Importance of Public Sector Debt Statistics for Policy Making

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MEMBERS

Afghanistan

Algeria

Djibouti

Egypt

Iraq

Jordan

Lebanon

Libya

Morocco

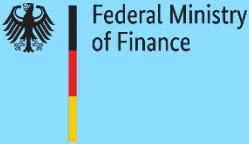Sudan

Syria

Tunisia

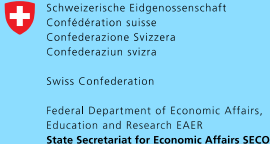West Bank and Gaza

Yemen

DEVELOPMENT PARTNERS

Germany

Netherlands

Switzerland

European Union

France

Saudi Arabia

Agenda

- Introduction
- Public Debt Transparency and Public Debt Statistics
- PSDS for Analysis and Policy Making
- International Initiatives and Capacity Development
- Data Quality Assessment Framework for PSDS

Introduction

Public debt is (again) receiving additional attention

- As consequence of the recent pandemic, anti-inflationary measures by government, and ongoing conflicts, public debt levels have generally increased in the past years

- Sovereign debt stress intensifies in emerging market and developing economies (IMF World Economic Outlook, October 2024)

- MENA oil-importing economies also continue to face elevated debt burdens (IMF Regional Economic Outlook, October 2024)

- Proper debt management requires accurate, comprehensive and timely debt statistics

- Statisticians can make significant contribution to effort for debt-sustainability

- International standards are outlined in the *Public Sector Debt Statistics Guide* (IMF, 2011), which is the key reference for PSDS

Public Debt Transparency and Public Debt Statistics

Public Debt Transparency and Public Sector Debt Statistics

Definition – timely, accurate and sufficiently comprehensive information on public debt. The dissemination of public debt data should aim at presenting a detailed and clear picture of contracted and outstanding stocks of public debt and public contingent liabilities

- Public Sector Debt Statistics (PSDS) is the cornerstone of Public Debt Transparency
  - ► International standards call for a broad definition - general government, central bank liabilities, public corporations
  - ► Coverage should also include supplementary information on explicit contingent liabilities (government guaranteed and non-guaranteed debt of SOEs and PPPs), which may become part of the public debt

Why is Public Debt Transparency Important?

- Supports sound macroeconomic policies by an accurate assessment of debt sustainability.

- Helps lower the average risk premia across borrowers and supports stable and adequate access to financing.

- Reduces uncertainty about the true public debt burden and creditor seniority, improving the amount and terms of access to financing for countries with sustainable debt.

- Helps everyone to identify risks before they materialize.

- Makes crises easier to resolve by facilitating decision regarding the required debt relief and ensuring fair burden-sharing across creditors.

Why is Public Debt Transparency Important?

- Empirical evidence supports the positive effect that public debt and broader data transparency have on sovereign financing conditions:

  - ◆ lowering emerging markets' bond spreads and increasing foreign investors' willingness to hold EM sovereign debt (Choi and Hashimoto, 2018; Kemoe and Zhan, 2018)
  - ◆ Participation in e-GDDS leads to significant reduction in sovereign spreads across countries (Gonzales-Garcia, 2020)
  - ◆ Promotes a diversified investor base and therefore greater access to finance

