



Debt Relief Under HIPC/MDR Initiatives, Debt Sustainability, and Exogenous Shock Facility

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Outline

- Restoring sustainability. Quick overview of recent advances under the HIPC and MDR Initiatives
- Maintaining sustainability. Quick overview of IMF support to low-income countries in their access to sustainable financing
- Exogenous Shock Facility (ESF)



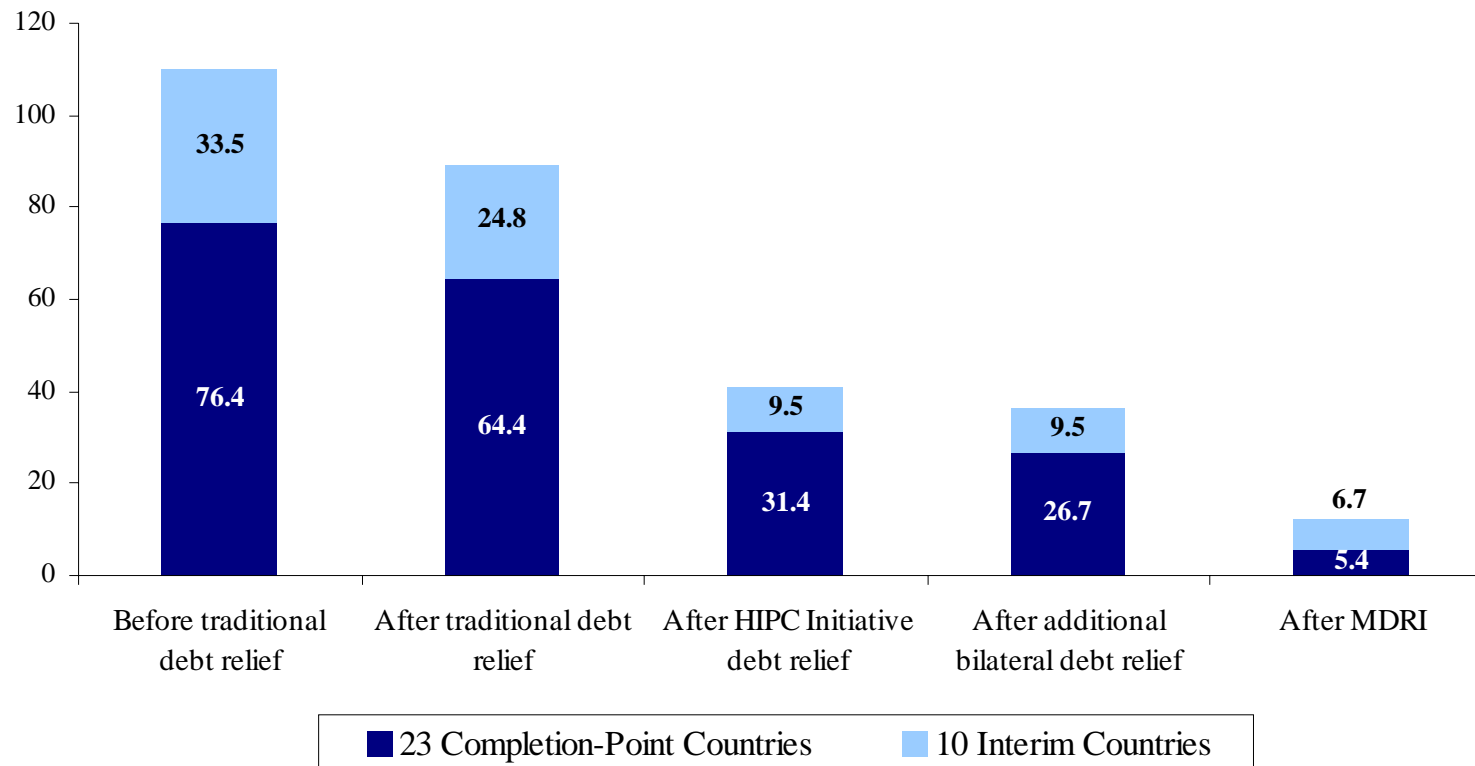
Implementation of debt relief initiatives to date

- 33 countries are past the HIPC Initiative decision point, of which 23 countries past the completion point
- 8 countries still have to initiate the process
- 25 countries have received MDRI relief from the IMF
- Debt relief has helped reduce the debt burden and free resources for poverty-reducing and social expenditures



Debt burdens have been substantially reduced...

