

# From growth optimism to a lost development decade

**The dangerous role of the IMF in the crisis of the Global South**



Focus Paper 4:

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The dangerous role of the IMF in the crisis of the Global South**

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# From growth optimism to a lost development decade – The dangerous role of the IMF in the crisis of the Global South

by Kristina Rehbein

## 1. Introduction: A crisis like no other

On 11 March 2020 the World Health Organization officially declared the COVID-19 outbreak to be a pandemic. Just a few weeks later, the Managing Director of the International Monetary Fund (IMF), Kristalina Georgieva, described the global health and economic effects as constituting a 'crisis like no other', adding that, for the global economy, 'the outlook is dire'.<sup>1</sup> She expressed particular concern about the impact on developing countries and emerging economies. For even though the coronavirus affects the whole world, poorer countries have less scope for combating the health and economic consequences. In many places, economic activity has slumped dramatically as a result of the response to the crisis and the lockdowns which have become necessary. Falling commodity prices have led to revenue losses, in particular for commodity-exporting countries, while tourism as a vital source of revenue, as well as key supply chains, have come to a virtual standstill, and the flow of money transfers sent from abroad by family members has dropped substantially. In the spring of 2020, uncertainties associated with the recession led to unprecedented outflows of capital from emerging economies and developing countries. Weak healthcare systems and limited fiscal scope add to the difficulties experienced by such countries and economies in responding adequately to the crisis.

In April, the G20 reacted swiftly by providing debt relief, offering a debt moratorium for the 73 poorest countries, known as the Debt Service Suspension Initiative (DSSI).<sup>2</sup> In October, at the G20 Finance Ministers' Meeting, the G20 bought further time to agree on a process for case-by-case debt restructuring, through an extension of the debt moratorium until June 2021. The aim was to create a so-called 'Common Framework for Debt Treatments beyond the DSSI'<sup>3</sup>, i.e. a framework for dealing with debt distress over and above the deferral of debt service payments (see Section 7). The basis for a decision on potential debt restructuring will be assessments by the IMF within debt sustainability analyses (DSAs). These thus become vital documents in any debt relief process.

Central to all debt sustainability analyses are short-term and medium-term forecasts of changes in the debt situation in terms of the ability of a debtor to generate revenues, presented in indicators such as debt to GDP or export earnings. In this context, forecast errors may lead to incorrect assumptions concerning the future level of debt – and as a result to misguided political decisions in the here and now. Studies have shown that deviations of just 1% between forecasts and actual growth may make the difference between sustainable and exponentially-rising debt ratios.<sup>4</sup>

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<sup>1</sup> See Georgieva, K.: 'A Global Crisis Like no Other Needs a Global Response Like No Other', <https://tinyurl.com/ycmefq7x>, 20.04.2020

<sup>2</sup> See comprehensive information at <https://erlassjahr.de/kampagne/ein-erlassjahr-zur-bekaempfung-der-corona-krise/>, in particular: 'Ein Schuldenmoratorium für Corona-betroffene ärmere Länder - erlassjahr.de-Positionspapier 06' ['A debt moratorium for coronavirus-affected poorer countries'], erlassjahr.de Position Paper 06 dated 21.04.2020, <https://tinyurl.com/yxvya19g>, as well as Stutz, M.: 'Schuldenrestrukturierung in Corona-Zeiten: Gruppenbasiert, koordiniert – aber letztlich rein symbolisch?' ['Debt restructuring in times of coronavirus: group-based, coordinated – but ultimately purely symbolic?'] in: Global Sovereign Debt Monitor 2021 by erlassjahr.de and MISEREOR, published from January 2021 at <https://erlassjahr.de/produkt-kategorie/schuldenreporte/>.

<sup>3</sup> See 'Statement - Extraordinary G20 Finance Ministers and Central Bank Governors' Meeting - 13 November 2020', <https://tinyurl.com/y4nnemzq> (referenced on 01.12.2020). For a detailed assessment from the perspective of civil society, see also <https://erlassjahr.de/news/ein-schwarzer-freitag-der-13-fuer-verschuldete-laender/>.

<sup>4</sup> See Independent Evaluation Office of the International Monetary Fund (IEO) (2014): 'Evaluation Report: IMF Forecasts – Process, Quality, and Country Perspectives', <https://tinyurl.com/y3x8mzod> (referenced on 16.11.2020).

Since the assumptions and analyses of the IMF – unlike those of other actors – serve to contribute to determining the time and scope of debt relief, they are central as regards overcoming debt crises and thus also regarding the question of whether or not developing countries and emerging economies risk a lost development decade. For this reason, this Focus Paper will concentrate on the problematic role of over-optimistic IMF forecasts in the swift resolution of debt crises.

The following summarizes first of all the IMF's current assumptions concerning short-term economic recovery in developing countries and emerging economies. With the aid of alternative scenarios and external critical analysis, the question will then be examined of whether the developments assumed as probable may in any way give rise to doubt. Next, using historical studies, the background to the fundamental tendency towards optimistic economic forecasting will be set out, as well as what such optimistic forecasts mean in reality for highly indebted countries. Finally, the problematic role of optimistic forecasts in current debates on debt relief will be discussed, and recommendations given as to how, using more realistic forecasts, it is possible to ensure that countries have a real chance of recovery.

## **2. IMF forecasts for the economic recovery post-COVID-19**

### **2.1 IMF forecasts between April and October 2020**

At the beginning of the pandemic, IMF economists described how it was impossible to forecast when the economy would recover once the global pandemic had subsided, and under what preconditions it would do so.<sup>5</sup> For this reason, the suspension of debt service payments under the DSSI was not linked to any debt sustainability analysis.<sup>6</sup> Nevertheless, from April, in the case of 106 out of the 114 countries expected to suffer an economic downturn in 2020, for 2021, positive rates of growth and thus a rapid recovery were forecast. Indeed, in almost half of the countries, growth was forecast either fully offsetting or even overcompensating for the economic downturn (see Table 1, column 'Forecasts from April to August 2020'):

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<sup>5</sup> See Gaspar, V. et al.: 'Fiscal Policies to Contain the Damage from COVID-19', <https://tinyurl.com/vgkmbtt>, 15.04.2020 (referenced on 16.11.2020).

<sup>6</sup> See statements by the Chief Economist of the Federal Ministry of Finance in erlassjahr.de expert discussion: 'Debt relief as response to the corona-induced recession', <https://www.youtube.com/watch?v=pWcJ9atI8Uk&t=5174s> (referenced on 15.11.2020).

	<b>Category 1:</b> Countries with (over) compensating growth (V scenario)	<b>Category 2:</b> Countries with a modest recovery	<b>Category 3:</b> Countries suffering economic stagnation (L scenario)	<b>Category 4:</b> Countries with continuing recession	<b>Category 5:</b> Countries with positive growth in 2020 and 2021
<b>Forecasts from April to August 2020<sup>7</sup></b>	55	51	5	3	38
<b>Forecasts in October 2020<sup>8</sup></b>	34	80	10	6	22

Table 1: Forecasts of economic performance in developing countries and emerging economies post-COVID-19<sup>9</sup>  
Source: own representation based on IMF data

### Explanatory notes re: Table 1

**Category 1:** Countries whose economies are likely to have undergone a sharp downturn in 2020 (negative growth) and which are forecast to achieve growth in 2021 either fully offsetting or overcompensating the downturn (e.g. projection for Albania dated April 2020: economic downturn in 2020 of 5%, economic growth in 2021 of 8%).

**Category 2:** Countries whose economies are likely to have undergone a sharp downturn in 2020 (negative growth) and which are projected to achieve positive growth in 2021 of at least 1.1%, whereby this growth will therefore not fully offset the 2020 downturn (e.g. projection for Fiji dated October 2020: economic downturn in 2020 of 21%, economic growth in 2021 of 11.5%).

**Category 3:** Countries whose projected economic growth for 2021 is between -1% and +1% (e.g. projection for Nicaragua dated April 2020: economic downturn in 2020 of 6%, projected growth in 2021 of 0%).

**Category 4:** Countries whose economies will continue to see a downturn after 2020, also in 2021 (e.g. projection for Palau dated October 2020: economic downturn in 2020 of 11.4%, further downturn in 2021 of 7.4%).

**Category 5:** Countries which, despite the global recession in 2020, are likely to achieve positive growth and for which a further increase in growth is forecast for 2021 (e.g. projection for Uganda dated April 2020: economic growth for 2020 of 3.7%, economic growth in 2021 of 5.7%).

In August, as well as again in October, IMF economists and the IMF's Managing Director considered it necessary to warn of the impending risk of a lost development decade in poor countries, triggered by the continuing exacerbation of the debt situation and resulting sovereign debt defaults. During the IMF/World Bank Annual Meeting in October 2020, the IMF's Managing Director spoke of a long, uneven and above all uncertain ascent following the pandemic.<sup>10</sup>

<sup>7</sup> 114 developing countries and emerging economies were projected to suffer an economic downturn (negative growth) for 2020; 38 countries recorded merely slower growth, but still in positive territory. These categories consist of our own calculations based on forecasts in individual debt sustainability analyses prepared by the IMF for poorer countries between April and August 2020 or, in the case of countries for which no new debt sustainability analysis had yet been published, forecasts from the World Economic Outlook for April 2020 (April WEO). See Annex 1.

<sup>8</sup> Own calculations on the basis of projections in the World Economic Outlook for October 2020 (October WEO). 126 developing countries and emerging economies were projected to suffer an economic downturn (negative growth) for 2020; 26 countries saw only a slowdown in growth. See Annex 2.

<sup>9</sup> The table shows an overview calculation of the extent to which the economic downturn of 2020 is expected to be offset in 2021 in 152 developing countries and emerging economies for which forecasts have been published. See Annexes 1 and 2 for individual country data.

<sup>10</sup> See Georgieva, K.: 'The Long Ascent: Overcoming the Crisis and Building a More Resilient Economy' <https://tinyurl.com/y5b7u3xx>, 06.10.2020 (referenced on 16.11.2020).

