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THE WORLD BANK

INDEX

LETTER FROM THE EXECUTIVE BOARD

From the Desk of the Bureau

Honourable Member State Representatives,

On behalf of the Bureau, I would like to welcome you to the World Bank. The main agenda for this session is "*Deliberating macro-economic policy frameworks for developing countries to cope with a high debt-to-GDP ratio.*"

Many developing countries across the world are burdened by unsustainable debts, which are sometimes the product of years, if not decades, of government mismanagement and corruption. These countries are frequently postcolonial and have been victims of kleptocratic governments or severe civil war. These debts, which are frequently owing to untrustworthy Western creditors, can be a serious impediment to these countries' rehabilitation and progress. They perpetuate a vicious circle of financial commitments and an incapacity to rise above mountains of debt. A country with a bad track record of repaying debts will have a considerably more difficult time obtaining the financing it requires to survive or stimulate economic growth. This makes this agenda an unavoidable deliberation in the status quo.

There are a few instructions we must give with this study guide:

1. It is advised that you go through the background guide properly. The aim of this guide is to provide clarity regarding the various aspects of the agenda as well as provide direction and to channelize your research. However, *this study guide is not the ultimate source of information and your research*. This study guide has been structured in such a manner to give you basic knowledge of the agenda at hand and hence, we strongly recommend that you research various things on your own and try to understand the intricate details of the agenda.
2. We will be following the UNA-USA rules of procedure in this committee. Those who are not well versed with these rules of procedures, kindly have a look at it before the committee begins. Moreover, The Executive Board will ensure that the first-timers will understand each and every aspect of the rules of procedure, the council in general, as well as the agenda.

3. Considering this Agenda at hand, keep an open, curious, and creative mind and understand how to implement any part of your research in the best possible manner.

Read widely and extensively. Be aware of your foreign and domestic policies. I wish you all the best and please don't hesitate to contact me if you have any doubts. Feel free to drop your queries at singhishpreet.isl@gmail.com or adithyaprakashnayak@outlook.com .

Ishpreet Singh Luthra	Adithya Nayak
Chairperson	**Vice-Chairperson**

INTRODUCTION TO THE COMMITTEE

The World Bank came into existence out of the Bretton Woods Agreement in 1944.
The World Bank is a unique financial institution that works for the reduction of poverty and economic development. It provides technical as well as financial assistance and guidance to various nations.
The World Bank provides zero-interest credits, grants, and low-interest loans to various nations who send their blueprints and which are approved by the World Bank.
The World Bank came into existence out of the Bretton Woods Agreement in 1944.

Why was the World Bank created?

In 1944, it was created for the reconstruction development of Japan and Europe post World War II, therefore, its initial name was International Bank for Reconstruction and Development (IBRD).
Now, the World Bank holds a very important role in the global economic stability and economic sustenance of poorer nations. The third tier nations get loans, grants and funds from the World Bank to finance various developmental projects like education, health, employment etc.

What are the Components of the World Bank Group?

There are 5 components or pillars of the World Bank Group:

1. International Bank for Reconstruction and Development (IBRD): It supports nations in conflict and post-conflict situations to reconstruct their infrastructure and sustain their economy.
2. International Development Association (IDA): It analyses the metabolism of nations as to how much funds or loans are feasible and then gives interest-free loans to poor nations.
3. International Finance Corporation (IFC): It is responsible for advisory services to various nations along with training of financial policy makers under the Economic Development Institute (EDI).
4. Multilateral Investment Guarantee Agency (MIGA): It is responsible for analysing feasibility and sustainability of fund allocations and providing guarantees regarding the same.

5. International Centre for Settlement of Investment Disputes (ICSID): It is responsible to settle disputes and provide arbitration with regards to international investment disputes.

What is the Mandate of the World Bank?

The World Bank provides assistance, both technical as well as financial for long term projects and goals for the development of various nations, especially the third tier nations.
The World Bank grants loans on the basis of blueprint analysis of various nations. The blueprints are analysed based on the liabilities, subsidies, debts, metabolism etc of the nation.
The World Bank also collaborates with the International Monetary Fund (IMF) for assessment, climate change, debt burden, Sustainable Development Goals (SDGs) etc.

BACKGROUND

What is Debt-to-GDP Ratio?

The ratio of a country's public debt to its Gross Domestic Product (GDP) is called the Debt-to-GDP ratio. It is a parameter to define the capability and capacity of a nation to pay back the debt it owes by doing a comparative analysis of what a country owes and what it produces.
An economically stable nation is able to pay their interests continuously without the need for more loans or negative impact on the economy.

Why is it problematic to have a higher Debt-to-GDP Ratio?

