

IDI-WGPD Joint Webinar

Public Debt Sustainability: An Introduction

May 15, 2025



Global Public Debt: Past and present

(1) Debt is often in the news...

"Eurozone sovereign debt crisis? ECB warns of fiscal and growth risks"
Euronews, November 2024

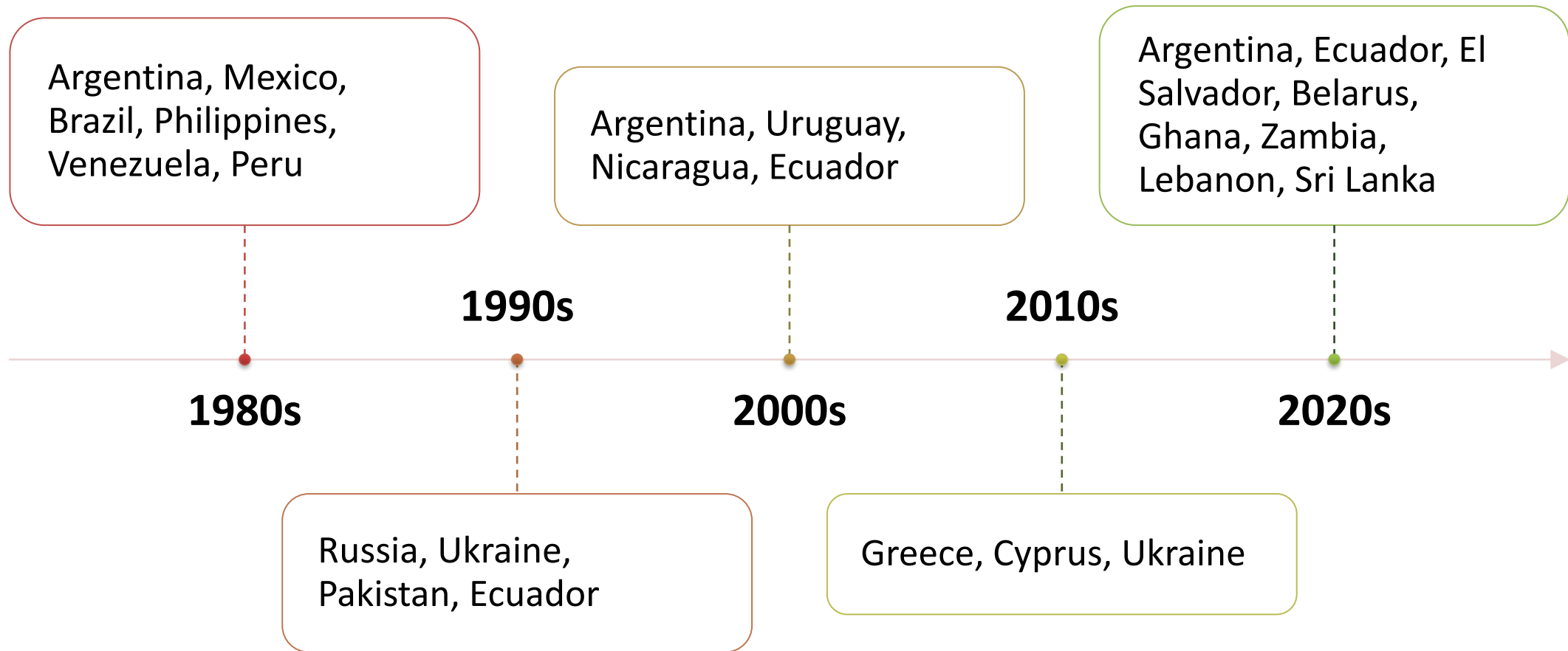
"Sovereign debt defaults soar as governments feel pinch of high rates" *Financial Post*, July 2023):

"Africa's Debt Crisis: A \$60 Billion Sacrifice of Health and Education" *African Arguments*, February 2025)

"Soaring U.S. Debt Poses Risks to Global Economy, IMF Warns" *The Washington Post*, June 2024