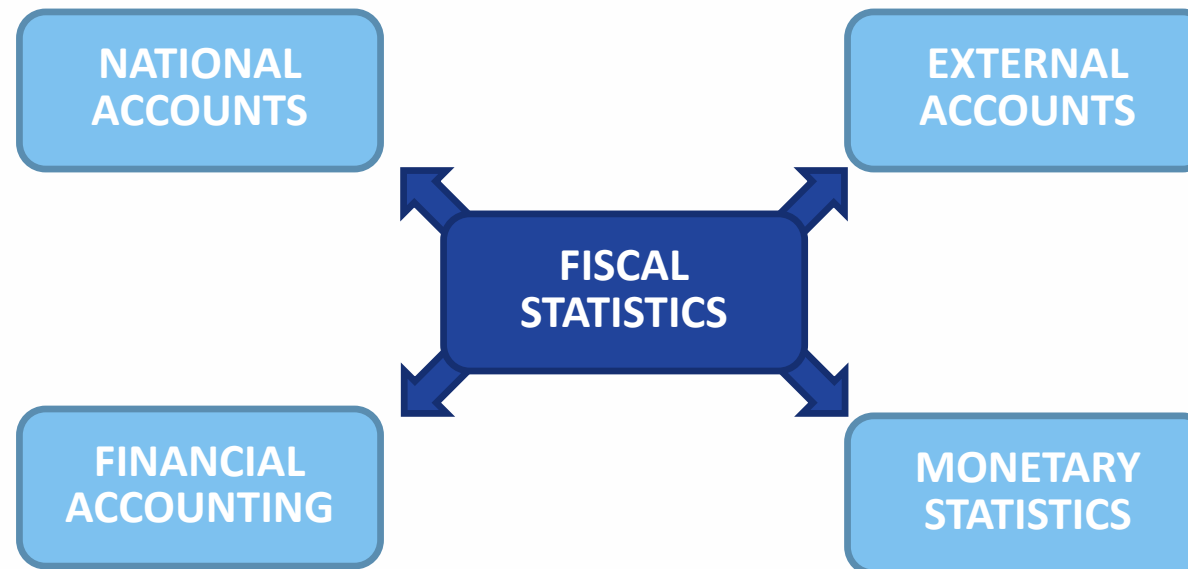# PSDS for Analysis and Policy Making

Users and Uses of PSDS

- Users of PSDS comprise:
  - ▶ **Creditors** seek accurate estimates of the **solvency and financial sustainability** of potential and current debtors.
  - ▶ **Policymakers** and **international organizations** seek to assess the **sustainability** of debt portfolios, the **impact of different policy options**, and **potential risks** (exogenous shocks).
  - ▶ **Politicians** want to be able to advertise their **reform efforts.**
  - ▶ **Media outlets** regularly publish debt statistics to hold governments **accountable** and to **communicate their commitments to creditors**.

- The **PSDS framework** provides explicit guidelines on compiling comprehensive data for most of these users. Specifically, can be used in **analytical exercises** such as
  - ◆ the Debt Sustainability Analysis (**DSA**),
  - ◆ the Medium-Term Debt Management Strategy (**MTDS**), and
  - ◆ the Balance Sheet Approach (**BSA**).

Consistency with Other Macroeconomic Datasets

- **PSDS data** is **consistent** (and linked) with other **macroeconomic statistical** frameworks, and serves as an important input to those
  - ▶ Government Finance Statistics (direct link to GFS balance sheet and indirect link to financial transactions (flow data))
  - ▶ National accounts (GDP, investment, consumption etc.)
  - ▶ Balance of Payments (external borrowing etc.)
  - ▶ Monetary & Financial statistics (deposits etc.)

Cross-country Comparison: The PSDS Matrix
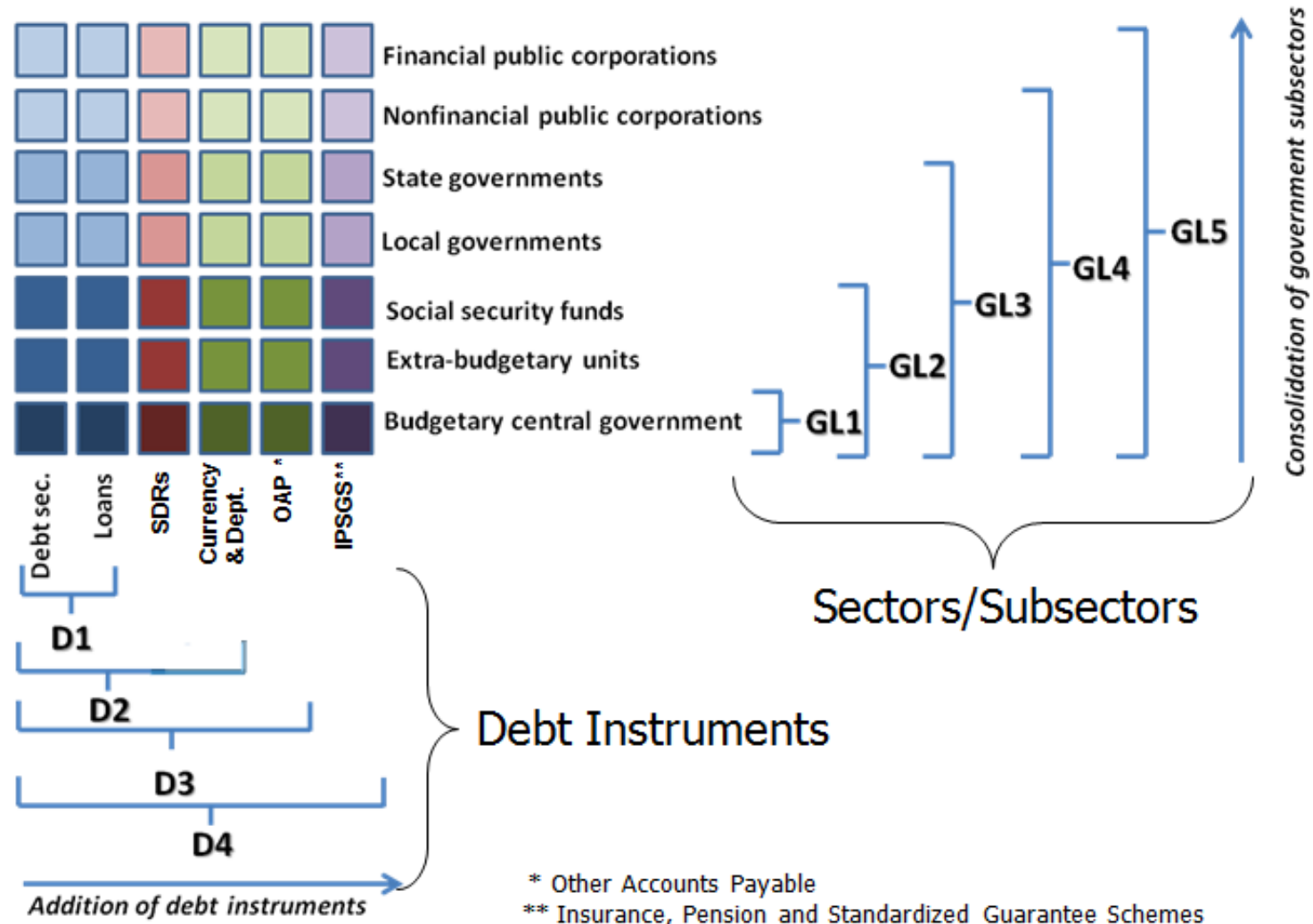
Impact on Analysis and Policy Making

