

MANAGEMENT OF PUBLIC DEBT REFINANCING RISKS WITHIN THE WAEMU AREA IN A VOLATILE AND UNCERTAIN ENVIRONMENT

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INTRODUCTION

- AS PART OF THIS WORKSHOP, CABRI COMMISSIONED A CASE STUDY ON REFINANCING RISKS IN THE WAEMU AREA.
- IN ORDER TO CARRY OUT THE STUDY, INFORMATION FROM SEVEN OUT OF THE EIGHT COUNTRIES WAS COLLECTED.
- THE RESULTS WILL MAKE IT POSSIBLE TO ASSESS THE DEBT SITUATION AND THE RELATED REFINANCING RISKS.

CONTENT

I-Context and overview

II-Analysis of the public debt portfolio of WAEMU countries

III-Financing risk analysis in WAEMU countries

IV- IMPACT OF COVID-19 on refinancing risks

V. Lessons to be learned and challenges for countries in the region

I-CONTEXT

Context of this reflection:

- ❖ COVID-19 crisis that has affected economies regionally and globally.
- ❖ Security crisis
- ❖ The Union's growth rate initially forecast at 6.6% in 2020 stood at 0.9%
- ❖ The budget deficit deteriorated to 5.8%

Table 1: Overall cost of response plans by country and by area (in billions of CFAF)

	Sanitation	Social	Economic recovery	Total
Benin	213.46	50	40	303.46
Burkina Faso	177.85	76.08	140.17	394.1
Côte d'Ivoire	95.88	349.54	1351.45	1796.87
Mali	57.1	130.7	349.65	537.45
Niger	167.32	300.3	385.4	853.02
Senegal	96.33	50	853.7	1000.03
Togo	110	110	180	400
Total	917.94	1066.62	3300.37	5284.93