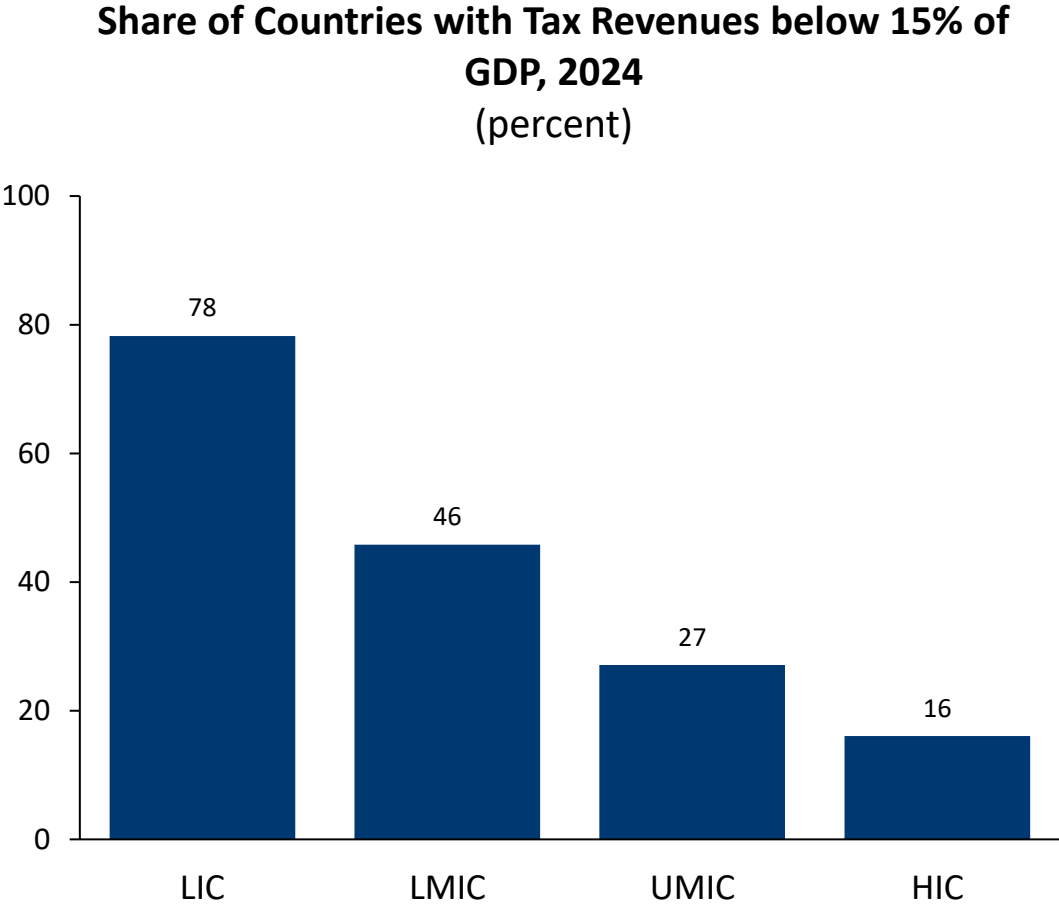
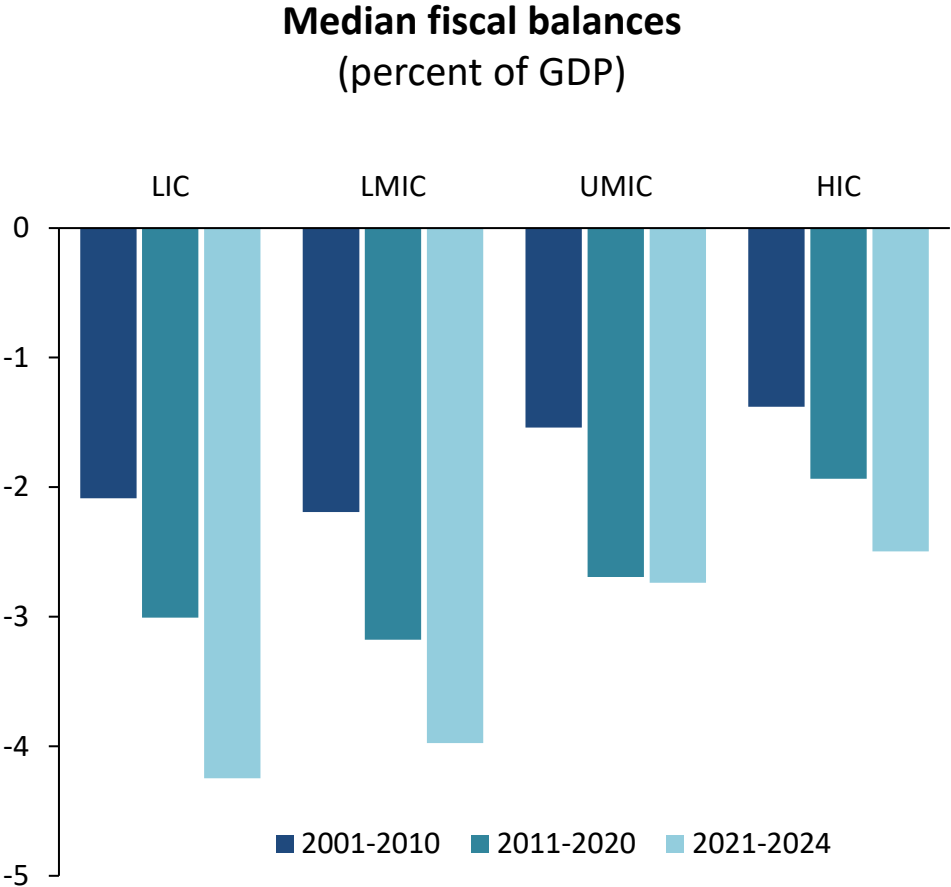
(1) ...because sovereign defaults occur regularly...



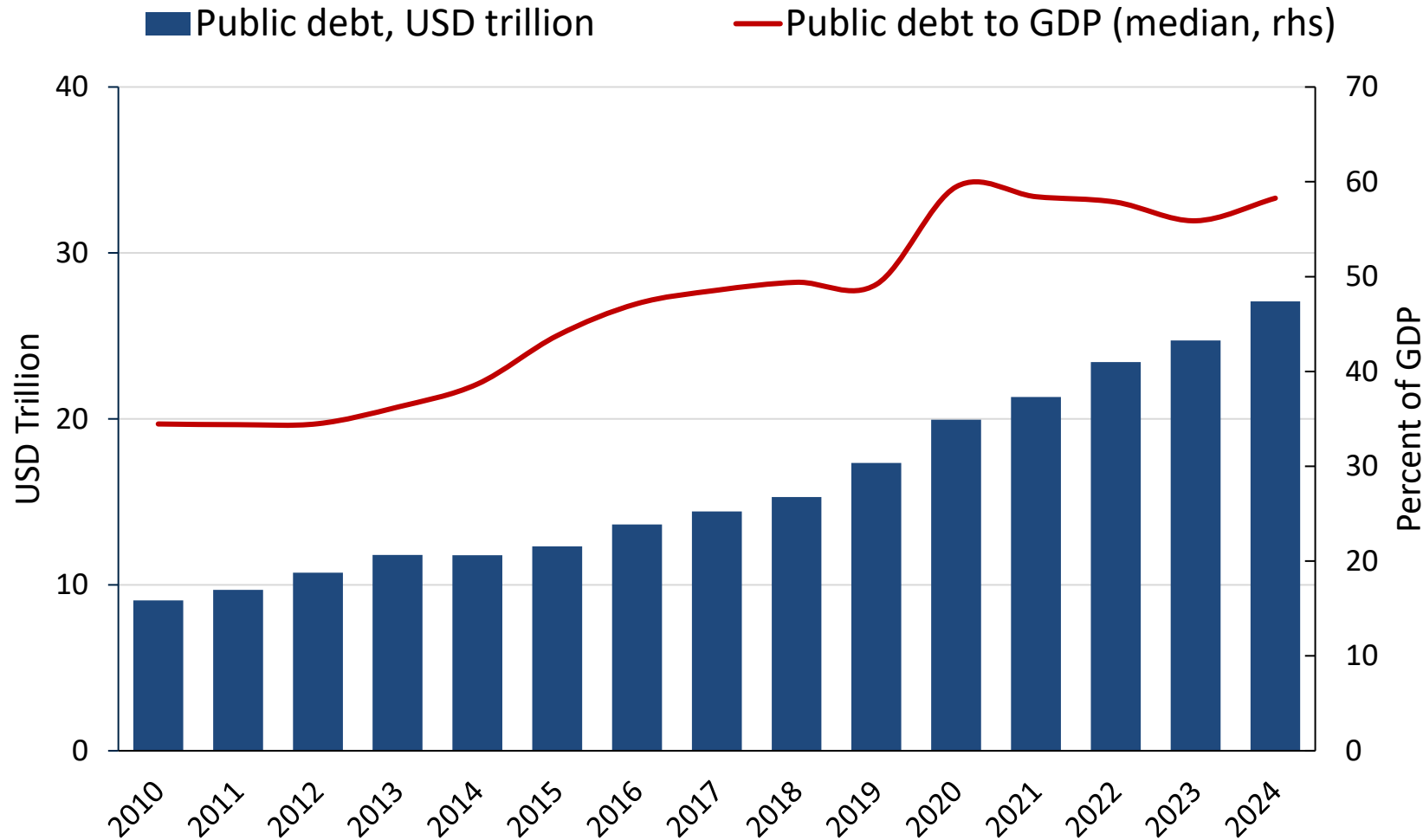
(1) ...and the current debt context is challenging
many countries face elevated debt risks

