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An alternative approach of debt sustainability

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Introduction

☐ Statement

- The external debt problem is only treated from the creditors point of view

☐ Question

- How to complete this approach by introducing the debtor viewpoint, i.e. by integrating the consequences of the external debt burden on population well-being?

☐ Methodology

- Construction of indebtedness ratios from the debtors standpoint
 - Construction of a multidimensional indicator of debt sustainability (ISD)
 - Comparison of this indicator with « official » ones
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Debt solvency versus debt sustainability

- **The solvency approach**
or how to make the debtor pay as much as possible

 - **The sustainability approach**
or how to pay back without becoming more impoverished
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Four alternative ratios

□ Measuring the « social » burden of the debt:

Debt service per capita (in USD PPP)  SDHA

□ Measuring the substitution of payments to development:

Debt service/investment  SDIK

Public debt service/public health expenditures  SDPSA

Public debt service/public education expenditures  SDPED

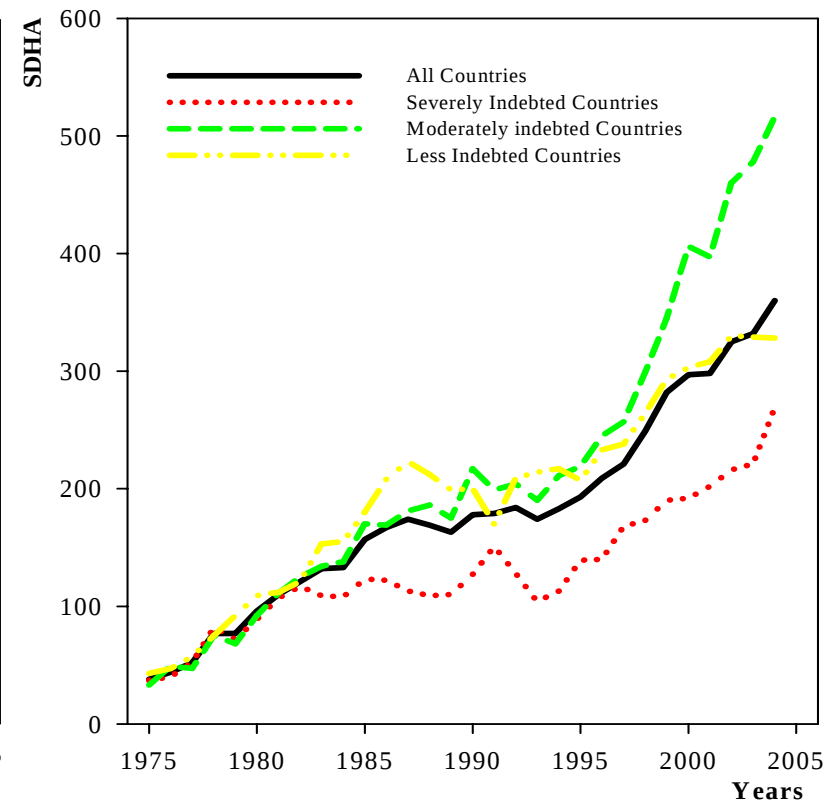
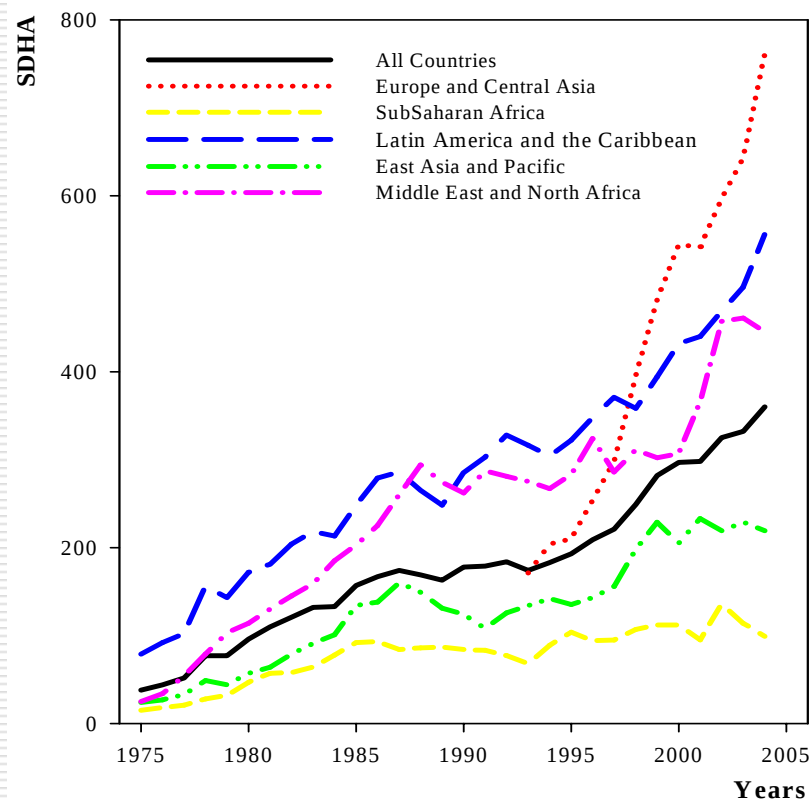
Table 1 : Mean values of the new ratios in 2004

