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Chapter Two:
Indebted developing countries worldwide – an overview

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Indebted developing countries worldwide – an overview

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The public debate of 2013 was still characterized by the sovereign debt crisis in Europe, although it slightly shifted towards the Global South due to the spectacular case of “Argentina vs. vulture funds“. Nevertheless the public has not really noticed that a range of states in Asia, Africa and Latin America are in a critical debt situation as well. This article is a contribution to making these situations visible, by providing an overview of the debt situation in developing countries.

The current external debt situation of developing countries[1]

The absolute external debt of developing countries increased steadily between 2000 and 2012 (see Figure 1).[2]

The highest indebted regions are Europe and Central Asia which also have been most heavily affected by the global financial crisis 2008/2009, closely followed by Latin America and the Caribbean and Sub-Sahara Africa.[3] The lions share of external debt is concentrated in 10 middle income countries that hold 65% of the total debt, including the so-called BRIC countries: Brazil, Russia, India and China.[4]

Consequently, all other developing countries hold 35 % of external debt. The debt profile divides equally into private sector debt and public sector debt. However, compared to the previous year, there was a greater increase in private sector debt.[5] Private sector debt is on the rise especially in emerging markets in East Asia and the Pacific, Central Asia and Europe as well as Latin America and the Caribbean.[6]

However, even though absolute figures indicate rising debt, Figure 2 shows that in relative terms, the debt situation of developing countries (taken together) significantly improved, particularly in the first decade of the 2000s.

External debt relative to the total economic capacity of developing countries (expressed as GDP) is – with debt to GDP at 22,1 percent – considerably lower than in developed countries – with debt to GDP standing at 143 percent.[7] The obviously favorable development in developing and emerging

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[1] Included are all low-income and middle-income economies, according to the World Bank.

[2] Worldbank: http://databank.worldbank.org.

[3] cf. Worldbank: International Debt Statistics 2013, http://data.worldbank.org/sites/default/files/ids-2013.pdf.

[4] The 10 middle income countries in descending order: China, Russia, Brazil, Turkey, India, Mexico, Indonesia, Ukraine, Romania, Kazakhstan; Ibid., p. 4.

[5] cf. Worldbank: International Debt Statistics 2013, http://data.worldbank.org/sites/default/files/ids-2013.pdf, p. 2. During the global financial crisis, it was the other way around: Public debt grew twice as much as private sector debt. The most important reason was the exit of many investors and the credit crunch during the crisis. Countries that were particularly affected had to adjust their deficits with emergency loans from the official sector which explains the fast increase of public sector debt.

[6] However, that does not mean that private sector debt in other regions such as Sub-Sahara Africa does not rise at all. Respective data is limited in poorer regions.

[7] cf. Worldbank: International Debt Statistics 2014, https://openknowledge.worldbank.org/bitstream/handle/10986/17048/9781464800511.pdf, p. 20.

Figure 1: Development of absolute external debt and debt service of developing countries 2000 – 2012 (in billion US$)