- ❑ High fiscal deficits persist, driven by low revenues in LICs
- ❑ High debt service due to high interest rates and large amortizations
- ❑ Increasing reliance on domestic debt financing -- typically shorter maturities and higher interest rates
- ❑ Liquidity pressures exacerbated by falling net financing (after amortization) from private and official bilateral creditors

(2) Limited progress in domestic revenue mobilization is a key challenge, contributing to persistent deficits and debt accumulation

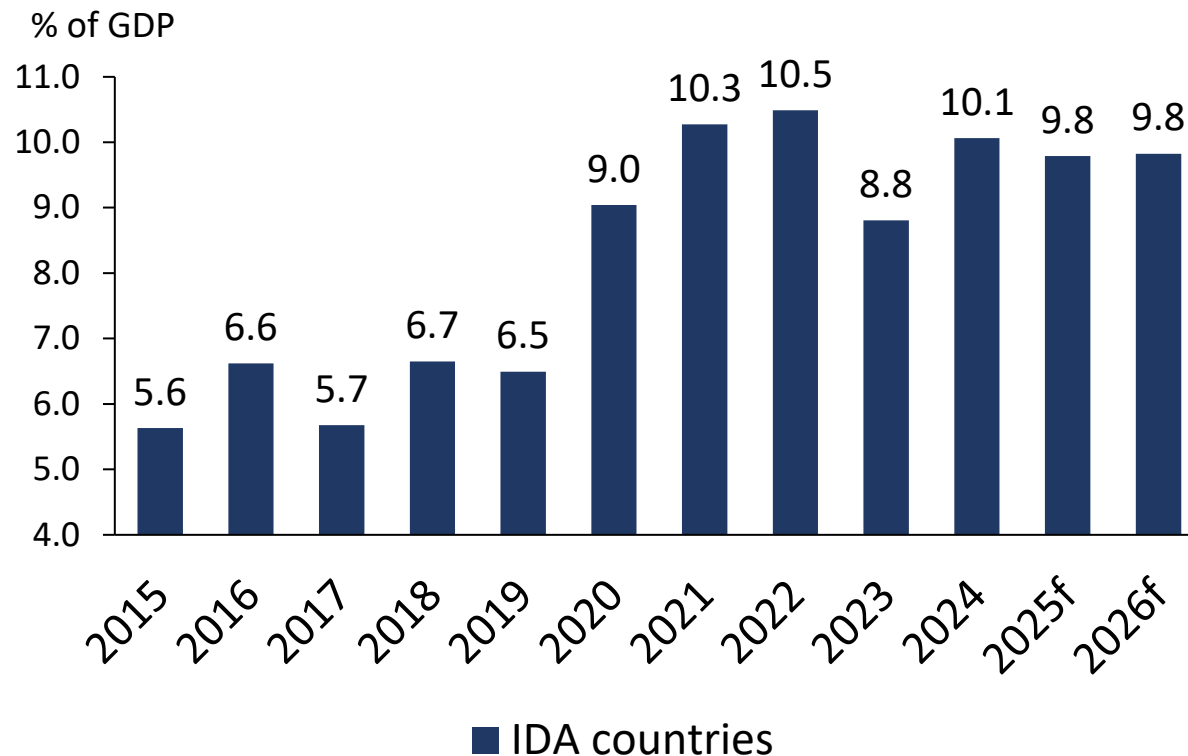


(3) Public debt was already rising before COVID-19 Crisis

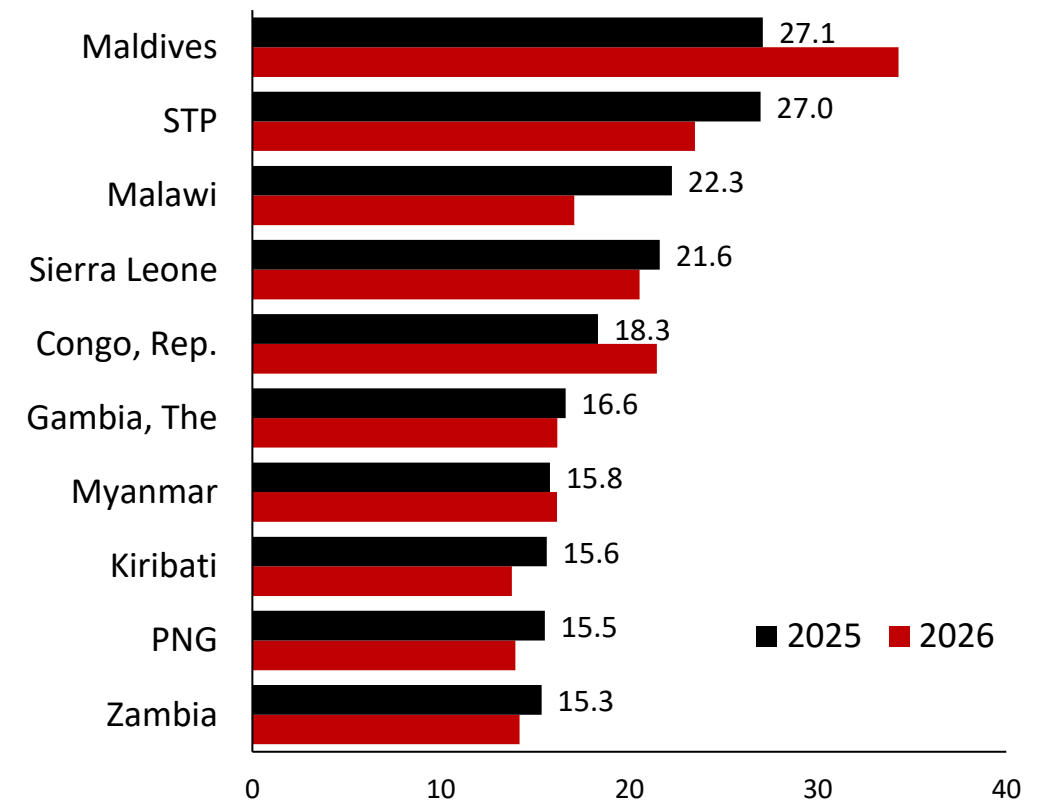


(4) Low-income economies (IDA countries) are expected to face large gross (fiscal) financing needs...