	SDHA	SDIK	SDPED	SDPSA
Low-income countries	63	0,22	0,85	1,47
Middle-income and high-income countries	656	0,36	1,23	1,40
Least developed countries	56	0,21	0,76	1,12
Sub-Saharan Africa	99	0,23	0,77	1,29
Latin America and the Caribbean	556	0,41	1,57	1,65
East Asia and Pacific	219	0,19	0,55	1,66
Middle East and North Africa	445	0,30	-	1,89
Europe and Central Asia	857	0,36	-	0,98
Severely indebted countries	269	0,39	2,05	1,91
Moderately indebted countries	588	0,31	0,78	1,34
Less indebted countries	328	0,20	0,68	1,08
HIPC	59	0,21	0,95	1,30
Total	383	0,29	1,06	1,42

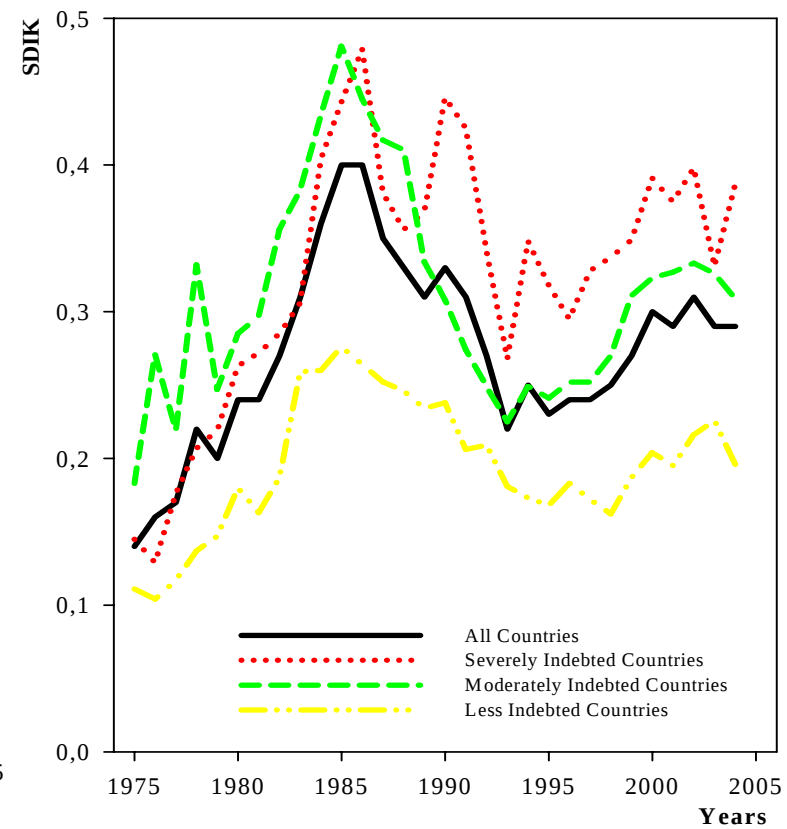
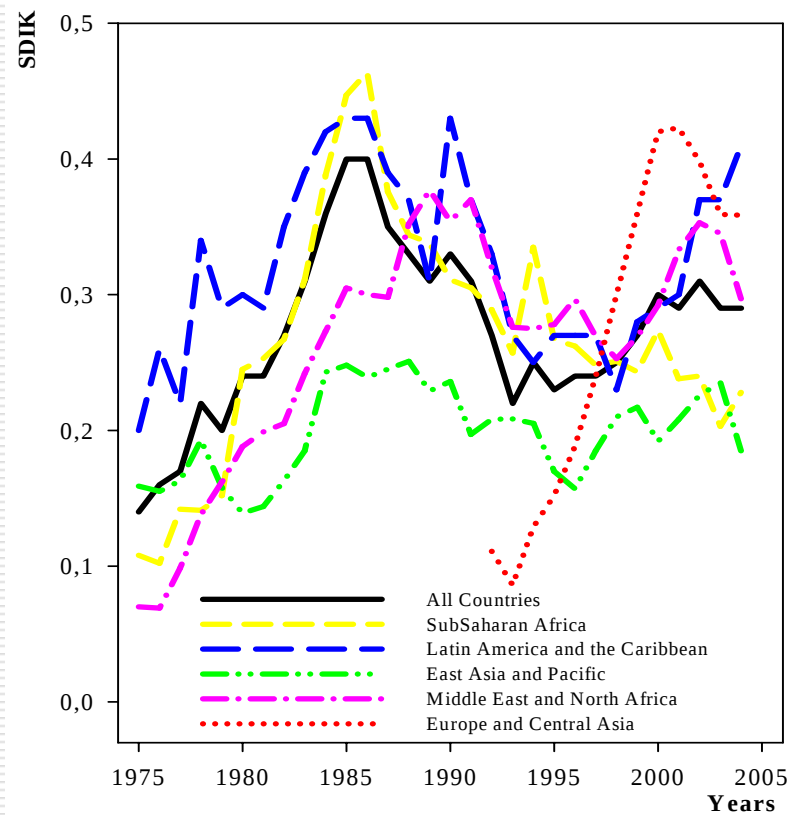
Tableau 2 : Average annual growth rate of various debt ratios 1975-2004 (in percent)

