Executive Directors discussed and approved the proposed reforms recommended in the Joint World Bank - International Monetary Fund (IMF) report reviewing the debt sustainability framework (DSF) for low income countries (LIC) (IDA/R2017-0299). Directors recognized the need to keep up with the rapidly changing financing landscape facing LICs and further improve the DSF’s predictive ability. They approved reforms to the DSF that make the framework more comprehensive, transparent, and simpler to use, including the use of tailored stress tests to address shocks and drivers of distress. Directors welcomed the collaboration between the World Bank and IMF in development and rollout of the revised framework.

Directors agreed with the proposed changes in the methodology presented in the report, while recognizing that the core architecture of the framework remains the same. The revised framework bases the assessment of countries’ risk carrying capacity on an expanded set of variables. Adjustments to the methodology are designed to improve the framework’s accuracy in predicting debt crisis. New tools are prepared to help shed light on the plausibility of underlying macroeconomic projections, and new tailored stress tests are provided to help better evaluate specific risks of relevance for some countries. Lastly, the number of debt thresholds and standardized stress tests will be reduced.

Directors acknowledged the complementarity between the debt sustainability frameworks for LICs and market-access countries, and the technical assistance for the medium-term strategy toward sound debt management. They strongly emphasized the importance of capacity building and training for authorities, and the centrality of effective data. Directors called for strong outreach to financiers including bilateral and non-Paris Club creditors, commenting on the importance of responsible creditor behavior. They noted the importance of staffs’ judgement in the framework, and urged a consistent, evidence-based application supported by clear guidance that would cover the diversity of country situations. Directors highlighted the need for continued attention to the investment-growth nexus, including public and private investments, contingent liabilities, domestic resource mobilization, quality of spending, and safeguarding against unsustainable debt.

Directors agreed with the timeline for implementation of the revised DSF, noting that it would become effective on July 1, 2018.

*This summary is not an approved record.*