Source: WAEMU 2020

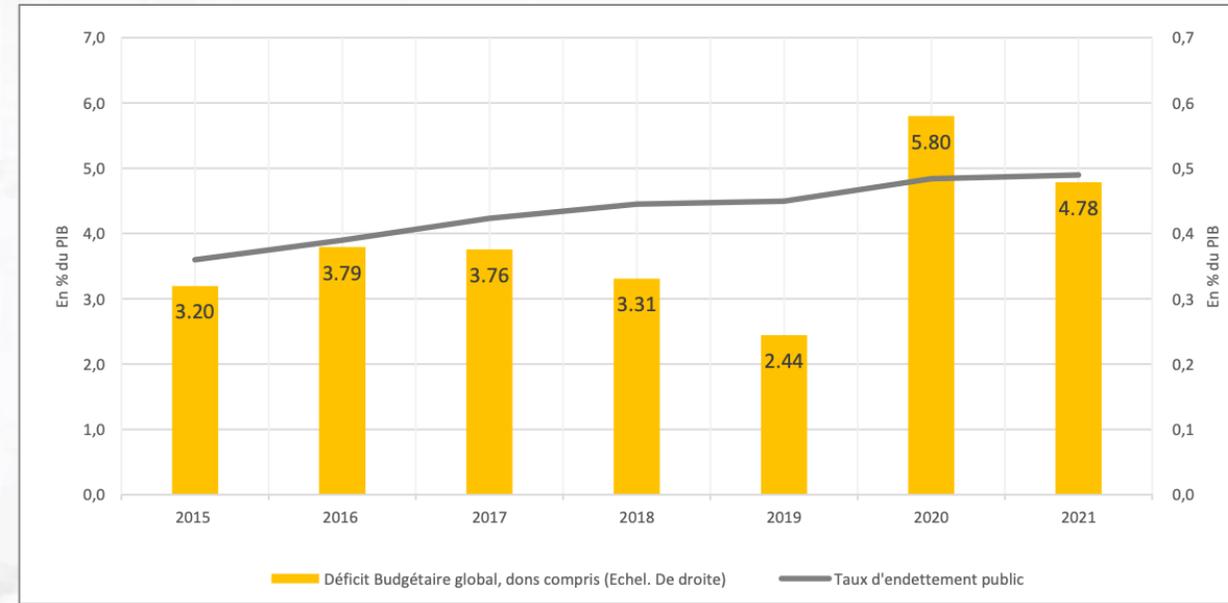
II. ANALYSIS OF THE PUBLIC DEBT PORTFOLIO OF WAEMU COUNTRIES

- THE UNION'S BUDGET DEFICIT INCREASED CONSIDERABLY BETWEEN 2019 AND 2020, 2021 FROM 2.40% OF GDP TO 5.80% OF GDP

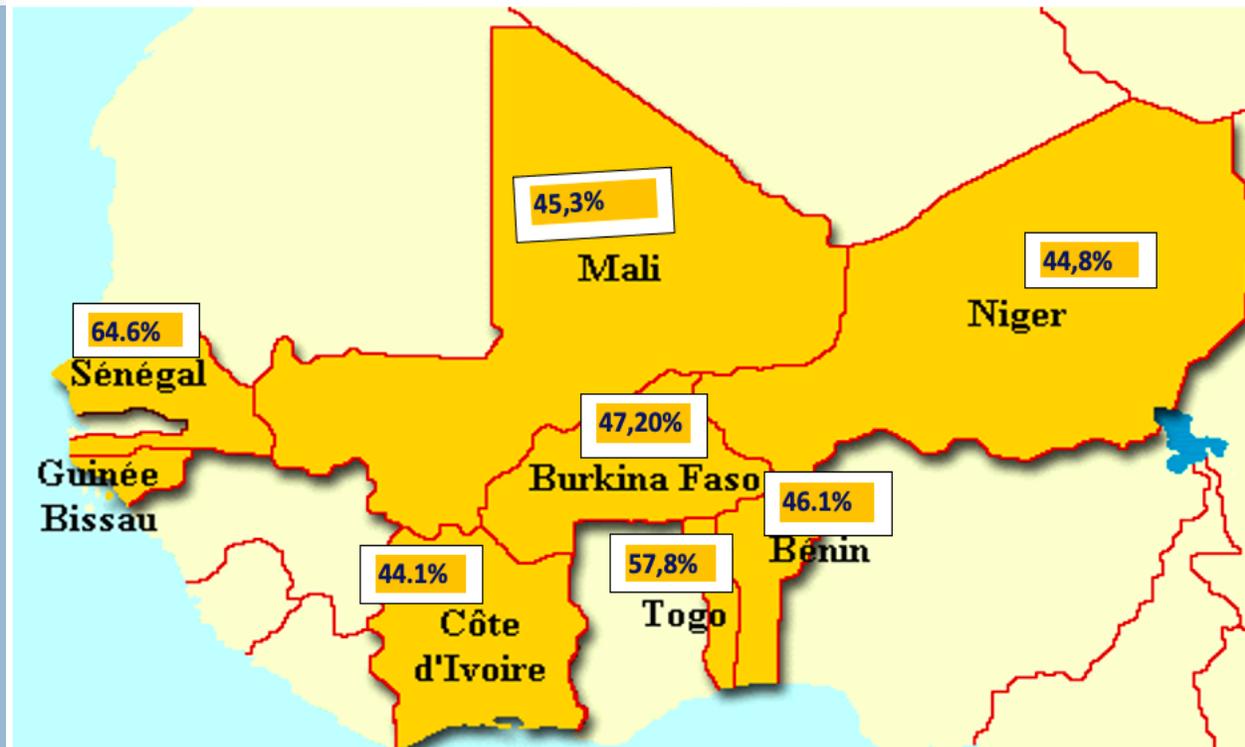
- THE DEBT LEVEL ALSO INCREASED FROM 44.1% IN 2019 TO 49.3% IN 2020

- INDIVIDUALLY, ALL COUNTRIES MEET THE DEBT RATIO THRESHOLD OF 70% OF GDP SET IN WAEMU, BUT RISING CONSIDERABLY

- THE LEVEL OF DEBT IS DRIVEN MAINLY BY THE ISSUANCE OF GOVERNMENT SECURITIES, EUROBONDS



Source : FMI, Octobre 2020 et BCEAO



II. ANALYSIS OF THE PUBLIC DEBT PORTFOLIO OF WAEMU COUNTRIES

- MATURITY OF EXTERNAL DEBT IS LONG (10 TO 40 YEARS)
- MATURITY OF INTERNAL DEBT IS MEDIUM AND SHORT (1 TO 10 YEARS)

- TOGO IS THE ONLY COUNTRY IN THE REGION WITH A DOMESTIC DEBT PROFILE OVER A LONG PERIOD

- FROM 2013 TO 2020, BURKINA FASO MARKED BY POLITICAL CRISES, CURRENTLY SECURITY. WILL SEE CHANGE IN ITS DEBT PROFILE IN 2021

- DEBT PROFILE OF CÔTE D'IVOIRE, WHICH WENT FROM A CRISIS EXIT IN 2012 TO STABILITY AND EXPANSION, HAS CHANGED UNLIKE FOR BURKINA FASO

