Three “Pillars”

1. Twenty-year projections of debt burden ratios under baseline and alternative scenarios

2. Risk ratings based on policy-dependent indicative debt-burden thresholds
**Institutional strength and quality of policies**

<table>
<thead>
<tr>
<th></th>
<th>Weak</th>
<th>Medium</th>
<th>Strong</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CPIA&lt;3.25</td>
<td>3.25&lt;CPIA&lt;3.75</td>
<td>CPIA&gt;3.75</td>
</tr>
<tr>
<td>NPV of debt-to-GDP</td>
<td>30</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>NPV of debt-to-exports</td>
<td>100</td>
<td>150</td>
<td>200</td>
</tr>
<tr>
<td>NPV of debt-to-revenue</td>
<td>200</td>
<td>250</td>
<td>300</td>
</tr>
<tr>
<td>Debt service-to-exports</td>
<td>15</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Debt service-to-revenue</td>
<td>25</td>
<td>30</td>
<td>35</td>
</tr>
</tbody>
</table>

Notes: Thresholds apply to public and publicly guaranteed (PPG) external debt, only. The Country Policy and Institutional Assessment (CPIA) assesses the quality of a country’s present policy and institutional framework. “Quality” means how conducive that framework is to fostering sustainable, poverty-reducing growth and the effective use of development assistance.
NPV of Debt-to-Export Ratio

Baseline scenario
Historical scenario
Stress scenario
Four debt distress risk ratings

- Low risk of debt distress
- Moderate risk of debt distress
- High risk of debt distress
- In debt distress
Three “Pillars”

1. Twenty-year projections of debt burden ratios under baseline and alternative scenarios

2. Risk ratings based on policy-dependent indicative debt-burden thresholds

3. Recommended borrowing strategy and possible financing responses from lenders
Other DSF Features

- Conducted on an annual basis, which allows for corrections/adjustments
- Two parallel exercises: for external debt and for domestic debt
- Standardization facilitates cross-country comparisons, but does not prevent tailoring to country circumstances
Main Objectives

- Improve World Bank and IMF analysis and policy advice in these areas and guide provision of needed technical assistance

- Support LICs in achieving their development objectives while maintaining sustainable levels of debt

- Provide information to potential creditors on debt sustainability prospects and risks so that they can modulate their financing accordingly
Use of the DSF

- The DSF has already had an impact on Bank and Fund policies
  - IDA financing terms
  - IMF policy advice and program design

- However, the DSF will be effective only if both other creditors and borrowing countries use it for their own purposes
Use by Borrowers

- Design appropriate financing strategies = a debt path that matches financing with ability to repay
- A key element for broader policy design
  - Near term: determine the fiscal stance and appropriate financing terms
  - Medium term: implement preventive action to reduce the risk of future debt distress
- A tool for discussions with creditors on the size and terms of financing
- Identification of technical assistance needs in the area of debt management
Further Use by Creditors

- The IMF and the World Bank are stepping up outreach to major creditor groups
  - MDBs
  - Traditional bilateral creditors
  - Export credit agencies
  - Emerging creditors
- The objective is to encourage creditors to acknowledge the different nature of lending and debt sustainability risks in LICs
  - LICs remain and will remain for some time dependent on official assistance
  - Debt relief has not eliminated their main sources of vulnerability
- DSAs can be a useful input for “sustainable” lending decisions
  - Published DSAs can be found at www.imf.org/dsa