This rhetoric is however only partially reflected in the updated growth forecasts published at the time of the IMF/World Bank Annual Meeting in October (see Table 1, 'Forecasts in October 2020' and Illustration 1). In total, 90% of all countries anticipating a downturn in 2020 are expected to be back on the path to economic recovery in 2021. One quarter of the countries hit by an economic downturn in 2020 are still forecast to achieve growth at least fully offsetting or indeed more than offsetting the preceding downturn.

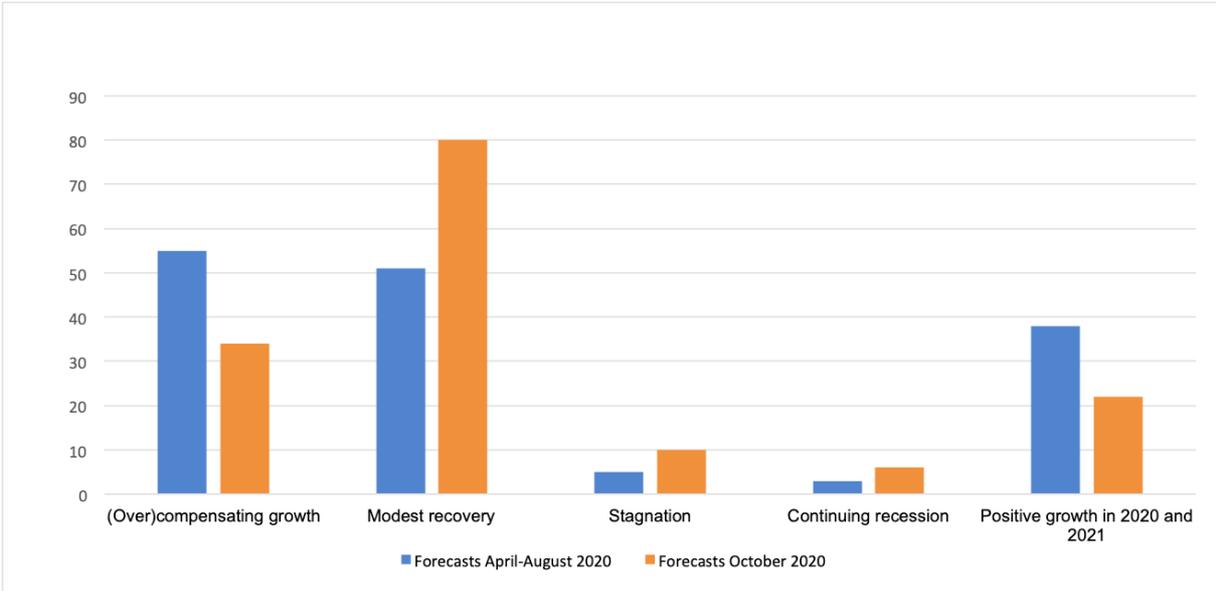


Illustration 1: Comparison of forecasts for short-term economic recovery in developing countries and emerging economies, April – August 2020 compared with October 2020 (number of countries)  
 Source: own representation based on IMF data

However, comparing the spring and autumn forecasts (Illustration 1) shows that the IMF's forecasts concerning short-term economic performance have become significantly more cautious. Just a few months after its first forecasts, the institution was indeed forced to concede that such forecasts had been significantly over-optimistic. Studies show that such an approach is typical; in the World Economic Outlook (WEO) for October, forecasts for the following year become more realistic compared with forecasts for the same period in the April WEO.<sup>11</sup> This is logical since, as the forecast period approaches, so more information is available on short-term economic developments. However, the clarification in October basically always leads to a poorer outlook for the following year. A study by the Independent Evaluation Office of the IMF on WEO growth projections shows that, between 1991 and 2011, with regard to countries which went through an economic crisis during this period, growth projections in the April WEO for the following year were on average 6.27 percentage points over-optimistic, and in the October WEO, 'only' 5.73 percentage points. Projections for the current year were 3.69 percentage points over-optimistic for crisis countries in the spring, and in October 1.52 percentage points.<sup>12</sup>

It remains to be seen whether, over the next few months, the projections for 2021 will once again need to be adjusted downward.

<sup>11</sup> See IEO (2014), page 20, pt. 59.

<sup>12</sup> Ibid., Table 1, page 19. Taking into account all countries, i.e. including those which did not go through a crisis during the period under investigation, the deviations for the following year in the April WEO lie at 0.29 percentage points, and in the October WEO at 0.20 percentage points.

## 2.2 Coronavirus-driven recession not sufficiently taken into account in projections

In the first category of Table 1, referring to countries projected to achieve growth in 2021 that, at a minimum, will offset the 2020 downturn, there are 21 countries in the October projections which qualify for the DSSI.<sup>13</sup> For most DSSI countries, the IMF assesses debt distress risk in its regular debt sustainability analyses. For seven of the 21 countries, even before the pandemic, the IMF had determined a moderate risk of debt distress, and for seven further countries, a high risk of debt distress.<sup>14</sup> The risk of debt distress is considered to be moderate if, in the baseline scenario assumed by the IMF to be probable, the level of debt remains within a sustainable range, but becomes critical in a shock scenario, such as with the fall in commodity prices as a result of the coronavirus-driven recession. A high risk of debt distress means that even if a nation's economy performs in line with probable expectations, critical thresholds are expected to be exceeded during the forecast period.

Precisely for countries which had a high risk of debt distress already before the pandemic, such an immense and unparalleled shock such as the coronavirus pandemic may constitute the final tipping point triggering a debt crisis. A good example of this is Zambia, which already had a high risk of debt distress prior to the pandemic, and which was one of the first countries forced to suspend its payments in November 2020. Nevertheless, with regard to the seven countries which, according to the IMF's assessment, faced an imminent debt crisis already before the pandemic,<sup>15</sup> a rapid economic recovery is forecast one year after the beginning of the pandemic – even though the virus, other than assumed in April and May, is still leading to high infection rates worldwide. Thus, the probable risk of a debt crisis has evidently not been incorporated into the assumptions.

In April, both global forecasts and individual debt sustainability analyses assumed that the pandemic would be contained in the first half of 2020 and that, by the end of the year, the global economy would be back on a robust recovery path. In view of continuing measures and indeed also the reintroduction of more stringent measures against the coronavirus, the assumptions of recovery in the World Economic Outlook for October 2020 now rely on the availability and distribution of a vaccine. Furthermore, it is assumed that, while it will be necessary to continue with limiting contacts in 2021, these will be eased over time as an increasing proportion of the population is vaccinated. However, it is scarcely possible to make projections on the further course of the pandemic, which is not only dependent on licensing of a vaccine, but also on global distribution. An alternative WEO scenario<sup>16</sup>, one of the assumptions of which is that progress in the fight against the virus will be slower in 2021 than had been hoped, therefore anticipates significantly worse growth prospects than previously assumed and a further rise in debt indicators, in particular with regard to developing countries and emerging economies.

## 2.3 External criticism of projections

The projections contained in the April 2020 WEO on economic performance in developing countries and emerging economies compared with advanced economies have indeed generated criticism. Economists from the Center for Global Development have called into question the forecast of a more muted economic downturn in developing countries and emerging economies as compared with advanced economies.<sup>17</sup> More pessimistic forecasts in the

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<sup>13</sup> See Annex 2.

<sup>14</sup> See IMF: 'List of LIC DSAs for PRGT-Eligible Countries', <https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf>, 30.09.2020 (referenced on 16.11.2020) and Annex 2.

<sup>15</sup> The seven countries with a high risk of debt distress are Djibouti, Gambia, Cameroon, Kiribati, Chad, Tuvalu and the Central African Republic.

<sup>16</sup> See IMF (2020): 'World Economic Outlook October 2020 – A Long and Difficult Ascent', page 28-30.

<sup>17</sup> See Sandefur, J. and Subramanian, A. (2020): 'The IMF's Growth Forecasts for Poor Countries Don't Match Its COVID Narrative' <https://tinyurl.com/yy59yxs8> (referenced on 16.11.2020). In the April WEO, the IMF assumed an economic downturn in advanced economies of 6.1%, and in developing countries and emerging economies of just 1%. See: <https://tinyurl.com/yyu3p6h6> (referenced on 08.12.2020).

October 2020 WEO confirm that the April projections concerning the downturn anticipated in 2020 in developing countries were over-optimistic.<sup>18</sup> In an article in The Africa Report, further economists criticised the 'miraculous recovery' of oil-dependent poorer countries with minimal diversification. In addition, they draw attention to the discrepancy between projections for multi-year trade and fiscal deficits and, at the same time, the heralding of a swift recovery in economic growth for 2021.<sup>19</sup>

#### **2.4 A conceivable negative scenario: Austerity hampers economic recovery**

In its negative scenario, the United Nations Conference on Trade and Development (UNCTAD) perceives the risk of a so-called double-dip recession. This would mean that, following a short upturn in 2021, national economies would plunge back into recession.<sup>20</sup> UNCTAD fears this scenario not only because of the delay in vaccines becoming available, but primarily because the international community is still not providing the appropriate multilateral support in order to cushion the extent of the shock.<sup>21</sup> As a result of worsening debt crises and in the absence of debt relief, UNCTAD perceives the risk that, from as early as 2021 onwards, governments will have to switch over to combating their debt burdens through austerity policies. This would significantly hamper the economic recovery. For the European debt relief network EURODAD, this scenario is entirely realistic; 72 out of 80 countries that received emergency financing during the pandemic are required within the framework of their IMF financing programs to return to a policy of fiscal consolidation from as early as 2021. Between 2021 and 2023, these consist of savings at an average level of 3.8% of GDP, half of which must be made in 2021.<sup>22</sup> Combined with an anticipated recovery in 2021, this signals that debtor countries will be able to overcome the 2020 crisis through rapid and major austerity measures to the detriment of their populations, without creditors needing to forfeit their payments. Recent studies show that, specifically in the context of extensive fiscal austerity measures, the IMF is systematically overestimating future economic growth by underestimating the negative impact on growth.<sup>23</sup> Any critical reflection in the political debate in terms of specific post-COVID-19 programs is nowhere to be seen.