Figure 3: Composition of public debt in Togo

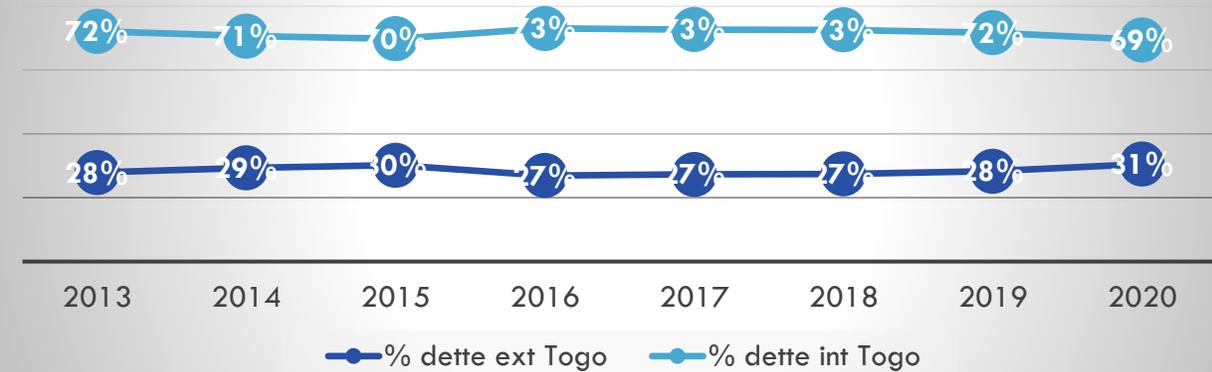


Figure 4: Composition of public debt in Burkina Faso

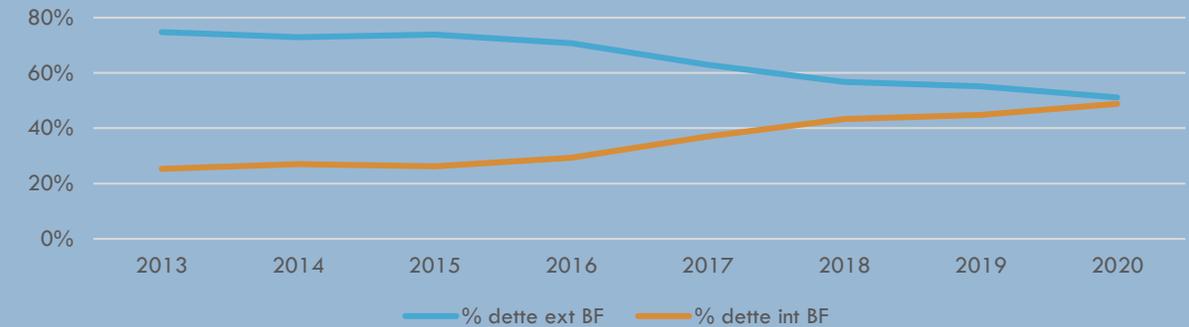
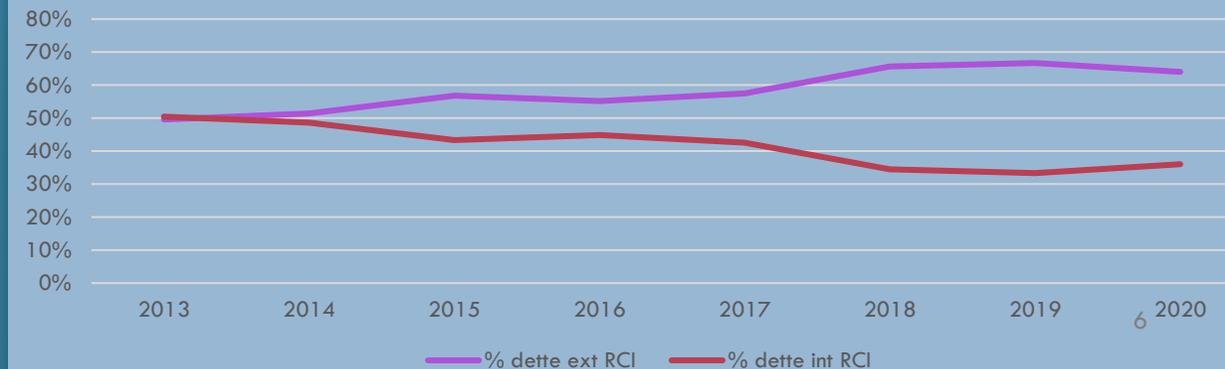


