International Monetary Fund
African Department

Regional Perspectives on Drivers of Increasing Public Debt in Africa

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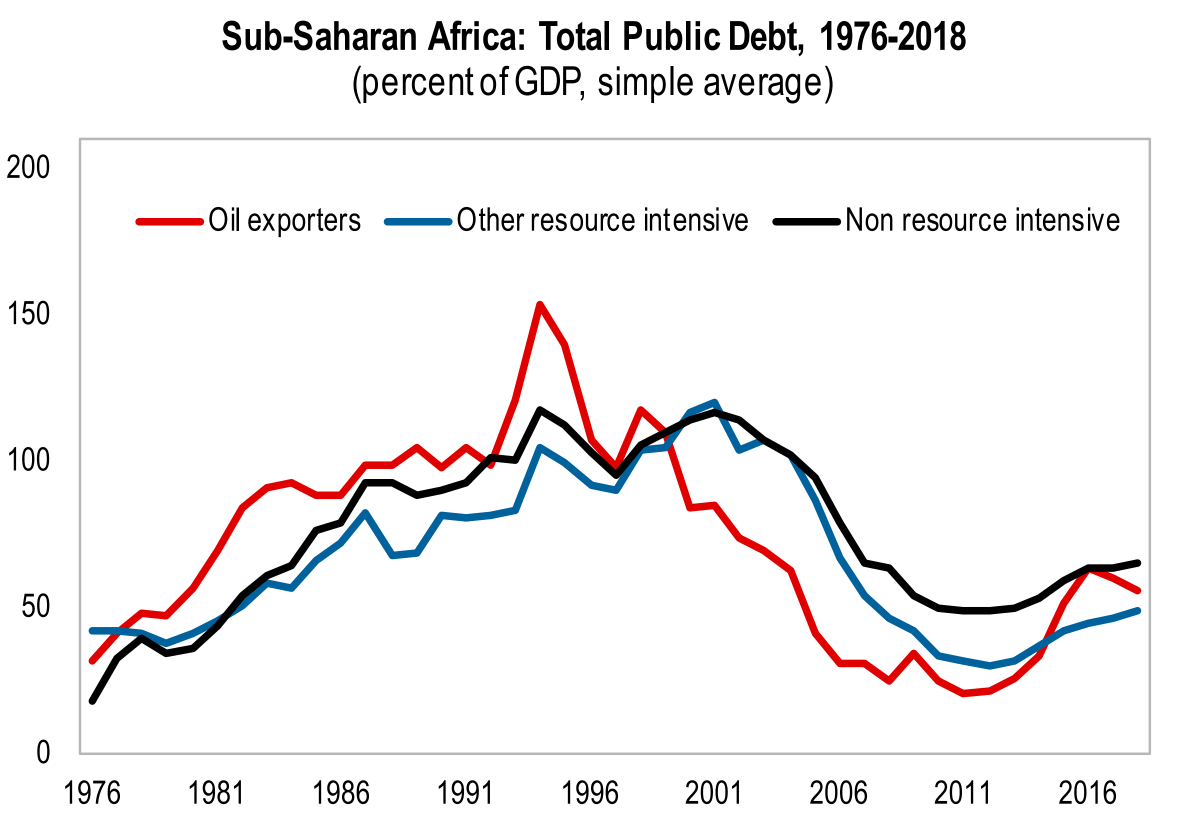
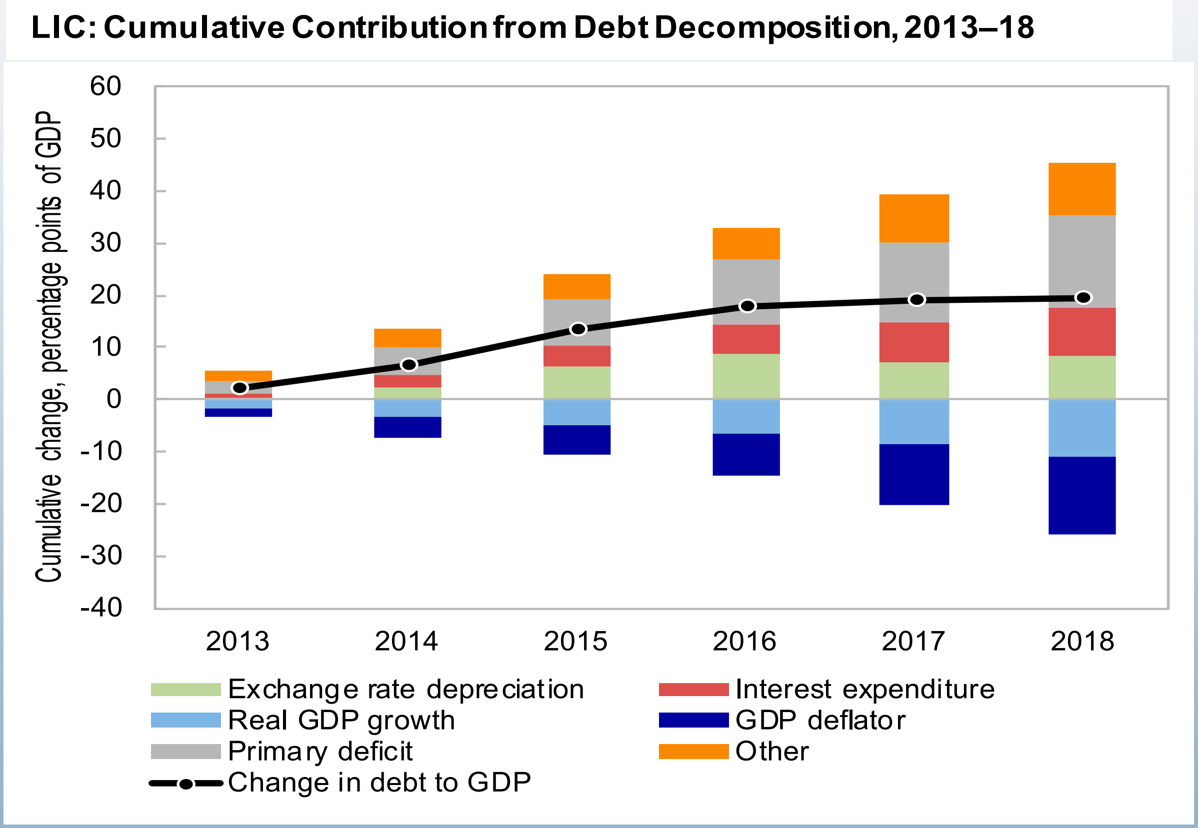
SSA Debt is Mounting again: Evolution and Drivers