The former Director of the IMF's Legal Department, Sean Hagan, declared back in 2017 that particularly if a country's debt were no longer sustainable, further 'belt-tightening' measures would not be able to solve the problem and that, in such cases, there was an urgent need for realistic growth projections.<sup>24</sup> In his view, these would need to be based on the experience that national economies frequently needed significantly more time than expected to recover from crises. However, in the WEO projections, no time buffer for longer-lasting recovery processes can be identified.

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<sup>18</sup> See Acosta, A.M. and Evans, D. (2020): 'Six Takeaways from the New Growth Forecasts from the IMF and World Bank', <https://tinyurl.com/y5sowzq3> (referenced on 16.11.2020). In the October WEO, assumptions regarding the 2020 downturn for developing countries and emerging economies had to be revised downwards by 2 percentage points, while for advanced economies, they were revised slightly upwards; see <https://tinyurl.com/y4y9d3z8> ('Growth Projections Table') (referenced on 08.12.2020).

<sup>19</sup> See Bauer, A.: 'IMF optimism and oil-dependent countries: be wary of sunny projections', 21.04.2020, <https://tinyurl.com/y237va2h> (referenced on 16.11.2020).

<sup>20</sup> See UNCTAD (2020): 'Trade and Development Report 2020 – From Global Pandemic to Prosperity for All: Avoiding another lost decade', <https://tinyurl.com/y23dhmc3> (referenced on 15.11.2020).

<sup>21</sup> At the beginning of the pandemic, UNCTAD estimated that there was a financing shortfall in developing countries and emerging economies totalling up to USD 3 billion.

<sup>22</sup> See Munevar, D. (2020): 'Arrested Development – International Monetary Fund lending and austerity post Covid-19', <https://tinyurl.com/y5t9v89d> (referenced on 16.11.2020).

<sup>23</sup> See Ismail, K. et al. (2020): 'Optimism Bias in Growth Forecasts – The Role of Policy Adjustments', IMF Working Paper WP/20229, referenced on (09.12.2020).

<sup>24</sup> See Hagan, page (2017): 'Dealing with Sovereign Debt – The IMF Perspective', <https://tinyurl.com/y3xzvp74> (referenced on 16.11.2020).

### 3. The historical tendency of the IMF towards optimistic growth projections – and what this means for debtor countries

A large number of studies over the past twenty years, whether produced independently or actually by the IMF or the World Bank, reveal a historical tendency on the part of the IMF to generate optimistic macroeconomic forecasts,<sup>25</sup> above all with regard to forecasts of medium-term economic performance and in relation to poorer countries.<sup>26</sup> This leads to debt sustainability being overestimated<sup>27</sup> and the increase in debt indicators being underestimated<sup>28</sup>, specifically in those countries imminently faced with or already in a crisis situation.<sup>29</sup>

In the past, an inaccurate assessment of future debt sustainability has meant that the necessity of debt restructuring and debt relief has been recognized and acknowledged too late for economic recovery and, in order to restore debt sustainability, frequently fiscal consolidation measures have been the only measures recommended. This has then however led to a further deterioration in a country's economy.<sup>30</sup>

The systematic overestimation of repayment capacities of countries already in a state of debt distress has thereby frequently been associated with an overestimation of the pace of recovery<sup>31</sup> as well as with an inability to forecast crises and recessions.<sup>32</sup> During the period 1990 – 2016, for example, forecasts for GDP growth of developing countries for the following year were on average over-optimistic by 0.42 percentage points, primarily due to the inability to forecast economic downturns.<sup>33</sup> There were over 1,000 recessions in individual countries between 1990 and 2016, 76%<sup>34</sup> of which the IMF World Economic Outlook did not succeed in predicting. Errors regularly arise in short-term projections, particularly during ongoing recessions.<sup>35</sup> Examples of this include the EU currency collapse in 1992, the Asia crisis from 1997 until 1998, the end of the dot-com bubble in 2000, and the global financial crisis from 2007 to 2009.<sup>36</sup>

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<sup>25</sup> IMF historian James Boughton describes the optimistic growth projections in IMF adjustment programs during the debt crisis in Latin America at the beginning of the 1980s; see <https://tinyurl.com/y2osjsa9> (referenced on 20.11.2020); economist Frank-Oliver Aldenhoff shows how, in Africa, between 1986 and 2004, growth for the following year was overestimated by 1.37 percentage points; see Aldenhoff, F. (2007): 'Are economic forecasts of the International Monetary Fund politically biased? A public choice analysis', <https://tinyurl.com/yymwsuat> (referenced on 09.12.2020), page 12. Further selection: IMF (2002): 'Assessing Sustainability'; Baker, D. and Rosnick, D. (2003): 'Too Sunny in Latin America? The IMF's overly optimistic growth projections and their consequences'; IMF (2004): 'Debt Sustainability in Low-Income Countries - Proposal for an Operational Framework and Policy Implications', <https://tinyurl.com/y6zovgk5> (referenced on 16.11.2020); Timmermann, A. (2006): 'An Evaluation of the World Economic Outlook Forecasts', WP/06/59, <https://tinyurl.com/ydhouw3> (referenced on 16.11.2020); IMF (2011): 'Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis', <https://tinyurl.com/y2k9epxz> (referenced on 16.11.2020); IEO (2014); Mooney, H., de Soyres, C. (2017): 'Debt Sustainability Analyses for Low-Income Countries: An Assessment of Projection Performance', IMF Working Paper WP/17/220; IMF (2019): '2018 Review of Program Design and Conditionality'.

<sup>26</sup> See IEO (2014).

<sup>27</sup> See, inter alia: IMF (2002); Timmermann, A. (2006); IMF (2011); IEO (2014); Mooney, H. and de Soyres, C. (2017).

<sup>28</sup> See Guzmán, M. and Heymann, D. (2016): 'The IMF Debt Sustainability Analysis: Issues and Problems', JGD (2015); 6(2): page 387–40, <https://tinyurl.com/y6dtgg8m> (referenced on 20.11.2020).

<sup>29</sup> Ibid., as well as IEO (2014). See also IMF (2017): 'Review of the Debt Sustainability Framework in Low-Income Countries: Proposed Reforms', page 9, pt. 9 and 10: The IMF's own review revealed that, in 40% of debt sustainability analyses between 2007 and 2010, errors arose in the context of medium-term projections to the extent of 15 percentage points; in 80% of these cases, the state of indebtedness was underestimated, and this particularly related to countries with a high risk of debt distress.

<sup>30</sup> See Guzmán, M. and Heymann, D. (2016).

<sup>31</sup> Ibid.

<sup>32</sup> See IEO (2014) and IMF (2019). Here, the inability to predict recessions is not limited to the IMF but, according to the IEO, constitutes a fundamental problem also with other forecasting institutions.

<sup>33</sup> See The Economist: 'Official economic forecasts for poor countries are too rosy', 04.08.2020, <https://tinyurl.com/yyudzphx> (referenced on 16.11.2020).

<sup>34</sup> See Beaudry, P. and Willems, T. (2018): 'On the Macroeconomic Consequences of Over-Optimism', NBER Working Paper 24685, <https://tinyurl.com/y47ykssw> (referenced on 20.11.2020).

<sup>35</sup> See IEO (2014).

<sup>36</sup> See IMF (2017), page 15, pt. 15.

In this context, discrepancies between forecasts and actual growth do not exist merely at the beginning of a crisis. In European debtor countries, primarily Greece, but also Spain and Portugal, between 2008 and 2015 a sharp V-shaped recovery was perpetuated year after year (as many as eight times). Debt sustainability, above all in Greece, was thereby repeatedly overestimated and necessary debt relief was thereby played down.<sup>37</sup>

Another reason for forecast errors, above all in countries with an IMF program, is the frequently over-optimistic assumption as to the pace and scope of fiscal consolidation in response to rising debt,<sup>38</sup> as is a miscalculation of the impact of fiscal consolidation on economic growth. In 133 IMF programs between 2011 and 2017, around a quarter of growth forecast errors could be explained on this basis.<sup>39</sup> The dramatic miscalculation of the destabilizing effects of government spending cuts and tax increases in crisis countries is well documented in the case of Greece. Through such measures, the economy did not grow, as assumed by the IMF, but saw a dramatic collapse.<sup>40</sup> In January 2013, this was explained by IMF economists on the basis of miscalculation of the 'fiscal multiplier'. However, this has done nothing to change subsequent forecasts.

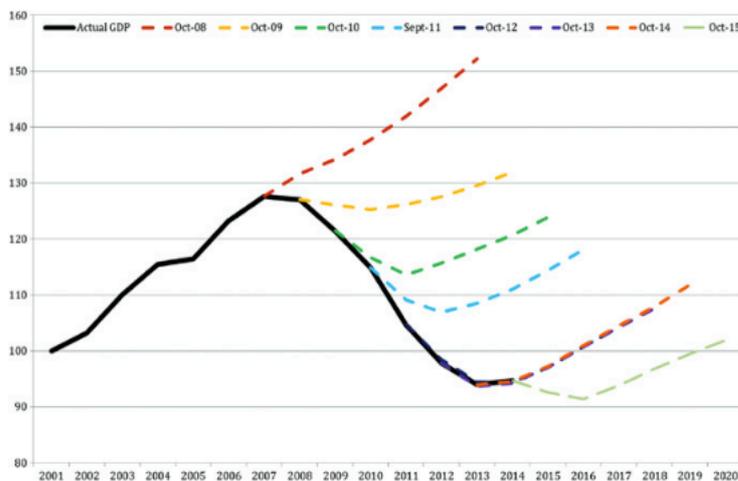


Figure 2: Greece: Actual GDP and IMF's WEO Forecasts Index: 2001=100.

