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Extract:
Global Sovereign Indebtedness Monitor

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Global Sovereign Indebtedness Monitor

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There has not been a single year in recent economic history, without the existence of debt distress somewhere in the world, either in an individual state or in a whole national economy. Therefore, sovereign debt crises are nothing extraordinary. However, in order to develop an appropriate strategy for overcoming the crisis of an individual country or developing a strategy for overcoming a global debt-crisis paradigm it is essential to understand why and where individual crises have emerged and which factors have contributed to these crises. The present article intends to contribute toward this understanding.

The article consists of two major parts: After a brief methodological introduction, it presents the five most important debt indicators for each of the 108 countries worldwide, where erlassjahr.de found that at least one of those indicators exceeded a critical threshold or where other factors caused a country to be included. In order to allow for easy comparisons, the overview table employs a traditional format already used in previous annual Schuldenreports. The colour-highlighting of indicators serves to provide an easy overview of risks. In addition to the standard indicator table, we have provided an overview matrix, which displays the level of indebtedness across the chosen indicators together with the trend between and 2014. The latter is also the standard reference year for the overview table. Here again the table aims at providing a quick overview regarding possible future debt distress.

A final section will provide an evaluation, discussing the trends that the country analyses have made manifest.

1. How to identify over-indebtedness?

Debt - even high debt - is not necessarily a problem for the debtor. Just the opposite: An intelligent assumption of debt can facilitate essential investments for an economy‘s future, which otherwise would have been impossible. If the loan is handled responsibly, the repayment of the loan including interest should be possible from the proceeds of the project financed by the loan.

Problems start, when the total debt of a state or an entire economy no longer stands in a healthy relationship to the debtor's economic capacities, when the loans are used for consumption rather than investment, or when they are being stolen by irresponsible governments or private players. Then the country can easily end-up over-indebted - a situation from which only the cancellation of a part of the debt can provide an exit.

Experts disagree, where exactly the fine line between a sustainable and an unsustainable loan needs to be drawn. Therefore, it is not easy to define an undisputed level of indebtedness, which would require debt relief. However, a few areas of consensus have emerged among most, who have dealt with this tricky question during recent years:

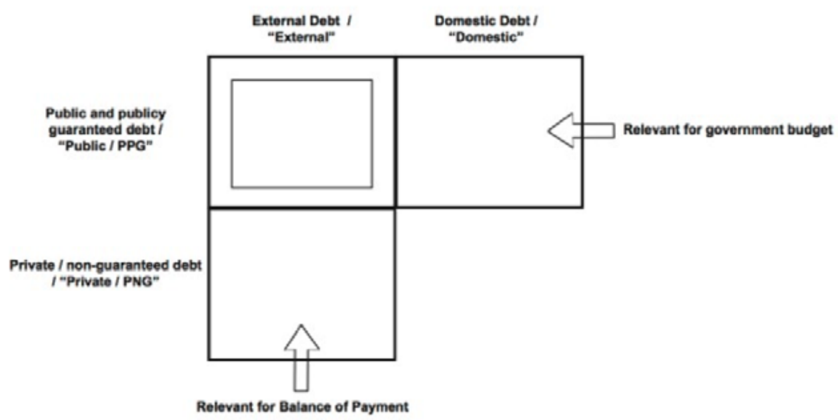
- The same debt level can look harmless under some circumstances, but dangerous under others. Therefore any debt sustainability analysis must be multi-dimensional. Particularly it needs to consider both the debt stock as well as current debt service in relation to different denominators, which describe economic capacities.

- The composition of debt stock matters. Whether debts are domestic or external, i.e. whether there is a currency risk or not, may matter a lot. A state's debt can be owed to domestic or external creditors or both. On the other hand, a state's debt can be defined as total external debt both public and private (see Fig.1).

- A static snapshot at a specific moment in time can obscure critical trends, which should be tackled as early as possible in order to prevent them from growing into crises and default.

Consequently, the present country analyses, like their predecessors

Figure 1 - Debt Stock Composition



in the 2015 *Schuldenreport*, rely on five rather than only one indicator. Each indicator describes one aspect of debt in relation to the country's economic capacities. Additionally, these indicators are not merely looked at in a static manner, but rather in a manner that illustrates their dynamic since 2010, i.e. from 2010 to 2014. The result of this exercise is the matrix in table 3.

The indicators are:

- Public debt / GDP
- Public debt / Public Revenue
- External Debt / GDP
- External Debt / Export Earnings
- External Debt Service (Principal and Interest) / Export Earnings.