Figure 5: Composition of public debt in Cote d'Ivoire



III-ANALYSIS OF THE FINANCING RISK IN WAEMU COUNTRIES

Main findings from the analysis of the maturity profile of the public debt of the countries concerned:

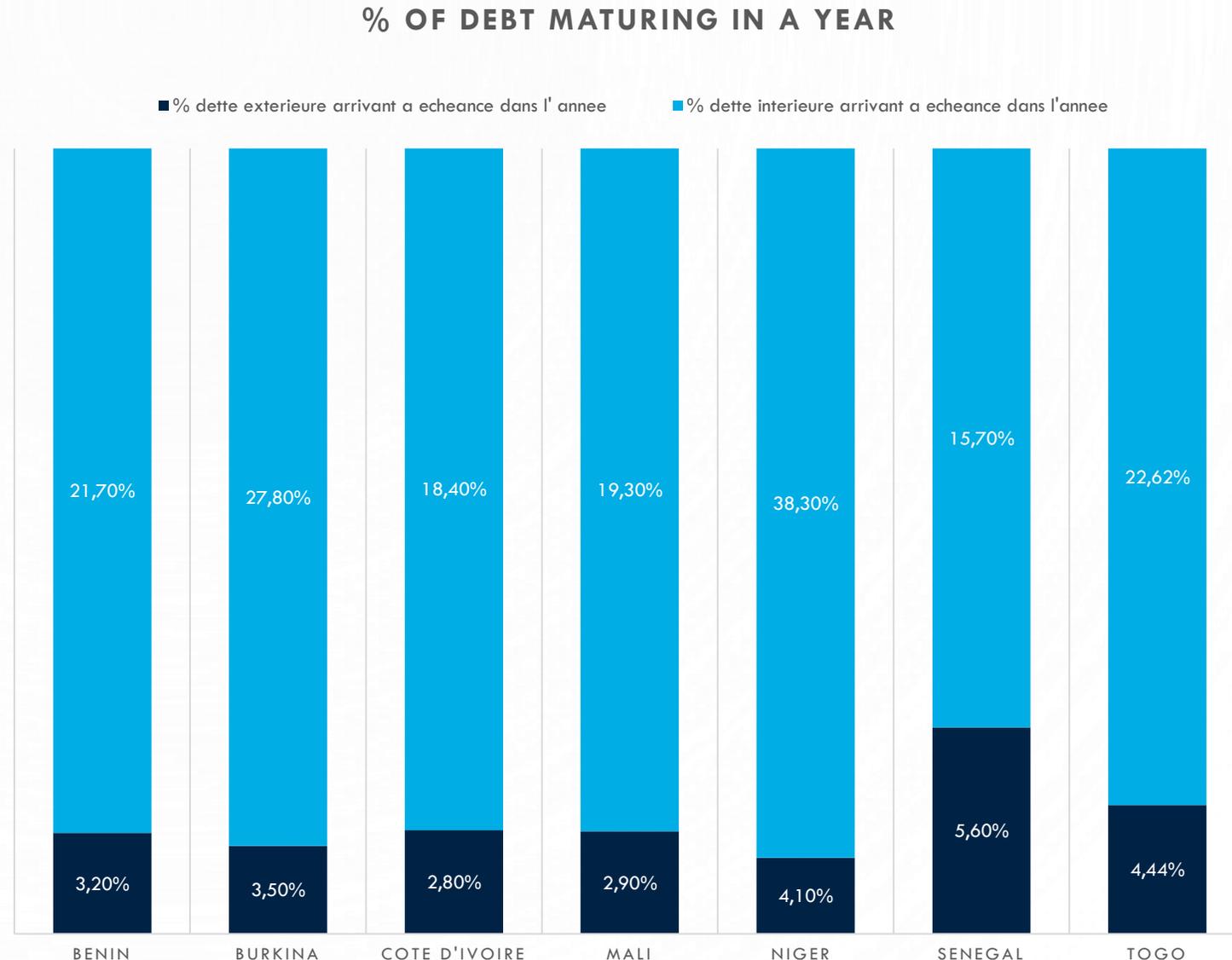
-11.68% of total debt matures in one year.