SSA Debt Dynamics: Evolution and Drivers

Public debt-to-GDP has been rising in the SSA region since 2013.

- From 40 percent in 2013 to 57 percent since 2016, but with wide heterogeneity.
- Largest contributors: Oil exporters (Angola, Nigeria), but average debt rati has fallen 10 percentage points of GDP since 2016.

Drivers--originates from both policies and exogenous factors:

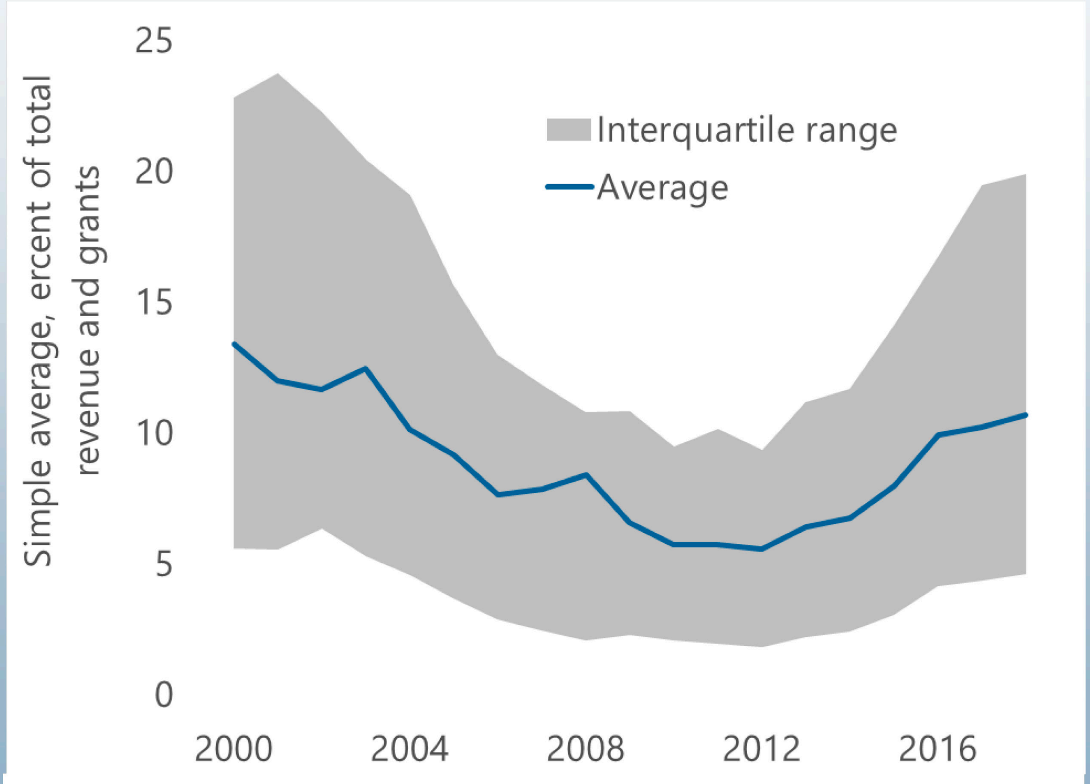
- Large primary deficits driven by increases in public investment (about 30 percent of countries, IMF LIDC report) and negative shocks (ToT, growth, and conflict).
- Exchange rate depreciation.
- Increased interest payments (borrowing on commercial terms).
- One-off operations ("debt surprises").

Debt and Investment

- Not all investments are necessarily growth-enhancing.
- Efficiency and project selection are key.
- **Key is safeguarding debt sustainability**