All indicators relate to 2014, unless otherwise indicated. This is the latest year for which coherent data for all or most middle and low income countries are available from the relevant IMF and World Bank databases. Box 1 explains the meaning of each indicator in detail.
We have only included those countries in our survey, which show at least one of the five indicators in the lowest critical range (see table 1), with two exceptions: We have included countries into the survey, which have all indicators in the un-critical range, but still (a) have been assigned a „moderate" or „high" risk of debt distress by

the IMF, or (b) for which all five indicators have worsened by more than 10% between 2010 and 2014. The IMF's assessment of renewed debt distress in low income countries - and PRGT borrowers at large - is displayed in the last column of table 2. For the IMF's assessment we use the same colour scale, which we apply to the numerical indicators.

2. Who is presently over-indebted and by how much?

Table 2 shows the indicators for 108 countries, which are critically indebted according to the above definition. Countries, which are not on the list, are either not indebted to any critical extent and also not considered by the IMF as countries with „high" or „moderate" risk of debt distress, or they are high income countries and/or member of the OECD and therefor eliminated from this survey of indebted low income and emerging market countries.

There are a few countries, which have dropped off our list since last year, namely Ethiopia, China and the Philippines. All in all, the number has increased from 83 to 108. For some of the newcomers data have become available, which was not the case last year. In some others, indicators have indeed slid above the lowest critical threshold, like for instance in Colombia and Tanzania. At the same time, however, we recorded substantial increases in indicators, in the G20 members Indonesia and South Africa (among others). Ecuador, finally, has been included despite all indicators being below the lowest threshold and the absence of an IMF assessment due to the country's middle income status. The reason for this is an increase in all indicators between 2010 and 2014.

Table 3 shows the dynamic of the Ecuadoran and all other countries' situations. On the vertical axis the table shows the number of thresholds breached for each country. As we have five indicators, with three thresholds each, the maximum number of points for a severely indebted country is 15.

On the horizontal axis, we show, how many indicators have either improved or worsened by at least 10% between 2010 and 2014. If all indicators improved, that country will show an index of -5 and find itself at the extreme left of the table. Conversely worsening of all indicators will earn the country in question a value of +5 and a position on the extreme right. If all indicators have remained stable (i.e. changes below 10%), or if changes for the better and for the worse are equal in number, the country will be right in the middle of the matrix with an index of 0.

As the quantification in the matrix is a very rough one, this overview, can, of course, not substitute for a more detailed analysis. It is not more and not less than a first indication of potential alarming - or conversely - improving developments with regard to public and external debt of a country.

Table 4 summarizes both, the debt level as well as the debt dynamics indicators for the five regional groupings, which have also been used in the overview table 2. The distribution matrix from table three has been transferred and condensed

Box 1 - Debt Indicators and Thresholds

The indicators used answer the following questions:

1. Does the whole economy have more obligations towards the outside world than can be sustained by its economy?
External Debt Stock / GDP

2. Is the state more indebted to creditors inside and outside the country than is sustainable for the whole economy?
Public Debt Stock / GDP

3. Can the state raise enough resources from its populace and the economy as whole in order to service he debt?
Public debt Stock / Public Annual Revenue

4. Does the economy export enough goods and services in order to earn enough hard currency to keep the external debt stable or lower it?
External Debt Stock / Annual Export Earnings

5. Does the economy export enough goods and services in order to cover the current debt service (Capital Repayments plus Interest) on an annual basis?
External Debt Service / Annual Export Earnings

Table 1 - Levels of Debt Distress				
	no risk of debt distress (in percent)	First level (in percent)	Second level (in percent)	Third level (in percent)
Public Debt Stoc / GDP	<49	49 - <64	64 - 78	>78
Public debt Stock / Public Annual Revenue	<200	200 - <220	220 - 300	>300
External Debt Stock / GDP	<40	40 - <44	44 - 50	>50
External Debt Stock / Annual Export Earnings	<150	150 - <165	165 - 200	>200
External Debt Service / Annual Export Earnings	<15	15 - <16,5	16,5 - 25	>25

into four quadrants: Number (1) in the upper right corner shows the number of countries with high debt levels and a dynamic demonstrating more declining than improving indicators. Quadrant (2) in the lower right shows the number of countries with relatively low debt levels, but a strong negative tendency. Quadrant (3) on the lower left side, is the least problematic group, namely relatively low indicators and a positive tendency. Finally, quadrant (4) on the upper left, shows countries on an improving path, but with (still) high indicators. In this quadrant improvements are often related to a current implementation of debt relief operations.

With regard to crisis intensity the region Europe/CIS is the region most highly affected. Countries with an indebtedness index of 7 or more outnumber those with 6 or less. In all other regions, more countries find themselves below the 7/6 divide than above. This is most remarkable in Sub-Saharan Africa.