Gross Financing Needs for IDA countries
(as % of GDP)



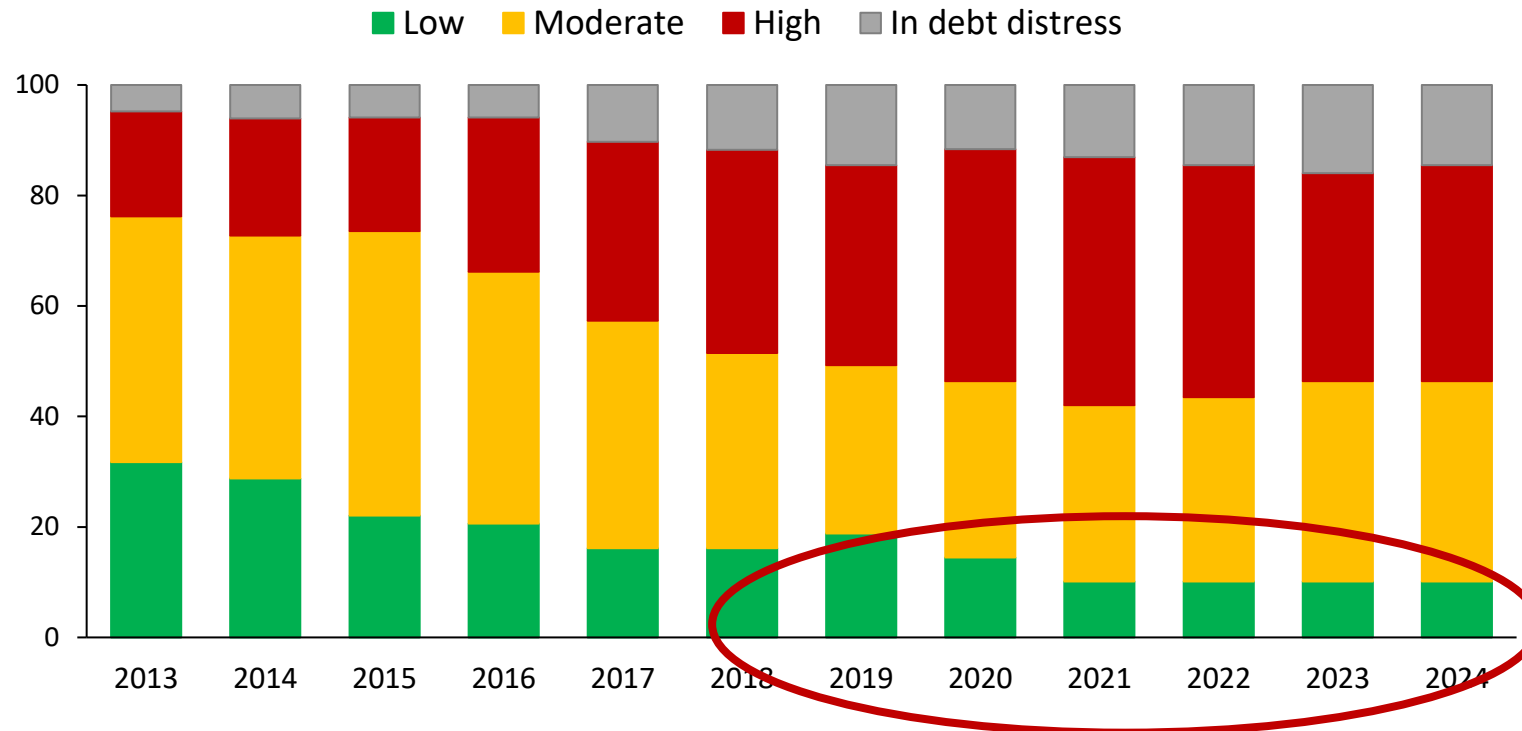
Top “10” IDA Countries with the Highest Gross Financing Needs (as % of GDP)



(4) ...and debt vulnerabilities remain elevated in 2024

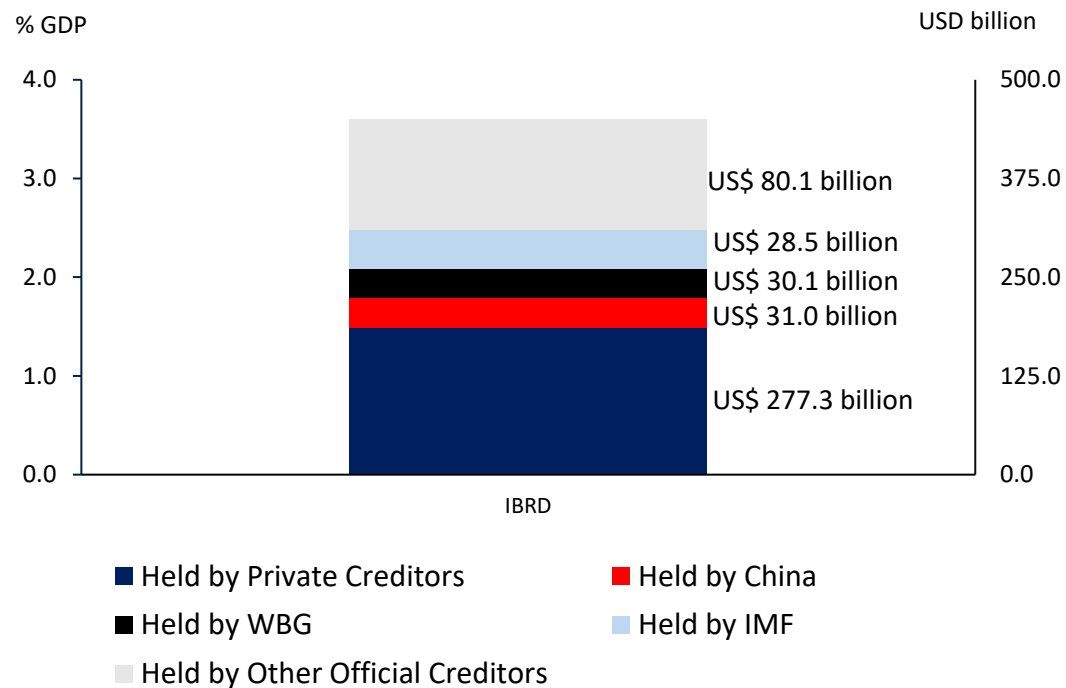
14% of LICs are in debt distress and 39% are at high risk of debt distress