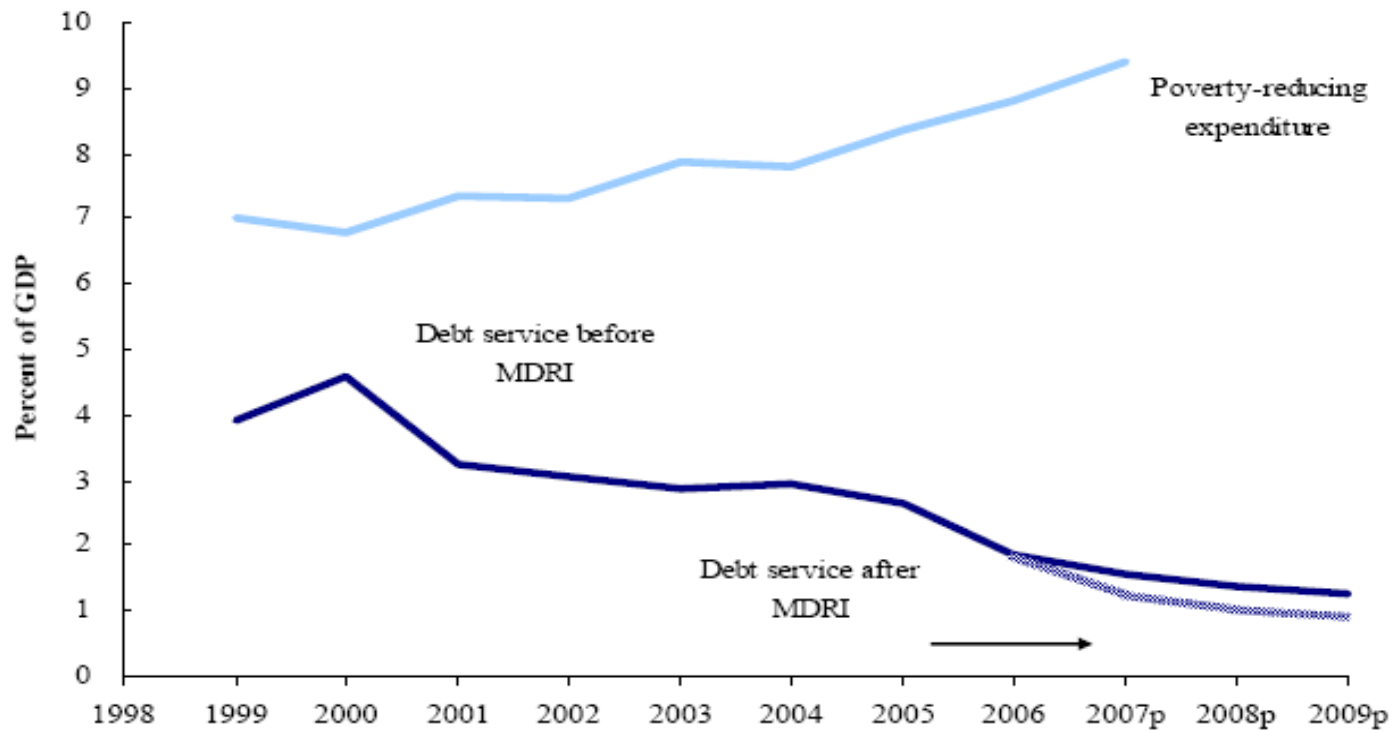
NPV of Debt after HIPC Initiative, Additional Bilateral Debt Relief and MDRI





Making room for poverty-reducing spending

Figure 3. Average Debt-service and Poverty Reducing Expenditure of Post-Decision Point HIPCs ^{1/}





Challenges in Implementation

- Despite these achievements, major challenges remain:
 - Slowness in implementation for the remaining HIPC
 - Lower participation of Non-Paris Club (NPC) Creditors
 - Aggressive Litigation by Commercial Creditors



Debt sustainability in post-completion point countries remains a concern

- ❑ Debt relief is not sufficient condition for debt sustainability. HIPC Initiative and MDRI have given HIPCs a large borrowing space but has not changed their underlying economic circumstances:
 - ✓ HIPCs remain highly vulnerable to exogenous shocks
 - ✓ They still have pervasive institutional weaknesses
 - ❖ Excessive borrowing, or unfavorable terms, could lead to a rapid re-accumulation of unsustainable debt in many of these countries



What the IMF can do

- ❖ **Country-specific policy advice**, including on addressing vulnerabilities and appropriate concessionality
- ❖ **Capacity building** and developing sound debt management, in particular Medium Term Debt Strategies, using joint Bank-Fund debt sustainability framework (DSF)
- **Enhanced outreach** via information sharing and raising other creditors' awareness of debt sustainability issues in LICs



Implementation of the ESF

- Effective in January 2006
 - To cover a wide range of exogenous shocks to low-income countries.
 - Quick, although not automatic, access to the ESF to members with a Policy Support Instrument (PSI)
- So far, no members has drawn on this facility:
 - ✓ owing mostly to favorable global market conditions in recent years and strengthened economic policies in potential users.
 - ✓ countries also opted for an augmentation of access under their existing PRGF arrangements.
- Review of the ESF planned later this year to enhance its usefulness.



Thank you for your
attention

Further information at:
www.imf.org

Questions or queries?
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