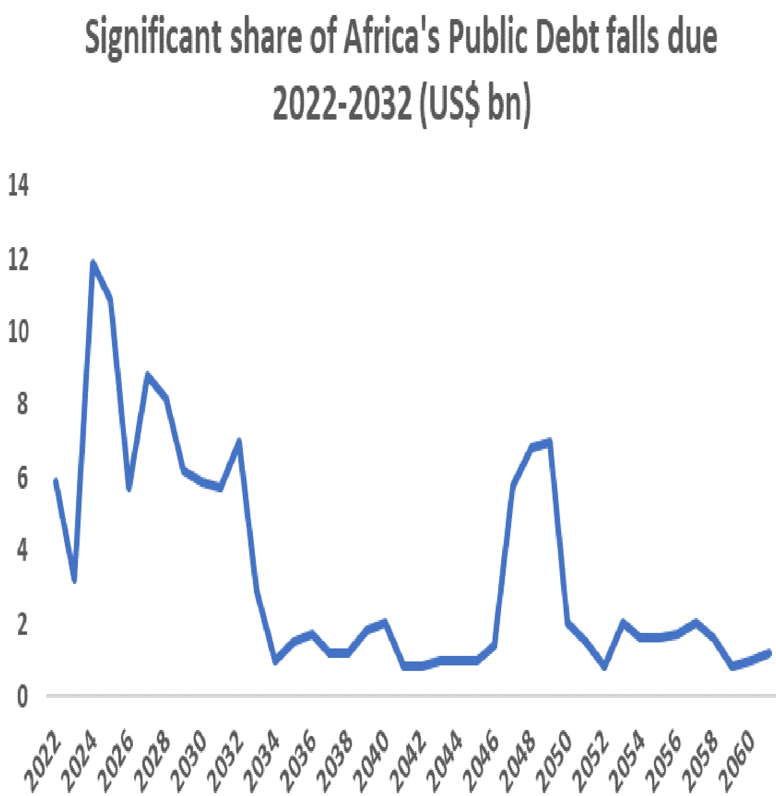
DEBT VULNERABILITIES AND DISTRESS

NETWORK ENGAGEMENT OF PUBLIC DEBT MANAGERS IN AFRICA - 27 OCT 2022

Jim Matsemela
Head - Sustainable Debt Management
CABRI

CABRI
CONNECT • SHARE • REFORM

SOVEREIGN DEBT REMAINS A THREAT TO ECONOMIC RECOVERY*



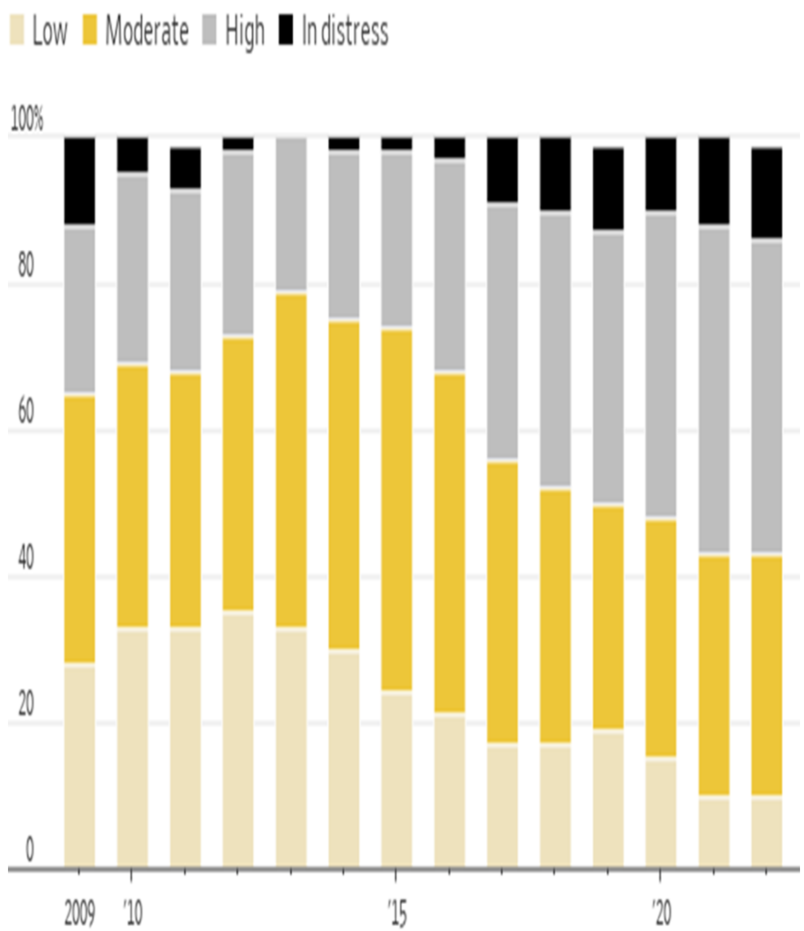
- In the short to medium term, Africa's sovereign debt is expected to remain higher than pre-pandemic levels
- African countries will need an estimated US$432 billion to address socio-economic impacts of the pandemic
- The much-needed policy support will put pressure on African countries' sovereign debt levels, which are projected to stabilize at 70 percent of GDP in 2021 and 2022
- Overall sharp increase in 2020 of nearly 10 percentage points was driven by nonoil resource-intensive economies
- These countries have contributed the most to the increase in debt reaching more than 85.4 percent of GDP in 2020
- These were followed by oil exporters (66.7 percent of GDP) and non-resource- intensive countries (65.3 percent of GDP)