▪ **Harmonized debt indicators** are fundamental to support **better analyses and policy decisions.** Sensible, conceptually founded indicators linked to sound data measurement are important for:

▶ Stress testing

▶ Risk detection

▶ Identification of vulnerabilities

▶ Formulation of macro-prudential policies

▶ Leveraging the experience from other countries and peer comparisons

DSA Inputs

- To compare debt requirements for DSAs with those prescribed by the PSDS framework, the DSA frameworks focus, in principle, on:

  - ▶ The broadest possible **institutional coverage of public sector units** including the nonfinancial public sector and central bank;

  - ▶ The broadest possible **coverage of debt instruments**;

  - ▶ Defining external debt based on the **residence of the creditor**;

  - ▶ Defining debt at **face value** (LIC-DSF) and **nominal value** (SRDSF);

  - ▶ Defining debt by **currency type and maturity;**

  - ▶ Proper elimination of intra- and intersectoral debtor-creditor relationships (**consolidation**);

  - ▶ Information relating to **contingent liabilities**.

How do data sources affect the outputs of DSA?

- Any DSA exercise is only as good as the data used for the analysis.
- Comprehensive, timely, and consistent PSDS facilitates more informative and meaningful DSAs, contributing to better macroeconomic policy design.
- The PSDS framework is the foundations for compilation of input data for sound DSAs.

Meaningful gross debt data for DSA should be comprehensive in its inclusion of extrabudgetary funds, social security funds, subnational governments (state and local) and public corporations and should follow clear **methodological guidelines** to allow for **comparability** between public sector units within countries and over time. In the case of DSA, we also need to consider off-balance sheet risks in the form of **contingent liabilities**, such as guarantees.

International Initiatives and Capacity Development

Ongoing initiatives

- In 2018, the IMF and the World Bank developed a **strategy for public debt transparency** within the broader framework of the Multipronged Approach to Address Debt Vulnerabilities (MPA).

  - ▶ (i) enhancing debt transparency;

  - ▶ (ii) strengthening capacity;

  - ▶ (iii) improving analytical tools; and

  - ▶ (iv) reviewing debt policies. Under the MPA, ongoing and planned initiatives in the area of public debt transparency span the entire policy agenda with measures that address data gaps and generate incentives for debt transparency

Multipronged Approach to Address Debt Vulnerabilities: Closing Data Gaps (1)

- Improving **debt data reporting, debt management and legal frameworks** trough provision of CD

  - ► Gradual increase in countries reporting quarterly public sector debt (QPSD)

  - ► CD work includes enhancing reporting of public debt data; improving coverage of contingent liabilities including from SOEs and PPPs

- Improving the coverage and validation of **loan-level data**

  - ► WB Debtor Reporting System: new templates for additional debt instruments etc

Multipronged Approach to Address Debt Vulnerabilities: Closing Data Gaps (2)