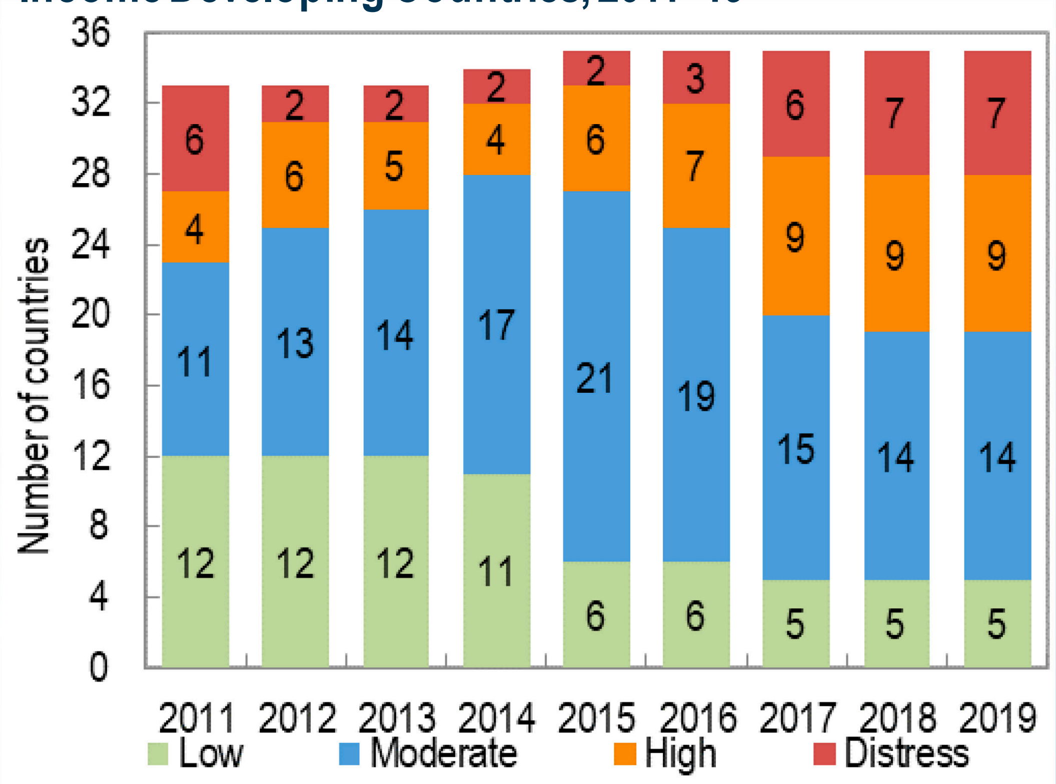
SSA Debt Dynamics: Vulnerabilities

Sub-Saharan Africa: Interest Payments



Source: IMF, World Economic Outlook database.

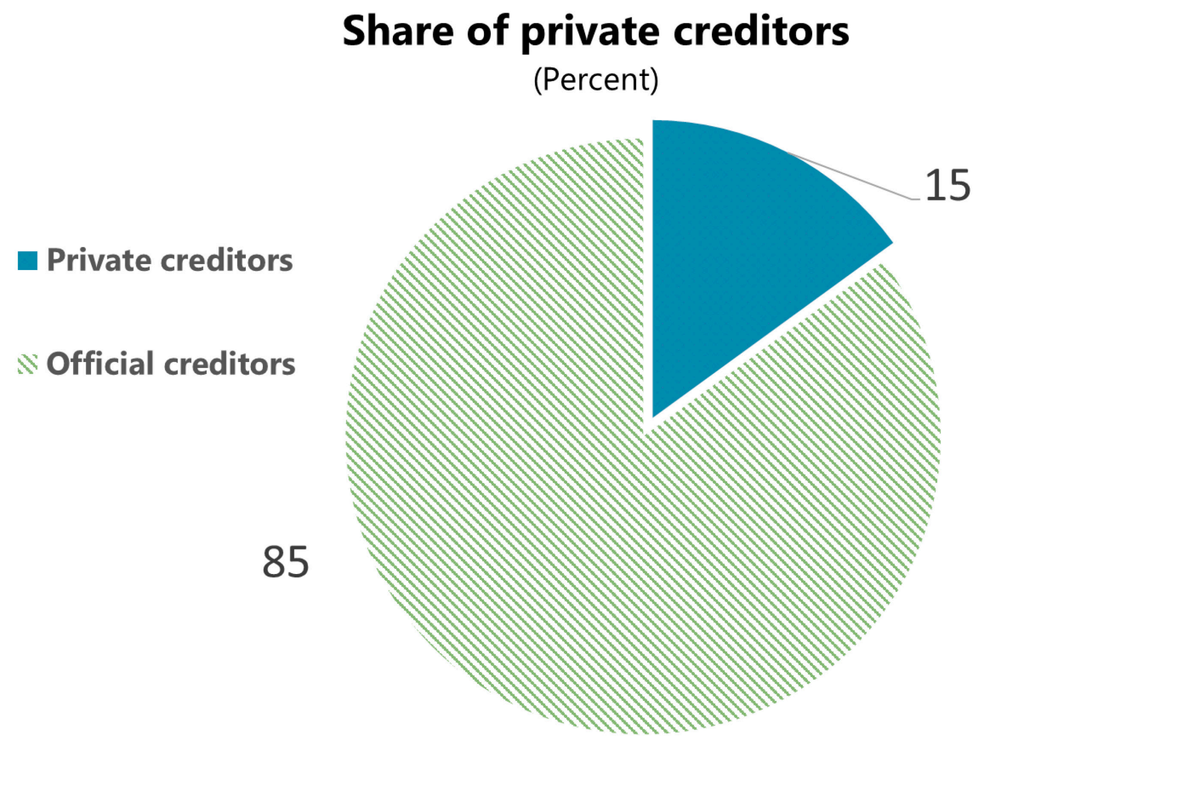
Sub-Saharan Africa: Debt Risk Status for Low-Income Developing Countries, 2011–19



