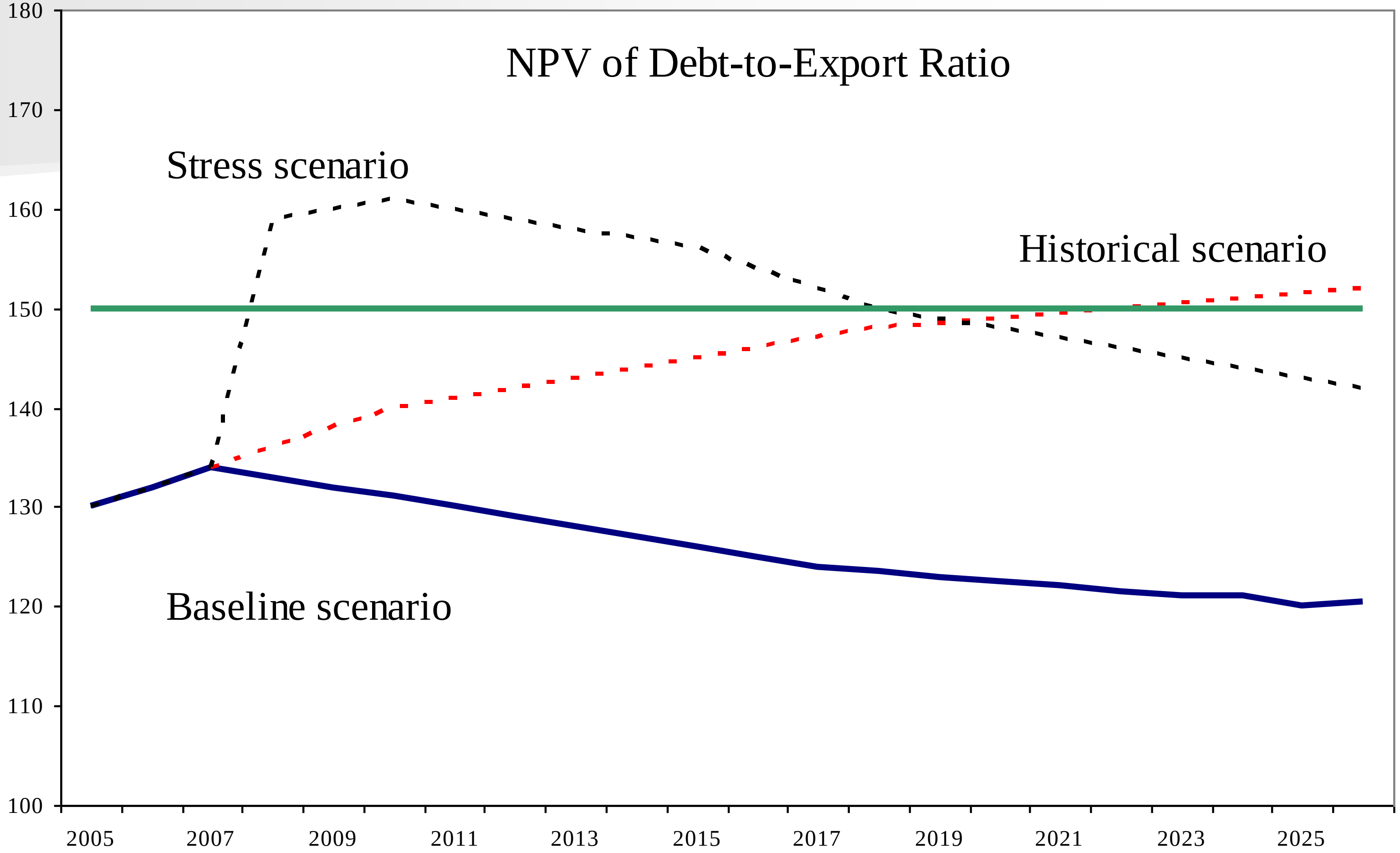
Three “Pillars”

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		
	Weak CPIA<3.25	**Medium** 3.25<CPIA<3.75	**Strong** CPIA>3.75
NPV of debt-to-GDP	**30**	**40**	**50**
NPV of debt-to-exports	**100**	**150**	**200**
NPV of debt-to-revenue	**200**	**250**	**300**
Debt service-to-exports	**15**	**20**	**25**
Debt service-to-revenue	**25**	**30**	**35**

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
Stress scenario
Historical scenario
Baseline scenario
180
170
160
150
140
130
120
110
100
2005
2007
2009
2011
2013
2015
2017
2019
2021
2023
2025

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