-23.4% of domestic debt matures within the year

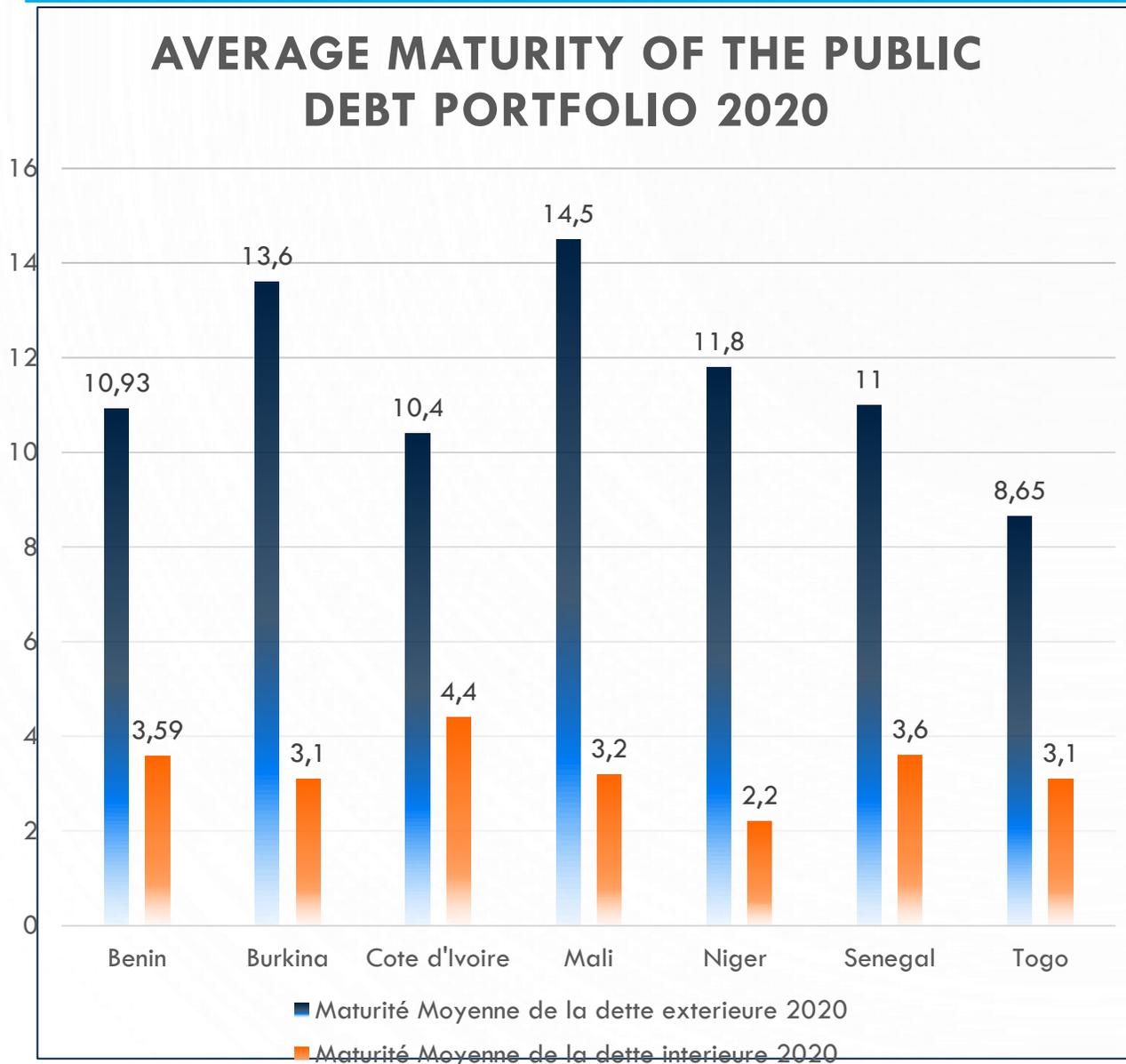
-3.5% for external debt.

Countries with a predominantly domestic debt composition have a high refinancing risk

Burkina Faso and Niger, highest proportion of domestic debt maturing in the year.



III-ANALYSIS OF THE FINANCING RISK IN WAEMU COUNTRIES



In the region, the external debt has a longer average maturity compared to the domestic component.

Indeed, on average, this maturity is 11.5 years. The external debt of the countries of the region is largely made up of debt to multilateral institutions (World Bank, ADB, etc.) and bilateral debts (AFD, China, etc.).

Domestic debt in the region has a shorter average maturity. Indeed, the maturity of this component is on average 3.3 years.

In the region, the longest average maturity is 4.4 years (Côte d'Ivoire) and the shortest is 2.2 years (Niger).