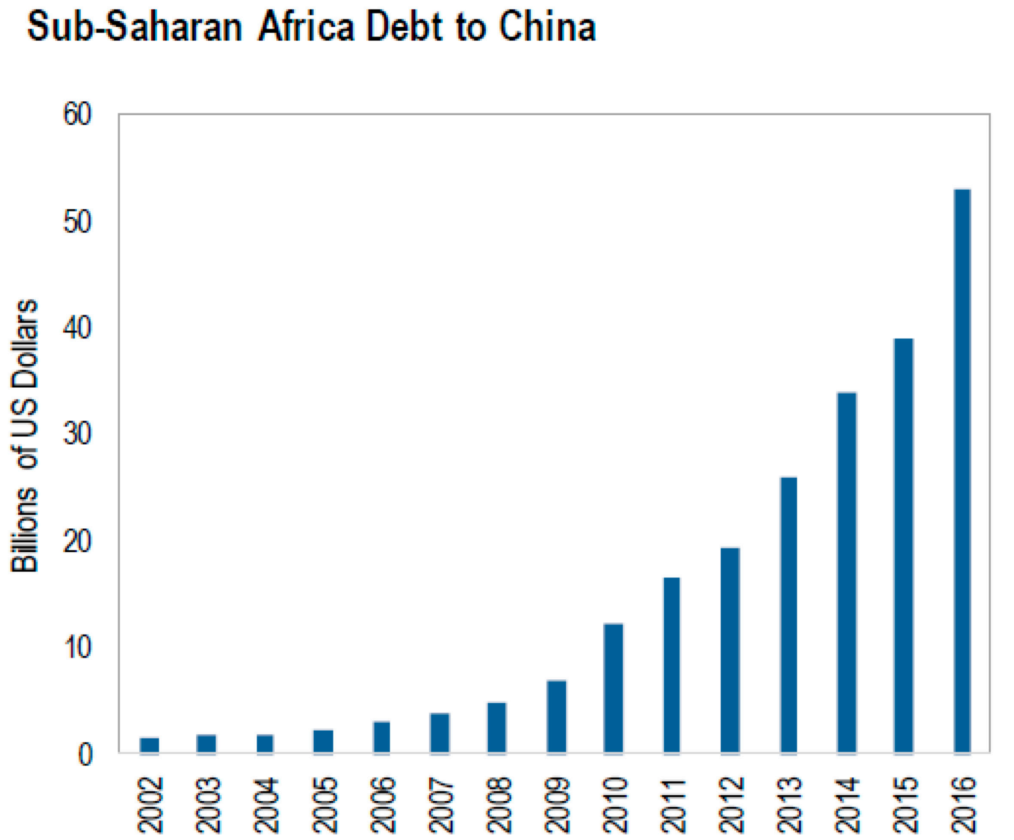
SSA Debt Dynamics: Evolving landscape

Shifts in the composition

- Private creditors (move towards non-concessional debt). Increasingly large share of African debt held by private banks and bondholders.
- China has become a substantive creditor, and collateralized borrowing is rising.



