. The aim of these Debt Reports is to provide users with analyses of evolving trends and developments related to external debt and public debt in individual countries and regional groups, with primary emphasis on low- and middle-income countries, and to keep users abreast of debt-related issues and initiatives.

The reports will:

- Complement the summary overview of borrowing trends in 122 low- and middle-income countries presented in International Debt Statistics (IDS 2020), published in October 2019 with regional and country specific analyses on the composition and characteristics of external debt stocks and flows. The analyses will be underpinned by the detailed loan-by-loan data on stocks, transactions (commitments, disbursements and debt service payments) and loan terms captured by the World Bank Debtor Reporting System (DRS);
- Draw from the high-frequency, Quarterly External Debt Statistics (QEDS) and quarterly Public Debt Statistics (PSDS) databases to provide users with syntheses of emergent trends in external and public debt, including borrowing patterns and current debt levels in both high-income countries and low- and middle-income countries;
- Provide users with information briefs on current issues and ongoing initiatives aimed at improving external and public debt measurement and monitoring, filling data gaps, and enhancing the coverage and harmonization of international datasets and related data dissemination.

Debt Report 2020 Edition II is focused on a preliminary estimate of the evolution of external debt stocks in 2019 in low- and middle-income countries and comparable developments in high-income countries. It elaborates on anticipated outcomes at the regional level and identifies the key countries driving these trends. It also highlights ongoing efforts to enhance the monitoring of debt statistics and transparency in reporting.

Overview

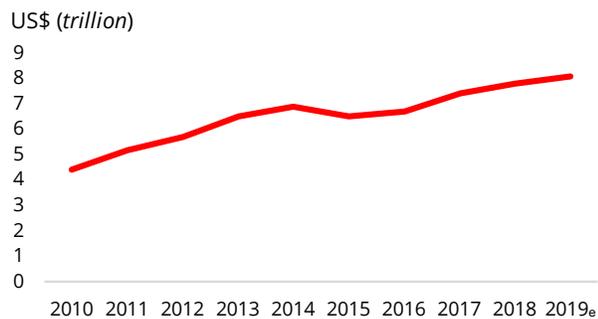
This debt report presents a preliminary estimate of how external debt evolved in low- and middle-income countries in 2019, based on high frequency data on external debt stocks provided by countries reporting to the Quarterly External Debt Statistics (QEDS). Outcomes took place against the backdrop of a downturn in the global economy with growth decelerating to an estimated 2.4 percent, the lowest rate of expansion since the 2008 global economic and financial crisis. The slowdown was synchronized and widespread, impacting both advanced economies and low- and middle-income countries. A combination of factors impacted the global economy in 2019, foremost of which were rising trade barriers and increased geopolitical tensions. Growth prospects were also dampened by country specific outcomes in several of the largest emerging market economies and by structural factors such as low productivity growth and ageing demographics in advanced economies. The higher tariffs and heightened policy uncertainty generated by the

ongoing trade dispute between the USA and China weighed on international trade and investor confidence and long-range spending. The global demand for machinery and other capital goods contracted sharply bringing the overall growth in trade volumes to a near standstill. It rose by only 1 percent in the first half of 2019, the lowest level since 2012. The subdued outlook also led to declines in most commodity prices. Financial market sentiment was fragile for much of the year as heightened risk aversion triggered safety flows into advanced economy bond markets with a concomitant downturn in capital inflows to low- and middle-income countries and leaving some countries faced with currency and equity price pressures. Growth in low- and middle-income countries is estimated to have declined to 3.5 percent in 2019, down from 4.3 percent in 2018, driven by the structural slowdown in China, markedly lower pace of growth in some other large emerging market economies - Brazil, India, Mexico and Russia and acute macroeconomic stress in Argentina.

I. Low- and Middle-Income Countries - External Debt outcomes in 2019

The combined external debt stock of low and middle-income countries for which data was presented in the International Debt Statistics 2020 (IDS) is estimated to have passed the \$8.1 trillion mark at end 2019. This figure is based on actual outcomes through the third quarter (end September) 2019 in countries reporting to the Quarterly External Debt System (QEDS) and information from creditor sources, both official and private. On average the external debt stock of low- and middle-income countries is estimated to rise by 3.3 percent in 2019. This is a much slower pace of accumulation than the 5.3 percent recorded in 2018 and less than one third the 10.4 percent rise in 2017.

