

Public Debt in Africa

Which Way(s) to Go after the Pandemic

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Africa/SSA and Covid-19 Awakening

- African economies got hit immediately even before the virus showed up in their shores
 - Global economic linkages: EU, US, China, UAE
 - Economic shocks and shrinkage of fiscal space
 - Debt distress and vulnerabilities
 - Covid-19 has awakened to the imperative of domestic resource mobilization and development of financial markets through integration



African Debt Vulnerability

- Debt vulnerability
 - *Heavy dependence on debt*
 - *Rising interest environment (US Federal Reserve)*
 - *DSSI ends*
 - *Ukraine*
 - *China – headwinds; lockdowns again*
- Debt distress and resolution
 - The G20 Common Framework
- The way forward post pandemic

Covid-19 and Rising African Indebtedness

Brookings/UMD: Heitzig, Ordu, Senbet

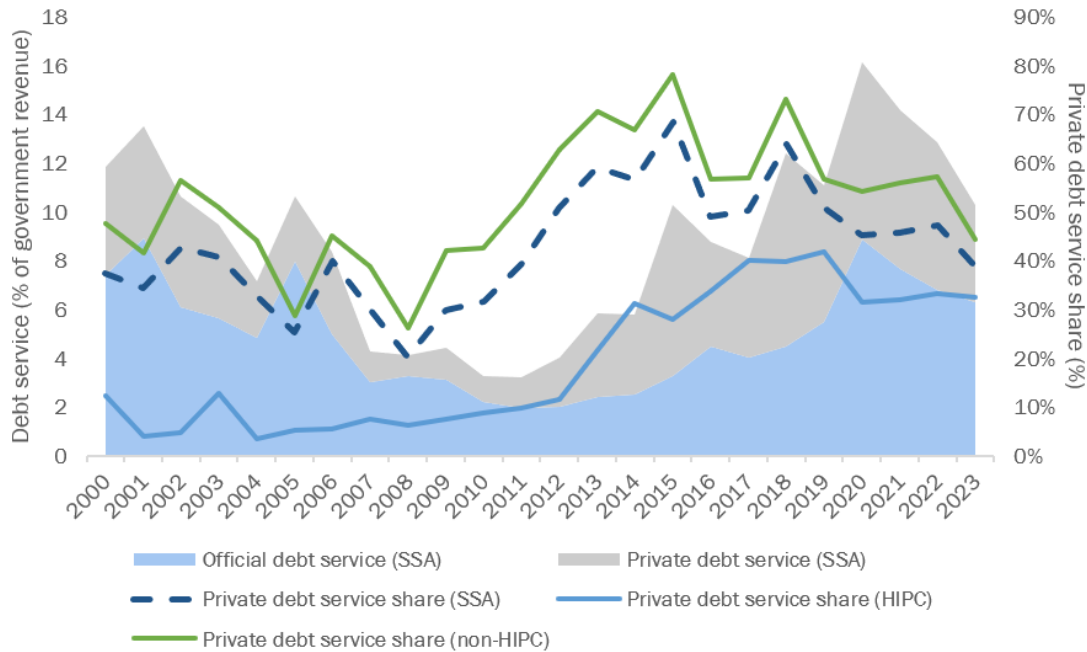
General debt by country grouping

Group	Debt (% of GDP)		Debt (% of GDP) during pandemic		Percent change from Oct 2019 WEO to Apr 2021 WEO		