Evolution of the risk of external debt distress
(in percent of LIC DSF countries)

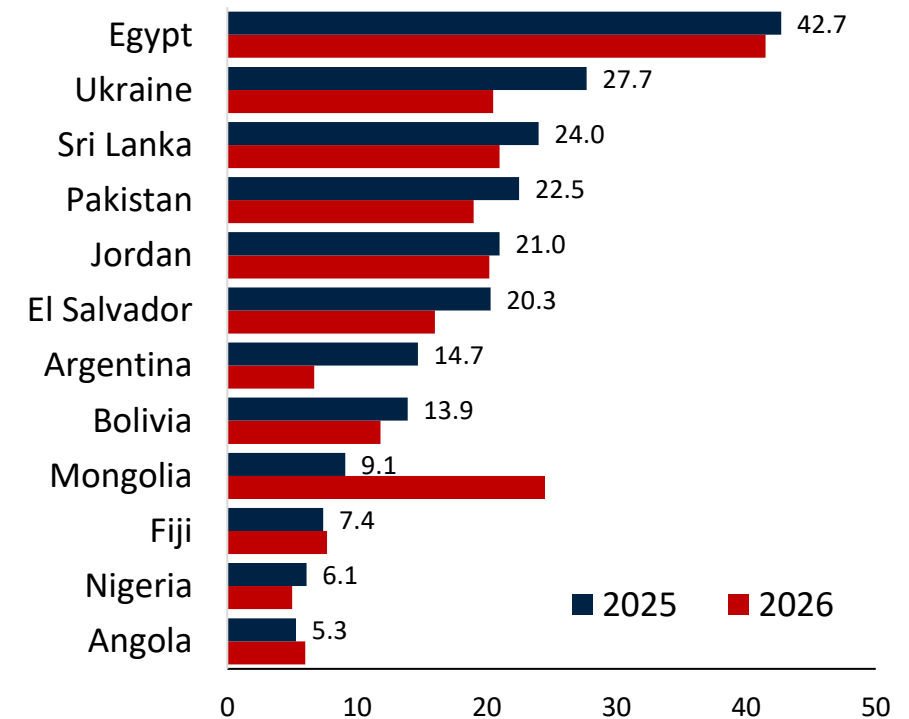


(5) Debt vulnerabilities are also rising in IBRD countries

2024 PPG external debt service in IBRD (% of GDP, and USD billion)



IBRD Countries with High Gross Financing Needs (as % of GDP)



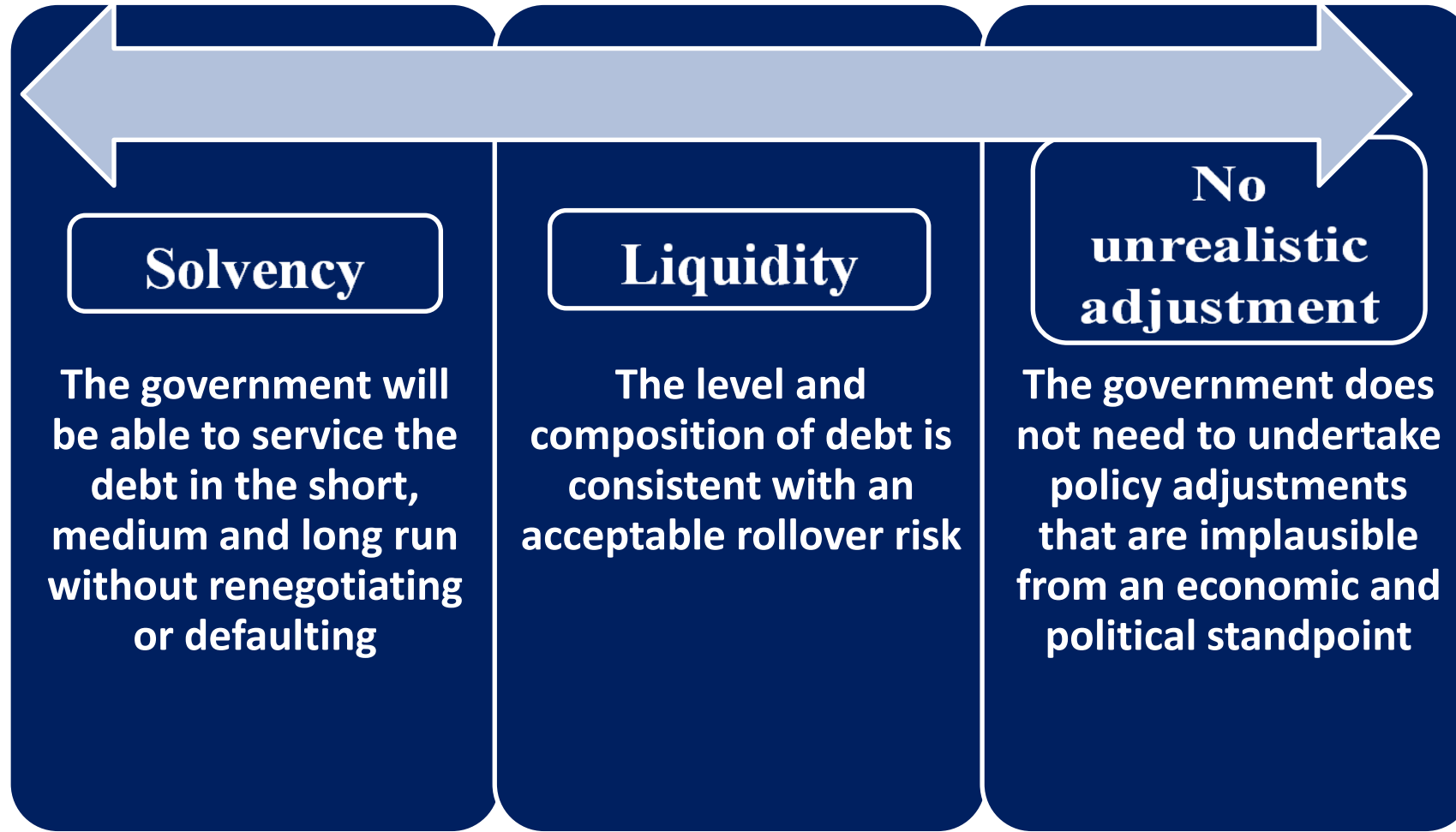
Why do we care?