Illustration 2: Growth forecasts and actual GDP growth for Greece between 2008 and 2015

Source: Guzmán, M. and Heymann, D. (2016)

One reason for forecast errors is quite simply that no one is able to predict the future. However, in all of the aforementioned studies, it is evident that forecast errors are almost always over-optimistic and only rarely over-pessimistic. Researchers are therefore attempting to comprehend the possible politico-economic motives behind this. A work from the 1990s by Kapur et al.<sup>41</sup> and a more recent analysis by the Center for Global Development<sup>42</sup> explain the trend towards over-optimistic forecasts during times of crisis on the basis that this reduces the pressure on rich countries to provide additional emergency financing. Experts from the Natural Resource

<sup>37</sup> See Kaiser, J. (2012): 'Die aller-allerletzte Griechenlandrettung im Dezember 2012' ['The very very last Greek bailout of all, in December 2012'], erlassjahr.de Focus Paper No. 38, <https://tinyurl.com/yyw74pg3> (referenced on 16.11.2020) and Kaiser, J. (2013a): 'Griechenland und danach – wie die Krise auch die Retter verändert' ['Greece and thereafter – How the crisis is also changing the rescuers'], erlassjahr.de Focus Paper No. 41, <https://tinyurl.com/y2kwwkmo> (referenced on 26.11.2020).

<sup>38</sup> See Mooney, H., de Soyres, C. (2017), pt. 33.

<sup>39</sup> See IMF (2019).

<sup>40</sup> See Herfort, N. (2013): 'IWF Selbsteingeständnis: Sparmaßnahmen führen nicht zur Konsolidierung' ['IMF self-confession: belt-tightening measures do not lead to consolidation'], <https://tinyurl.com/y49xvdkb> (referenced on 09.12.2020) and Blanchard, O. and Leigh, D. (2013): 'Growth Forecast and Fiscal Multipliers', <https://tinyurl.com/mxbqlq4> (referenced on 20.11.2020).

<sup>41</sup> See Devesh Kapur et al. (1997): 'The World Bank: Its first half century', Volume 1, Brookings Institution Press.

<sup>42</sup> See Sandefur, J. and Subramanian, A. (2020).

Governance Institute attempt to explain the optimistic forecasts on the basis of the IMF's lending policy, which ties the continuation of ongoing programs or the granting of new loans to sustainable debt situations.<sup>43</sup> In such instances, optimistic projections therefore justify the practice of 'defensive lending'; in situations which are actually no longer sustainable, they have made it possible for new loan programs to be approved and thus outstanding claims to be serviced on time. The concern that pessimistic projections could become self-fulfilling prophecies<sup>44</sup> could also play a role; as well as the political influence of key shareholders and the assertion of their interests.<sup>45</sup>

In the case of Greece, for example, IMF debt sustainability analyses showed a target threshold for sustainable debt of 124% of GDP, more than double the Maastricht criteria. This high target level had nothing to do with Greece's debt sustainability. 124% was quite simply a little more than the value reported by Italy<sup>46</sup>. If – being realistic – a lower value had been assumed for Greece, it would have been possible to argue that Italy already had an unsustainable level of debt, and as a result, the IMF would not have been permitted to provide Italy with any further financing. Moreover, the wealthier EU Member States were afraid that Italy would no longer have been able to obtain sufficient refinancing. In addition, in response to pressure from its wealthy European members, the IMF had changed its rules in order to be able to lend Greece far more than the amount permitted;<sup>47</sup> this was in part also for the reason that German and French banks were threatened with insolvency. As a result, however, Greece's insolvency was knowingly delayed.

Independently of the above, various studies, for example a study by the Independent Evaluation Office of the IMF, have shown that internal staff appraisal processes prevent them from deviating too far from established projections. Furthermore, the underlying professional experience of employees plays a role; the more inexperienced they are, the more inaccurate are the projections.<sup>48</sup>

#### **4. A new realism in debt sustainability analyses**

Due to factors which include regular criticism of over-optimistic assumptions as to the likely performance of a debtor country, over the years the IMF has repeatedly adjusted its debt sustainability analyses and thereby also explicitly taken measures to structure forecasts more realistically. The start of this was marked by the introduction of stress scenarios at the beginning of the 2000s which, over the course of the years, have been continually refined; most recently, 'realism tools' were introduced in 2017, by which deviations in forecasts can be shown up, for example, compared with previous debt sustainability analyses. In addition, as part of the realism check, with regard to debt sustainability analyses for countries with market access, the previous error rate in forecasts for key parameters such as GDP growth are made transparent, and this error rate is then compared with the error rates for all other countries for which debt sustainability analyses are prepared. For example, in the case of the debt sustainability analyses for Barbados dated June 2020 and Angola dated September 2020, the realism check shows that the error rate concerning projections for GDP growth between 2009 and 2017/2007 and 2015 is relatively high compared with other countries.<sup>49</sup> However, in both analyses, this is not discussed any further, and neither is there any discussion on the conclusions that may be derived with regard to current projections.

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<sup>43</sup> See Bauer, A. 21.04.2020.

<sup>44</sup> See Dreher A. et al. (2007): 'The politics of IMF forecasts', <https://tinyurl.com/yxk38qkb> (referenced on 09.12.2020).

<sup>45</sup> Ibid., page 5 and footnote 8.

<sup>46</sup> See Kaiser, J. (2013a) and Kaiser, J. (2013b): 'Griechenland: IWF plädiert für Schuldenerlass' ['Greece: IMF calls for debt relief'], *erlassjahr.de Focus Paper No. 39*, <https://tinyurl.com/y2w4jeuj> (referenced on 09.12.2020).

<sup>47</sup> 1,860% of Greece's quota, although Greece actually was only entitled to 600% of its quota. See Buchter, H.: 'Griechenlands Tragödie ist der IWF' ['Greece's tragedy is the IMF'], *ZEIT Online*, 26.03.2015, <https://tinyurl.com/y5vujcda> (referenced on 09.12.2020).

<sup>48</sup> See IEO (2014).

<sup>49</sup> See 'IMF Country Report No. 20/192 – Barbados', page 46, <https://tinyurl.com/y56xoz8r> (referenced on 20.11.2020) and 'IMF Country Report No. 20/281 – Angola', page 54, <https://tinyurl.com/yy6xq9dy> (referenced on 20.11.2020). A low percentage ranking means a

Evidently, neither are the refinements leading to fundamental policy changes. It remains standard practice simply to assume a declining curve for medium-term and long-term projections of debt trends. More recent studies of forecasting practice following the global financial crisis reveal that this medium-term to long-term optimism has been retained, despite the fact that, here too, actual developments repeatedly point to untenably optimistic assumptions in terms of the impact of fiscal consolidation measures and growth gains from public and private investment<sup>50</sup> (see Illustration 3), and despite the fact that trends in global lending after 2008 point to developments akin to those leading up to the so-called 'Third World Debt Crisis', which ultimately had to be resolved by way of a comprehensive debt relief initiative.

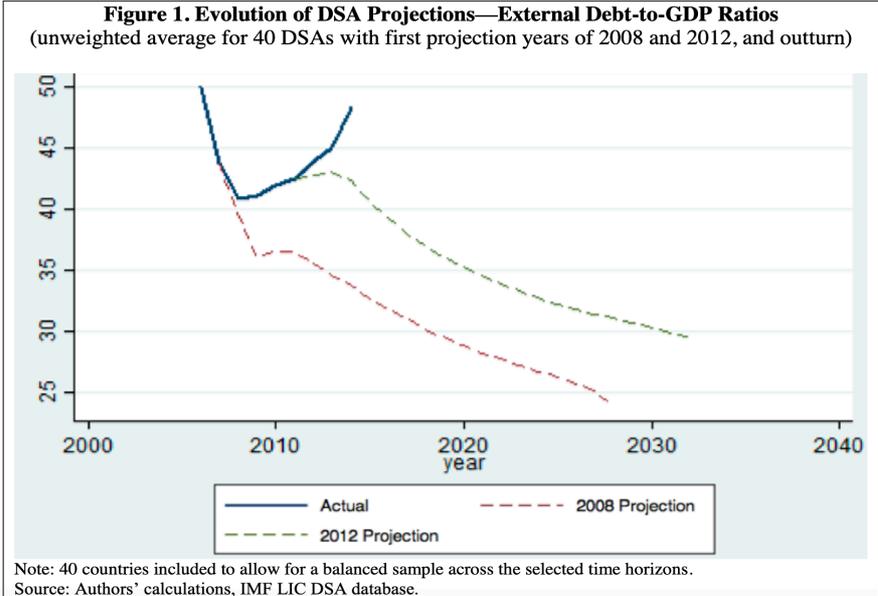


Illustration 3: Evolution of debt ratio projections in 40 debt sustainability analyses between 2008 and 2012  
Source: Mooney, H., de Soyres, C. (2017), page 3

This is based on the plausible but nonetheless problematical reasoning that the IMF must suppose the meticulous implementation of its economic policy prescriptions and must just as necessarily attribute a growth-stimulating effect to such prescriptions.

Methods for a more thorough scrutiny of the potential impact of spending cuts on economic growth within the framework of fiscal consolidation, a lesson drawn from the Greek crisis, may also be found in more recent debt sustainability analyses. However, studies have shown that, despite all 'precautionary measures', a correlation remains specifically in respect of comprehensive fiscal belt-tightening measures in IMF programs and optimistic growth projections<sup>51</sup> – i.e. it is still assumed that the austerity measures demanded by the IMF will lead to sufficiently high growth rates. Moreover, it is a fundamental problem that there are no scenarios which deviate

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comparatively high error rate. The percentage ranking of forecasting errors in the case of Barbados between 2009 and 2017 is 17%. This means that, in the case of 83% of all other countries for which a similar debt sustainability analysis is undertaken, the error rate was lower. In the case of Angola, the percentage ranking lies at 5%, meaning that in the case of 95% of all other countries for which a similar debt sustainability analysis is undertaken, the error rate was lower.