- Debt levels in non-resource-intensive countries increased from 57.4 percent of GDP in 2019 to 66.1 percent of GDP in 2021 and are expected to remain higher in the medium term
- The average debt-to-GDP ratio in other resource-intensive countries is estimated to have declined to 75 percent of GDP in 2021
- While the liquidity support provided through the Debt Service Suspension Initiative (DSSI) provided temporary debt relief – it did not prevent countries from sliding into debt distress.
- 16 countries are at high risk of debt distress and 7 are in debt distress out of 38 African countries for which DSA are available
- **Significant share of public debt in Africa falls due in the 2022-2032(refer to the chart)**

*AFDB.(2022). African Economic Outlook Oct 2022.''*Supporting Climate Resilience and a Just Energy Transition in Africa:''*.

DEBT VULNERABILITY AND DISTRESS ACCORDING TO IMF*

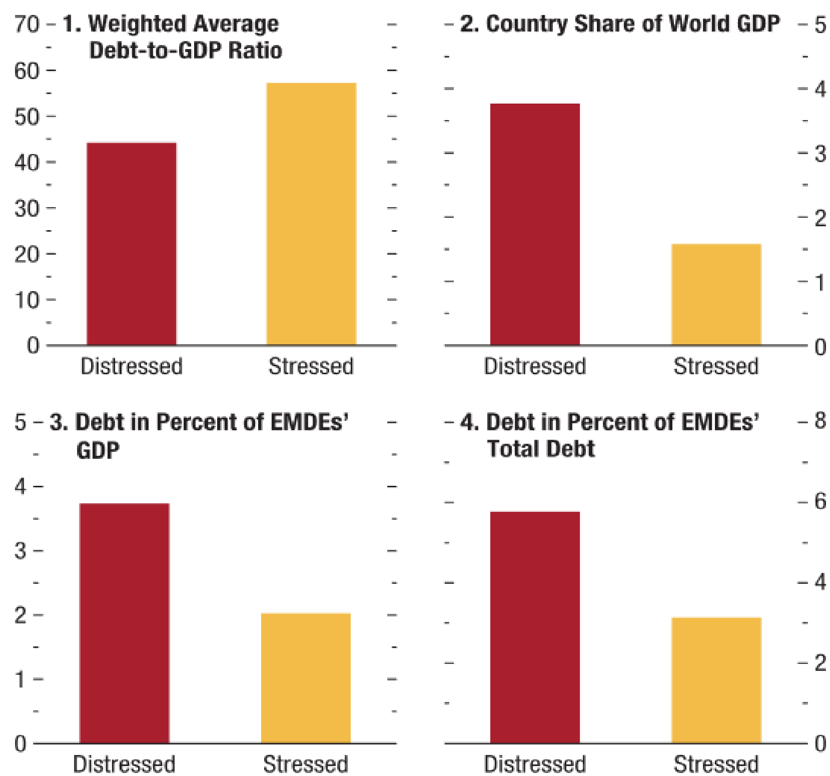
Debt Struggles

The number of developing nations in or at high risk of debt stress is growing.



