CONCEPT NOTE

Workshop on Debt Management

31 October 2022
UNCC, Addis Ababa, Ethiopia
10.00 – 17.00 East Africa Time (UCT +03.00)

1. BACKGROUND

Debt is a significant source of funding for the economic growth and development of African countries. However, debt management represents a major challenge for countries, especially in these times of economic crisis. International financial markets have opened a window for African governments to diversify their funding sources. Between 2007 and 2020, 21 African countries took the opportunity to access international debt markets, by issuing Eurobonds. Because of poor credit ratings and perceptions of high risk, African bonds are classified as high yields. The high yields demanded by investors results in high interest cost to governments and high exchange rate risks. The IMF has identified 17 African countries with outstanding Eurobonds as near or under debt distress. The continued borrowing from financial markets has led to high debt accumulation.

Indeed, the COVID-19 pandemic has negatively affected the fiscal performance of African countries, where the debt-to-GDP ratio has increased from 57% in 2019 to 66% in 2020 and 2021. This increase in the debt burden is attributable to the increase in spending on the health sector facing the pandemic as well as the social charges that the states have borne to mitigate the negative effects of the total or partial shutdown of economic activities.

In response to the global pandemic, which effects are not limited to the deterioration of fiscal performance, the international community has increased efforts to support Africa. The IMF launched the historical allocation of Special Drawing Rights (SDR) worth of $650 billion to boost the global liquidity, and many developed countries had agreed on the reallocation of SDRs to support low-income countries. In addition, the World Bank and the International Monetary Fund have strongly recommended the G20 to launch the Debt Service Suspension Initiative (DSSI). After its establishment in May 2021, the DSSI assisted countries in focusing their efforts on combating the epidemic and protecting the lives and livelihoods of the most vulnerable individuals. The difficult situation of African countries has made them represent more than half (52%) of the eligible DSSI countries. Out of the 73 eligible countries, 48 participated in this initiative, which succeeded in suspending the payment of $12.9 billion of debt services between May 2020 and December 2021.

In the same context, the United Nations Economic Commission for Africa (UNECA) launched the Liquidity and Sustainability Facility (LSF). The LSF is designed to lower liquidity premiums and enhance sovereign access to international bond markets for African countries via a regional repo market that conforms to international norms, with the potential to save an estimated USD 11 billion over the next five years on borrowing costs. The facility is already fully operational and has attracted interest from a number of significant international Asset Managers. Its potential value in the first years might reach up to USD 30 billion.

More recently, the debt-to-GDP ratio for oil-importing countries in Africa is expected to peak at 73% of GDP in 2022, partly attributable to the anticipated skyrocketing energy costs brought about by the Ukraine crisis. Compounded global crises has exacerbated the debt distress for countries on the continent. The IMF's latest list of low-income countries' Debt Sustainability Analysis (DSA) shows that as of 31 May 2022, 16 African countries were at high risk of debt distress, and 7 were already in debt distress.

Based on the concerns of the debt distress issues on this continent, the Macroeconomics and Governance Division (MGD) of UNECA initiated a research study in 2021 to analyse the debt profiles, exposure and resource needs of African countries taking into account their credit ratings, economic fundamentals and bond yields. The idea is to ascertain the extent to which yields and credit ratings are consistent with economic fundamentals of these economies. Employing an updated 2002-2020 sample of 82 emerging and developing countries and 413 sovereign bonds, the study further examines the determinants of bond spreads (BS), with a special focus on the extent to which African countries may pay a premium.

The report highlights the increasing debt vulnerabilities in many African countries. The exposure risks mainly result from the rapid debt accumulation over the last decade, as many African countries borrowed for intended growth-enhancing investment, fiscal deficit financing, existing loan restructuring, paying off sovereign arrears, and for interest and outstanding debt servicing. The empirical results also showed that overall, African countries pay higher interest rates on newly issued bonds, have lower credit ratings and weaker macroeconomic fundamentals than their non-African counterparts. African countries that have been recently downgraded by rating agencies due to increased economic challenges in the wake of COVID-19, will face increased interest burden, which will exert further stress on their fiscal space. Meanwhile, a strong recovery remains essential for lowering countries' borrowing costs on the international market.

2. OBJECTIVES

This workshop is hence conducted with two objectives:

1) to present the findings and results of the UNECA debt research project on debt profile and bond yields and to receive valuable suggestions/reviews from countries on the research finding, as well as to present the recent debt management initiatives from ECA such as the LSF and the research on SDR.

2) to create a platform for member States to exchange information on challenges, solutions and approaches on debt management, and to share knowledge on their individual country's experiences especially under COVID-19 and the recent Russia-Ukraine crisis.

3. EXPECTED RESULTS

At the end of the meeting, expectations are:

- A good understanding of the debt management challenges and possible solutions of member countries so as to enable them to formulate and implement effective economic policies.

- Good knowledge of the debt profile of Africa and different types of facilities/initiatives that being proposed by international community and used by different countries which could be used to enhance the countries' overall fiscal and debt management through knowledge sharing; and

- A good understanding of the impact of crisis on debt management policies such as COVID-19 and the recent Russia-Ukraine crisis.

4. PARTICIPATION

This workshop is organized for policy makers from different African countries and research institutions to share challenges and best practices in debt management.

5. MEETING ORGANIZATION, DATE AND FORMAT

The seminar will on the 31st of October 2022 from 10.00 to 17.00 East Africa Time (UTC +03.00), in UNCC in hybrid format. Experts, member states and other institutions will make their presentations, which will be followed by discussions.

6. WORKING LANGUAGE

The meeting will be held in English and French.