	2014	2019	2020	2021	2020 debt	2021 debt	2020 GDP
Central Africa	25.5	38.8	41.5	39.1	9.7	19.9	-7.3
Low income	46.9	63.1	71.9	66.9	9.2	2.8	-1.2
IDA	43.7	59.5	67.0	64.5	8.5	6.4	-0.3
HIPC	42.6	59.2	66.5	63.9	8.5	6.9	-0.7
East Africa	53.8	74.1	83.5	79.8	7.3	-0.6	-4.7
Blend	21.5	39.1	44.5	40.6	6.2	0.9	-10.5
Lower middle income	27.5	49.3	54.3	50.4	5.3	3.3	-9.3
Resource-rich	27.6	50.6	59.0	50.6	4.9	-1.5	-12.8
Sub-Saharan Africa	35.1	55.4	63.1	60.3	4.5	3.4	-9.9
Not resource-rich	42.9	58.5	65.7	67.1	4.2	6.3	-7.8
West Africa	23.1	37.3	43.7	41.8	3.6	4.0	-6.6
Southern Africa	43.9	71.2	83.5	82.2	2.7	3.4	-17.9
Not HIPC	31.2	52.3	60.0	57.1	1.7	1.0	-15.3
IBRD	42.4	68.1	81.2	81.3	-1.1	1.9	-20.5

Rising Debt Servicing Costs

Differential Access to Markets

Scheduled and paid debt service by source, sub-Saharan Africa



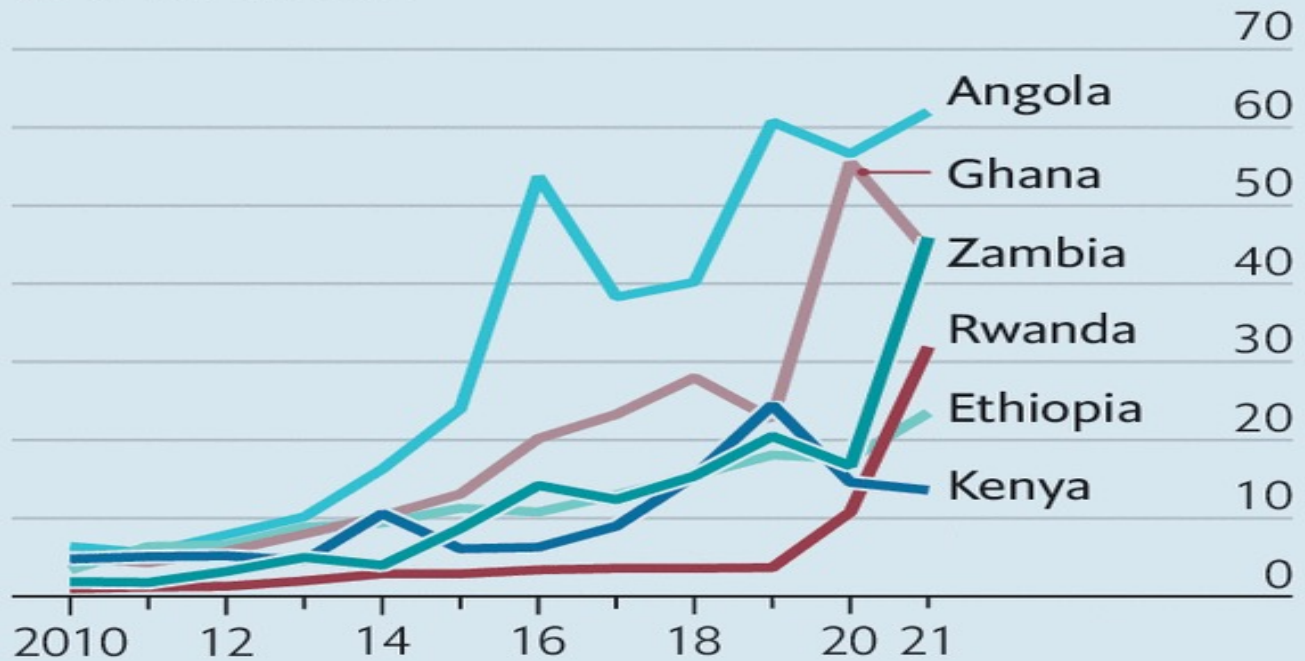
Note: Values after 2020 are "scheduled" and will not likely reflect the debt servicing that country groupings will eventually pay.
Source: International Debt Statistics. World Bank Group.

