MVI Indicator Suggestion Form

Submission by UNCTAD,

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1. Name of indicator, units, database where it is promulgated and maintained, including web address

Name	External debt sustainability (Total external debt service/exports revenues*)
Units	Percent
Database	UNCTAD based on World Bank IDS Database, IMF WEO and Global Debt Database, and national sources
Website	The indicator is promulgated in the report of the Secretary-General to the General Assembly on External debt sustainability and development. It also refers to SDG indicator "17.4.1" Debt service as a proportion of exports of goods and services[1] The reports are available at: https://digitallibrary.un.org/ https://www.un.org/en/ga/second/index.shtml

Note*: Alternative measures for external debt sustainability are: Total external debt stocks/export revenues, Public and Publicly Guaranteed (PPG) debt service/exports revenues, PPG debt service/government revenues, and Reserves/short-term debt.

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[1] The only difference being that SDG 17.4.1 only considers debt service on Public and Publicly Guaranteed (PPG) debt.

2. Pillar, domain, and concept where indicator should be located within the MVI framework

The indicator primarily relates to economic vulnerability as it is defined by the High Panel on the MVI and would fit into the category "Exposure to fluctuations in international trade and financial flows", which for the time being only includes an indicator on trade but nothing on finance.

The vulnerability of developing countries to international financial flows primarily stems from a series of boom-and-bust phases that may render their external debt unsustainable and undermine their capacity to finance sustainable development. During boom phases, indebtedness accumulates in an environment of abundant global liquidity, leading to the proliferation of speculative bubbles across various sectors. The bust phases, on the other hand, involve sudden stops primarily triggered by external shocks, resulting in significant capital outflows that endanger the solvency of the country, encompassing both the public and private sectors. These capital outflows divert substantial resources away from economic, social, and environmental development, including critical areas such as health, education, and the attainment of other Sustainable Development Goals (SDGs). As a result, the indicator also bears implications for the other two domains of the MVI.

Developing countries exhibit disparities in their susceptibility to the fluctuations of capital flows, influenced by factors such as their size, degree of integration into financial markets, exposure to climate change, economic structure, and governance but also historical instances of default (hysteresis). Consequently, the debt indicator is statistically correlated with certain other MVI indicators (as is the case with most indicators), but it also provides distinctive information regarding financial vulnerability.

As external debt vulnerability is a **structural** source of economic vulnerability for **all developing countries**, the indicator meets two key principles of the MVI – *universality and exogeneity.*

3. Is your suggested indicator an addition or replacement?

An addition

4. Provide a short justification focussing on the relationship of the indicator to structural vulnerability or structural resilience

External debt sustainability, measured as *the total external debt service as a share of export revenues* indicator, measures **vulnerability** to negative changes in global trade and financial conditions, including fall in commodity prices, exchange rate depreciation, and rising borrowing costs, which affect the debt servicing costs of countries no matter how good their governance. These factors create an external structural vulnerability for developing countries.

Developing countries are particularly vulnerable to external shocks because their currencies are positioned at the bottom of the currency hierarchy. This is a structural feature of the international monetary and financial system. These shocks may be associated with changes in the monetary policy in developed countries or non-economic factors, such as the Covid-19 pandemic and the war in Ukraine. External shocks deteriorate global financial conditions, resulting in higher bond spreads, capital outflows and currency depreciations in developing countries, which increase the cost of servicing the external debt and borrowing new debt, rendering the external debt more unsustainable.

Climate change-driven natural disasters are also examples of external shocks. The aftermath of natural disasters increases the fiscal burden and decreases the country's ability to repay debt, resulting in higher debt. Moreover, affected countries face higher interest rates because of an increased risk premium linked to rising climate events, further reinforcing the debt vulnerability.