A country which has trouble paying off its external debts or public debts has a high debt-to-GDP ratio and this situation results in financial instability and financial panic.
Countries have an aim to maintain lower Debt-to-GDP ratio but it gets difficult in times of conflicts, crisis etc. During such times, poorer nations are forced to take more loans to sustain themselves.
The higher the debt-to-GDP ratio, less likely are the chances of the nation being able to pay the loan and higher the risk of the nation's default.

Case Studies

Japan

Japan has one of the highest debt-to-GDP ratios. Japan's debt accumulates to about two and a half times its economy. To avoid default, Japan keeps the yields from government bonds low and manages to keep the confidence of the investors high.

Greece

Greece also has over 200% debt-to-GDP ratio, which has resulted in the downfall of the economy with regards to employment opportunities reduction, poverty increase, income decrease etc. Economists have predicted that Greece might enter into a state of economic crisis due to its high debt-to-GDP ratio.

STATUS QUO

The rising debt burdens of developing countries are a global challenge that the World Bank works to address through several debt relief initiatives for developing countries. Moreover, they have a significant role in the worldwide socio-economic disparity. Unmanageable debts make impoverished debtor countries poor and affluent creditor countries prosperous. During the present global economic crisis, public debt has skyrocketed and is predicted to rise much higher. This increase has generated worries about whether public debt is approaching levels that might harm economic growth. Is there a tipping point in public debt? How serious will the impact of public debt be on growth after this point? What happens if the debt remains over this limit for a lengthy period?

Existing initiatives that were taken by the World Bank in this realm:

The World Bank, in collaboration with the IMF, is actively working with these nations to alleviate some of their debt loads. The debt relief initiatives of the World Bank are divided into two primary categories: the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), in addition to the Debt Reduction Facility (DRF). The former aims to reduce countries' debt to manageable levels by providing relief on qualified debt owned by multilateral, bilateral, and commercial creditors. The latter, DRF, is a tool that encourages business creditors to collaborate in the debt reduction project. Crushing debt commitments may be a substantial impediment to progress, making it far more difficult for countries that need loans the most to get them. As a result, debt reduction for developing nations is a key concern for the World Bank.

Since about 2013, the IMF and the World Bank were on pace to help 39 HIPCs in reducing their debt by around US$114 billion through the HIPC Strategy and MDRI. This initiative aims to release these nations' debt-obligated assets for poverty reduction. Under the HIPC/MDRI, there is a mechanism for evaluation of debt reduction that begins with the World Bank classifying the nation as a deeply indebted poor country. HIPCs are labelled as such because of their severe levels of poverty plus heavy debt overhang, which precludes them from borrowing any more money.

According to the World Bank, nations qualifying for the HIPC Initiative and MDRI must meet two criteria:

1. **<u>The decision point</u>**: "the time during which the World Bank and IMF formally evaluate whether a country qualifies for debt relief." At this point, countries have satisfied strict requirements, including income limitations. The international community agrees on a degree of debt relief, and the state may begin to receive it."
2. **<u>The completion point:</u>** "the moment at which countries get the rest of the debt relief pledged to by the international community at the decision point." This is the point at which they complete the curriculum. To get to this stage, governments must have implemented specific reforms and taken significant actions to alleviate poverty."

According to the most current annual report, 36 HIPCs, 30 of which are in Africa, engaging in the HIPC Initiative and MDRI have alleviated $99 billion in debt as of October 2016. Out of the initial 39 HIPCs, 36 have received the entire sum of debt relief for which they were qualified under the HIPC Initiative and the MDRI. This appears to imply that the measures were a success since they greatly decreased the debt burdens of the 36 nations and directed them toward more economic stability, at least in the short term. However, three HIPCs, Eritrea, Somalia, and Sudan, did not make it through the decision stage due to the severity of their debt difficulties and structural reasons that contributed to the buildup of such debilitating loans. Furthermore, only time will reveal whether the MDRI will assist such HIPCs in the big scheme of things.

Macro-economic reforms adopted by countries to recover

Two nations that have a similar debt-to-GDP ratio may face different consequences. A high debt-to-GDP ratio may not signify an approaching collapse or other issues in the future. Rating agencies may be lenient toward countries that have a viable strategy to resolve a high debt-to-GDP ratio. Those that do not have a strategy, on the other hand, frequently experience significant downgrades and criticism. Greece drew heavy criticism from rating agencies in 2011 because it lacked a realistic plan of action.

A greater debt-to-GDP ratio is reasonable when the debt is purchased by local investors (citizens) or repeat purchasers with a motivation to buy. For example, Japan's purchasers are 90% domestic, but US debt buyers are just 60% domestic. Many countries purchase US debt to ensure trade access. Countries that are rapidly rising may incur additional debt to sustain that development, but an unanticipated slowdown might result in a significantly larger debt-to-GDP ratio. For example, Japan's stagnation following its tremendous expansion in the 1980s led to its high debt today.