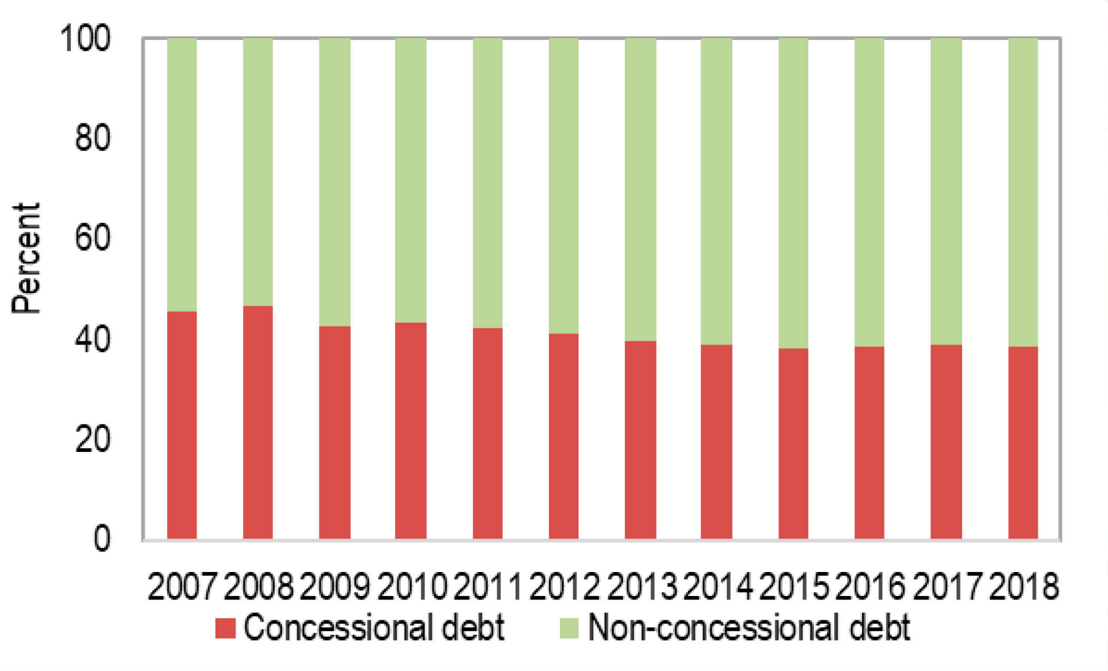
Sources: AFR debt monitor



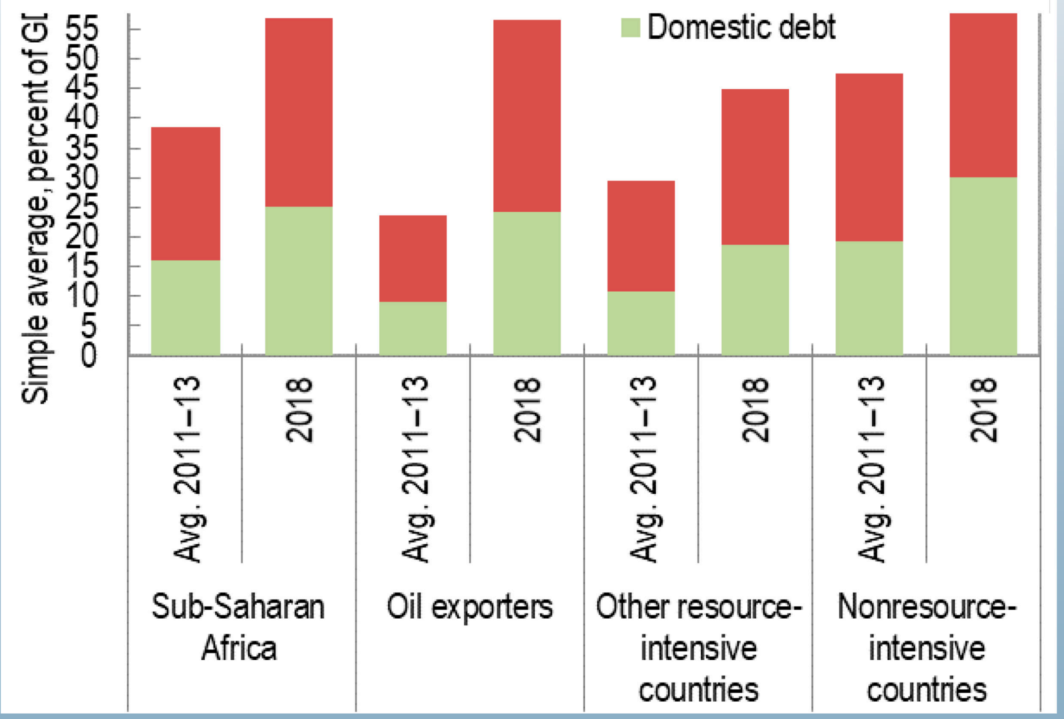
SSA Debt Dynamics: Evolving landscape

- Foreign currency borrowing remains dominant (60 percent in 2017), but increasingly reliance on domestic borrowing in some countries.
- Private creditors. Increasingly large share of African debt held by private banks and bondholders (15 percent of total debt)

Sub-Saharan Africa: Concessional and Non-Concessional



Sub-Saharan Africa: Public Sector Debt Decomposition, 2011–18



Zimbabwe’s debt profile

- **Country is in debt distress** – it has arrears to IFIs and bilaterals
  - Rising exposure to non-traditional external creditors – increasing-non concessional debt and also collaterized debt
  - Difficulties to access funding from non traditional lenders that Zim had relied on non-traditional borrowers – Afreximbank, China are increasing
  - Not much PPPs
  - Legacy Debt (which debt qualify – only what is necessary to preserve financial stability, plus commitments have been signed already (e.g., IATA)?
  - Farmer compensation
- **Other Zimbabwe issues:**
  - Not following laws especially debt procedures set out in the PFM and PDM Act
  - There is rising collateralized debt –but limited public information on collateralized debt
  - Stronger public finance management (PFM) frameworks, including for SOEs

Addressing Debt Vulnerabilities and Financing Development

- **Mobilizing domestic revenue and improving expenditure quality** can create fiscal space for development spending without imperiling debt sustainability (IMF estimates that SSA could increase tax revenues 3% to 5% of GDP, and scope to enhance efficiency of public investment).
- **Debt management strategies should be anchored on credible macroeconomic frameworks**. Borrowing should only be considered for investment projects with credibly high rates of return.