Figure 1: Low- and Middle-Income Countries External Debt Stock 2010-2019



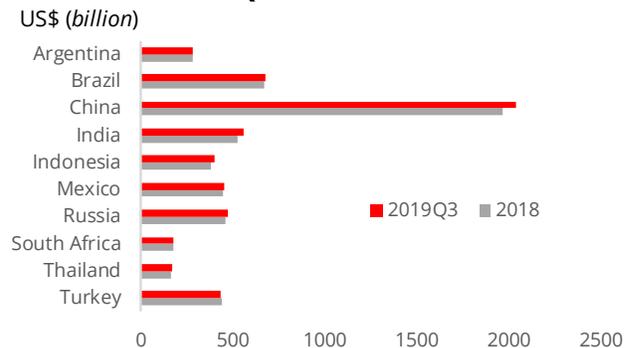
Sources: World Bank Debtor Reporting System, Quarterly External Debt Statistics and staff estimates.

Outcomes in 2019 were driven by the top ten borrowers and, specifically, developments in China¹. It accounts for around 25 percent of the total external debt stock of low- and middle-income countries and approximately 45 percent of their combined GDP. China recorded a 3.4 percent rise in external debt over the first three quarters of 2019 to \$2 trillion with a 4.6 percent contraction in short-term debt more than offset by a 16.6 percent increase in long-term external debt, principally obligations of private sector entities with no government guarantee. Short-term debt, as a share of total external debt stock, fell to 57 percent from 62 percent at end 2018.

Borrowing patterns in other top ten borrowers in 2019, excluding China, were divergent. Collectively they reported a much slower rise in external debt stock than China, on average a 2.4 percent increase by end- September 2019, from

the end 2018 level, but outcomes at the country level were mixed. Turkey and Argentina recorded a contraction in external debt stock, 1.5 percent and 0.4 percent respectively as both countries grappled with large current account deficits, unwieldy stocks of dollar-denominated debt and double-digit inflation. In Brazil and Mexico, the increase in external debt stocks was only marginal (1 percent and below), reflecting a general slowdown in economic activity across the Latin American region and continued fallout from the ongoing trade disputes with the USA. India posted the largest increase; it saw external debt stocks rise 7 percent driven by an increase in long-term obligations of the central government as the authorities turned to external sources to finance the budget deficit.

Figure 2: Top Ten Borrowers - External Debt Stock end 2018 and 2019Q3

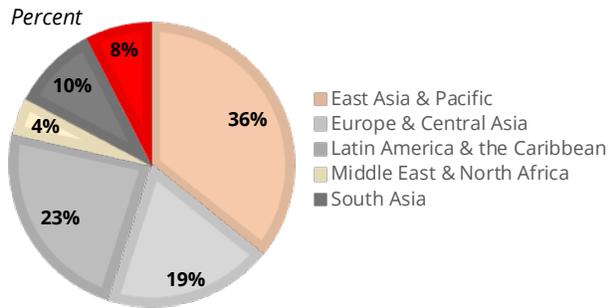


Source: Quarterly External Debt Statistics

The composition of the estimated \$8.1 trillion external debt stock for low- and middle-income countries at the end of 2019 is broadly comparable to the external debt stock at the end of 2018. Information on aggregate debt-related inflows to low- and middle-income countries in 2019 are not available but the data on external debt stock positions by QEDS reporters suggest by far the largest share of net debt inflows in 2019 came from private creditors. Short-term inflows are estimated to have contracted by around 5 percent, in line with the slowdown in global trade while long-term external debt is expected to remain, on average, broadly evenly divided between public sector borrowers and the obligations of private sector entities that do not benefit from any government guarantee. Similarly, there looks to be no major shift in the regional distribution of end 2019 external debt stocks.

¹ The top ten borrowers, defined as those reporting the highest end 2018 external debt stock to QEDS, are Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Thailand, Turkey, and South Africa.