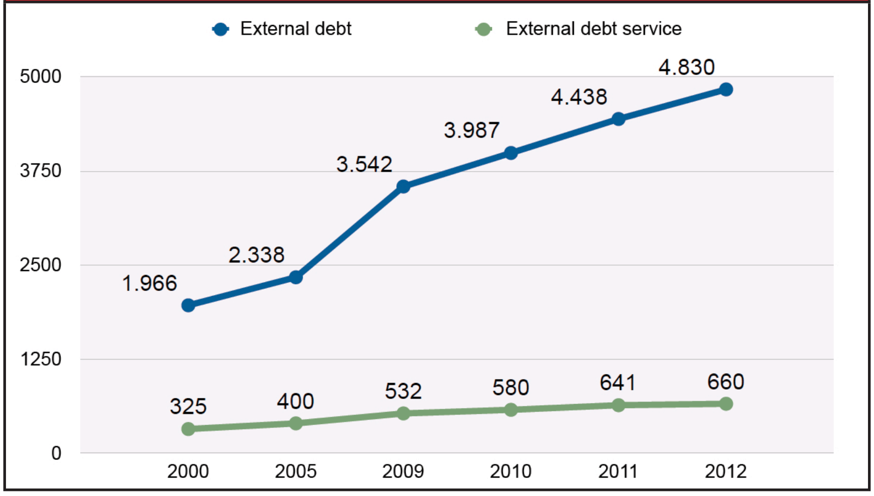
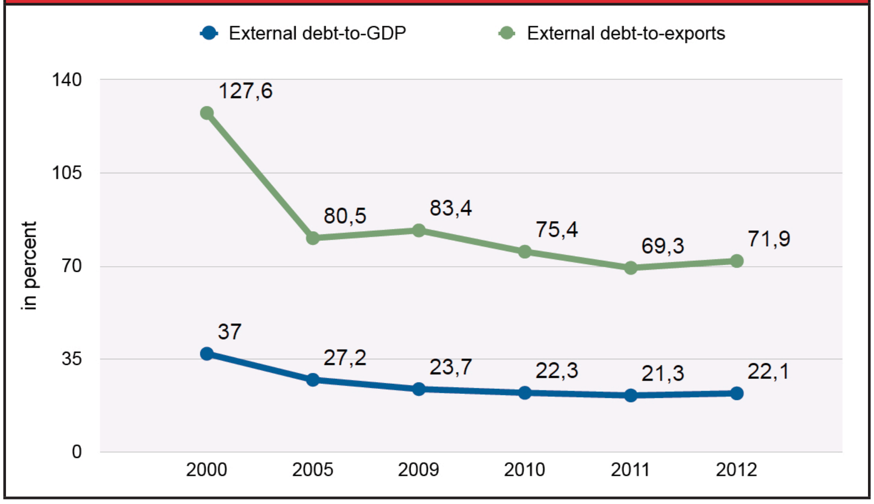


Figure 2: Development of external debt indicators, 2000-2012 (in percent)



markets is mostly due to strong economic growth, a strong surge in export earnings and favorable world market commodity prices in previous years.

Furthermore, debt relief under the multilateral debt relief schemes HIPC and MDRI has markedly reduced the debt burden of many of the countries which qualified for the HIPC initiative debt relief. The global financial crisis briefly interrupted this positive trend – as export earnings have decreased due to the crisis by more than 20 percent and crisis countries had to adjust their deficits with emergency financing through loans. However, economic growth in developing countries surged again in the years following the crisis. Despite these positive observations, the financial crisis has severely affected the fiscal buffers of developing countries and therefore fiscal scope to cope with a renewed crisis has been severely diminished.

The debt situation of individual developing countries and emerging markets

The conclusiveness of aggregate presentations is often limited. Although developing countries taken together obviously display a much better external debt situation than developed countries, this does not tell anything about the debt burden of individual countries. Therefore, the debt situation of individual countries will be considered in the following paragraph.

Thresholds

In the past, international financial institutions often had quite mechanistically identified sustainable debt as lying above a pre-defined standardized threshold and unsustainable debt below this threshold. On basis of these pre-defined thresholds, it was decided which of the poorest countries would receive debt relief and how much. However an individual assessment of each country case is actually necessary to thoroughly assess a country's debt sustainability. The following country analyses are therefore not meant to predict sovereign insolvency, but rather to give some indication of which country cases should be assessed more comprehensively in order to evaluate the risk of debt distress.

For public-debt-to-GDP, the table refers to those thresholds, that the IMF has considered as critical for long-term sustainability of emerging market debt.[8] The first risk level starts at 49 % of GDP, the second, more critical level is from 64 % to 78 %.

With regards to the external debt indicators relative to exports of goods and services (external debt stock and external debt service), it will be referred to the thresholds of the HIPC-initiative. The last level of the risk of external debt distress starts at the thresholds of the first HIPC-Initiative from 1996 (those

[8] cf. IMF: Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis, 2011, http://www.imf.org/external/.