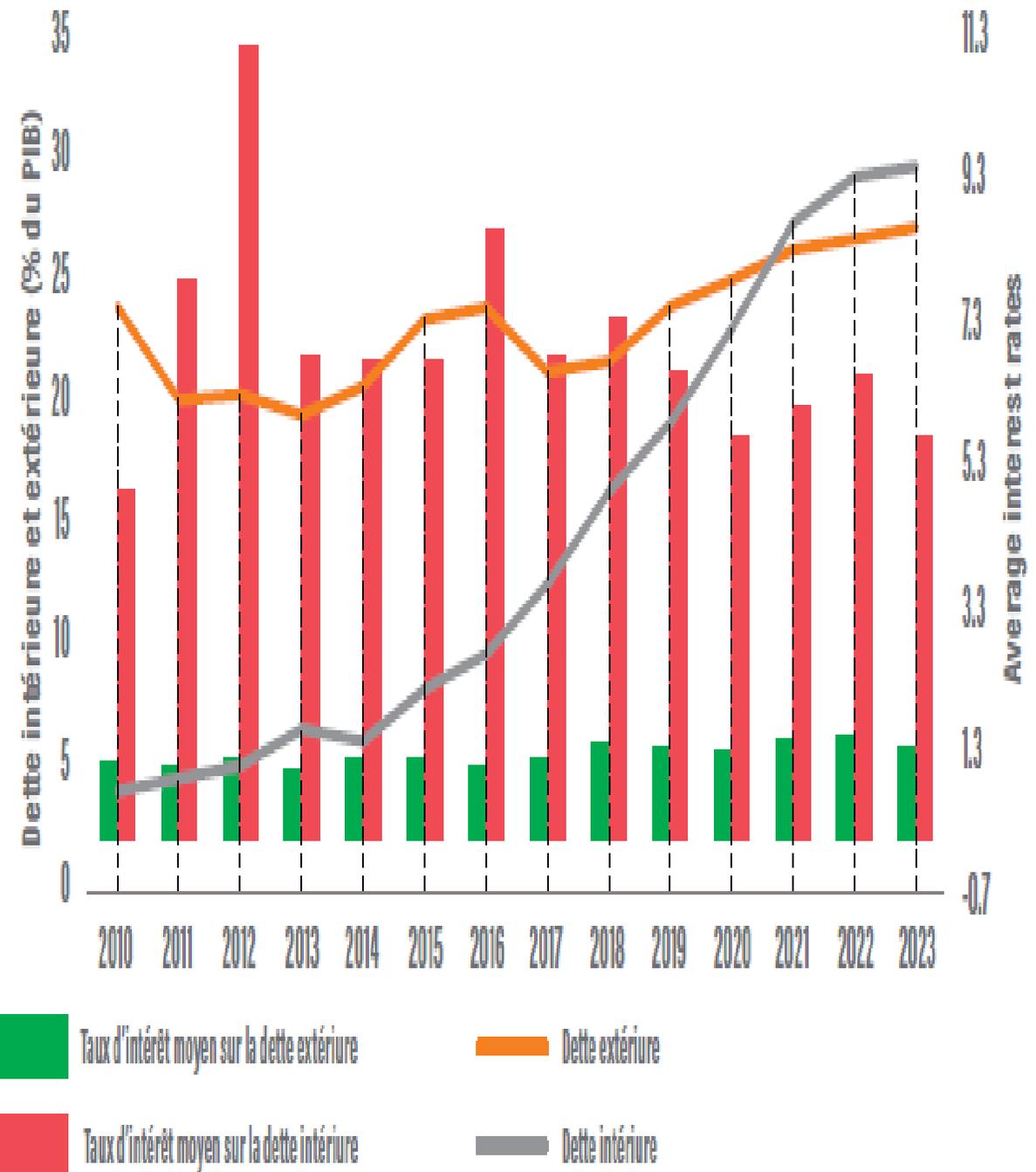
IV. COVID-19 EFFECT ON REFINANCING RISKS

COVID-19 EFFECTS

- WAEMU'S DEBT LEVEL ROSE FROM 44.1% IN 2019 TO 49.3% IN 2020 (5% INCREASE)

-WITH THE IMPACT OF THE COVID-19 CRISIS, BURKINA FASO' DEBT PROFILE TO CHANGE IN 2021 (FIGURE)

-THE RISK OF REFINANCING BECOMES MORE LIKELY WITH THE INCREASE IN DOMESTIC DEBT



IV. COVID-19 EFFECT ON REFINANCING RISKS

STIMULUS OBLIGATIONS OF THE CBWAS

AS PART OF THE ECONOMIC STIMULUS, THE CBWAS GRANTED COUNTRIES IN THE REGION THE ISSUANCE OF STIMULUS BONDS WITH LONGER MATURITIES OF 3 TO 12 YEARS +.