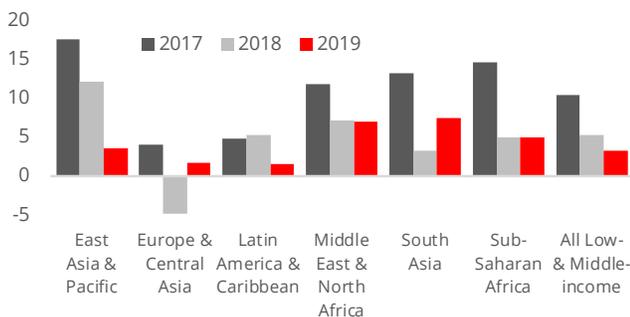
**Figure 3: External Debt Stock end 2019
Regional Distribution**



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

Regional trends in external debt stock accumulation in 2019 varied, ranging from an estimated 1.5 percent to 7.5 percent. Countries in South Asia rose at the fastest pace, adding an estimated 7.5 percent to their combined external debt stock by end 2019, compared to the prior year level. The dominant factor was the 7 percent rise in India's external debt stock but increases were mirrored in other countries in the region with external debt stocks up an estimated 6 percent in Bangladesh, largely driven by the implementation of large infrastructure projects, and 9 percent in Pakistan driven by higher inflows from official creditors for budgetary support, including the first disbursement under the IMF Extended Fund Facility (EFF) concluded in July 2019. In the Middle East North Africa region debt stocks rose on average by an estimated 7 percent, propelled by outcomes in Egypt, the region's largest borrower. It saw external debt stocks rise to an estimated \$114 billion at end 2019, an increase of around 14 percent over the end-2018 level reflecting \$8 billion in Eurobond issuance in 2019, disbursement of the final tranche of the \$12 billion IMF

**Figure 4: External Debt Stock by Region 2017-2019
Percent change**



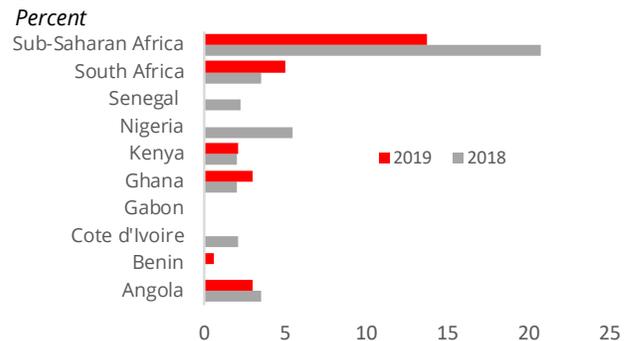
Sources: World Bank Debtor Reporting System, Quarterly External Debt Statistics, and staff estimates.

2016 package and ramped up inflows from other official creditors, including the World Bank. External debt stocks of countries in Sub-Saharan Africa rose on average an estimated 5 percent in 2019, a rate of accumulation comparable to that of 2018 and reflecting moderation in external borrowing by most countries in the region.

Spotlight on Sub-Saharan Africa Eurobond Issuance

Sub-Saharan African countries tapped international capital market for \$13.7 billion in 2019. The external borrowing patterns of countries in Sub-Saharan Africa has undergone significant change since the global financial crisis with countries accessing financing from a much broader range of sources. An important element has been the access to international capital markets, as lower global interest rates accelerated investors search for yield. Countries in Sub-Saharan Africa issued \$13.7 billion in Eurobonds in 2019. This was well below the \$20.7 billion the comparable figure for 2018 with several key issuers Cote d'Ivoire, Nigeria and Senegal absent from the market in 2019.

Figure 5: Bond Issuance by Countries in Sub-Saharan Africa 2018-2019



Sources: World Bank Debtor Reporting System, Eurobond prospectus, and national debt office press releases.