Table 1 - Risk of debt distress				
	no risk of debt distress (in percent)	First risk level (in percent)	Second risk level (in percent)	Highest risk level (in percent)
public debt-to-GNI or GDP	<49	49 - <64	64 - 78	>78
external-debt-stocks-to-GNI or GDP	<40	40 - <44	44 - 50	>50
external debt (EDT)-to-exports of goods and services (XGS)	<150	150 - <165	165 - 200	>200
total debt service (TDS)-to-exports of goods and services (XGS)	<15	15 - <16,5	16,5 - 25	>25

that were lowered in 1999 because they were too restrictive). The sustainability threshold for the external debt to export indicator was set at 200 %, which is why the last level of the risk matrix refers to "greater than 200 %". The threshold of the external debt service to exports indicator was formerly set at 25 %, which is why the last level of the risk matrix refers to "greater than 25 %". The first risk level refers to the thresholds of the enhanced HIPC initiative from 1999. The first risk level ends at this threshold plus 10 %.

A threshold for the indicator "external-debt-to-GDP" was not defined within the HIPC initiative. Therefore this article refers to the thresholds, which are defined in the Debt Sustainability Framework (DSF) for low-income countries of the IMF and World Bank.[9]

According to the above mentioned approach, the risk matrix in Table 1 shows three different risk levels of debt distress for each indicator.

139 developing countries have been assessed on the basis of the indicators mentioned in Table 1. To that end, hundreds of IMF country reports and the debt statistics of the World Bank have been analyzed. For reasons of readability, the following table (2) only displays countries with at least one debt indicator above the lowest risk threshold. That means that countries that are not presented in the table either do not have a debt problem or there were no sufficient data. For low-income countries that got a risk assessment by the IMF (for instance Zimbabwe: in debt distress or Afghanistan: high risk of debt distress), the table displays this assessment in the last column.

Results of the table

According to the most recent available data, 62 countries have one or more of their debt indicators above a sustainability threshold. A similar assessment last year[10] found 64 countries. 48 out of these 64 countries show again with critical debt indicators this year.

There are 19 countries displayed in the table that would actual-

[9] The underlying assumption in the DSF is, that countries with bad governance cannot carry as much debt as countried with good governance could. That is why the IMF defined three categories of thresholds, for countries with bad, medium and good governance. This analysis starts with the threshold for the debt-to-GDP-indicator for countries with medium governance, 40 %. The greatest risk level starts with the threshold for countries with good governance, 50 %. cf: http://www.imf.org/external/pubs/ft/dsa/lic.htm .

[10] cf.: Schuldenreport, erlassjahr.de and Kindernothilfe, 2013.

Table 3 – Risk of debt distress				
country groups: / development of indicators	small island developing states	post-HIPCs	CIS / former communist states	others
four indicators critical	Jamaica, Seychelles		Hungary, Kyrgyzstan, Serbiia	Sudan, El Salvador
three indicators critical	Samoa, Cape Verde	São Tomé & Príncipe	Albania, Armenia, Bosnia and Herzegovina, Georgia, Moldova, Montenegro, Romania, Tajikistan	Turkey, Lao PDR, Bhutan, Sri Lanka
two indicators critical	Tonga, Grenada, Saint Lucia, Papua New Guinea	Gambia, Mauretania, Senegal, Nicaragua, Guyana	Kazakhstan, Macedonia, Ukraine	Lebanon, Panama, Pakistan, Mongolia, Belize
one indicator critical	Staint Vincent and the Grenadinen, Dominica, Maldives, Fiji, Philippines, Vanuatu, Mauritius	Burundi, Côte d'Ivoire, Ethiopia, Ghana, Guinea-Bissau	Belarus, Bulgaria	Tunisia, Djibouti, Jordan, Nepal, Cambodia, China, Malaysia, Vietnam, Colombia

Table 4 – Risk of debt distress of low-income-countries according to IMF and World Bank				
country groups: / development of indicators	small island developing states	post-HIPCs	CIS / former communist states	others
in default / in debt distress				Sudan, Zimbabwe
high risk of debt distress	Maldives, Kiribati, Samoa, Grenada	Afghanistan, Burundi, Comoros, Democratic Republic of the Congo, São Tomé & Príncipe, Haiti	Tajikistan	Chad, Djibouti
moderate risk of debt distress	Solomon Islands, Tonga, Dominica, Saint Vincent and the Grenadines, Saint Lucia	Burkina Faso, Central African Republic, Côte d'Ivoire, Guinea, Gambia, Ghana, Guinea-Bissau, Malawi, Mali, Mauretania, Mozambique, Niger, Sierra Leone, Togo, Guyana, Nicaragua	Georgia, Kyrgyzstan	Bhutan, Nepal, Lao PDR, Lesotho, Yemen