<sup>50</sup> See Mooney, H., de Soyres, C. (2017), page 33. See also IMF (2019): Between September 2011 and December 2017, in a total of 133 IMF financing programs, a general trend towards growth optimism, inherent in the programs, is identified. In this context, the biggest projection errors were to be found in countries undergoing political or economic transformation, just as in commodity-exporting countries. The latest study to identify prevailing optimism in growth projections following the global financial crisis dates from November 2020: Ismail, K. et al. (2020).

<sup>51</sup> See Ismail, K. et al. (2020), page 13-14.

from the standard recommendation of fiscal consolidation as the only appropriate strategy for stabilizing the debt ratio. Alternative scenarios, which incorporate debt rescheduling and partial debt relief and their impact on economic recovery, as well as the improvement of debt indicators, are non-existent. If such scenarios were to exist, it would be possible to identify debt restructuring requirements at a significantly earlier stage. In addition, this would provide an incentive to draw up more realistic forecasts.

## **5. Debt crises post-COVID-19: Optimistic forecasts lull creditors and debtors into a false sense of security**

An over-optimistic forecast of national economic recovery runs the risk of lulling both debtors and creditors into a false sense of security. As a result, there is little incentive for timely and decisive action. Creation of the G20 Common Framework for Debt Treatments beyond the DSSI shows – unlike at the beginning of the pandemic – an underlying political will on the part of the G20 to acknowledge the possibility of sovereign bankruptcies in a substantial number of countries and not only in isolated instances. However, since the Common Framework remains limited only to countries to whom the DSSI applies, this incentive does not arise equally in respect of all countries with a debt problem. Moreover, there exists the danger that too little debt relief may be granted, due to positive projections, and that the positive impact of fiscal consolidation, as is so often the case, is being overestimated at the cost of economic recovery.

Growth optimism appears already to have become an intrinsic part of IMF analyses in the context of emergency and aid financing since the beginning of the pandemic. For instance, in over 80% of debt sustainability analyses published since the pandemic, it is clearly stated that, with regard to economic prospects, the downside risks prevail. In no instance is there any reference to a favourable balance of risk. This means that, since the beginning of the pandemic, the majority of IMF programs have been based on an optimistic underlying scenario.

In a number of debt sustainability analyses published since the beginning of the pandemic, there is a new alternative scenario, the 'illustrative adverse scenario'. This attempts to visualize in detail the potential downside risks existing around the fight against the COVID-19 pandemic. In the debt sustainability analysis for Albania<sup>52</sup>, for instance, it is assumed that successes in the fight against the virus between 2021 and 2022 will not be achieved as swiftly as assumed in the basic scenario. As a result, tourism will not recover as hoped and the financing terms for European emerging economies may become more difficult. It is also assumed that the economic growth of the country's key European trading partners will not recover as strongly as hoped. Introduction of this scenario is a welcome step towards improving debt sustainability analyses in view of the extremely high uncertainties. However, in the same analysis, the IMF assumes it to be highly probable that some of the parameters underlying the alternative scenario will become a reality, for example the weaker growth of trading partners.<sup>53</sup> Why not therefore simply make the alternative scenario the probable baseline scenario?

Of course, no one can predict the future. By their nature, forecasts are speculative and thus not much more than an 'educated guess', or indeed even 'occult divination'.<sup>54</sup> This dynamic applies all the more in a crisis without historical precedent. It is therefore not surprising that, apart from the possible reasons described in Section 3, economic forecasts subsequently turn out to be incorrect. Maurice Obstfeld, former IMF Chief Economist, therefore recommends that, in general, not much should be expected of forecasts.<sup>55</sup> The uncertainties

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<sup>52</sup> See 'Albania – First Post-Program Monitoring, IMF Country Report No. 20/309', <https://tinyurl.com/y4vz94z4> (referenced on 10.12.2020), from page 39 (Annex III and Annex IV).

<sup>53</sup> Ibid., page 37 Annex II, Risk Assessment Matrix.

<sup>54</sup> See Buchheit, L. and Gulati, M.: 'Avoiding a Lost Decade - Sovereign Debt Workouts in the Post-COVID Era', 11.10.2020, <https://tinyurl.com/y45k6klc> (referenced on 20.11.2020).

<sup>55</sup> See The Economist (04.08.2020).

accompanying the forecasts published in the spring of 2020 represent one of the reasons why the IMF voted for an extension to the DSSI until the end of 2021 – and not just for six months. The aim thereby is to gain more time to develop more precise estimates of short-term economic developments. However, it becomes problematical if forecasts form the most important political decision-making basis as to whether a country needs debt relief and further international support and, if so, how much.

In October 2020, IMF Managing Director Kristalina Georgieva pointed out that preventive debt relief – in other words, negotiations on comprehensive debt relief before a country is forced to default – can make the difference between economic decline and a swift economic recovery.<sup>56</sup> Yet the decision on this hangs on a reliable debt sustainability analysis. For the G20, this is the basis on which debt relief negotiations are initiated.<sup>57</sup>

In a debt crisis, DSAs moreover serve as a template for scaling of the subsequent debt relief negotiations. In order to calculate debt relief needs, assumptions have to be made concerning the future repayment capacities of a country. Precisely because, in the current crisis, assumptions are even less reliable than during 'normal' times, creditors could tend to take a stance that is quite the opposite of preventive, instead assuming swift recovery and growth. As a result, for the present, such creditors would only have to sustain minimal losses, or indeed no losses at all.

## **6. Debt relief post-COVID-19 – history repeating itself?**

In the so-called 'Third World Debt Crisis' of the 1980s and 1990s, this was exactly what led to a vicious circle of repeatedly inadequate debt rescheduling and partial debt relief, such as the serial debt reschedulings of the Paris Club, an informal committee of nineteen creditor governments at the time, mainly from advanced economies, in which decisions on debt relief were made. At the time, African countries had to negotiate on average seven times before a sustainable solution was found. In the meantime, the economies of a number of such countries shrank dramatically, and the excessive length of the negotiations had only served to worsen the crisis from which these countries actually wanted to escape as quickly as possible.

History now threatens to repeat itself. During the concluding negotiations of the G20 Finance Ministers on 30 November 2020 concerning the Common Framework for Debt Treatments beyond the DSSI, the G20 members managed only to decide on debt relief in the form of payment extensions and relief in relation to ongoing debt service. Debt cancellation was precluded.<sup>58</sup> This is precisely the line pursued without success by the Paris Club (and thus in particular the G7 States) at the beginning of the 1990s. Only a few years later, the Paris Club was forced to offer the option of real debt cancellation, and indeed to repeatedly extend this, since the relief granted was too little to get a grip on many countries' debt problems which had worsened over the course of time due to the process being so protracted. History teaches us that, today once again, there is a risk that forecasts are not based on what is really needed in terms of relief in order to restore debt sustainability, but are rather based on the concessions that powerful creditors are willing to offer.

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<sup>56</sup> See Georgieva, K.: 'Reform of the International Debt Architecture is urgently needed', 01.10.2020, <https://tinyurl.com/yxvyw2d9> (referenced on 16.11.2020).

<sup>57</sup> See statements by the Chief Economist of the Federal Ministry of Finance in erlassjahr.de expert discussion: 'Debt relief as response to the corona-induced recession' on 25.09.2020, <https://www.youtube.com/watch?v=pWcJ9atI8Uk&t=5174s> (referenced on 16.11.2020).

<sup>58</sup> However, in the Framework, one sentence later, rather awkwardly and in recognition of the reality, it is stated that in very exceptional case, debt cancellation should nevertheless be possible. See 'Statement - Extraordinary G20 Finance Ministers and Central Bank Governors' Meeting - 13 November 2020': "The key parameters will include at least (i) the changes in nominal debt service over the IMF program period; (ii) where applicable, the debt reduction in net present value terms; and (iii) the extension of the duration of the treated claims. In principle, debt treatments will not be conducted in the form of debt write-off or cancellation. If, in the most difficult cases, debt write-off or cancellation is necessary as a consequence of the IMF-WBG DSA and the participating official creditors' collective assessment, specific consideration will be given to the fact that each participating creditor shall fulfill its domestic approval procedures in a timely manner while keeping other creditors informed of progress."

This was the case, for example, with Nicaragua in 1995. At the beginning of the 1990s, the country, racked by two civil wars, was in relative terms the most heavily-indebted country in the world. In 1990, the country's debt as a proportion of export earnings totalled a staggering 2,700%.<sup>59</sup> Following unsuccessful debt rescheduling by the Paris Club in 1991, in March 1995 the country again approached the Paris Club and was granted relief on debt service payments at a level of 67% as well as a deferral of current interest until the end of 1996. This corresponded to the debt relief options of the Paris Club in force since 1994. Since it was questionable whether, in view of the dire debt situation, this relief ratio would restore debt sustainability and thus enable economic recovery, a member of the German Bundestag's Finance Committee raised more detailed questions with the German Federal Government. The then Secretary of State at the Federal Ministry of Finance, Dr Jürgen Stark, replied that the balance of payments analysis presented to the Paris Club by the IMF showed that, in addition to short-term interest deferrals, a relief ratio of 67% was sufficient over the long term to restore Nicaragua's debt sustainability, different from the 80% relief requested by Germany and other creditors.<sup>60</sup>

In response to an enquiry posed to the IMF concerning the extent to which it could be assumed that the stated debt relief requirement was really sufficient, the German IMF Executive Director explained to the same Bundestag member that the IMF had been instructed "in principle not to [assume] any 'need for relief', but that, following referral to the creditors, 'relief offers' of creditors that could be realistically expected had been incorporated into the IMF calculations".<sup>61</sup> After 1995, Nicaragua negotiated on a further two occasions in relation to the same existing debts until, within the framework of the HIPC Initiative in 2004, the debt was almost entirely cancelled – a whole 13 years following the first negotiation with the Paris Club, a period of 13 years in which the people of Nicaragua had barely any chance of rebuilding their economy.