5. Provide a simple Theory of Change

- The more sustainable a country's external debt is, the lower the impact of external shocks on its economy will be. Conversely, the more unsustainable a country's external debt is, the greater the impact of external shocks will be and the more unsustainable the external debt will become.
- Developing countries have structural dependence on external debt for two main reasons:
  1. They tend to have a trade deficit (imports exceed exports) as, in order to develop, developing countries need to import capital and intermediate goods, and they usually export commodities whose prices are very volatile.
  2. They have shallow domestic financial markets – which makes it difficult to raise domestic finance for development.
- All developed countries have used and continue to use debt to ensure their continued development. Hence, while sovereign debt is not the problem, unexpected changes to debt servicing make countries vulnerable. External debt becomes more unsustainable when the costs of debt servicing and new borrowing increase due to higher external borrowing costs and exchange rate depreciation.

6. Indicate which developing countries have missing data

The proposed indicator[2] is classified as a "Tier 1" indicator in IAEGG-SDGs classification, which categorizes SDG indicators into three tiers (Tier 1 being the highest) based on their level of methodological development and the availability of data at the global level.

The indicator is very standard, highly acknowledged and widely used in the landscape of global official statistics. These statistics have been globally harmonised through the World Bank Debtor Reporting System that was established in 1951, without any significant dispute[3]. UNCTAD has been reporting on External Debt Statistics, Trends and Analysis for the Secretary-General in the "Report of the UN Secretary-General: External debt sustainability and development" for several decades. The report focuses on developing UN member states (so classified by the UN Statistics Division in its "Standard Country or Area Codes for Statistical Use" (M49 Standard)), with 109 countries having their data extracted from World Bank International Debt Statistics.

Among the missing countries in World Bank International Debt Statistics (WB IDS), 19 countries' time series are populated by UNCTAD based on IMF datasets and national sources. They include Bahrain, Chile, Cuba, Equatorial Guinea, Kuwait, Libya, Malaysia, Oman, Panama, Qatar, Romania, Saint Kitts and Nevis, Saudi Arabia, Seychelles, Singapore, Suriname, Trinidad and Tobago, Uruguay, Venezuela.

Data on 15 countries remain unavailable: Antigua and Barbuda, Bahamas, Barbados, Brunei Darussalam, Kiribati, Korea, Dem. People's Rep. Of, Marshall Islands, Micronesia (Federated States of), Namibia, Nauru, Palau, South Sudan, State of Palestine, Suriname, Tuvalu.

Nevertheless, to ensure the MVI's integrity, UNCTAD Statistics can be mandated by the UN to directly gather data from these countries and enhance their statistical capabilities for international compilation and reporting purposes. UNCTAD Statistics can also strengthen the harmonization of overall debt statistics, regardless of their primary source, for specific use in the MVI. If relevant, these activities can be incorporated as a component of the statistical initiatives explicitly specified by the MVI High-Level Panel, as stated in paragraph 73 of the MVI Interim Report (July 2022)[4].

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[2] We again highlight that the SDG indicator is an even more restrictive variant of the proposed indicator as it only considers debt service in Public and Publicly Guaranteed debt.

[3] The sole concerns pertain to the inclination to consistently underestimate the debt burden of developing countries due to the proliferation of financial innovations over the last decades. These innovations have not necessarily been adequately accounted for in the current framework. Furthermore, there is insufficient data available regarding climate-related debt. However, these issues do not challenge the significance and accuracy of the data in relation to the MVI.

[4] 73."Enhancing statistical capacity and leveraging new sources of data will be key for strengthening the monitoring of vulnerabilities and facilitating evidence-based, targeted and effective support. As emphasized by many international organizations, statistical capacities and data gaps remain major challenges for many vulnerable countries. This is an important limitation for measuring and addressing the challenges of multidimensional vulnerabilities. International efforts to strengthen statistical offices of the most vulnerable countries and to provide enhanced support in developing national capacities for improved data collection and statistical analysis, should be maintained alongside efforts to identify and develop new sources of data that could be leveraged to enhance the credibility and effectiveness of the vulnerability / resilience profiles."