ly not have been presented if the sustainability thresholds had been strictly applied. These countries are mostly located in Sub-Saharan Africa and belong to those low-income-countries for which the IMF regularly produces a LIC debt sustainability assessment. As of the 2nd of January 2014, the IMF has marked a range of countries with a moderate or high risk of debt distress, despite apparently uncritical debt indicators (such as Kiribati and Afghanistan). This demonstrates, that a risk of debt distress is not only given when pre-defined thresholds have said so. It is always necessary to look at country cases and debt distress risks individually.

Table 3 presents the risk categories that result from Table 2. The Table provides an overview of those developing countries that are currently at the highest risk of debt distress and assumes, that the more indicators breach the given thresholds, the higher is the risk of debt distress. Trends, that have been observed in previous years, are reinforced.

There are three critically indebted groups:

1. exceptionally vulnerable small developing island states
2. countries that received debt relief under the HIPC- and MDR Initiatives (Post-HIPCs)
3. countries in Eastern and Central Europe (as well as Central Asia) whose economies have been liberalized in the 90ies during their political transformation.

There is a high amount of central Asian and Eastern and Central European countries that are in a critical situation. Especially the external debt-to-GDP (or -GNI) indicator is almost consistently critical in these countries. This is mostly due to the great private sector indebtedness of these countries.

Strikingly there are a large number of critically indebted middle-income countries[11] whose populations still have a high proportion of very poor people. These countries never had access to the multilateral debt relief schemes HIPC and MDRI as they were “not poor enough“.

Least developed countries often show comparatively low debt indicators, which is mostly due to debt relief under the HIPC and MDR Initiatives. However, eleven countries out of the 35 post-HIPC countries once again show critical debt indicators (see Table 3). Table 4 furthermore displays, that more than half of former HIPC countries – which often still belong to the category of least developed countries – are classified by IMF and World Bank as having a moderate or high risk of debt distress, although debt indicators are low and do not indicate this.

Obviously, a one-off debt relief is not a guarantee for a sustainable solution of sovereign debt problems.

[11] According to the World Bank, countries with an annual per capita income below 1.036 US Dollar are counted as low-income countries. Countries with an annual per capita income between 1.036 US Dollar and 4.085 US Dollar are counted as lower middle-income country, a per capita income of 4086 US Dollar to 12.616 US$ are counted as upper middle income countries.

Table 2 - Countries in risk of debt distress worldwide*					
Countries according to regions	**Public debt-to-GDP or GNI**	**EDT / GDP or GNI**	**EDT / XGS**	**TDS / XGS**	**IMF risk assessment (LICs)**
South Asia, South East Asia, Pacific					
Afghanistan	N/A	N/A	63.9	0.3	high
Bhutan	N/A	87.1	205.2	17.8	moderate
Cambodia	30.1	42.9	66.2	1.5	low
China	46.2	9.2	32.8	24.3	N/A
Fiji	51.1	24.3	43.1	1.1	N/A
Kiribati	11.6	7.9	14.2	0.9	high
Lao PDR	61.8	89.9	218.4	8.2	moderate
Malaysia	55.4	35.5	37.2	3.5	N/A
Maldives	N/A	54.5	N/A	3.8	high
Mongolia	63	53	94	4.5	low
Nepal	N/A	19.5	175.4	10.3	moderate
Pakistan	63.8	29	220.2	14.9	N/A
Papua New Guinea	26,7	153.9	N/A	15.4	low
Philippines	54.5	31.8	84.5	8	N/A
Samoa	83.8	66	168.6	5.3	high
Solomon Islands	13	32.6	34.3	4.5	moderate
Sri Lanka	79.1	43.6	183.9	13.3	N/A
Tonga	45.8	52.7	243.9	7.8	moderate
Vanuatu	21.6	48.2	89.2	2.1	low
Vietnam	N/A	44.1	47.5	4.4	low
Sub-Saharan Africa					
Burkina Faso	27.3	23.2	62.4	2.5	moderate
Burundi	38.3	22.6	277.3	8.5	high
Cape Verde	81	67.9	159.7	4,6	N/A
Central African Republic	N/A	N/A	N/A	N/A	moderate
Chad	27.8	20.8	49.9	N/A	high
Comoros	21.2	18.9	56.5	10.6	high
Côte d'Ivoire	48.9	50.9	96.3	10.1	moderate
DR Congo	N/A	35.8	63.9	3.2	high
Ethiopia	33.2	24.3	174.3	7.2	low
Gambia	78	48.7	148.5	9.4	moderate
Ghana	50.2	32.2	73.8	4.2	moderate
Guinea	35.4	17.6	51,7	7	moderate
Guinea-Bissau	58.4	31.2	141.9	1.2	moderate
Lesotho	38	33.4	51.7	2.3	moderate
Malawi	N/A	31.7	94	2	moderate
Mali	29.7	31.3	N/A	2.8	moderate
Mauretania	94.2	105.5	123.4	5.9	moderate
Mauritius	56.2	23.3	58.5	2.4	N/A
Mozambique	42.2	32.9	93.4	1.6	moderate
Niger	N/A	N/A	N/A	N/A	moderate
São Tomé & Príncipe	49	76,4	654.8	7.1	high