Five Sub-Saharan African countries were active in the Eurobond market in 2019 including Benin with a debut €500 million issue. These new instruments attracted widespread investor interest and all issues were oversubscribed, underlying a sustained confidence in the African debt market and reflecting the fact these African countries sovereign issues offered investors the highest yields available globally. A characteristic of recent issuance, including those in 2019, is longer-dated, 30-year instruments which, prior to 2017, were

limited to South Africa. Since Nigeria issued a 30-year Eurobond in November 2017 Angola, Ghana, Ivory Coast, Kenya and Senegal have followed suit. Another important shift is the move to more active debt management with Sub-Saharan African countries coming to the market not only to meet budgetary needs and finance investment plans, but also for liquidity management. Bond proceeds are increasing being used to buy-back existing debt to reduce debt servicing costs and smooth debt maturity profiles.

- Angola returned to the Eurobond market in November 2019 with a dual-tranche issue split between \$1.75 billion and \$1.25 billion in 10-year and 30-year instruments. The proceeds will be used primarily for budgetary expenditures including debt service payments on bilateral loans extended by China.
- Benin made its debut into the Eurobond markets in March 2019 with a Euro 500 million issue with a 6-year tenor to be used for financing of priority infrastructure projects including electricity and the digital economy.
- Ghana triple tranche \$3 billion Eurobond issue in March 2019 excited investors and was over-subscribed more than sevenfold. It included 7-year, 12-year and 31-year instruments. The government plans to set aside \$2 billion for infrastructure development and to use the remaining \$1 billion to pay down some external debts.

- Kenya dual tranche Eurobond of May 2019 raised a total of \$2.1 billion in 7-year and 12-year instruments of \$0.9 billion and \$1.2 billion, respectively, earmarked for infrastructure development, general budgetary expenditure and to refinance all or part of a \$750 million Eurobond maturing in June 2019.
- South Africa raised \$5 billion in September 2019 in its largest Eurobond sale to date, with issuance increased from the previously planned \$4 billion after demands from prospective investors exceeded supply more than threefold. The two-tranche issue comprised \$2 billion in 10-year instruments and \$3 billion in 30-year instruments. Better market sentiment secured a lower cost of borrowing with a coupon of 5.75 percent on the 30-year instrument compared to 6.3 percent on the 30-year instrument issued in May 2018.

Outstanding bonds owed by Sub-Saharan African countries accounted for a significant share of their end 2019 long-term external public debt stocks. Eighteen countries in Sub-Saharan Africa have issued sovereign Eurobonds since 2007, including 11 countries that benefitted from the Heavily Indebted Poor Countries (HIPC) Initiative. Collectively, issuing countries, including South Africa, owed an estimated \$130 billion to Eurobond holders at end 2019, equivalent to around 40 percent of their combined long-term external public debt and about 80 percent of the share owed to private creditors.

**Table 1: Sub-Saharan Africa Eurobond Issuance 2019
Volume and Terms**

US\$ (million)

| Country | Issue Date | Amount | Tenor (Years) | Coupon |
|--------------|------------|--------|---------------|--------|
| Angola | 11/20/2019 | 1,750 | 10 | 8 |
| | 11/20/2019 | 1,250 | 30 | 9.125 |
| Benin | 3/26/2019 | 567 | 6 | 5.75 |
| | 3/19/2019 | 750 | 7 | 7.875 |
| Ghana | 3/19/2019 | 1,250 | 12 | 8.125 |
| | 3/19/2019 | 1,000 | 31 | 8.95 |
| Kenya | 5/22/2019 | 900 | 7 | 7 |
| | 5/22/2019 | 1,200 | 12 | 8 |
| South Africa | 9/23/2019 | 2,000 | 10 | 4.85 |
| | 9/23/2019 | 3,000 | 30 | 5.75 |

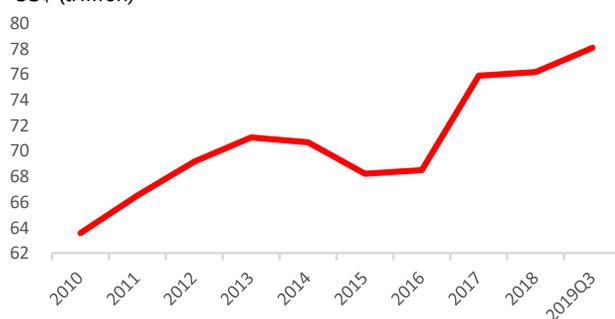
Sources: Bond prospectus and national debt office press releases.