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<sup>59</sup> See World Bank International Debt Statistics - 'External debt stocks (% of GNI)' and 'External debt stocks (% of exports of goods, services and primary income)' for Nicaragua for the relevant period at <https://databank.worldbank.org/source/world-development-indicators> (referenced on 01.12.2020).

<sup>60</sup> Letter from Dr Jürgen Stark, Secretary of State at the German Federal Ministry of Finance, to Detlev von Larcher, member of the German Bundestag, dated 13.10.1995.

<sup>61</sup> Fax from IMF Executive Director Stefan Schönberg to Detlev Larcher, member of the German Bundestag, dated 29.09.1995.

## **7. Conclusion: Political will is needed to achieve far-reaching debt relief**

An external structural shock such as the coronavirus-induced recession must be countered using external structural solutions, and these include above all debt relief measures. Internal adjustments alone by a debtor country, meaning for example a reduction in public services, are generally not sufficient. This applies all the more since economic recovery, even in the scenario assumed probable according to the WEO, depends on governments having at their disposal the requisite budgetary resources enabling them to shore up their national economies using, for example, stimulus packages.

In this context, necessary debt relief should not be delayed or pared down as a result of over-optimistic baseline assumptions in debt sustainability analyses. The regular inclusion of alternative scenarios which show the impact of debt relief on economic recovery and the restoration of debt sustainability – as compared with fiscal consolidation measures alone – has the capacity to promote more timely and more reliable identification of debt restructuring requirements.<sup>62</sup> In addition, the 'illustrative adverse scenario' already introduced in a number of debt sustainability analyses should also be incorporated as standard in all DSAs. If risks are deemed probable, they should consistently be transposed to the probable baseline scenario in order to render projections more realistic.

The weak agreements contained in the G20 Common Framework in terms of debt cancellation moreover show only too clearly the danger that upcoming debt relief negotiations will be defined not by the situation of the debtor but by conflicting creditor interests. The IMF should not allow itself to become an accomplice in the context of these short-sighted interests nor legitimize such interests through unrealistic debt sustainability analyses at the cost of the debtor's viability, as with Nicaragua in 1995 and Greece in the mid-2000s.

At the centre of every debt relief negotiation is the question of how the required debt relief can be calculated as accurately as possible. Just as is the case with growth projections, the calculation of debt relief requirements, which relies on a forecast of repayment capacity, is also speculative to a certain degree. However, precisely against the background of a potentially far slower recovery following the coronavirus crisis, granting less than the necessary debt relief - the problem of 'too little'<sup>63</sup> - creates a significantly higher risk of a lost development decade than if it should emerge, looking back, that too much debt relief was given.<sup>64</sup> With the aim of global stability and in light of the current uncertainty over how the economic situation will evolve, the political will is needed both among creditors and on the part of the IMF to calculate debt relief incorporating a substantial safety buffer. This might be achieved by assuming an increased need for relief on the basis of forecasts under more extreme stress scenarios. In view of the severity of the situation, this would be an important and absolutely vital step in achieving what the IMF director has termed a 'response like no other'.<sup>65</sup>

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<sup>62</sup> See Guzmán, M. and Heymann, D. (2016), page 402.

<sup>63</sup> In 2013, the IMF described the problem of 'too little, too late' in global debt management, i.e. that too little debt relief is regularly granted, and moreover, it is granted too late to restore debt sustainability and market access. See IMF (2013): 'Sovereign Debt Restructurings – recent developments and implications for the Fund's legal and policy framework', <https://tinyurl.com/y6m3mk87> (referenced on 16.11.2020).

<sup>64</sup> See Buchheit, L. and Gulati, M.

<sup>65</sup> See Georgieva, K. 20.04.2020.

## Annex 1

Country	Calculation growth trend (based on the projections between April and August for the years 2020 and 2021)				IMF projections between April and August (individual debt sustainability analyses as well as WEO April)		Category (see table 1, line 1)
	2019	2020	2021		2020	2021	
Afghanistan	0,0	-3,0	1,5		-3,0	4,5	1
Albania	0,0	-5,0	3,0		-5,0	8,0	1
Armenia	0,0	-1,5	3,3		-1,5	4,8	1
Bulgaria	0,0	-4,0	2,0		-4,0	6,0	1
Cameroon	0,0	-1,2	3,3		-1,2	4,5	1
Democratic Republic Congo	0,0	-2,2	1,3		-2,2	3,5	1
Comoros	0,0	-1,2	1,9		-1,2	3,1	1
Djibouti	0,0	-1,0	9,0		-1,0	10,0	1
Dominican Republic	0,0	-1,0	3,0		-1,0	4,0	1
Algeria	0,0	-5,2	1,0		-5,2	6,2	1
Fiji	0,0	-5,8	1,2		-5,8	7,0	1
Micronesia	0,0	-0,4	1,0		-0,4	1,4	1
Gabon	0,0	-0,4	3,2		-0,4	3,6	1
Georgia	0,0	-4,0	0,0		-4,0	4,0	1
Guinea-Bissau	0,0	-1,5	1,5		-1,5	3,0	1
Guatemala	0,0	-2,0	2,0		-2	4	1
Honduras	0,0	-3,3	1,4		-3,3	4,7	1
Hungary	0,0	-3,1	1,1		-3,1	4,2	1
Iraq	0,0	-4,7	2,5		-4,7	7,2	1
Jordan	0,0	-3,4	0,2		-3,4	3,6	1

Kazakhstan	0,0	-2,5	1,6		-2,5	4,1	1
Cambodia	0,0	-1,6	4,5		-1,6	6,1	1
St. Kitts and Nevis	0,0	-8,1	0,5		-8,1	8,6	1
Kuwait	0,0	-1,1	2,3		-1,1	3,4	1
Sri Lanka	0,0	-0,5	3,7		-0,5	4,2	1
Morocco	0,0	-3,7	1,1		-3,7	4,8	1
Moldova	0,0	-3,0	1,1		-3,0	4,1	1
Maldives	0,0	-8,1	5,1		-8,1	13,2	1
Marshall Islands	0,0	-0,2	3,0		-0,2	3,2	1
Macedonia	0,0	-4,0	3,0		-4,0	7,0	1
Mongolia	0,0	-1,0	7,0		-1,0	8,0	1
Mauritania	0,0	-2,0	2,2		-2,0	4,2	1
Malaysia	0,0	-1,7	7,3		-1,7	9,0	1
Namibia	0,0	-2,5	0,7		-2,5	3,2	1
Oman	0,0	-2,8	0,2		-2,8	3,0	1
Pakistan	0,0	-1,5	0,5		-1,5	2,0	1
Panama	0,0	-2,0	2,0		-2,0	4,0	1
Palau	0,0	-11,9	2,5		-11,9	14,4	1
Paraguay	0,0	-1,0	3,0		-1,0	4,0	1
Qatar	0,0	-4,3	0,7		-4,3	5,0	1
Kosovo	0,0	-5,0	2,5		-5,0	7,5	1
Saudi Arabia	0,0	-2,3	0,6		-2,3	2,9	1
Solomon Islands	0,0	-5,5	0,1		-5,5	5,6	1

Somalia	0,0	-2,5	0,4		-2,5	2,9	1
Serbia	0,0	-3,0	3,0		-3,0	6,0	1
Suriname	0,0	-4,9	0,0		-4,9	4,9	1
Chad	0,0	-0,1	6,0		-0,1	6,1	1
Tajikistan	0,0	-2,0	5,5		-2,0	7,5	1
Timor-Leste	0,0	-3,0	0,8		-3,0	3,8	1
Tonga	0,0	-1,2	0,0		-1,2	1,2	1
Turkey	0,0	-5,0	0,0		-5,0	5,0	1
Tuvalu	0,0	-1,0	2,5		-1,0	3,5	1
Uruguay	0,0	-3,0	2,0		-3,0	5,0	1
Vanuatu	0,0	-3,3	1,6		-3,3	4,9	1
Yemen	0,0	-3,0	3,1		-3,0	6,1	1
Angola	0,0	-4,0	-0,8		-4,0	3,2	2
Argentina	0,0	-5,7	-1,3		-5,7	4,4	2
Aruba	0	-13,7	-1,6		-13,7	12,1	2
Antigua and Barbuda	0,0	-10,0	-2,0		-10,0	8,0	2
Burundi	0,0	-5,5	-1,3		-5,5	4,2	2
Bahrain	0,0	-3,6	-0,6		-3,6	3,0	2
Bahamas	0,0	-12,5	-4,5		-12,5	8,0	2
Bosnia and Herzegovina	0,0	-5,0	-1,5		-5,0	3,5	2
Belarus	0,0	-6,0	-2,5		-6,0	3,5	2
Belize	0,0	-12,0	-4,4		-12,0	7,6	2
Bolivia	0,0	-2,9	-0,1		-2,9	2,8	2

Brazil	0,0	-5,8	-3,0		-5,8	2,8	2
Barbados	0,0	-11,6	-4,2		-11,6	7,4	2
Botswana	0,0	-9,6	-1,0		-9,6	8,6	2
Chile	0,0	-4,5	-1,2		-4,5	3,3	2
Colombia	0,0	-8,4	-4,4		-8,4	4,0	2
Cabo Verde	0,0	-5,5	-0,5		-5,5	5,0	2
Costa Rica	0,0	-3,3	-0,3		-3,3	3,0	2
Dominica	0,0	-4,7	-1,3		-4,7	3,4	2
Ecuador	0,0	-6,7	-2,6		-6,7	4,1	2
Equatorial Guinea	0,0	-5,5	-3,2		-5,5	2,3	2
Grenada	0,0	-9,2	-2,9		-9,2	6,3	2
Croatia	0,0	-9,0	-4,1		-9,0	4,9	2
Haiti	0,0	-4,0	-2,8		-4,0	1,2	2
Iran	0,0	-6,0	-2,9		-6,0	3,1	2
Jamaica	0,0	-5,3	-1,4		-5,3	3,9	2
Saint Lucia	0,0	-8,5	-1,6		-8,5	6,9	2
Lesotho	0,0	-4,8	-0,9		-4,8	3,9	2
Mexico	0,0	-6,6	-3,6		-6,6	3,0	2
Montenegro	0,0	-8,7	-3,5		-8,7	5,2	2
Mauritius	0,0	-6,8	-0,9		-6,8	5,9	2
Nigeria	0,0	-3,4	-1,0		-3,4	2,4	2
Nauru	0,0	-1,7	-0,4		-1,7	1,3	2
Peru	0,0	-6,5	-0,7		-6,5	5,8	2