Significant consequences for debtors

- ❑ **Sharp deterioration in living standards, social tensions**
 - ❑ Due to sharp fiscal adjustments, ER revaluations, consumption collapse...
- ❑ **Not isolated incidents, but likely spillovers**
 - ❑ Via financial and trade channels...
- ❑ **Permanent effects**
 - ❑ On human capital, and on political systems and social life

Concepts when conducting a debt sustainability analysis

What is debt sustainability?



Financing arrangements vary

- **Concessional Financing**
 - Below-market interest rates
 - Long maturities
 - Typically offered by IFIs, sometimes bilateral lenders
 - Present value typically applied
- **Non-Concessional Financing**
 - Provided at market interest rates
 - Typically offered by private lenders



What drives the debt-to-GDP dynamics?

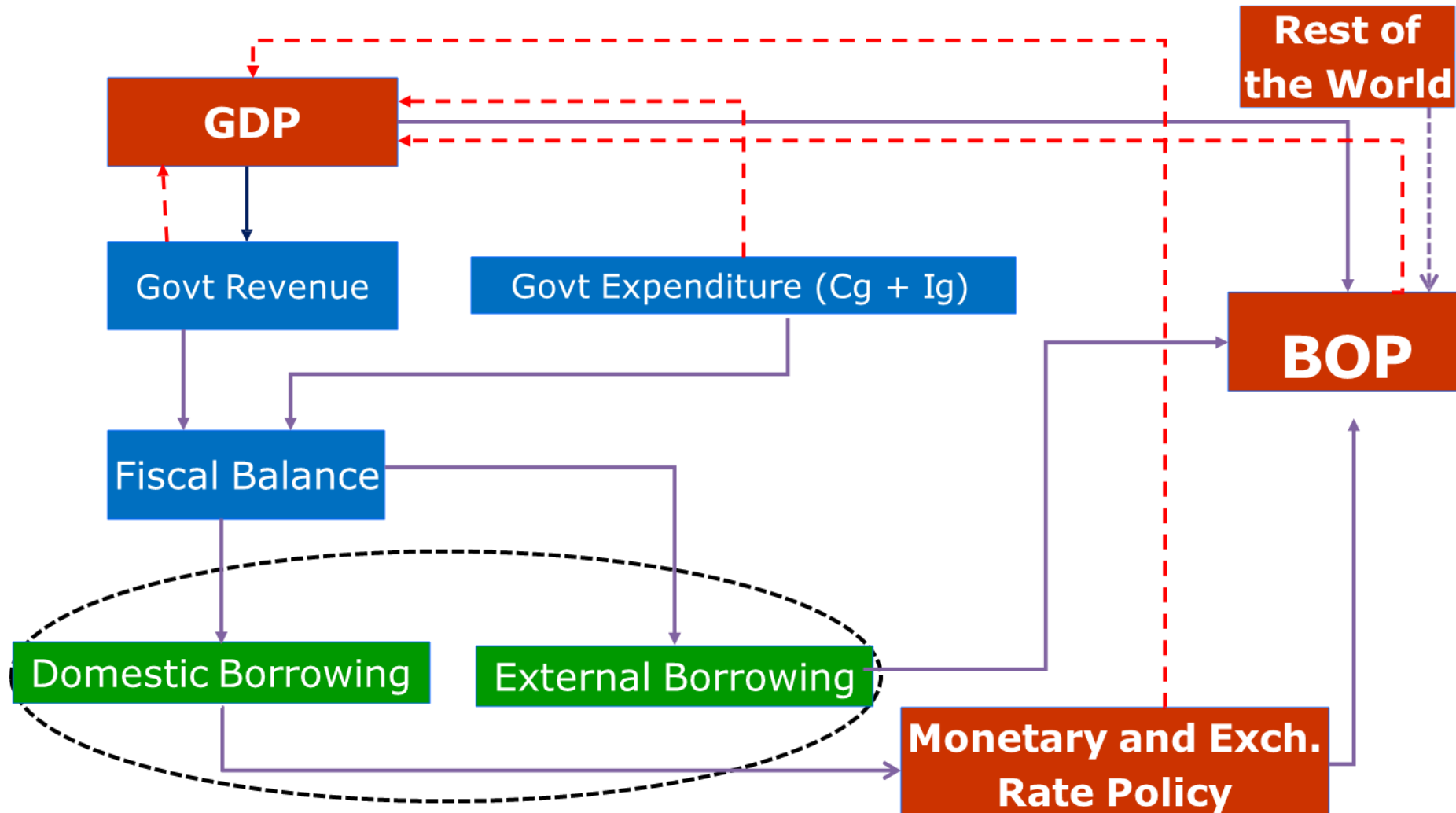
- Debt level in absolute terms is : current stock of debt + primary fiscal deficit + any other one-time factors
- If you want to measure the debt *burden* you would want to compare the stock of debt with its repayment capacity and most often this is done by showing debt as share of GDP
- If you divide this first equation with nominal GDP and then also re-arrange it isolating the various contributions you get this equation on the right

The diagram illustrates the decomposition of the debt-to-GDP dynamics equation into four contributions. The equation is shown in the center, with four red ovals pointing to specific parts of it:

- Contribution of real GDP growth**: Points to the g_t term in the denominator of the first fraction.
- Contribution of the primary balance**: Points to the pb_t term in the final part of the equation.
- Contribution of effective real interest rate**: Points to the i_t^w term in the numerator of the first fraction.
- Contribution of the exchange rate**: Points to the $\varepsilon_t \alpha_t$ term in the numerator of the third fraction.

$$\Delta d_t = \left\{ \frac{i_t^w - \pi_t(1 + g_t)}{(1 + g_t)(1 + \pi_t)} - \frac{g_t}{(1 + g_t)(1 + \pi_t)} + \frac{\varepsilon_t \alpha_t (1 + i_t^f)}{(1 + g_t)(1 + \pi_t)} \right\} d_{t-1} - pb_t + \dots$$