Rising External Debt Service Burden

The *Economist*, April 30, 2022

Fiscal snag

External government debt service,
as % of revenue



Sources: Jubilee Debt Campaign; World Bank; IMF

Debt Distress and Restructuring

Remedies

- 23 SSA countries on the IMF debt distress list (March 2022); only 8 in 2015 (*the number almost tripled*)
 - Zambia became the first pandemic-era Africa country to default (2020)
- Debt Service Suspension Initiative (DSSI)
 - Delay payments— short-term breathing space
 - Private creditors are not party – despite their growing importance (*external debt share doubled since 2000*)
 - *DSSI expired on December 31, 2021!*

The G20 Common Framework *for Debt Treatment*

- Deals with insolvency and protracted liquidity problems
 - Along with the implementation of the IMF reform program
 - Common debt treatment
- **All** creditors, including private creditors are to participate on comparable terms; All are supposed to get hit
- **Aim:** *coordinating debt relief in accordance with the borrower's capacity to pay, and maintaining essential spending*
- Only three countries thus far have applied:
 - *Zambia, Chad Ethiopia*
 - *Experiencing delays*

African Public Debt: *Post Pandemic*

Some Measures for The Way Forward

- Speedy implementation of the G20 Common Framework
- Public finance management
- Internal resource mobilization
- Speedy implementation of AfCFTA and financial integration
- Mitigating financial leakages and illicit flows
- Designing incentive compatible and state-contingent contracts
- Credit ratings agencies
- Revisiting existing institutional mechanisms for debt resolution
- Good governance, transparency, and accountability
- Ratings agencies