In this context, the agency *Umoa-Titres* gathered the financing needs of the member states of the Union for 2021 estimated at more than 3 768 billion CFA francs.

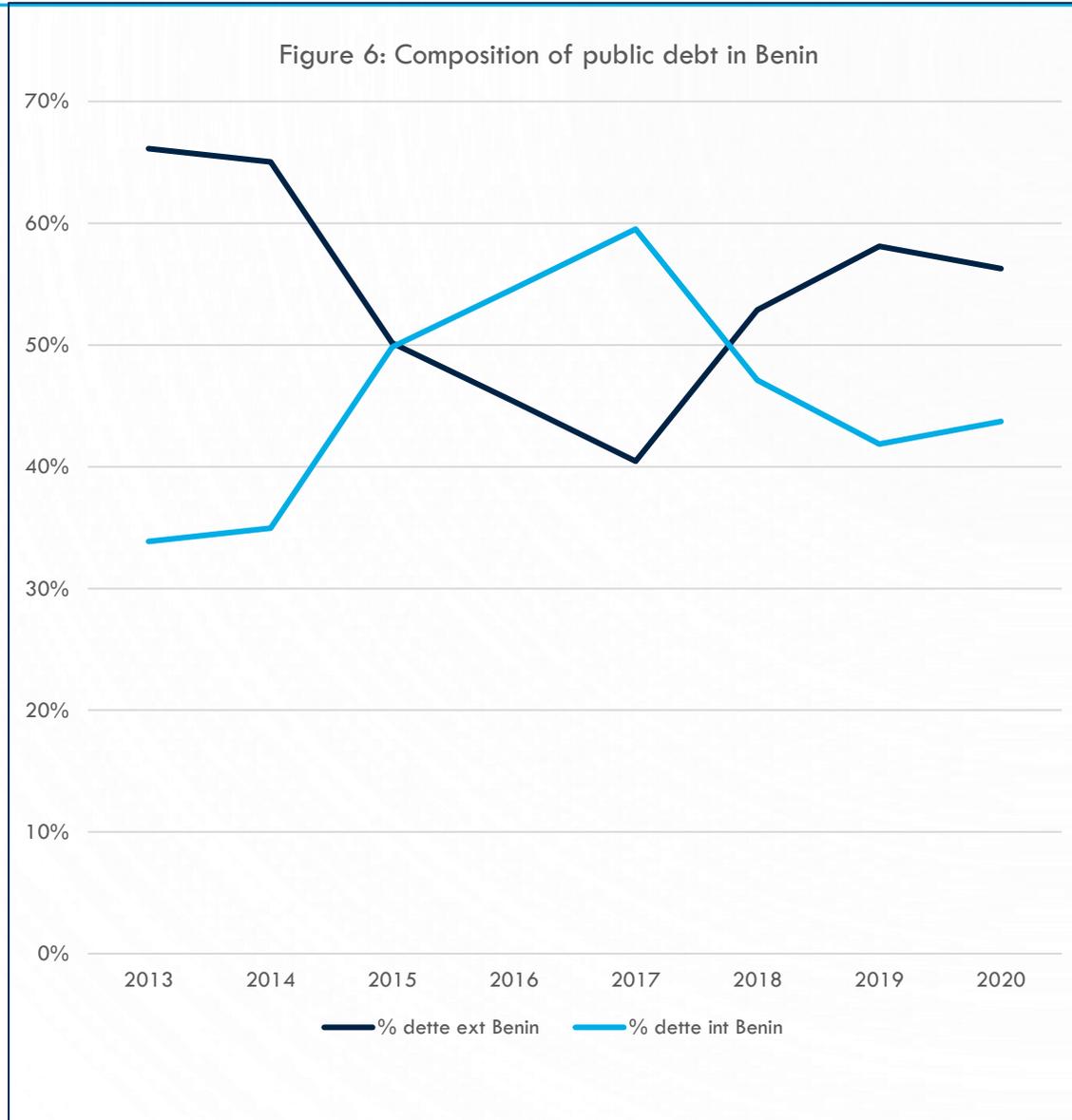
More important to be mobilized over the same year since the creation of the local debt market.