Further trends are revealed if we look at the numerical relationship between the number of improvements versus deteriorations in the five regions. All in all there are 234 deteriorations of more than 10% in all 108 countries and 127 improvements. Consequently deteriorations outnumber improvements by 107. However, this deterioration/improvement ratio is distributed quite unevenly across the regions as table 4 shows. The relationship between deteriorations and improvements in the five regions is:

Asia:
42:27 = 1.6
Sub-Saharan Africa
77:50 = 1.5
Latin America / Caribbean
57:25 = 2.3
Northern Africa / Middle East
18:3 = 6.0
Europe /CIS
40:22 = 1.8

The higher the ratio, the stronger is the deterioration in debt indicators. As we can see, the small Middle East / Northern Africa group has the strongest trend with 6.0.

We also can see that not all indicators worsen to the same extent. For all countries the deterioration / improvement ratio can be demonstrated as follows for the various indicators:

Public Debt / GDP
54:18 = 3.0
Public Debt / Public Revenue
55:20 = 2.7
External Debt /GDP
44:27 = 1.6
External Debt / Export Earnings
37:28 = 1.3
External Debt Service / Export Earnings
44:34 = 1.3

It shows that critical trends are clearly stronger with regard to public external and domestic debt than with regard to total (public and private) external debt.

Table 2 - Countries in Risk of Debt Distress Worldwide as of end-2014

Indicator / Countries by region	External Debt Stock / GDP	Trend[1]	Public Debt Stock / GDP	Trend[1]	External Debt Stock / GDP	Trend[1]	External Debt Stock / Annual Export Earnings	Trend[1]	External Debt Service / Annual Export Earnings	Trend[1]	IMF risk assessment[2]
Asia											
Afghanistan	k.A.		k.A.		12,2	▼	61,0	▼	0,6	▲	
Bangladesh	33,8	—	310,2	▼	18,8	—	105,2	—	5,2	▲	
Bhutan	107,5	▲	395,4	▲	105,1	▲	268,2	▲	12,1	▼	
Cambodia	33,8	▲	170,7	—	42,9	▲	60,5	—	1,5	▲	
Fiji	50,4	▼	171,5	▼	21,1	▲	34,2	▲	1,9	▲	
India	66,0	—	336,5	—	22,7	▲	93,1	▲	18,6	▲	
Indonesia	25,0	—	149,1	—	34,1	▲	146,0	▲	23,1	▲	
Kiribati	86,7	—	6,7	▼	k.A.		k.A.		k.A.		
Lao PDR*	62,5	—	257,9	—	89.3	—	302,3	—	10,6	▼	
Malaysia	55,1	—	236,7	—	66,8	▲	95,2	▲	5,8	▲	
Maldives	72,8	▲	211,8	▼	39,1	▼	31,2	▼	2,3	▼	
Marshall Islands	30,5	▼	54,3	—	k.A.		k.A.		k.A.		
Micronesia	26,9	—	38,3	—	k.A.		k.A.		k.A.		
Mongolia	k.A.		k.A.		186,2	▲	325,1	▲	21,2	▲	
Pakistan	64,9	—	423,9	—	23,9	▼	200,1	—	19,1	▲	
Papua New Guinea*	35,6	▲	130,5	▲	147,6	▲	218,0	▲	7,0	▼	
Solomon Islands	13,3	▼	29,0	▼	17,6	▼	30,0	▼	2,8	▼	
Samoa	54,0	▲	153,0	—	58,1	▲	186,6	▲	7,9	▲	
Sri Lanka	73,5	▼	647,1	▲	59,7	▲	258,2	▲	14,7	▲	
Tonga*	k.A.		k.A.		44,2	—	173,3	▼	5,6	▼	
Tuvalu	56,9	—	46,6	▼	k.A.		k.A.		k.A.		
Vanuatu*	19,5	—	83,7	—	17,2	▼	32,4	▼	1,9	▲	
Viet Nam	57,2	▲	261,1	▲	40,6	—	44,5	▼	4,2	▲	
Sub-Saharan Africa											
Burkina Faso	28,5	—	133,2	—	20,5	—	91,3	▼	2,8	—	
Burundi*	30,5	▼	114,4	—	25,2	▼	289,5	▼	13,7	▲	
Cabo Verde	114,0	▲	496,4	▲	86,4	▲	168,0	▲	4,8	▼	
Cameroon*	25,3	▲	138,6	▲	16,9	▲	59,6	—	2,7	▼	
Chad	24,6	▲	137,8	▲	21,6	—	k.A.		k.A.		
Central African Republic	47,6	▲	305,6	▲	36,7	▲	k.A.		k.A.		
Comoros	24,5	▼	102,6	▼	22,3	▼	160,4	▼	0,7	▼	
Côte d'Ivoire	36,6	▼	175,3	▼	33,0	▼	75,2	—	11,6	▲	
Democratic Republic of the Congo	19,0	▼	130,3	—	19,1	▼	41,5	▼	3,1	—	
Djibouti	43,2	▼	121,5	▼	k.A.		140,1	▼	6,1	▼	
Eritrea	132,0	▼	900,6	▲	k.A.		k.A.		k.A.		
Gambia	101,1	▲	450,4	▲	63,9	▲	168,4		k.A.		
Ghana	69,0	▲	374,8	▲	47,7	▲	114,6	—	5,1	▲	
Guinea*	41,1	▼	187,6	▼	24,1	▼	69,8	▼	4,2	▼	
Guinea-Bissau*	54,3	▼	258,7	▼	29,3	▼	60,5	▼	0,3	▼	
Kenya	52,6	▲	266,8	▲	26,7	▲	143,3	▲	11,0	▲	

