ATTACHMENT III. EXTERNAL DEBT SUSTAINABILITY ANALYSIS AND FISCAL SUSTAINABILITY ANALYSIS

2. After the banking crisis, the external debt increases and remains vulnerable to shocks. The baseline is predicated on the assumption that external banking sector activity does not resume over the forecast horizon. The main analysis therefore covers *only* the activity of the nonbank private sector and public sector.[9] Based on the baseline scenario which assumes program success, a quick turnaround in the current account, stabilization of the exchange rate, and that borrowers are able to rollover or reduce outstanding debt, the DSA shows debt on a downward path but from very high levels. The key points are:

• The external debt ratio is estimated at 160 percent of GDP in 2009 as the public sector takes on loans to finance reimbursement of foreign deposit insurance, and new loans to fill the financing gap. Thereafter some net debt repayments are made and external debt falls back as a percent of GDP.

• While the external debt ratio falls back significantly over the forecast horizon, it remains very high at 101 percent of GDP by 2013.

• Within the total, public sector external debt declines to 49 percent of GDP by 2013 from 100 percent in 2008, as a result of debt repayments and a resumption in GDP growth over the medium term.

External debt remains extremely vulnerable to shocks—most notably the exchange rate. A further depreciation of the exchange rate of 30 percent would cause a further

precipitous rise in the debt ratio (to 240 percent of GDP in 2009) and would clearly be unsustainable.