II. Trends in High-Income Countries

External debt levels in high-income countries reporting to QEDS increased at end 2019Q3. At the end of the third quarter, the gross external debt stock of high-income countries reporting to QEDS stood at \$78.1 trillion. This represented a 2.5 percent increase when compared to end 2018 position. The upward trend experienced during the first three quarters of 2019 contrasted the miniscule increase recorded at the end of 2018. Short-term external debt liabilities rose 3 percent at the end of the third quarter to \$30.8 trillion, long-term external debt liabilities increased by 2 percent to \$47.3 trillion. The composition of gross external debt stock was unchanged with long-term debt accounting for 61 percent and short-term liabilities 39 percent.

Figure 6: High Income Countries – Gross External Debt Stock 2010-2019Q3

US\$ (trillion)



Source: Quarterly External Debt Statistics

At the individual country level, of the 47 high-income countries reporting to the QEDS database, 27 countries saw gross external debt stock increasing at the end of 2019Q3. Saudi Arabia and France saw the largest increase at 18 and 10.5 percent, respectively. Chile, Trinidad and Tobago, Canada, Japan and Finland saw external debt stocks increasing between 5 and 9 percent. On the other hand, 20 countries recorded a de-

crease in gross external debt stock at end 2019Q3 from the end-2018 level. All these countries saw gross external debt stock fall at various levels below 10 percent.

The combined gross external debt of the Group of Seven (G7) rose 4.2 percent at the end of the third quarter in 2019 to \$49.2 trillion and accounted for 64 percent of the gross external debt of high-income countries reporting to QEDS. France recorded the largest increase, with gross external debt at end-2019Q3 up 10.5 percent from the end 2018 level. Canada and Japan saw their external debt position increasing by around 7 percent while the United States recorded an increase of 3.8 percent at end 2019 Q3. Gross external debt for Germany, United Kingdom and Italy rose marginal.

Table 2: G-7 Countries – Change in External Debt Stock 2018-2019Q3

US\$ (trillion)

| G7 Countries | 2018 | 2019Q3 | \$ change | % change |
|---------------------------|-------------|-------------|-----------|-------------|
| Canada | 1.9 | 2 | 0.1 | 7.3% |
| France | 5.8 | 6.4 | 0.9 | 10.5% |
| Germany | 5.5 | 5.6 | 0.1 | 1.5% |
| Italy | 2.4 | 2.5 | 0 | 0.7% |
| Japan | 4 | 4.3 | 0.3 | 7.8% |
| United Kingdom | 8.4 | 8.5 | 0.1 | 1.3% |
| United States | 19.7 | 20.4 | 0.8 | 3.8% |
| Total G7 Countries | 47.8 | 49.8 | 2 | 4.2% |

Source: Quarterly External Debt Statistics

At the sector level, gross external debt stock for General Government saw the largest increase at 5.1 percent. Deposit-taking corporations (except central banks), comprised primarily of commercial banks, saw external debt stock rise by 3.8 percent followed by Other Sectors increasing by 3.2 percent, respectively. On the other hand, Central Bank and Direct Investment: Intercompany Lending fell 6.9 percent and 2.1 percent, respectively at end 2019Q3 compared to end 2018.

Table 3: Composition of High-Income Countries External Debt Stock 2018-2019Q3 Level and Percentage Change

US\$ (trillion)

| | 2018 | 2019Q3 | \$ change | % change |
|---|-------------|-------------|------------|-------------|
| General Government | 16.1 | 16.9 | 0.8 | 5.1% |
| Central Bank | 4.3 | 4 | -0.3 | -6.9% |
| Deposit-Taking Corporations | 23.4 | 24.3 | 0.9 | 3.8% |
| Other Sectors | 21.3 | 22 | 0.7 | 3.2% |
| Direct Investment: Intercompany Lending | 11.1 | 10.9 | -0.2 | -2.1% |
| Total | 76.2 | 78.1 | 1.9 | 2.5% |