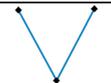
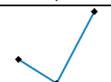
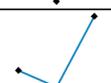
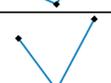
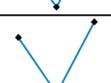
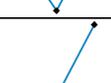
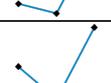
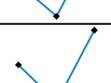
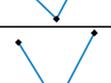
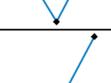
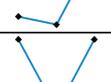
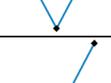
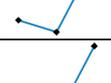
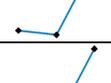
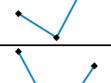
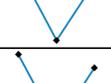
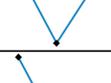
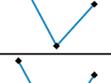
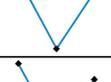
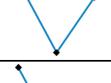
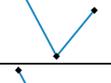
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Romania	0,0	-5,0	-1,1		-5,0	3,9	2
Russia	0,0	-5,5	-2,0		-5,5	3,5	2
Sierra Leone	0,0	-3,1	-0,4		-3,1	2,7	2
El Salvador	0,0	-5,4	-1,1		-5,4	4,3	2
Sao Tome and Principe	0,0	-6,5	-3,5		-6,5	3,0	2
Eswatini	0,0	-2,3	-1,0		-2,3	1,3	2
Seychelles	0,0	-10,8	-4,3		-10,8	6,5	2
Thailand	0,0	-6,7	-0,6		-6,7	6,1	2
Trinidad and Tobago	0,0	-4,5	-1,9		-4,5	2,6	2
Tunisia	0,0	-4,3	-0,2		-4,3	4,1	2
Ukraine	0,0	-8,2	-7,1		-8,2	1,1	2
United Arab Emirates	0,0	-3,5	-0,2		-3,5	3,3	2
St. Vincent and the Grenadines	0,0	-5,1	-1,0		-5,1	4,1	2
South Africa	0,0	-7,7	-4,3		-7,7	3,4	2
Zambia	0,0	-3,5	-1,2		-3,5	2,3	2
Zimbabwe	0,0	-7,4	-4,9		-7,4	2,5	2
Azerbaijan	0,0	-2,2	-1,5		-2,2	0,7	3
Guyana	0,0	52,8	59,1		52,8	6,3	3
Liberia	0,0	-2,5	-1,8		-2,5	0,7	3
Nicaragua	0,0	-6,0	-6,0		-6,0	0,0	3
Papua New Guinea	0,0	-1,5	-1,2		-1,5	0,3	3
Sudan	0,0	-7,2	-10,2		-7,2	-3,0	4

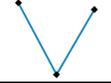
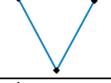
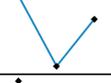
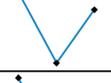
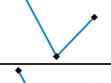
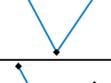
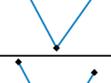
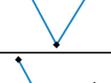
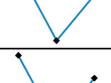
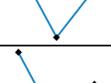
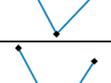
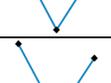
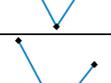
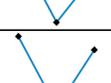
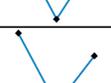
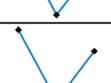
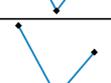
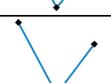
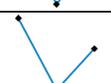
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Samoa	0,0	-5,0	-6,5		-5,0	-1,5	4
Benin	0,0	3,2	9,2		3,2	6,0	5
Burkina Faso	0,0	2,0	7,8		2,0	5,8	5
Bangladesh	0,0	3,8	9,5		3,8	5,7	5
Brunei Darussalam	0,0	1,3	4,8		1,3	3,5	5
Bhutan	0,0	2,7	5,6		2,7	2,9	5
Central African Republic	0,0	1,0	5,0		1,0	4,0	5
China	0,0	1,2	10,4		1,2	9,2	5
Cote d'Ivoire	0,0	2,7	11,4		2,7	8,7	5
Republic Congo	0,0	2,3	5,7		2,3	3,4	5
Egypt	0,0	2,0	4,8		2,0	2,8	5
Eritrea	0,0	0,1	6,0		0,1	5,9	5
Ethiopia	0,0	3,2	6,9		3,2	3,7	5
Ghana	0,0	1,5	7,4		1,5	5,9	5
Guinea	0,0	1,4	8,0		1,4	6,6	5
Gambia	0,0	2,5	9,0		2,5	6,5	5
Indonesia	0,0	0,5	8,7		0,5	8,2	5
India	0,0	1,9	9,3		1,9	7,4	5
Kenya	0,0	0,8	6,3		0,8	5,5	5
Kyrgyz Republic	0,0	0,4	6,4		0,4	6,0	5
Kiribati	0,0	0,0	2,2		0,0	2,2	5
Lao People's Democratic Republic	0,0	0,7	6,3		0,7	5,6	5

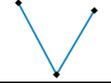
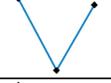
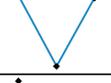
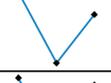
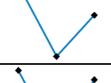
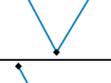
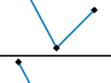
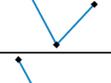
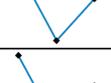
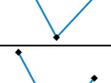
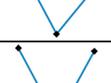
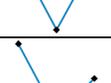
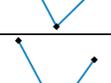
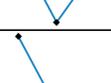
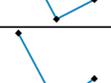
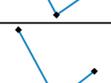
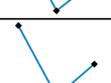
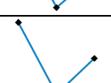
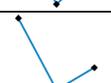
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Mali	0,0	0,9	4,9		0,9	4,0	5
Myanmar	0,0	1,4	7,4		1,4	6,0	5
Mozambique	0,0	2,2	6,9		2,2	4,7	5
Malawi	0,0	1,0	3,5		1,0	2,5	5
Niger	0,0	1,0	9,1		1,0	8,1	5
Nepal	0,0	1,0	4,5		1,0	3,5	5
Philippines	0,0	0,6	8,2		0,6	7,6	5
Rwanda	0,0	2,0	8,3		2,0	6,3	5
Senegal	0,0	3,0	8,5		3,0	5,5	5
South Sudan	0,0	4,9	8,1		4,9	3,2	5
Togo	0,0	3,0	7,0		3,0	4,0	5
Turkmenistan	0,0	1,8	8,2		1,8	6,4	5
Tanzania	0,0	2,0	6,6		2,0	4,6	5
Uganda	0,0	3,7	9,4		3,7	5,7	5
Uzbekistan	0,0	1,5	8,5		1,5	7,0	5
Vietnam	0,0	2,7	9,7		2,7	7,0	5

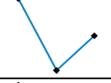
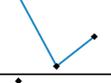
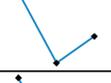
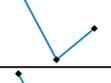
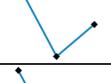
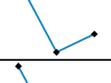
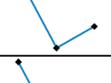
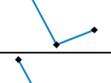
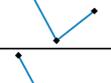
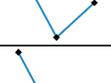
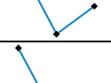
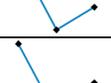
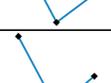
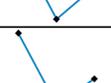
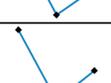
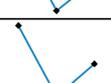
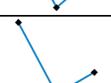
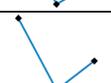
## Annex 2

Country	Calculation growth trend (based on the projections of the WEO October 2020 for the years 2020 and 2021)				Projections WEO October 2020		Category (see table 1, line 2)	Risk of debt distress according to the IMF
	2019	2020	2021		2020	2021		
Bulgaria	0	-4	0,1		-4	4,1	1	
Burkina Faso (1)	0	-2	1,9		-2	3,9	1	moderate
Pakistan (1)	0	-0,4	0,6		-0,4	1	1	
Democratic Republic Congo (1)	0	-2,2	1,4		-2,2	3,6	1	moderate
Djibouti (1)	0	-1	6		-1	7	1	high
Eritrea	0	-0,6	5,1		-0,6	5,7	1	
Gambia (1)	0	-1,8	4,2		-1,8	6	1	high
Georgia	0	-5	0		-5	5	1	
Guatemala	0	-2	2		-2	4	1	
Guinea-Bissau (1)	0	-2,9	0,1		-2,9	3	1	moderate
Indonesia	0	-1,5	4,6		-1,5	6,1	1	
Cambodia (1)	0	-2,8	4		-2,8	6,8	1	
Cameroon (1)	0	-2,8	0,6		-2,8	3,4	1	high
Kazakhstan	0	-2,7	0,3		-2,7	3	1	
Kiribati (1)	0	-1,1	1,9		-1,1	3	1	high
Comoros (1)	0	-1,8	1,1		-1,8	2,9	1	moderate
Liberia (1)	0	-3	0,2		-3	3,2	1	moderate
Madagascar (1)	0	-3,2	0		-3,2	3,2	1	
Malaysia	0	-6	1,8		-6	7,8	1	

