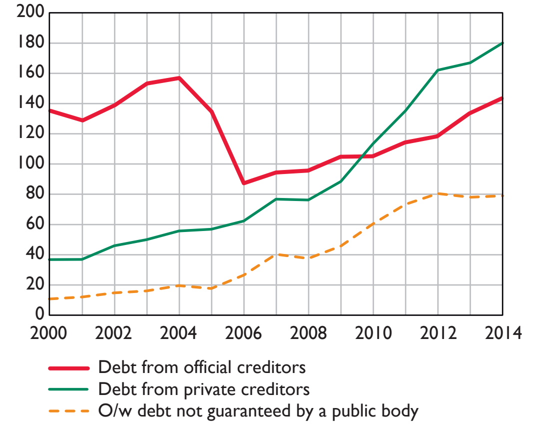
Box 2

The debt dynamics of Sub-Saharan African countries

On average, countries in Sub-Saharan Africa (SSA) have one of the lowest levels of external debt in the world. *According to the IMF, external debt stood at less than 30% of GDP in 2015, compared with almost 70% in emerging Europe and 39% in Latin America. Only South-East Asian countries display lower external debt-to-GDP ratios (18% on average in 2015). This situation can largely be explained by international debt relief initiatives from which SSA countries have greatly benefited since the start of the 2000s.*

Chart A Long-term external debt outstandings of Sub-Saharan Africa

(USD billions)



Source: World Bank, International debt statistics.
NB: Long-term debt corresponds to instruments with a maturity of one year or over. It accounts for 80% of total external debt.

However, since the end of 2015, the IMF has issued a series of warnings about the increase in SSA countries' debt. *The IMF's concerns stem chiefly from the debt dynamics of these countries. Between 2010 and 2016, the share of SSA's external debt is estimated to have risen by 9 percentage points of GDP, more than in most regions of the world, except for Latin American countries and the former Soviet republics. Furthermore, between 2010 and 2014, the share of SSA countries' external debt held by private lenders rose from 21% to 56%, of which two-thirds is unsecured (Chart A). Since private creditors lend at market rates, this debt is more costly than concessional loans (including a share of grants – in principle at least 35%) generally granted by multilateral or bilateral public entities. This development is less marked in Franc Zone countries: only a few countries account for the bulk of external debt from private creditors, notably those which have issued bonds on international markets (Cameroon, Côte d'Ivoire and Senegal).*

Two factors, related to supply and demand, largely explain the recent trends in this external debt. *In the context of ongoing financing needs, renewed interest on the part of international investors for the strength of African economies was accompanied by an increase in new lenders, which broaden and diversify financing opportunities.*

Firstly, Africa opened up to international capital markets, in particular to meet its balance of payments financing needs. Since the international financial crisis, against the backdrop of ample liquidity on global markets and low yields, international investor interest in African markets, seen as high-yield "frontier" markets, rapidly increased. This was helped by the fact that several countries were given the same or even higher ratings than those of countries as industrialised as Turkey, Brazil or Argentina. Since 2007, countries such as Senegal, Gabon and Cameroon have raised billions of dollars on international financial markets, often in order to finance infrastructure projects.

It is against this background that relationships have flourished with new investors in Africa, such as China, India and Saudi Arabia. China, in particular, became, in the space of a few years, a key financial partner in SSA. Between 2005 and 2012, the share of China in external African debt rose from 2% to 15%.[1] China's cooperation model consists of a "package"

1 Chen (W.), Nord (R.) (2015), "China and Africa: will the honeymoon continue?" IMF blog, 21 December.

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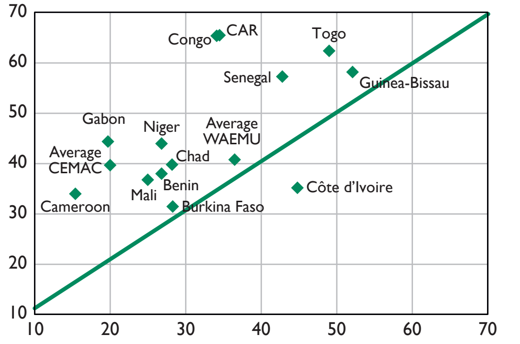
combining direct investment, concessional loans, trade and public assistance. Without an allocation key such as that commonly used in the OECD Development Assistance Committee, to which China does not belong, it is not always possible to accurately determine the "grants" component of Chinese concessional loans. These new partners ease financing constraints and conditionalities, enhance investment leeway, and have boosted the commodities market; but they also contribute to the risks related to increased debt and the poor coordination of the assistance policies.

Recent economic developments are rapidly changing the situation and suggest a more uncertain outlook. *The lacklustre economic outlook for the main emerging countries and advanced countries is affecting global demand, and especially commodity producers, which are already suffering from the collapse in prices since mid-2014. Due to its effect on global liquidity and the level of interest rates, the normalisation of US monetary policy will mechanically affect the ability of African countries to access international markets when they need to refinance their debt or raise new funding. Lastly, US dollar appreciation can impact both the value of outstanding dollar denominated debt and the ability of debtor countries to honour their debt repayments. This combination of factors for growing vulnerability is fuelling concerns over the sustainability of the external debt of certain African countries. Since the start of 2016, several credit rating agencies have lowered the credit rating of Gabon, Congo and have placed under credit watch those of Angola and Nigeria.*

Countries producing oil and other commodities, whose prices have plummeted, have already experienced spectacular declines in export income. In the absence of alternative income sources, governments must either reduce spending and imports, or finance a growing deficit. Traditionally, spending cuts usually target capital expenditure rather than operating costs (in particular wages). The growth outlook is therefore bleaker. The low outstanding debt-to-GDP ratios therefore encourage governments to run up deficits and debt levels (see Chart B). However, there is little leeway and external debt levels are growing rapidly (see Chart C). If these developments persist, the international debt relief initiatives could be jeopardised, while the international environment and changes in the composition of lenders would make any debt restructuring more complicated if it proved necessary. In all events, in the long run, oil revenues are not sustainable resources and require reserve strategies rather than debt strategies.

Chart B Changes in public debt between 2012 and 2015 in the Franc Zone

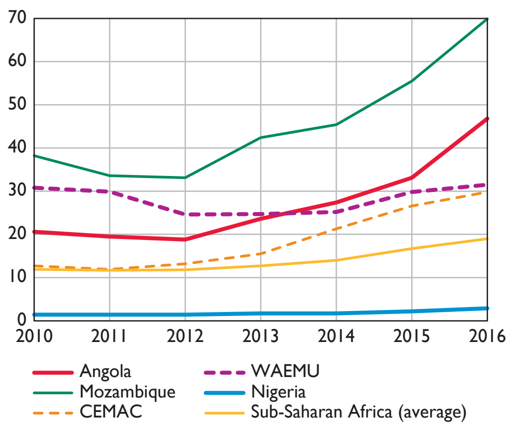
(x-axis: public debt to GDP ratio in 2012; y-axis public debt to GDP ratio in 2015, as a % of GDP)



Source: IMF, Regional Economic Outlook: Sub-Saharan Africa, *April 2016.*
Note: Countries above the 45 degree line saw an increase in their public debt between 2012 and 2015.

Chart C Changes in external debt in Sub-Saharan Africa

(as a % of GDP)



Source: IMF, Regional Economic Outlook: Sub-Saharan Africa, *April 2016.*