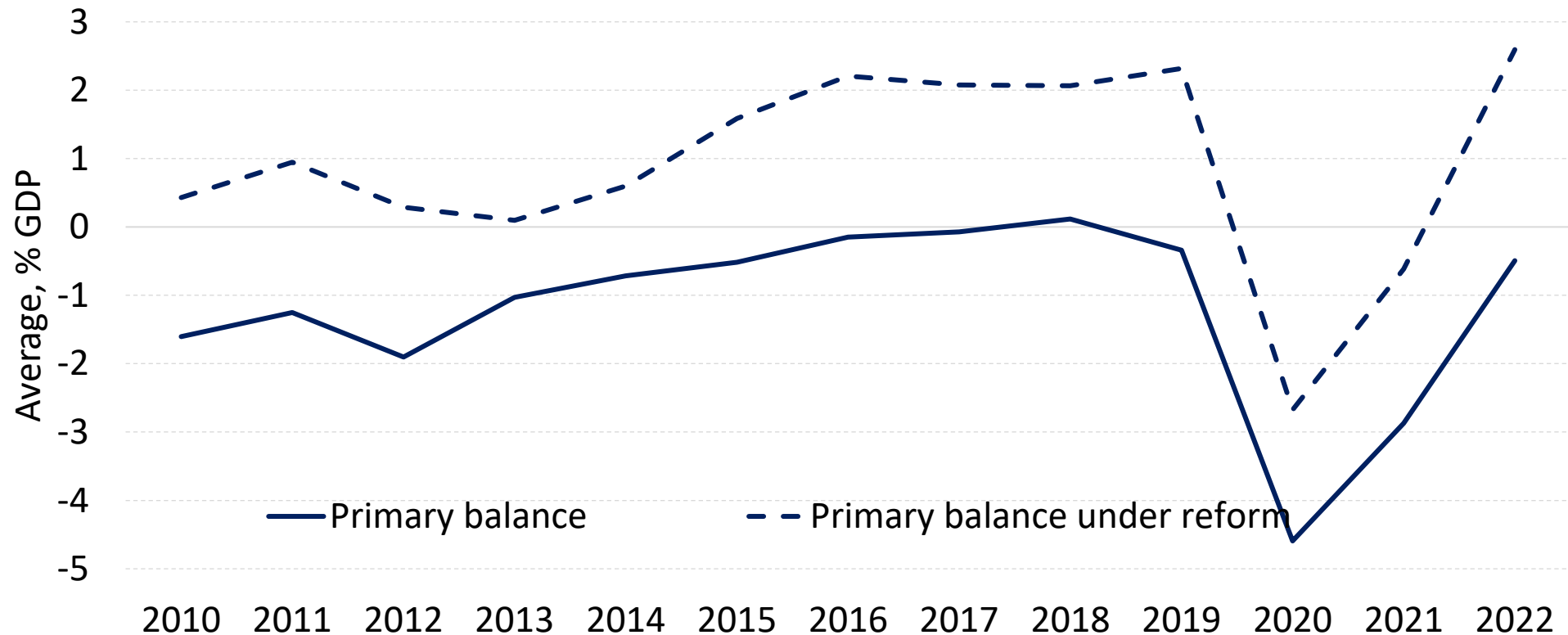
Main relationship for DSA



What kind of reforms can help support debt sustainability?

Significant fiscal savings can be accrued by overhauling subsidies

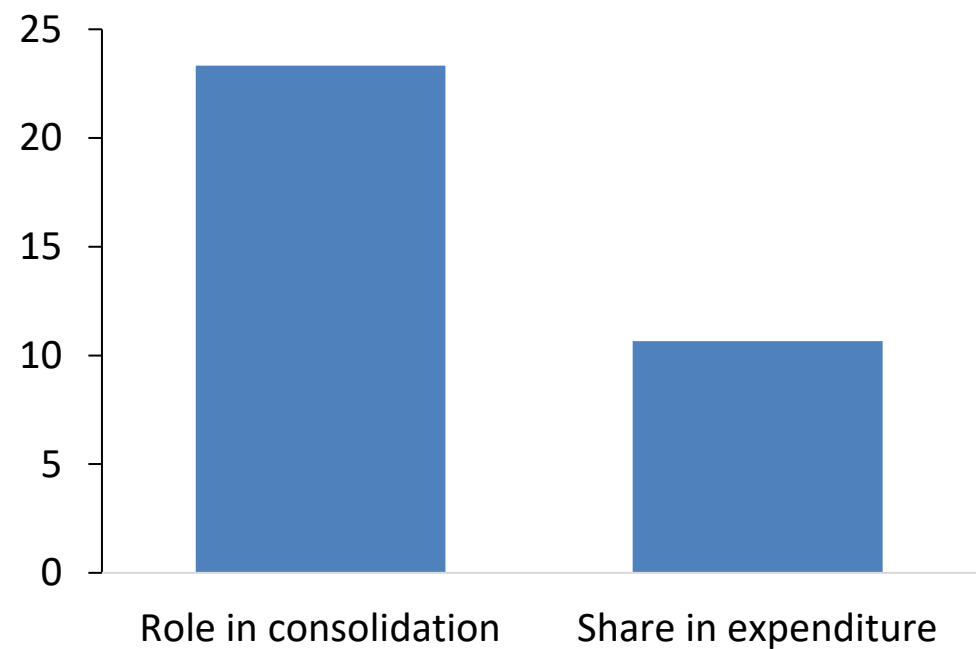
In 2019, among the 15 EMDEs with primary balances below the debt-stabilizing level and direct transfers to firms or tax expenditures above the median, two-thirds would have achieved debt-stabilizing primary balances by reducing subsidies to the EMDE median level