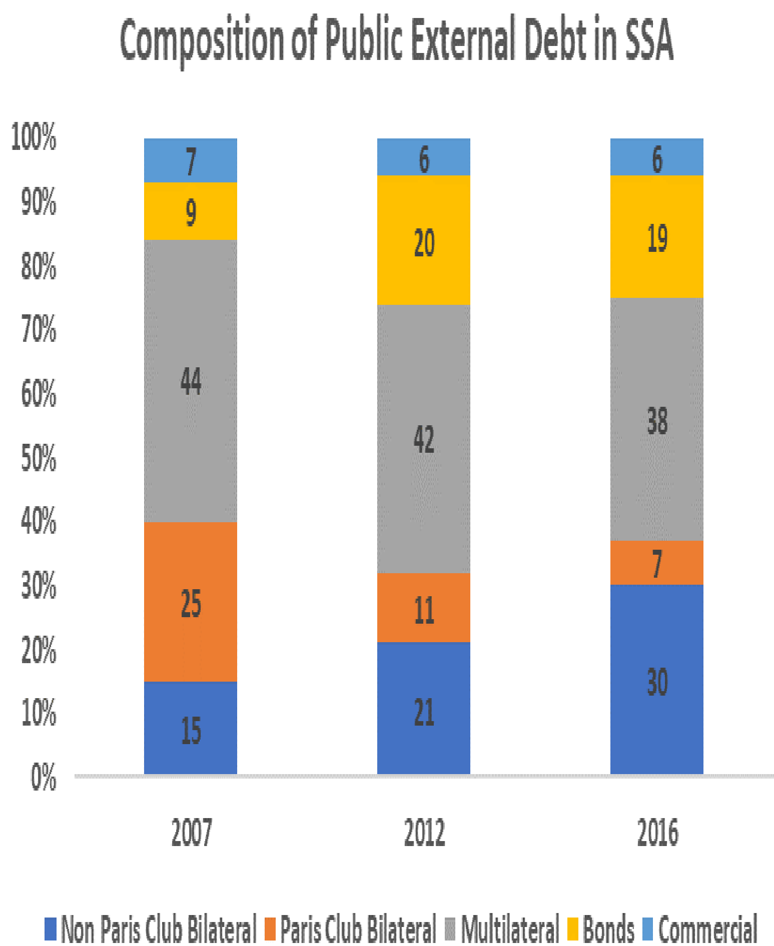
Source: International Monetary Fund

Figure 1.27. Debt in Distress in Emerging Market and Developing Economies
(Percent)



Source: IMF staff calculations.
Note: Groups are classified based on sovereign spread data as of September 9, 2022. Distressed group indicates economies with spreads greater than 1,000 basis points; stressed group indicates economies with spreads of 700–1,000 basis points. EMDEs = emerging market and developing economies.

CURRENT CHALLENGES OF DEBT SUSTAINABILITY IN AFRICA*



- While many nations in Africa were already in a vulnerable position even before the pandemic, there are indications that debt levels in many low-income countries were already approaching levels seen before the two historic debt relief initiatives such as Highly Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI)
- The latest build up in debt levels has been caused mainly by higher exposure to commercial creditors (banks and bondholders)
- Between 2000 and 2019, 18 African countries debuted on the international capital markets and collectively issued more than USD 155 billion in Eurobonds
- Due to shorter maturities and higher interest rates, this has seen interest expense as a percentage of revenue doubling between 2010-2019
- African countries have increasingly also contracted collateralized debt, while State Owned Enterprises have also increased their indebtedness – thus increasing the state contingent liabilities
- The pandemic pushed the gross financing needs in terms of GDP above the threshold of 15 percent for most countries with some reaching 30 percent of GDP
- **The long-term solution is to address the three closely related challenges in Africa: Debt, Climate and Nature with a Comprehensive and Holistic Strategy!**

*AFDB. *Statistics Department* and AFDB.2022. ''Debt-for-Nature-Swaps''.

Thank you

CABRI

CONNECT • SHARE • REFORM