Public debt

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Public Debt and Causes….

- **Budget Deficit** – The amount by which government’s expenditures exceed its revenues during a particular year
- Any government deficit increases the size of the public debt

- Lack of fiscal discipline, such as a cut in tax rates without offsetting reductions in expenditures or a lack of control over increased spending, will contribute to deficits.
- Wars require increased borrowing to finance the war effort
- Recessions result in budget deficits because of the built-in instability of the economy (tax revenues fall and domestic spending rises).
Yawning gap between revenue and government debt

Afrodad from WEO data
Debt sustainability

Source: Afrodad drawing on IMF data
Debt Service Suspension Initiative (DSSI)

• Suspending debt service payments from the poorest countries
• Participating creditors: ParisClub, China, SaudiArabia, Turkey and all official bilateral creditors
• use the created fiscal space to increase social, health or economic spending in response to the crisis. A monitoring system is expected to be put in place by the IFIs;
• to disclose all public sector financial commitments (debt), respecting commercially sensitive information. Technical Assistance is expected to be provided by the IFIs as appropriate to achieve this;
• to contract no new non-concessional debt during the suspension period, other than agreements under this initiative or in compliance with limits agreed under the IMF Debt Limit Policy (DLP) or WBG policy on non-concessional borrowing.

32 countries benefited from DSSI in 2020 and 2021 with collective savings of USD 10,950,000,000

G20 Common Framework for Debt Treatments beyond the DSSI - coordinate and cooperate on debt treatments

When debt is unsustainable, restructuring is urgently needed.

What are SDRs? https://www.youtube.com/watch?v=Y-wxIXRLfOk
What to look for at the country level?

• Prudent fiscal policy + DRM

• Domestic arrears

• Management of PPPs, management of SOEs

• A transparent process to issue state guarantees - oversight

• Diagnostic tools: DemPA, PIMA, PEFA, DSA,

• The opportunity provided by budget support: macro analysis, risk management framework and dialogue
Debt thresholds are only necessary...

**Likely debt stress at low levels of public debt**

- Most indebted are wealthiest
- Low cost interest rates on high economies
- Debt to formal sector in LICs and LMICs is high
- Debt to assets is high. Lack of asset reconciliation.
- Institutional debt holders – easy to restructure
- High trade vulnerabilities in long term could also be minimal due high export and import volumes
- Interest rate to growth differential – positive in LICs and LMICs
- Debt productivity low in LICs and LMICs

**Public debt threshold..**

*Economies, 1946-2009*

*Gross Central Government Debt*