The national debt of the United States is a little over $30 trillion dollars. Many economists think that the most significant statistic is the public debt, which is substantially lower at $23.5 trillion. In any case, the United States has the regrettable distinction of having the world's highest national debt in absolute terms. To put that sum into context, it's an IOU of little more than $90,000 per individual. Japan is the world's third-largest economy (nominal GDP of slightly more than $5 trillion in 2020), with a debt-to-GDP ratio of 256%. That implies Japan's national debt exceeds almost double its yearly economic production. That's a pretty lengthy Toyota queue. Japan was the first nation to surpass the 200% level in 2010. No other nation has accumulated a debt so large, at least in relative terms, but Japan has subsequently been immediately followed by two other countries that have crossed that figurative criterion: Sudan (209.9%) and Greece (206.7%).

The United States and Japan issue all of their debt in their own currencies, rendering a sovereign debt default extremely unlikely. Aside from the economic might and organizational stability of the world's tallest and third-largest economies, the Federal Reserve and Japan's central bank both have a limitless quantity of US dollars and Japanese yen to spend on government bonds. Governments of European Union member nations, on the other hand, borrow in a currency managed mostly by European Central Bank (ECB). As a result, decisions regarding whether to boost Italy's government bond prices are decided in Frankfurt rather than Rome. According to some analysts, the arrangement is the fundamental source of Europe's sovereign debt crises.

IMF and IDA Relief Initiatives:

1. The SDFP of the International Development Association intends to motivate IDA-eligible nations to progress toward transparent, sustainable finance and tackle debt-related risks.

According to the SDFP, 55 nations at moderate, high risk of financial distress, or in debt distress (including five with market access) committed to executing performance and policy actions (PPAs) in FY22, and 58 countries are doing so. In FY21, most PPAs concentrated on debt management (primarily debt caps) and debt transparency in the context of the pandemic and considerable economic restrictions faced by governments. Debt limits have restricted non-concessional new borrowing, driving the choice of capital projects with credibly high return rates. The SDFP also helped nations improve their ability to contract loans, issue guarantees, and detect and address risks.

2. The World Bank and the IMF offer coordinated technical support on debt management and debt disclosure.

The Joint World Bank-IMF Debt Management Facility (DMF) offers IDA nations technical assistance (TA) and consulting services. 3 The DMF's mainstreaming of TA has assisted nations in improving performance in areas such as debt management legislative framework and managerial structure, debt management strategies, coordination between debt and cash management, and debt reporting. Debt transparency measures have improved, but major gaps persist, particularly in the thoroughness of debt coverage and the regularity of debt audits (DMF 2020). The World Bank's Government Debt and Risk Management Program (GDRM) delivers specialised technical advisory services to middle-income countries using a programmatic approach.

3. The World Bank and the IMF have created practical tools and guidance notes to assist nations in identifying, quantifying, disclosing, and managing fiscal risks.

The Fiscal Risk Toolkit from the World Bank assists nations in managing debt-related contingent liabilities and quantifying the projected impact on the budget and debt sustainability assessments. Fiscal Risk Assessments and Fiscal Transparency Evaluations (FTEs) conducted by the IMF assist countries in identifying the breadth and size of their fiscal risks, evaluating fiscal risk management strategies, and proposing steps to address them.

4.Assistance with public investment management (PIM) is crucial in assisting countries in allocating limited resources to the most profitable ventures.

Countries with substantial debt burdens must choose between increasing public investment to accomplish development goals and reducing debt risks. Higher ODA and initiatives to increase domestic revenue, attract foreign direct investment, and enhance the efficiency of investment expenditures can help to mitigate this trade-off. Countries with great ways for companies and accountability systems may more effectively assure bang for the buck by limiting cost and schedule overruns than the average developing economy.

5.The World Bank and the IMF also assist member nations in developing domestic debt markets and improving long-term financing for both public and private borrowers.

Over the last five years, WBG assistance for domestic debt market development has reached over 50 low- and middle-income countries through direct advisory support, training, and operations-related work, as well as part of larger country engagements supported by the Debt Management Facility (DMF), the Global Debt and Risk Management (GDRM) Program, and the Joint Capital Markets Program (J-CAP); World Bank 2022). J-CAP is intended to develop local capital markets in low- and middle-income countries by mobilising domestic and international private capital to invest in strategic sectors such as housing and infrastructure, as well as providing longer-term local currency funding, particularly for banks and nonbank financial institutions. The IMF encourages the growth of local currency government bond markets through its training and technological assistance programmes in order to assist countries in avoiding currency risks, developing a strong financial system, financing budget deficits in a non-inflationary manner, and improving resiliency to sudden changes in foreign capital flows.