Countries by region \ Indicator	External Debt Stock / GDP	Trend[1]	Public Debt Stock / GDP	Trend[1]	External Debt Stock / GDP	Trend[1]	External Debt Stock / Annual Export Earnings	Trend[1]	External Debt Service / Annual Export Earnings	Trend[1]	IMF risk assessment[2]
Lesotho	47,8	▲	78,9	▲	30,9	—	61,2	▲	2,8	▲	
Madagascar*	34,6	—	278,8	—	43,7	—	108,3	—	1,7	▼	
Malawi	k.A.		k.A.		40,1	▲	105,1	▲	4,2	▲	
Mali*	36,7	▲	181,7	▲	32,1	▲	101,4	—	2,3	▲	
Mauritania	76,6	—	276,9	▼	72,6	▲	119,3	—	5,6	▲	
Mauritius	56,1	—	272,2	▲	90,9	▲	86,2	▲	16,8	▲	
Mozambique	57,5	▲	174,9	—	45,0	▲	128,8	—	2,3	—	
Niger*	32,1	▲	136,1	—	34,7	▲	143,0	▲	2,5	▲	
Republic of the Congo	41,8	▲	98,8	▲	33,3	▲	k.A.		k.A.		
Sao Tome and Principe	69,0	—	265,8	▲	63,9	▼	235,0	▼	15,1	▲	
Senegal*	53,1	▲	219,1	▲	35,8	▲	116,2	—	8,9	—	
Seychelles	65,3	▼	184,7	▼	117,4	▼	141,3	—	k.A.		
Sierra Leone	37,6	▼	264,9	▼	30,9	▼	63,1	▼	3,2	▲	
South Africa	46,0	▲	162,8	▲	42,3	▲	123,2	▲	8,6	▲	
South Sudan	20,2		71,0		k.A.		k.A.		k.A.		
Sudan	74,0	—	641,1	▲	30,6	▼	369,2	▲	4,4	—	
Tanzania*	35,1	▲	236,9	▲	30,4	—	151,8	▲	1,9	▼	
Togo	58,7	▲	297,6	▲	24,4	▼	38,6	▼	2,2	▼	
Zambia	35,2	▲	182,8	▲	28,9	▲	66,6	▲	3,7	▲	
Zimbabwe	53,4	▼	195,9	▼	84,2	▲	k.A.		k.A.		
Latin America & Caribbean											
Antigua and Barbuda	98,2	—	487,1	▲	41,1	—	87,9	—	17,2	▲	
Bahamas	60,9	▲	355,8	▲	23,2	▲	55,4	▲	3,3	▼	
Barbados	100,7	▲	276,3	▲	47,3		102,2		6,6		
Belize*	75,3	—	258,1	▼	82,9	▼	117,6	▼	12,7	▼	
Brazil	65,1	—	191,8	—	24,1	▼	200,6	▼	21,6	▼	
Colombia	44,2	▲	159,9	▲	28,0	▲	150,6	▲	19,0	—	
Costa Rica	39,7	▲	292,2	▲	43,8	▲	127,8	▲	21,1	▲	
Dominica	76,4	▲	256,1	▲	56,3	—	158,8	▲	10,5	▲	
Dominican Republic	35,0	—	232,4	▲	44,0	▲	152,5	▲	18,5	▲	
Ecuador	31,3	▲	80,7	▲	26,6	▲	90,6	▲	13,8	▲	
El Salvador	56,8	▲	318,4	—	59,6	▲	221,9	—	19,0	▼	
Grenada	100,5	—	410,3	—	75,6	—	265,8	▼	10,4	▼	
Guatemala	24,3	—	211,1	—	33,1	▼	131,8	—	14,5	—	
Guyana*	65,8	—	230,2	—	76,3	▲	144,5	▲	4,9	▲	
Haiti*	26,6	▲	140,0	▲	18,3	▲	96,8	—	0,7	▼	
Honduras	45,7	▲	187,2	▲	39,9	▲	106,2	▲	14,4	▲	
Jamaica	135,7	—	515,2	—	100,6	—	300,3	▼	33,0	▲	
Nicaragua	29,4	—	124,8	—	88,8	—	203,1	—	14,8	▼	
Panama	45,6	—	198,5	▲	43,9	▲	68,5	▲	5,0	—	
Paraguay*	19,0	▲	82,3	—	49,3	▼	93,1	—	12,9	▲	