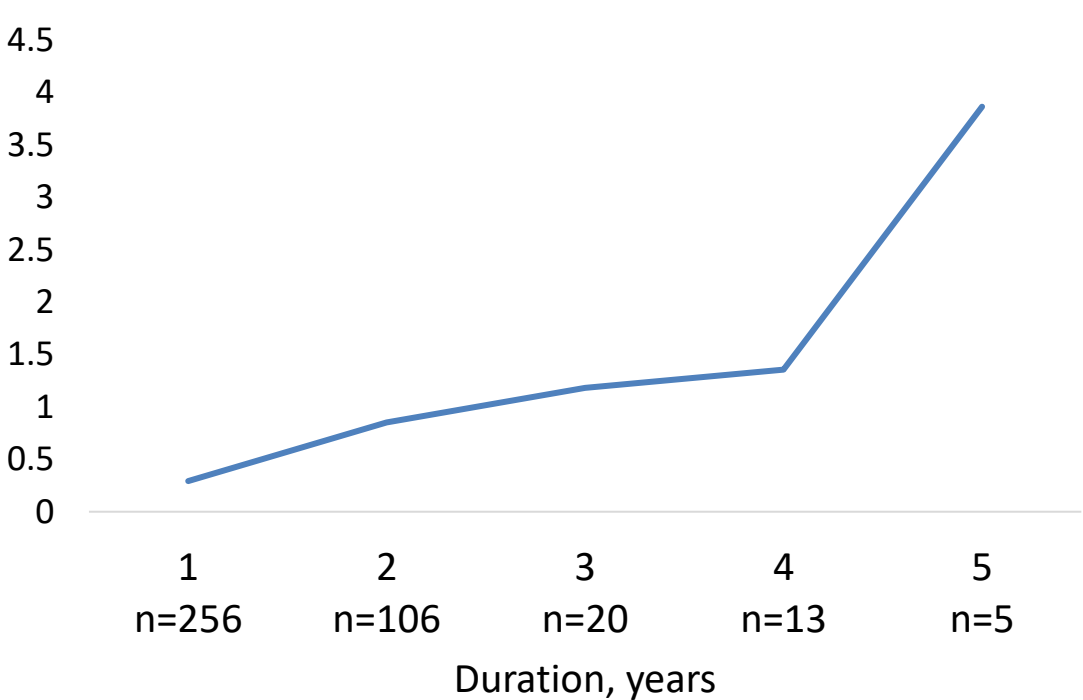
Sources: World Bank Subsidy Report, *forthcoming* 2025. Subsidies cover different interventions that generate a fiscal cost (e.g., tax expenditures, direct transfers, subsidized credit resulting in non-tax revenue foregone). This chart depicts the impact of 2 of these categories: direct transfers to firms and tax expenditures.

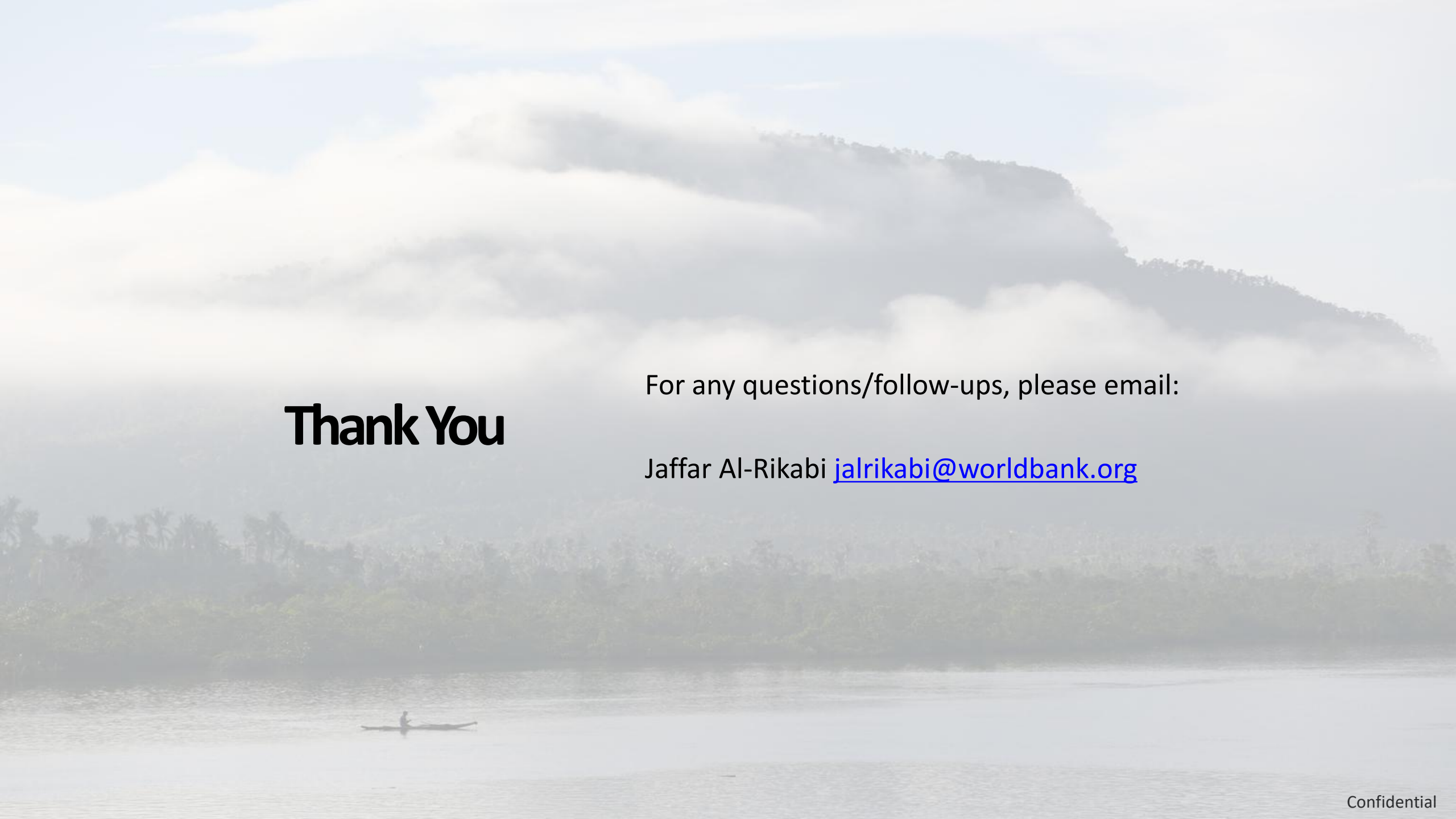
Significant fiscal savings can be accrued by overhauling subsidies

Median role of direct transfers to firms in fiscal consolidation vs. their share in primary expenditure in EMDEs, Percent.



Median cumulative fiscal savings from rationalizing direct transfers to firms and households by consecutive years of subsidy cuts, Percent of GDP.





Thank You

For any questions/follow-ups, please email:

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