- Developing and promoting the adoption of **international standards and codes**
  - ► 2022 review of IMF Data Standards Initiative expanded granular data including breakdowns by creditors type and top creditors
  - ► Statistical standards and guidance to promote debt data disclosure

- Publishing national data in **statistical databases**
  - ► Databases include BIS/OECD/IMF/WB Joint External Debt Hub, QPSD, IMF GFS
  - ► IMF compiled balance sheet databases

Progress Made and Road Ahead

- CD activities on public sector debt statistics (PSDS) compilation and reporting have expanded significantly

- The heightened focus on Fund policies and CD on debt issues has resulted in improvements:
  - An increase in number of countries reporting to the IMF GFS database
  - The number of e-GDDS countries publishing data on central government debt and external debt data increased from 40 to 57 and from 35 to 54 respectively, in the period 2019-2023.

- STA's CD activities will continue to aim to increase the **number of countries** reporting data, **improve the quality** of the data, increase **the coverage** and **the depth** of data reported

- IMF Regional Technical Assistance Centers and Regional Training Centers serve as essential resources in developing the authorities' capacities

The Regional Middle East Technical Assistance Center (METAC) activities on PSDS

- New workstream for GFS and PSDS was launched in November 2023

- Different level of development of PSDS (and GFS) among 14 member countries, but generally there is ample room for improvement

- **Main objectives** are:

  - ▶ Strengthen/restart **regular compilation**

    - A few countries have some experience in PSDS compilation, while others are just starting

  - ▶ **Extend coverage** of PSDS and GFS

    - Central government sector should be expanded to the General Government Sector and gradually also include Public Corporations

    - Delineation of General government sector has not been done and verified; Many of extrabudgetary units are not included

The Regional Middle East Technical Assistance Center (METAC) activities on PSDS

- ► Harmonize with **international standards**
  - ● National presentation and concepts should be in line with international standards
- ► Reporting to **international databases** (IMF/WB)

- Multi-year capacity development program supported by several donor partners

- IMF is the key provider of technical assistance related to PSDS throughout the region
  - ► Effective collaboration with other international agencies

- Challenges for TA work are ongoing instability and very limited previous experience
  - ► Several countries are recognized as Fragile and Conflict-Affected States (FCS)

- Adaptive approach in TA delivery
  - ► Hybrid and off-site missions

Data Quality Assessment Framework (DQAF) for PSDS

DQAF – Purpose of the Framework

- Recently developed and implemented in a few countries

- Flexible structure for the qualitative assessment of the PSDS

- Fosters public debt transparency by assessing the various aspects of producing and disseminating PSDS and related information

- Follows the generic structure used for other data sets (NA, CPI, BoP and IIP, etc.)

- Could be used in a variety of contexts:

  - ▶ assessment of quality of debt data reported for public sector debt sustainability analysis

  - ▶ diagnostic assessments for technical assistance

  - ▶ assessment of quality of official debt data for surveillance purposes

  - ▶ self-assessments performed by national statistical agencies

  - ▶ assessments by financial market participants.

DQAF – Structure of the Framework

- comprehensively covers the various quality aspects of data collection, processing, and dissemination
- organized in a cascading structure that progresses from the general to the more specific details

- The first level covers the **prerequisites** of quality and five **dimensions** of quality:
  - ▶ Assurance of integrity
  - ▶ Methodological soundness
  - ▶ Accuracy and reliability
  - ▶ Serviceability
  - ▶ Accessibility

- Three other levels: **elements** (two-digit level) and **indicators** (three-digit level) and **focal issues**

DQAF – Content of the Framework

0. Prerequisites of quality: these "pointers to quality" includes elements and indicators that have an overarching role as prerequisites, or institutional preconditions, for quality of statistics

1. Assurances of integrity: encompasses institutional arrangements that ensure professionalism in statistical policies and practices, transparency, and ethical standards.

2. Methodological soundness: covers the idea that the methodological basis to produce statistics should be sound and that this can be attained by following internationally accepted standards, guidelines, or good practices.

DQAF – Content of the Framework

3. Accuracy and reliability: covers the idea that statistical outputs sufficiently portray the reality of the economy. This dimension is also data specific, reflecting the sources used and their processing.

4. Serviceability: relates to the need that statistics are disseminated with an appropriate periodicity in a timely fashion, are consistent internally and with other major datasets, and follow a regular revision policy.

5. Accessibility: relates to the need for data and metadata to be presented in a clear and understandable manner on an easily available and impartial basis, that metadata are up-to-date and pertinent, and that a prompt and knowledgeable support service is available.

Thank you for your attention