Table 2 - Countries in Risk of Debt Distress Worldwide as of end-2014 (continued from page 5)

Table 2 - Countries in Risk of Debt Distress Worldwide as of end-2014 (continued from page 6)

Countries by region / Indicator	External Debt Stock / GDP	Trend[1]	Public Debt Stock / GDP	Trend[1]	External Debt Stock / GDP	Trend[1]	External Debt Stock / Annual Export Earnings	Trend[1]	External Debt Service / Annual Export Earnings	Trend[1]	IMF risk assessment[2]
Saint Kitts and Nevis	79,9	▼	190,3	▼	34,4	▼	88,8	▼	14,4	▼	
Saint Lucia	79,6	▲	312,0	▲	39,2	▼	75,0	▼	5,7	▼	
Saint Vincent and the Grenadines	76,6	▲	272,7	▲	46,5	—	148,9	—	15,1	▼	
Uruguay	61,3	—	213,4	—	24,4		168,6		k.A.		
Venezuela	51,8	▲	182,5	▲	48,2	▲	132,9	▲	k.A.		
North Africa / Middle Eas											
Egypt	90,5	▲	362,2	▲	14,2	▼	83,3	▲	12,7	▲	
Jordan	89,0	▲	319,4	▲	68,5	—	148,0	▲	8,5	▲	
Lebanon	133,0	—	611,9	—	68,0	—	153,9	▲	16,6	▼	
Morocco	63,4	▲	226,0	▲	41,1	▲	134,8	▲	15,1	▲	
Tunisia	50,0	▲	204,6	▲	57,3	—	119,5	—	8,7	▼	
Yemen	48,7	▲	206,1	▲	22,0	—	79,7	—	2,8	—	
Europa, GUS											
Albania	72,5	▲	277,0	▲	60,8	▲	196,8	▲	8,2	▲	
Armenia	41,3	▲	188,0	▲	74,8	▲	188,7	—	31,7	—	
Belarus	40,5	—	100,5	—	54,3	—	90,0	—	12,0	▲	
Bosnia and Herzegovina	44,7	▲	97,6	▲	57,1	—	152,3	▼	11,1	▼	
Bulgaria	26,9	▲	78,5	▲	90,1	▼	124,2	▼	14,7	—	
Croatia	85,1	▲	201,0	▲	105,5	—	276,2	▲	38,1	—	
Cyprus	107,4	▲	267,6	▲	258,2	▼	702,1	▼	k.A.		
Georgia	34,8	—	124,5	—	85,0	—	173,5	▼	23,3	▲	
Kazakhstan	14,9	▲	61,1	▲	83,3	—	177,6	—	35,1	▼	
Kyrgyzstan	53,0	—	14,7	▼	101,1	—	256,5	▲	14,2	▼	
Macedonia	38,2	▲	138,5	▲	65,7	▲	130,5	—	17,6	—	
Moldova	31,5	▲	82,9	▲	74,0	—	161,1	—	14,7	—	
Montenegro	60,5	▲	137,6	▲	52,9	▲	114,6	▲	12,6	▲	
Romania	40,5	▲	126,4	▲	57,0	▼	130,0	▼	28,8	▼	
Serbia	72,2	▲	180,6	▲	78,77	—	165,1	▼	41,4	▲	
Tajikistan	28,3	▼	99,8	▼	44,3	▼	369,4	—	38,2	▼	
Turkey	33,6	▼	92,6	▼	51,6	▲	182,4	—	25,0	▼	
Ukraine	71,2	▲	174,4	▲	100,3	—	184,5	—	25,2	▼	

*data partially as of end-2013

[1] ▲ increase by more than 10 percent; ▼ decline by more than 10 percent; — stagnation (change less than 10 percent

[2] ☐ low risk of debt distress; ☐ moderate risk of debt distress; ☐ high risk of debt distress; ☐ in debt distress; ☐ no risk assessment by IMF and World Bank

Sources: IMF: „World Economic Outlook Database“ (zuletzt besucht: 20.01.2016); World Bank: „International Debt Statistics“ (20.01.2016); IMF: „Article IV Consultation Reports“ until december 2015; CIA: „World Factbook“ (18.01.2016); own analysis.