	SDHA	SDIK	SDPED	SDPSA	SDEX	SDPEX	SDPIB
1975-1980	+ 20,4	+ 11,4	-	-	+ 10,5	+ 6,5	+ 14,3
1980-1985	+ 10,3	+ 10,8	-	-	+ 6,1	+ 10,7	+ 6,3
1985-1990	+ 2,5	- 3,8	-	-	- 3,7	- 2,7	- 4,1
1990-1995	+ 1,6	- 7,0	-	-	- 4,9	- 4,6	- 3,2
1995-2000	+ 9,0	+ 5,5	-	-	- 0,7	- 3,0	+ 3,5
2000-2004	+ 4,9	- 1,0	-	-	+ 1,0	- 4,2	+ 1,4
1975-1990	+ 10,8	+ 5,9	-	-	+ 4,1	+ 4,7	+ 5,2
1990-2004	+ 5,2	- 1,0	-	-	- 1,6	- 4,0	+ 0,5
1998-2004	-	-	+ 0,3	- 3,1	- 1,7	- 7,0	+ 1,1
1975-2004	+ 8,1	+ 2,5	-	-	+ 1,2	+ 0,3	+ 2,9

Evolution of SDHA (Debt service per capita)



Evolution of SDIK (Debt service / Investment)



From alternative ratios to the indicator of debt sustainability (ISD)

- New ratios and « official » indicators: substitutability or complementarity ?