- **Strengthening public debt transparency can help support sustainable borrowing and lending practices.** Improving recording and monitoring of debt creates more complete picture to manage debt more effectively.
- **For official partners, ODA represents about [0.3] percent of aggregate DAC GNI.** Delivering on existing ODA targets—0.7 percent of aggregate DAC GNI—would provide additional resources of about [7] percent of LICs' GDP to finance the SDGs.

Challenges

Resolution and rescheduling challenges

- Private creditors and non-traditional lenders.
- Traditional frameworks such as the Paris Club?

Expand sustainable financing? Non-debt creating flows?

- Reengage traditional donors? Role of new lenders? More concessional financing?
- Role of private financing: FDI, private equity, institutional investors, PPPs

What can IFIs do?

- IMF-WB
- A multi-pronged work program to enhance debt transparency and sustainability and address LIC debt vulnerabilities.

Challenges

Resolution and rescheduling challenges

- Private creditors? Increasingly large share of African debt held by private banks and bondholders. As of 2016, 15 percent of total debt.
- Non-traditional lenders? Rising exposures to non-traditional external creditors (such as China) could complicate debt resolutions. Nontraditional creditor and Paris Club? A Beijing club?

How to attract more sustainable financing?

- Non-debt creating flows? Enhanced reliance on commercially-priced debt has translated into higher debt servicing costs and risks. Need for concessional borrowing and non-debt creating flows.
- Crowding out of local private sector? The deepening of domestic financial markets has allowed governments to more actively tap into domestic savings.