* The data is presented in percent and refers to the most recent data of gross debt (as of end of 2012.).

Table 2 - Countries in risk of debt distress worldwide (continued from page 10)					
Countries according to regions	**Public-debt-to-GDP or GNI**	**EDT / GDP or GNI**	**EDT / XGS**	**TDS / XGS**	**IMF risk assessment (LICs)**
Senegal	43.4	57.6	204.8	10.6	low
Seychelles	84,8	205.6	2,912.4	64.3	N/A
Sierra Leone	36.7	25.1	83.1	1.5	moderate
Sudan	95.7	84.9	1,726.1	37.6	in debt distress
Togo	N/A	N/A	N/A	N/A	moderate
Zimbabwe	N/A	N/A	N/A	N/A	in debt distress
Latin America, the Caribbean					
Belize	78.6	66.4	118.5	11.3	N/A
Colombia	32.7	21.4	117.6	22	N/A
Dominica	N/A	61.5	144.5	10	moderate
El Salvador	54.3	58.1	2,16.2	18.7	N/A
Grenada	N/A	78.6	296	7.7	high
Guyana	64.3	69.3	113.3	8.7	moderate
Haiti	20.4	14.6	103.6	0.3	high
Jamaica	146.2	99.5	304.7	38.2	N/A
Nicaragua	43.2	73.8	176.5	12.2	moderate
Panama	41.3	111.3	303.7	N/A	N/A
Saint Lucia	78.4	96.8	N/A	N/A	moderate
Saint Vincent and the Grenadines	N/A	38.1	132.3	16.6	moderate
North Africa, Middle East					
Djibouti	N/A	N/A	165.6	8.8	high
Jordan	80.2	22.3	52.7	6.9	N/A
Lebanon	119.6	68.4	97.7	14.2	N/A
Tunisia	44	58.4	112.7	11.5	N/A
Yemen	47.8	22.5	N/A	N/A	moderate
Central Asia, Europe					
Albania	60.9	53.1	182.6	7.1	N/A
Armenia	N/A	72.9	203	30.9	N/A
Belarus	23.3	54.5	64.8	9.5	N/A
Bosnia und Herzegovina	45.1	53	182.9	18.4	N/A
Bulgaria	N/A	102.9	145.4	13	N/A
Georgia	32.3	63.4	166.2	23.3	moderate
Hungary	79	173.4	161.7	84.6	N/A
Kazakhstan	12.4	67.7	141.1	23.5	N/A
Kyrgyzstan	50	99.1	189.5	15.9	moderate
Macedonia	33.8	70	147	15.1	N/A
Moldova	N/A	78.5	160.7	15.1	low
Montenegro	51.9	108.4	255.6	13.6	N/A
Romania	38.1	78.9	203.7	34.2	N/A
Tajikistan	N/A	52.7	277.4	25.5	high
Turkey	36.2	43.1	159.2	26.1	N/A
Ukraine	37.4	77.9	144.7	31.5	N/A
Serbia	61.8	94.8	215.9	36.7	N/A