Source: Quarterly External Debt Statistics

III. Strengthening Debt Reporting and Transparency

The fast-changing creditor landscape of low- and middle-income countries, proliferation of complex debt instruments and rising debt vulnerabilities have focused attention on the need to improve debt statistics and strengthen transparency. The availability of timely, accurate and comprehensive debt data is a prerequisite for national governments and the international community to minimize the risk of debt crises and take timely remedial action when these occur. In this context, the Bank and Fund are coordinating efforts to provide technical support and promote enhanced public debt transparency². Efforts are focused on low-income countries, who are considered to be most in need of capacity-building support to enhance debt management. In parallel the Institute of International Finance has developed a set of voluntary principles on debt transparency to promote disclosure of information on debt instruments by private creditors³.

Achieving enhanced debt data transparency in low- and middle-income countries will likely be time-consuming and challenging. Effective public (and publicly guaranteed) debt monitoring, recording and reporting demands high-level government commitment to ensure legal and institutional frameworks are in place. These also need to be accompanied by clearly defined responsibilities to facilitate information flows between relevant government entities tasked with the management of public finances. Governments need to prioritize the allocation of skilled staff and provide them with the appropriate resources and administrative capacity, including access to fit for purpose debt monitoring systems. Additionally, recording and monitoring systems need to continuously evolve to incorporate new challenges to debt management, such as increasingly complex international and domestic debt instruments, collateralized debt and monitoring contingent liabilities, including those that may arise from public-private partnerships, subnational borrowing or the debt obligations of large state-owned or private enterprises without an explicit guarantee of the national government.

Debt data recording, regular publication of debt statistics, and reporting to international debt data collection systems by low- and middle-income countries have all improved significantly over the past decade. These improvements are the outcome of a concerted effort by the authorities in many

countries to strengthen public debt management systems and the legislative and institutional framework for contracting loans and issuing guarantees. They also reflect parallel efforts by the World Bank to provide technical support to national compilers against an evolving landscape of increasing complex debt instruments, a much wider spectrum of public and private borrowers and lenders, and tightened enforcement of DRS reporting requirements in response to calls from the international community for debt data transparency. Staff of the Bank's Development Data Group responsible for the collection and dissemination of debt data have also implemented several measures to expand information about the external borrowing of state owned enterprises and private sector corporations. These have included opening direct channels of communication with central banks and encouraging countries to adopt recording and reporting practices compliant with established international debt data definitions and standards.

The combined efforts of national compilers and Bank staff are evidenced by the quality and timeliness of data being reported to the DRS and the high frequency quarterly external debt statistics (QEDS) and public sector debt database (PSD). This has enhanced the timeliness and coverage of data presented in International Debt Statistics (IDS) and the related online database. An important addition to IDS 2020 was disaggregation of stock and flow data for public and publicly guaranteed debt by borrower type (i.e. government, other public - state owned enterprises and other public corporations, and private sector borrowers guaranteed by the government), the result of a survey on the structure of public borrowing in DRS reporting countries. While not comprehensive, 95 of the 122 DRS countries still reported some borrowing by state-owned enterprises and other public corporations at the end of 2018.

Low- and middle-income countries are also increasingly reporting to QEDS and PSD, which is strongly encouraged but not obligatory. Currently 73 low- and middle-income countries (60 percent of DRS reporting countries) have recognized the importance of high frequency data for analyses, cross-country comparability and transparency and report to QEDS. Of these 30 countries report in accordance with the Special Data Dissemination Standards (SDDS) and 43 countries with the General Data Dissemination Standards (GDDS). Additionally, 42 low- and middle-income countries report to the PSD.

² World Bank Group and IMF, "G20 note: strengthening public debt transparency – the role of the IMF and the World Bank", Washington, D.C., 13 June 2018. Available at <http://documents.worldbank.org/curated/en/991171532695036951/Strengthening-public-debt-transparency-the-role-of-the-IMF-and-the-World-Bank-G20-note>.

³ Available at www.iif.com/Publications/ID/3387/Voluntary-Principles.