Provisional Annual Program of Auctions by WAMU Member States in 2020 (Billions of Francs CFA)

	First Quarter - Q1					Second Quarter - Q2					Third Quarter - Q3					Fourth Quarter - Q4					Year 2020		
	T-Bill	T-Bond	Total	Maturing debt*	Net Issues	T-Bill	T-Bond	Total	Maturing debt*	Net Issues	T-Bill	T-Bond	Total	Maturing debt*	Net Issues	T-Bill	T-Bond	Total	Maturing debt*	Net Issues	Total amount to be issued	Total maturing debt	Total Net Issues
Benin		200	200	37	163	55	175	230	68	162	90	150	240	122	118	30	34	63,91	225	-161	734	453	281
Burkina	80	40	120	90	30	105	55	160	192	-32	75	70	145	167	-22	75	40	115	127	-12	540	576	-36
Côte d'Ivoire	300	140	440	103	337	30	305	335	282	53	30	210	240	207	33	60	60	113	-53		1075	705	370
Guinea Bissau	10	20	30	4	26	20		20	27	-7	20	20		20		5		5	5		75	36	39
Mali	50	55	105	87	18	20	175	195	109	86	40	115	155	91	64	12	100	112	74	38	567	361	206
Niger		50	50	73	-23	70	65	135	103	32	100	30	130	180	-50	120	30	150	150		465	505	-40
Senegal		135	135	49	86	100	50	150	7	143		150	150	23	127		50	50		50	485	79	406
Togo	25	125	150	64	86	40	35	75	60	15		135	135	51	84	20	40	60	46	14	420	221	199
Total	465	765	1230	509	721	440	860	1300	847	453	335	880	1215	840	375	262	354	616	740	-124	4361	2936	1425

*Including intra-annual maturities

IV- ANALYSIS OF THE REFINANCING RISK MANAGEMENT SYSTEM AND TOOLS



Another way to reduce the risk of refinancing is the reprofiling of public debt.

Some countries including Benin (2018) and Togo (2020) have been able to undertake reprofiling actions. For Benin, it helped to improve the country's debt profile and commit to repaying the portfolio of existing loans to local banks with an average maturity of around 2 years.

This was made possible thanks to:

- country stability
- institutional reforms
- improvement of the sovereign rating of Benin
- the implementation of a prudent debt management strategy and a more proactive approach

May inspire other countries.

THE LESSONS TO BE LEARNED

Lesson 1 : Difficulties in accessing concessional external financing led to massive recourse to domestic financing,

Lesson 2 : MTDS have been affected by the COVID crisis. It will take longer for States to adjust and return to pre-COVID debt levels

Lesson 3 : The regional market is favorable for short and medium term issuances but not available for long-term ones.

Lesson 4: Countries that have gone through a political and social crises have witnessed an explosion of their domestic debt and an increase in the risk of refinancing.

Lesson 5: Political influence and budgetary pressures are factors that increase risk.

Lesson 6: In addition to the moratoriums on debt service and the cancellation of certain debts, the WAEMU Council has introduced innovative mechanisms such as COVID bonds and stimulus bonds that have supported countries in this crisis.

**Management of
refinancing risks
in WAEMU
countries**

THE CHALLENGES ...

Given the shortcomings observed in the region, the challenges that the countries of the region will meet:

- ✓ **establish appropriate indicators in the strategies, and tolerable risk targets, monitor and respect them in the debt process;**
- ✓ **reshape the public debt by favouring long-term mechanisms and at affordable interest rates to lengthen debt maturity periods. It is important for governments to mobilize regional investors for long-term issuances;**
- ✓ **improve the sovereign rating to encourage the regional market to subscribe to long-term issuances;**
- ✓ **ensure budgetary discipline and implement the Single Treasury Account for better management of the State Treasury to capture idle State treasuries;**
- ✓ **adjust strategies to the crisis to enable the debt management system to respond effectively to crisis management measures and safeguard public debt sustainability.**

CONCLUSION

The COVID-19 crisis inevitably influenced the management of public finances including public debt in the world and particularly in the countries of the WAEMU region.

To help the countries of the region to cope with the effects of the crisis, several mechanisms have been proposed.

- ❑ To stabilize, countries need to assess their risks, develop and implement strategies to reduce costs by actively managing risks.**
- ❑ The restructuring of outstanding debt has been successfully carried out by countries like Benin, these experiences could inspire.**
- ❑ A good rating remains important, and still plays a major role in investor decisions.**
- ❑ Decision-makers and policymakers should be informed and educated about the impact of high debt levels on the economic and financial stability of the country's financial system.**

We believe that through regular interaction, information sharing and mutual learning, countries will be able to better assess their risks and take appropriate actions to reduce the risk of their public debt portfolios.

**THANK YOU FOR YOUR
ATTENTION**