RELEVANCE/CONCLUSION

Rising levels of government debt throughout the world have increased default risks and are expected to hamper future economic development. At the same time, they mostly represent pandemic relief spending, which managed to avoid a rapid drop with unforeseeable long-term effects. Slow growth and high debt are inextricably linked, in particular, because slow growth raises the risk of deficit spending. The coronavirus outbreak has exacerbated debt and development-related obstacles that were already significant before 2020. Sustaining development while preserving fiscal sustainability has been rendered more difficult by the pandemic's long-term consequences on public finances, incomes and employment, and vulnerable communities' human capital accumulation. Fiscal assistance programmes funded by public debt offered relief and preserved lives and livelihoods. However, debt-induced uncertainty can potentially hamper growth and investment, especially if global interest rates rise. Increased debt payment responsibilities will restrict available fiscal flexibility for growth and stabilisation, and rising government debt financing requirements may drive out domestic investment.

The possibility of debt negatively influencing GDP has increased dramatically in the previous two years. During the pandemic, the debt of all kinds reached record levels in both mature and rising markets and developing nations (EMDEs). The Russia-Ukraine conflict threatens to aggravate the situation. High debt and fiscal vulnerabilities impair macroeconomic stability and impede broad-based development, which is required to decrease poverty and enable governments to deliver basic services to their residents in the poorest and most fragile nations. The IMF and the WBG may assist EMDEs by offering policy advice, financial support, and technical assistance relating to growth and stability, sectoral and national reforms, and financial sector capacity development, based on their knowledge and experience. This assistance aims to increase government capacity for managing fiscal risks, as well as private debt insolvency regimes, nonperforming loan resolution, and overall financial market growth. The Paris Club and the G20 continue to give assistance in the design and execution of debt reduction. MIGA guarantees and IFC business investments provide governments with long-term funding, enterprises with debt and non-debt financing, and, in the case of the IFC, distressed wealth management for credit intermediaries.

The crux as to why we are here to discuss this agenda can be laid down as follows:

1. Debt of all kinds has risen to multi-decade highs.

Total gross worldwide debt increased by 28 percentage points of GDP in 2020, driven mostly by an increase in government expenditure in reaction to the COVID-19 pandemic and fewer revenues as a result of the economic downturn, reflecting the decline in GDP.

2. Unsustainable debt puts macroeconomic stability at risk.

Previous bouts of fast debt buildup have been linked to an increased probability of financial crises, as well as economically expensive sovereign debt defaults or banking crises. A variety of shocks might produce the spark, but excessive debt levels provide the gasoline that causes a crisis to arise unexpectedly and quickly. When new crises or problems arise, high sovereign debt imposes limits on fiscal policy.

3. Increasing debt loads can stifle investment and undermine progress.

Government interest outlays in IDA nations, for example, have gradually increased and were twice as high in 2018 as health spending. Similarly, while interest expenditure has increased, education spending in IDA nations has stayed constant over the last decade. This contrasts with the rise in poverty-reduction spending and decrease in debt service loads that resulted from debt relief offered by the HIPC and MDRI Initiatives.

4. The coronavirus outbreak increased the likelihood of countries entering into difficulties, and the Russia-Ukraine war will almost certainly deepen their economic problems.

Addressing mounting debt vulnerability has become increasingly critical. Currently, 60% of the nations eligible for the Debt Service Suspension Initiative (DSSI) are either at high risk of or currently in a debt crisis. The 2020 recession impacted fragile and conflict-affected states (FCS) and small island developing states (SIDS) especially severely, eroding their budgetary buffers significantly like the lapse of the health system in Sri Lanka. A further escalation of geopolitical tensions as a result of the Russia-Ukraine war might result in stricter global economic conditions, higher inflation, poorer growth, and more strain on public budgets, with negative consequences for the debt dynamics of EMDEs.

QUESTIONS A RESOLUTION MUST ANSWER (QARMA)

1. Does financial assistance truly bring a country out of poverty, or is it only a sign of larger problems?

2. What is the obligation of affluent countries to developing countries?

3. How would debt-burdened less developed countries account for their incapacity to pay debts and establish themselves as deserving of comprehensive debt relief or reduction?

4. Considering the criticisms of the HIPC initiative, is there scope for reform or amendments to the existing framework?

5. Can the World Bank's existing debt relief initiatives (HIPC/MDRI, DRF, and so on) be extended or reduced?

6. What is the role of Non-Performing Assets in increasing Debt-to-GDP ratios of nations?

7. How is it analysed whether to provide relief funds to a nation or not and how much?

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