

DEBT-TO-GNI RATIO		
Economic development	Sustainable public finance	Core indicator

## 1. INDICATOR

(a) **Name:** Debt to GNI ratio

(b) **Brief Definition:** The indicator can be defined as the total amount of outstanding debt (internal and external) issued by the general government divided by gross national income. For countries where external debt is a major concern, the indicator can alternatively or additionally be defined as total external debt divided by gross national income.

(c) **Unit of Measurement:** Percentage

(d) **Placement in the CSD Indicator Set:** Economic development/ Sustainable public finance and/or Global Economic Partnership/ External financing

## 2. POLICY RELEVANCE

(a) **Purpose:** With regard to public debt, this is a standard measure for public finances. With regard to external debt, this indicator measures the liabilities of the public sector for external debt of a country in relation to its total income (GNI).

(b) **Relevance to Sustainable/Unsustainable Development (theme/sub-theme):** External debt sustainability for poor countries is one of the MDG goals. While external borrowing is a method of supplementing savings and financing the investment gap in a country, an unsustainable debt burden will choke development. For poor countries borrowing to finance previous borrowing can become a vicious circle, which may require drastic measures and outside aid to close.

Public debt constitutes a burden for future generations as it reduces the amount of resources available for their consumption and investments. High and increasing debt ratios can be seen as an indication of unsustainable public finances.

(c) **International Conventions and Agreements:** On external debt, there exist agreements on Highly-Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI), initiated by the G8, to aid poor countries. There exist also the Paris and London “clubs” for renegotiation of debt and debt service payments to public and private creditors.

No global conventions or agreements exist for public debt.

(d) **International Targets/Recommended Standards:** Millennium Development Goal (MDG) 8, target 15, “Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term” addresses external debt.

(e) **Linkages to Other Indicators:** This indicator is closely linked with measures such as total debt as a share of GNI and debt service as a ratio to exports of goods and services, which is measures debt burden in relation to a country's foreign exchange earning capacity.

### 3. METHODOLOGICAL DESCRIPTION

(a) **Underlying Definitions and Concepts:**

*Gross general government debt* comprises the stock (at year-end) of all government gross liabilities (both to residents and nonresidents). To avoid double counting, the data are based on a consolidated account (eliminating liabilities and assets between components of the government, such as budgetary units and social security funds). General government should reflect a consolidated account of central government plus state, provincial, or local governments, social security funds and special funds, but exclude public corporation. General government debt can also be expressed in net terms, defined as gross general government debt minus all government assets (domestic as well as foreign).

*Total external debt* is debt owed to nonresidents repayable in foreign currency, goods or services. It is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit and short-term debt.

*Short term debt* includes all debt having an original maturity of one year or less and interest in arrears on long-term debt.

*Long-term debt* is debt that has an original or extended maturity of more than one year. It has three components: public, publicly guaranteed, and private non-guaranteed debt.

*Public and publicly guaranteed debt* comprises the long-term external obligations of public debtors, including the national government and political subdivisions (or an agency of either) and autonomous public bodies, and the external obligations of private debtors that are guaranteed for repayment by a public entity.

*Gross national product* (GNI) is the sum of value added by all resident producers plus any taxes (less subsidies) not included in the valuation of output, plus net receipts of primary income (compensation of employees and property income) from abroad.

(b) **Measurement Methods:** The indicator is derived by dividing total public debt and/or external debt outstanding and disbursed as contained in the World Bank's Global Development Finance (GDF) database by total GNI.

(c) **Limitations of the Indicator:** While a high debt to GNI ratio is not desirable, a high ratio by itself is not a definite sign of trouble. There are no absolute rules to determine when the ratio of debt to GNI is too high. The sustainable level debt varies from country to country. The same value of ratio could be sustainable for one country whereas a heavy burden for another country. For example, countries with fast growing economies and, in

case of external debt, exports can sustain a higher debt ratio than countries with low growth and limited resources.

(d) **Status of Methodology:** The methodology is generally well developed.

(e) **Alternative Definitions/Indicators:** Gross domestic product (GDP) can be used as a denominator instead of GNI. Also present value of debt can be used instead of total external debt as the numerator.

#### 4. ASSESSMENT OF DATA

(a) **Data Needed to Compile the Indicator:** Debt data for public debt and/or for external debt and national accounts data for GNI.

(b) **National and International Data Availability and Sources:** In most developing countries central bank or ministry of finance collects and reports external borrowings to the World Bank Debt Reporting System. Data reported by the IMF and OECD, based in part on credit reports may differ due to varying methodology and timing of data collection. Availability of international data on general government debt is scarce and the data is often not comparable.

(c) **Data References:** Information on external debt, including a breakdown in public and publicly-guaranteed external debt and private non-guaranteed external debt, and GNI are available in World Banks GDF and WDI publications and databases.

#### 5. AGENCIES INVOLVED IN THE DEVELOPMENT OF THE INDICATOR

(a) **Lead Agency:** The lead agency is the World Bank. The contact point is I. Levent (phone: +1 202. 473-3843; email: ilevent@worldbank.org)

(b) **Other Contributing Organizations:** IMF and OECD

#### 6. REFERENCES

(a) **Readings:**

World Bank, *Global Development Finance*, various years

World Bank, *World Development Indicators*, various years

(b) **Internet sites:**

World Bank [www.worldbank.org/debt](http://www.worldbank.org/debt)

IMF: [www.imf.org](http://www.imf.org)