Table 3 - Evaluation Matrix

Wert	▼▼▼▼▼	▼▼▼▼	▼▼▼	▼▼	▼	—	▲	▲▲	▲▲▲	▲▲▲▲	▲▲▲▲▲
15						Jamaica					
14											
13									Croatia		
12				Grenada		Lebanon	El Salvador		Bhutan, Gambia*		
11						Sao Tome and Principe, Lebanon, Cyprus*			Sri Lanka, Capo Verde		
10						Pakistan	Ukraine	Serbia			
9		Lao PDR						Antigua & Barbuda,		Jordan	Albania
8			Tajikistan				Kazakhstan		Mongolia*, Armenia	Mauritius, Dominica	
7		Belize	Brazil	Turkey	Kyrgyzstan	Georgia	India, Mauretania, Saint Vincent & the Grenadines	Barbados*	Guyana	Ghana, Dominican Republic	
6					Nicaragua, Saint Lucia, Romania	Eritrea*,	Malaysia		Papua New Guinea, Egypt	Samoa,	
5			Seychelles			Pakistan	Sudan, Tunisia		Macedonia		
4				Tonga*	Zimbabwe*	Bosnia and Herzegovina, Uruguay*,		Viet Nam, Moldova	Bahamas,		Costa Rica, Morocco, Montenegro
3	Guinea-Bissau, Saint Kitts and Nevis		Maldives	Burundi	Madagascar, Kiribati	Bangladesh, Bulgaria	Belarus	Mozambique, Tanzania	Central African Republic	Columbia	Kenya
2			Sierra Leone,		Togo		Indonesia, Senegal, Paraguay				
1	Comoros				Tuvalu*, Guate-mala		Fiji, Cambodia	Yemen	Malawi*, Panama	Venezuela*	South Africa
0	Solomon Islands, Guinea	Djibouti*	Congo DR	Micronesia, Côte d'Ivoire	Afghanistan*, Marshall Islands, Vanuatu, Burkina Faso	South Sudan*		Chad, Haiti	Cameroon, Congo Rep.	Lesotho, Mali, Niger	Zambia, Ecuador, Honduras

When it comes to which countries are most affected, we had identified three groups in earlier *Schuldenreports*:

- Countries, which have been relieved of a substantial part of their external debt through the multilateral HIPC/MDRI initiatives. Debt relief has allowed them to (re-)enter capital markets, an opportunity of which they have made so extensive use that a few years after conclusion of the initiative, they have already reached a high risk of debt distress again. According to the IMF this is the case for 8 out of 36 post-completion point HIPCs.[1]

- Small Island Developing States (SIDS) with a barely-diversified and highly vulnerable national economy.

- Transformation states in Eastern Europe and the former Soviet Union (in table 2 mostly part of the Europe/CIS group), which have financed their more or less successful transformation from central planning to a market economy by taking loans from Western creditors.

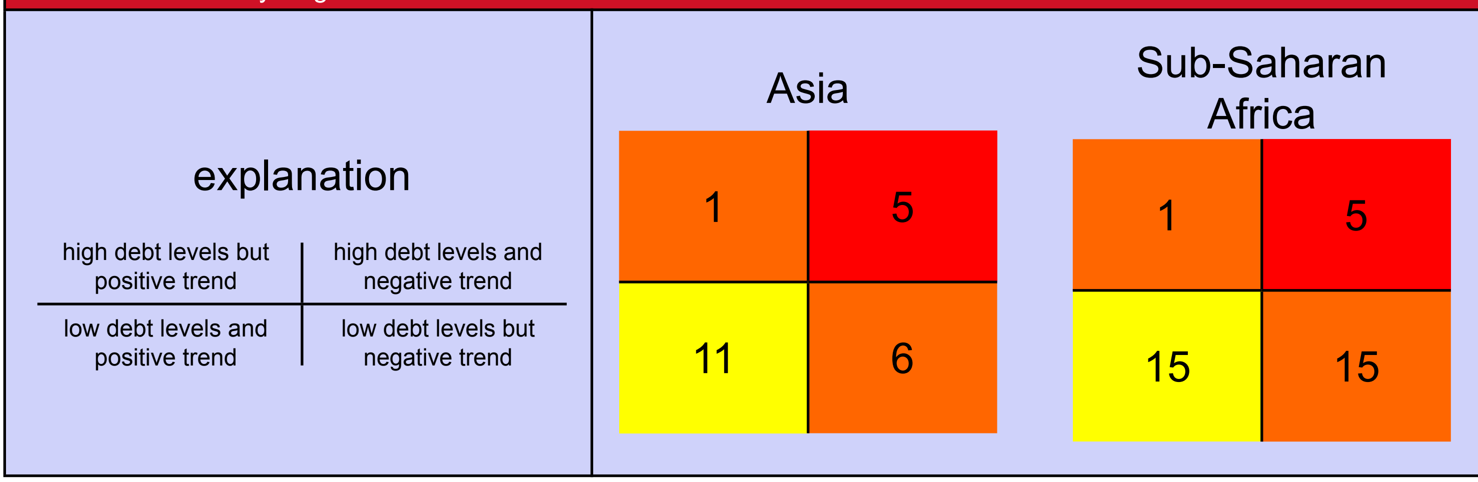
Once again this year, most of the critically indebted countries in the highest categories belong to one of these three groups. However, two general and global trends have somewhat blurred the clarity of this tripartite depiction, because these two trends have affected almost all countries whether they belong to the three groups or not. These trends are:

- the slump in commodity prices, which has affected SIDS as well as for instance Russia and other Asian and European rentier economies as well as commodity exporters such as Venezuela.
- the high volatility of capital markets, which by mid-2015 had already anticipated the modest rise in US interest rates, before it was actually implemented (i.e. outside our reference year); such anticipation had already in part reversed North-South capital flows. Particularly affected here are emerging economies, which had enjoyed excellent access to capital markets before, with Brazil being a case in point.

Because our database's baseline is late 2014, this latter trend is not yet as evident from our data as post-January 2015 anecdotal evidence would suggest. We expect some emerging markets, which still are quite high-up on this year's matrix, to slide further to the

[1] Updated as of Feb. 4 2016.

Table 4 - Overview by Regions



right. Brazil and Turkey certainly are candidates.

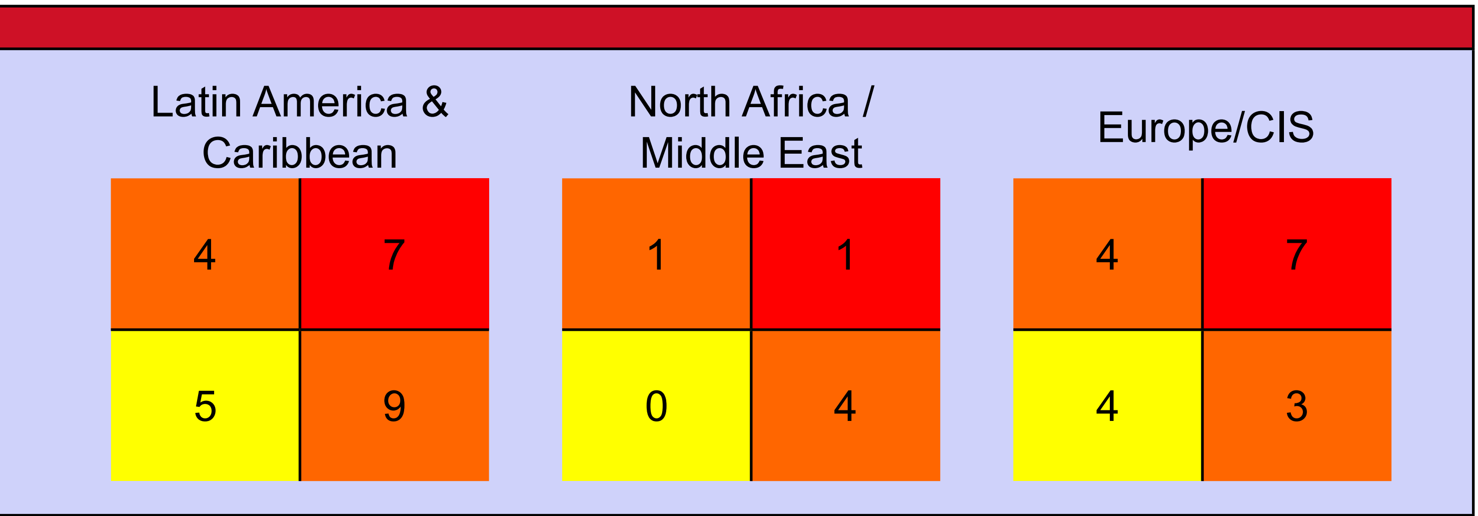
Additionally, we need to keep an eye on the countries in the two columns on the extreme right. These are countries with deterioration of at least 10% between 2010 and 2014 in at least four of the five indicators and with no improvements. In this group we find some countries, which are presently not being considered as being under threat of debt distress, because all or most of their indicators are still below the lowest critical thresholds (Zambia, Ecuador, Honduras), or which for the first time ever appear on our monitor (South Africa). Even some countries in the higher ranks of their debt indicator levels like Kenya and Costa Rica have long been absent from the global debt radar.