SDHA



SDIK

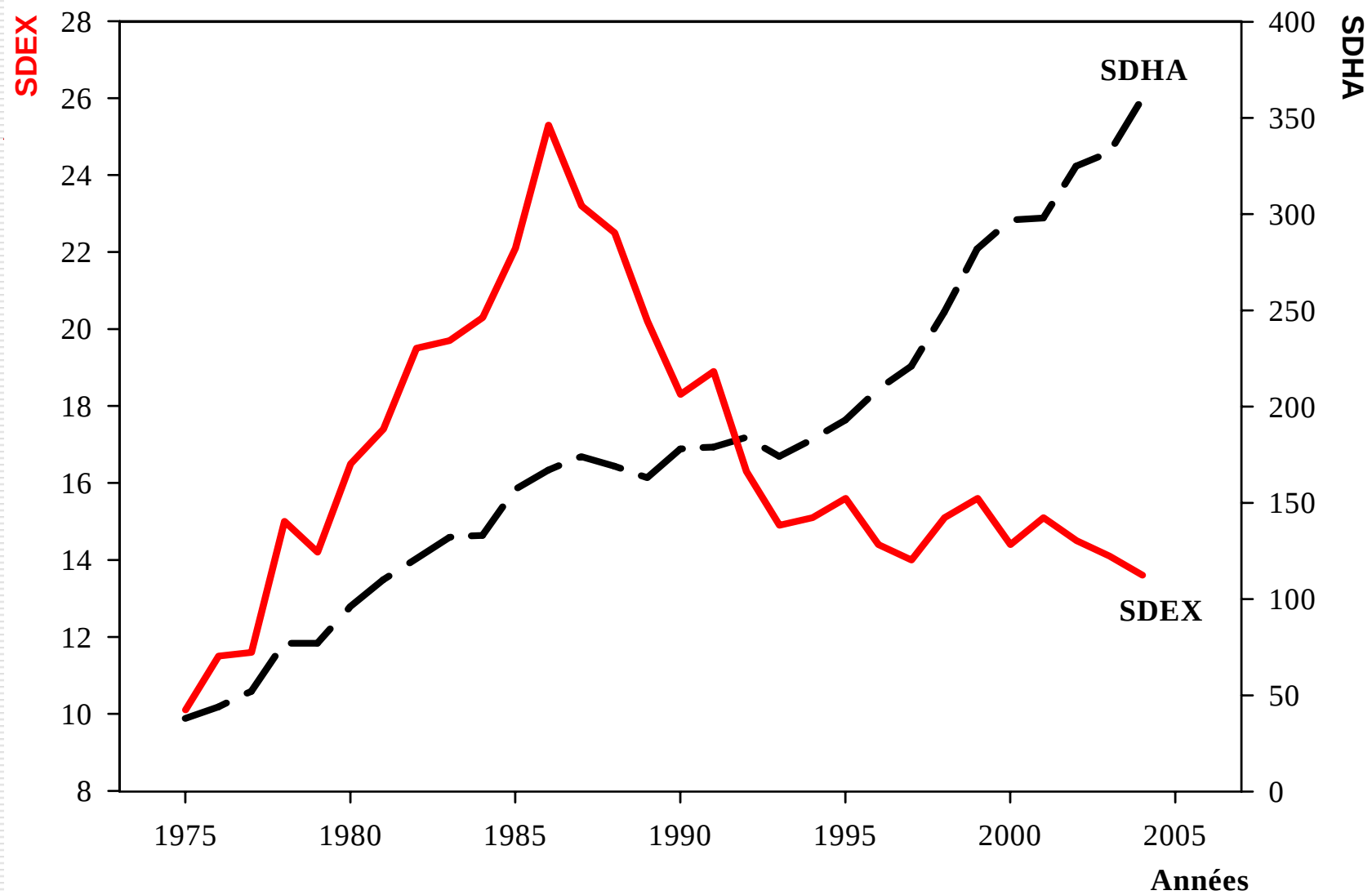


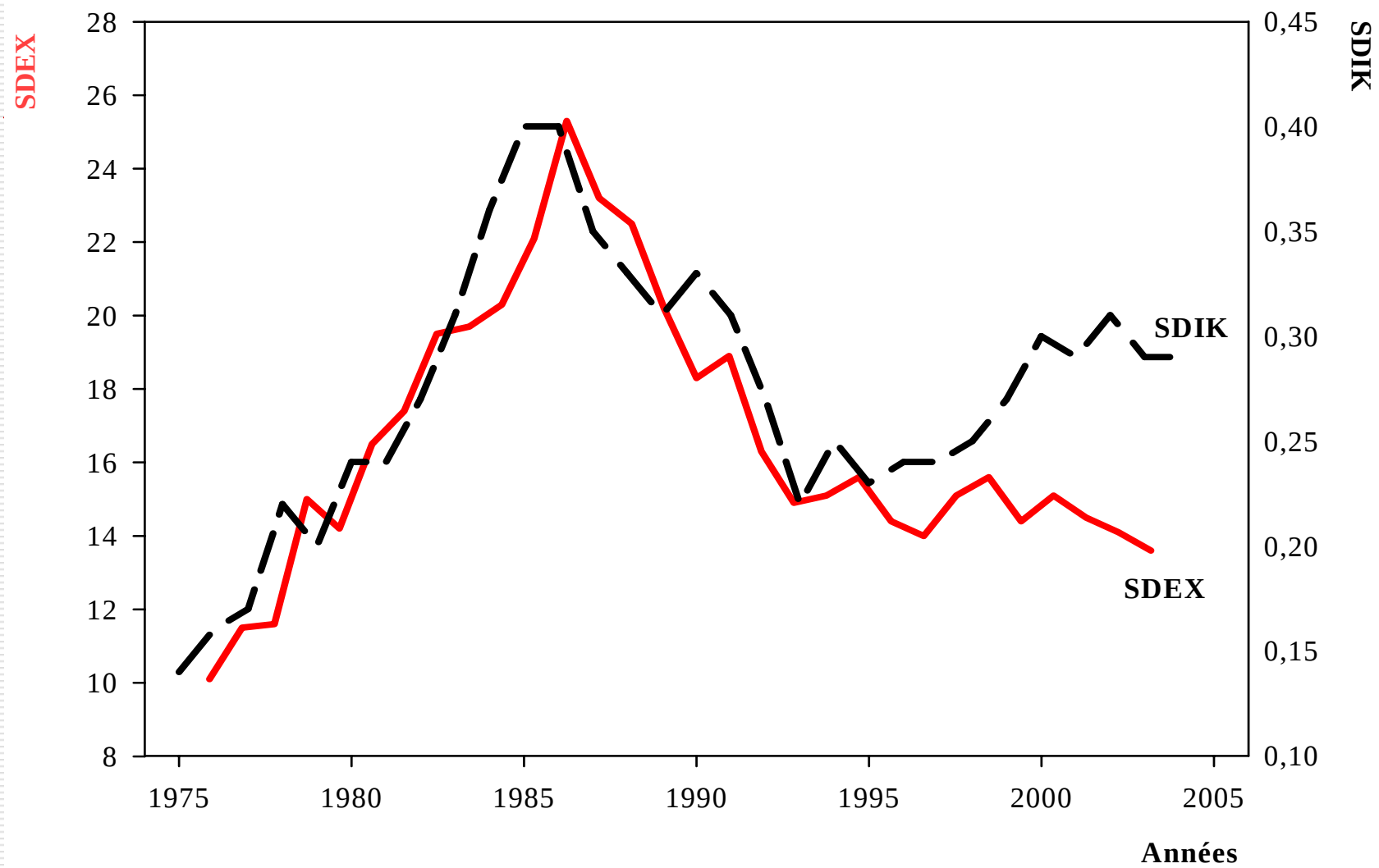
SDPSA et SDPED

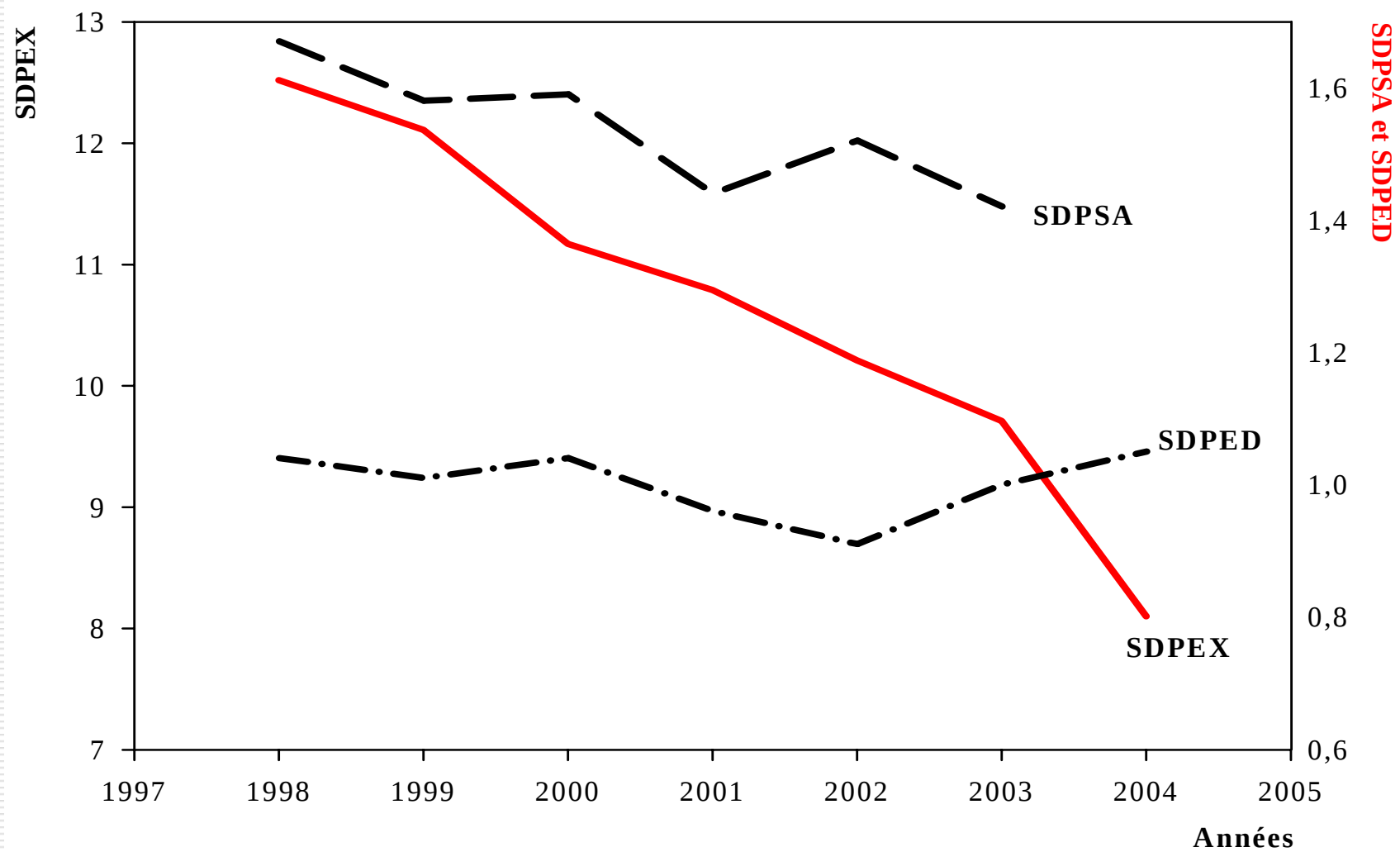


- The construction of ISD









Conclusion

- ☐ Even if it has to be improved, the sustainability approach gives a new insight into the debt problem
 - ☐ The solvency approach stresses countries facing difficulties of payment even if they are not necessarily those which suffer more of the debt burden
 - ☐ Debt relief for middle-income countries seems to be more efficient
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For more informations



<http://www.oid-ido.org>



The debt Laffer curve