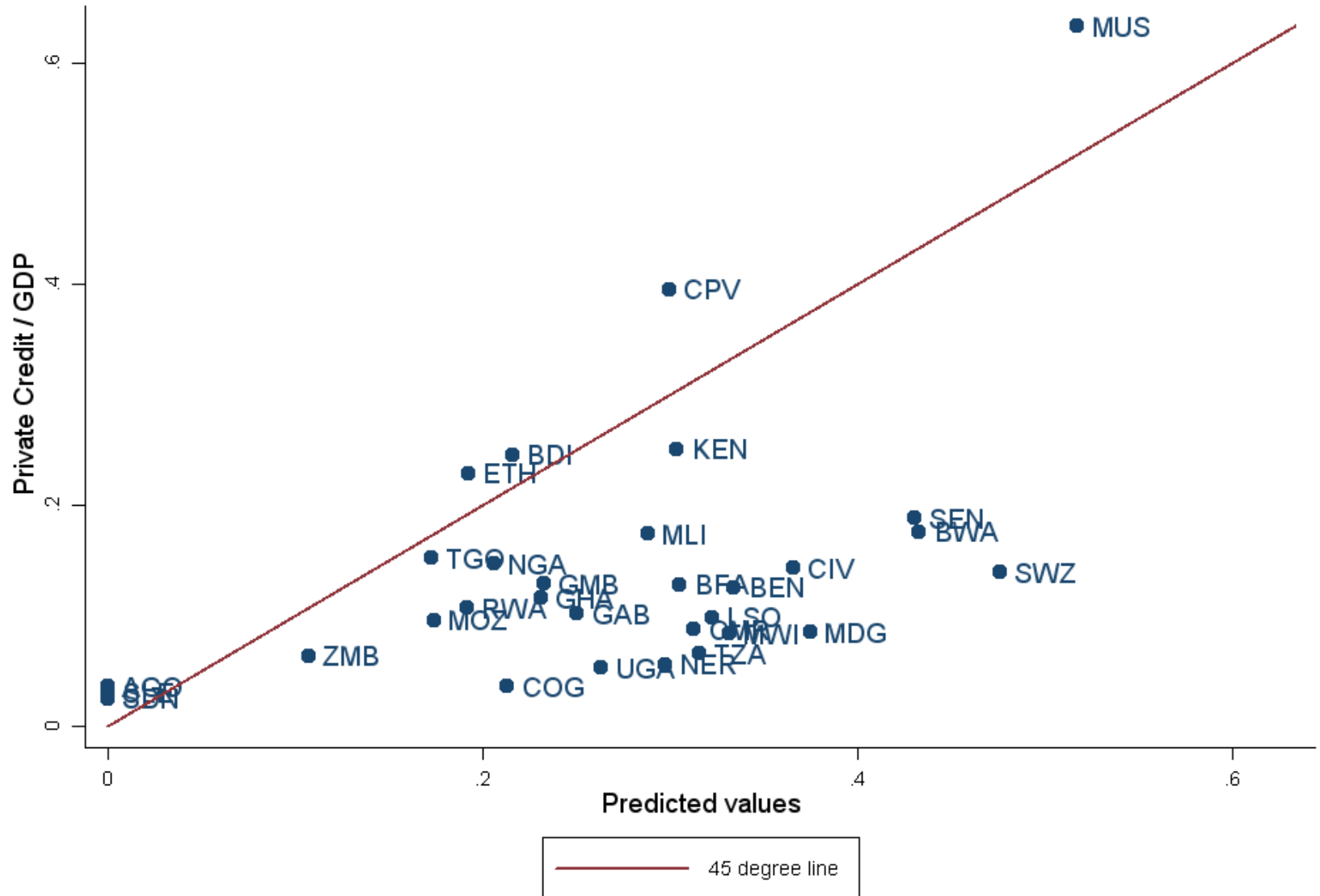
Ratings Game



- Ratings agencies have gained enormous influence
- **Bright side:** They are important in accessing capital markets
- **Dark side:** several downgrades since the outbreak of Covid-19
 - Ivory Coast, Ethiopia, Cameroon, Senegal faced downgrades on account of requesting bilateral debt service suspension or seeking relief from the G20 Common Framework (*Ethiopia*)
 - **Vicious cyle:** rising borrowing costs

The African Financial Development Gap

Actual vs. predicted





African Finance and the Way Forward

Financial Integration of Fragmented Markets

- Given the thinness and illiquidity of the disparate national stock exchanges, it is imperative that these **markets be consolidated through regional cooperation and initiatives**.
 - Harmonize trading laws and accounting standards, and promote convertibility of currencies.
 - Overcome political economy
 - Countries tend to treat **stock markets as national symbols** as they do national airlines. U
- Setting up a stock exchange is no different from **setting up a museum** if the exchange fails to serve multiple functions it is designed to perform – *liquidity, information production, price discovery, markets for corporate control, etc*

Financial Integration

The Good News

- There is a growing recognition for financial integration in Africa
- Key Initiatives for and regionalization and consolidation of markets
 - **BVRM (Abidjan)** – the world’s first regional stock exchange serving 8 Francophone West Africa
 - Benin, Burkina Faso, Guinea Bissau, Cote d' Ivoire, Mali, Niger, Senegal and Togo.
 - Prospects for other regions
 - **West African Stock Markets** *[in progress]*: BVRM, Nigeria, Ghana, Siera Leone, Cape Verde
 - **East Africa** – Kenya, Uganda, Tanzania, Rwanda *[in progress]*
 - **Southern Africa (SADC)**
- African stock markets and regionalization as opportunities for **financial globalization** of Africa – the case of Africa-based funds

African Continental Free Trade Area (*AfCFTA*)



- AfCFTA: Create a single African market for goods and services
 - Across **55 member states** of the African Union.
 - Spanning **1.2 billion people**; **About \$3 trillion GDP**
 - Scope exceeds that of a traditional free trade area, which generally focus on trade in goods
 - Includes trade in **services**, investment, e-commerce, etc.
 - Hence, **financial integration**

Post Recovery Measures

But Urgency of Now!

■ Prior benefits to SSA low income countries

- DSSI – *suspending official debt payments*
- Low interest rates in the US and other advanced countries
- Promise of the Common Framework (CF) for restructuring

■ Current

- Rising interest rates and Ukraine
- End of DSSI; Failure of the Common Framework
- New covid variants

■ Urgency of Now

- Speed up implementation of CF