Finally, still further up, finally we have those countries, which from an already high debt level are heading full-steam toward a crisis. Albania with its notorious governance problems, Jordan under pressure from an inflow of refugees way beyond the high levels from which Germany presently believes it is suffering; and finally some countries with low or lower middle income, often in Asia: Bhutan, Cape Verde, Sri Lanka and Mongolia. For the Asian region these „new crisis“ countries actually are now the only debt problem hotspots, after the region had weathered the global financial crisis better than others in the leeway of the growth engine China.

3. Changed Debt Profiles

Unlike thirty years ago, the next potential sovereign debt crises will most likely not be focused on specific, relatively homogenous groups of countries. Therefore, it is an erroneous assumption to believe that debt sustainability could again be restored by a single restructuring instrument like the Brady Plan for big Latin American borrowers in the 1990s or the various Paris Club agreements. If countries were to be forced to default in the near future, solutions will need to be found for a broader and more diverse group of public and private creditors in compositions, which will be different for each individual debtor country. The assumption, which is shared among others by the German government, that collective actions clauses (CACs), which allow for majority votes during the restructuring of bonded debt, could substitute for a comprehensive sovereign insolvency framework, is certainly unjustified.

Something we have not been able to consider in our analysis due to the lack of reliable data, are so



called contingent liabilities. These include the debt of public and semi-public institutions, long-term commitments in the context of Public Private Partnerships (PPPs), but also includes the risks stemming from banks and corporations, which are simply too big to fail. Governments will, in the case of a crisis, not dare to let those institutions go bust, but will rather indebt themselves in order to be able to bail them out. The IMF considers such risks, which have been at the heart of the financial crisis in advanced and emerging economies, as „large and growing“ even in Low Income Countries.[2] The OECD and the African Think Tank MEFMI (Macroeconomic and Financial Management Institute of Eastern and Southern Africa) have identified such risks as ranging between 4% and 31% of GNI in the countries monitored.[3]

At the end of 2015, the IMF outlined new borrowing trends in low income countries and small island developing states.[4] It compares debt stocks before and after the HIPC/MDRI debt relief and unsurprisingly concludes that the situation has improved. However, in some countries it identifies a renewed upward trend on a sometimes dramatic scale. It confirms the sharp divide, which we also can read from our evaluation matrix, between a slightly bigger group of success stories and a somewhat smaller group of HIPCs and SIDS, which are again heading for crisis.

[2] Gupta, S.: (2015): "Fiscal Management of Public Private Partnerships"; Presentation on behalf of the IMF Fiscal Affairs Department at the IMF/World Bank Annual Meetings in Lima.

[3] Organization for Economic Co-operations and Development (OECD) and Macroeconomic and Fiscal Management Institute (MEFMI) (2015): "Findings of the MEFMI Study on Contingent Liabilities, Presentation at the Feb. Management Stakeholders‘ Forum".

[4] IMF: Public Debt Vulnerabilities in Low-Income Countries: "The Evolving Landscape"; November 2015.

Box 2 - Results

- 108 countries are critically indebted.
- Countries in Eastern Europe / CIS are particularly affected.
- In 62 countries the debt situation has worsened over end-2013; it has improved in 46 countries.
- The trend is most critical in Northern Africa /Middle East
- In 20 countries for or even all five indicators have worsened, while none has improved.
- There is a particularly critical group of countries, which combines already high indicators with a strong trend for the worse. In the five regions these are:
  - Europe/CIS: Croatia, Cyprus, Serbia, Ukraine, Albania, Armenia, Kazakhstan
  - Sub-Saharan Africa: The Gambia, Cape Verde, Sao Tomé & Principe, Mauritius, Ghana, Mauretania,
  - Latin America & Caribbean: El Salvador, Antigua & Barbuda, Dominica, Dominican Republic, Guyana, Barbados, St. Vincent & the Grenadines
  - Asia: Bhutan, Sri Lanka, Pakistan, Mongolia, India, Georgia
  - North Africa / Middle East: Lebanon, Jordan.
- There is again a high risk of debt distress in heavily indebted poor countries, which have received relief under tat initiative and Small Island Developing States (SIDS)
- Two global trends do particularly contribute to the build-up of new debt risks in a broad range of countries: the drop in commodity prices and the high volatility of capital markets