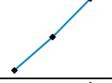
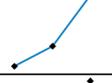
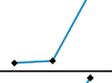
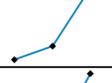
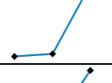
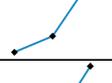
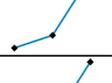
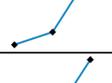
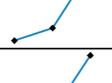
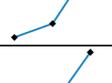
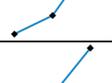
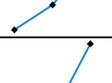
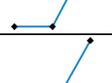
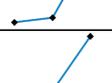
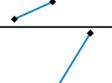
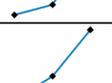
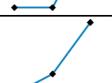
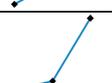
Mali (1)	0	-2	2		-2	4	1	moderate
Macedonia	0	-5,4	0,1		-5,4	5,5	1	
Mongolia (1)	0	-2	4		-2	6	1	
Mozambique (1)	0	-0,5	1,6		-0,5	2,1	1	in debt distress
Paraguay	0	-4	1,5		-4	5,5	1	
Poland	0	-3,6	1		-3,6	4,6	1	
Senegal (1)	0	-0,7	4,5		-0,7	5,2	1	moderate
Serbia	0	-2,5	3		-2,5	5,5	1	
Somalia (1)	0	-1,5	1,4		-1,5	2,9	1	in debt distress
Sri Lanka	0	-4,6	0,7		-4,6	5,3	1	
Chad (1)	0	-0,7	5,4		-0,7	6,1	1	high
Turkey	0	-5	0		-5	5	1	
Tuvalu (1)	0	-0,5	2,5		-0,5	3	1	high
Uganda (1)	0	-0,3	4,6		-0,3	4,9	1	
Central African Republic (1)	0	-1	2		-1	3	1	high
Afghanistan (1)	0	-5	-1		-5	4	2	high
Albania	0	-7,5	-1,4		-7,5	6,1	2	
Algeria	0	-5,5	-2,3		-5,5	3,2	2	
Angola (1)	0	-4	-0,8		-4	3,2	2	
Armenia	0	-4,5	-1		-4,5	3,5	2	
Barbados	0	-11,6	-4,2		-11,6	7,4	2	
Bolivia	0	-7,9	-2,3		-7,9	5,6	2	

Bosnia and Herzegovina	0	-6,5	-1,5		-6,5	5	2	
Botswana	0	-9,6	-0,9		-9,6	8,7	2	
Burundi (1)	0	-3,2	-0,1		-3,2	3,1	2	high
Cabo Verde (1)	0	-6,8	-2,3		-6,8	4,5	2	high
Chile	0	-6	-1,5		-6	4,5	2	
Dominican Republic	0	-6	-2		-6	4	2	
Fiji (1)	0	-21	-9,5		-21	11,5	2	
Gabon	0	-2,7	-0,6		-2,7	2,1	2	
Honduras (1)	0	-6,6	-1,7		-6,6	4,9	2	
India	0	-10,3	-1,5		-10,3	8,8	2	
Iran	0	-5	-1,8		-5	3,2	2	
Jordan	0	-5	-1,6		-5	3,4	2	
Qatar	0	-4,5	-2		-4,5	2,5	2	
Kyrgyz Republic (1)	0	-12	-2,2		-12	9,8	2	moderate
Kosovo (1)	0	-7,5	-1,5		-7,5	6	2	
Croatia	0	-9	-3		-9	6	2	
Lesotho (1)	0	-4,8	-0,9		-4,8	3,9	2	moderate
Maldives (1)	0	-18,6	-5,9		-18,6	12,7	2	high
Morocco	0	-7	-2,1		-7	4,9	2	
Mauritania (1)	0	-3,2	-1,2		-3,2	2	2	high
Mauritius	0	-14,2	-4,3		-14,2	9,9	2	
Namibia	0	-5,9	-2,5		-5,9	3,4	2	

Peru	0	-13,9	-6,6		-13,9	7,3	2	
Philippines	0	-8,3	-0,9		-8,3	7,4	2	
Moldova (1)	0	-4,5	-0,4		-4,5	4,1	2	
Romania	0	-4,8	-0,2		-4,8	4,6	2	
Russia	0	-4,1	-1,3		-4,1	2,8	2	
Solomon Islands (1)	0	-5	-0,5		-5	4,5	2	moderate
Saudi Arabia	0	-5,4	-2,3		-5,4	3,1	2	
Sierra Leone (1)	0	-3,1	-0,4		-3,1	2,7	2	high
St. Vincent and the Grenadines (1)	0	-7	-3,3		-7	3,7	2	high
Thailand	0	-7,1	-3,1		-7,1	4	2	
Timor-Leste (1)	0	-6,8	-2,8		-6,8	4	2	
Tunisia	0	-7	-3		-7	4	2	
Hungary	0	-6,1	-2,2		-6,1	3,9	2	
Uruguay	0	-4,5	-0,2		-4,5	4,3	2	
Vanuatu (1)	0	-8,3	-4		-8,3	4,3	2	moderate
Belarus	0	-3	-0,8		-3	2,2	2	
Antigua and Barbuda	0	-17,3	-12,6		-17,3	4,7	2	
Equatorial Guinea	0	-6	-3,8		-6	2,2	2	
Argentina	0	-11,8	-6,9		-11,8	4,9	2	
Aruba	0	-19,7	-10,7		-19,7	9	2	
Azerbaijan	0	-4	-2		-4	2	2	
Bahamas	0	-14,8	-10,2		-14,8	4,6	2	

Bahrain	0	-4,9	-2,6		-4,9	2,3	2	
Belize	0	-16	-8		-16	8	2	
Brazil	0	-5,8	-3		-5,8	2,8	2	
Costa Rica	0	-5,5	-3,2		-5,5	2,3	2	
Dominica (1)	0	-8,8	-5,5		-8,8	3,3	2	high
Ecuador	0	-11	-6,2		-11	4,8	2	
El Salvador	0	-9	-5		-9	4	2	
Grenada (1)	0	-11,8	-8,8		-11,8	3	2	in debt distress
Haiti (1)	0	-4	-2,8		-4	1,2	2	high
Iraq	0	-12,1	-9,6		-12,1	2,5	2	
Jamaica	0	-8,6	-5		-8,6	3,6	2	
Colombia	0	-8,2	-4,2		-8,2	4	2	
Mexico	0	-9	-5,5		-9	3,5	2	
Micronesia (1)	0	-3,8	-2,6		-3,8	1,2	2	high
Montenegro	0	-12	-6,5		-12	5,5	2	
Nigeria (1)	0	-4,3	-2,6		-4,3	1,7	2	
Panama	0	-9	-5		-9	4	2	
Papua New Guinea (1)	0	-3,3	-2,1		-3,3	1,2	2	high
Saint Lucia (1)	0	-16,9	-9,7		-16,9	7,2	2	moderate
Sao Tome and Principe (1)	0	-6,5	-3,5		-6,5	3	2	in debt distress
Seychelles	0	-13,8	-9,6		-13,8	4,2	2	
Zimbabwe	0	-10,4	-6,2		-10,4	4,2	2	

St. Kitts and Nevis	0	-18,7	-10,7		-18,7	8	2	
South Africa	0	-8	-5		-8	3	2	
Suriname	0	-13,1	-11,6		-13,1	1,5	2	
Eswatini	0	-3,5	-2,1		-3,5	1,4	2	
Trinidad and Tobago	0	-5,6	-3		-5,6	2,6	2	
United Arab Emirates	0	-6,6	-5,3		-6,6	1,3	2	
Ukraine	0	-7,2	-4,2		-7,2	3	2	
Zambia (1)	0	-4,8	-4,2		-4,8	0,6	3	high
Bhutan (1)	0	0,6	0,1		0,6	-0,5	3	moderate
Republic Congo (1)	0	-7	-7,8		-7	-0,8	3	in debt distress
Marshall Islands (1)	0	-4,5	-5,4		-4,5	-0,9	3	high
Nicaragua (1)	0	-5,5	-6		-5,5	-0,5	3	moderate
Yemen (1)	0	-5	-4,5		-5	0,5	3	moderate
Kuwait	0	-8,1	-7,5		-8,1	0,6	3	
Sudan	0	-8,4	-7,6		-8,4	0,8	3	in debt distress
Ethiopia (1)	0	1,9	1,9		1,9	0	3	high
Guyana (1)	0	26,2	34,3		26,2	8,1	3	moderate
Oman	0	-10	-19,5		-10	-9,5	4	
Palau	0	-11,4	-18,8		-11,4	-7,4	4	
Samoa (1)	0	-5	-6,5		-5	-1,5	4	high
South Sudan (1)	0	4,1	1,8		4,1	-2,3	4	in debt distress
Tonga (1)	0	-2,5	-6		-2,5	-3,5	4	high

Venezuela	0	-25	-35		-25	-10	4	
Egypt	0	3,5	6,3		3,5	2,8	5	
Bangladesh (1)	0	3,8	8,2		3,8	4,4	5	
Benin (1)	0	2	7		2	5	5	moderate
Brunei Darussalam	0	0,1	3,3		0,1	3,2	5	
China	0	1,9	10,1		1,9	8,2	5	
Lao People's Democratic Republic (1)	0	0,2	5		0,2	4,8	5	high
Cote d'Ivoire (1)	0	1,8	8		1,8	6,2	5	moderate
Ghana (1)	0	0,9	5,1		0,9	4,2	5	high
Guinea (1)	0	1,4	8		1,4	6,6	5	moderate
Kenya (1)	0	1	5,7		1	4,7	5	high
Malawi (1)	0	0,6	3,1		0,6	2,5	5	moderate
Myanmar (1)	0	2	7,7		2	5,7	5	
Nauru	0	0,7	2		0,7	1,3	5	
Nepal (1)	0	0	2,5		0	2,5	5	
Niger (1)	0	0,5	7,4		0,5	6,9	5	moderate
Rwanda (1)	0	2	8,3		2	6,3	5	moderate
Tajikistan (1)	0	1	7		1	6	5	high
Tanzania (1)	0	1,9	5,5		1,9	3,6	5	
Togo (1)	0	0	3		0	3	5	moderate
Turkmenistan	0	1,8	6,4		1,8	4,6	5	
Uzbekistan (1)	0	0,7	5,7		0,7	5	5	

Vietnam	0	1,6	8,3		1,6	6,7	5	
(1): Qualified for the G20 Debt Service Suspension Initiative								