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››› The external debt levels of the poorest Sub-Saharan countries must be monitored closely

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One Pager

Author: Dr Martin Raschen, phone +49 69 7431-2434, research@KfW.de

The poorest countries of Sub-Saharan Africa (low income countries, or LICs, according to the World Bank's classification) have bitter experience with external debt problems. It was only through donors' far-reaching debt relief (under the HIPC Debt Initiative) that they managed to overcome the debt crisis of the 1970s to 1990s. The recent rise in debt levels therefore needs close attention.

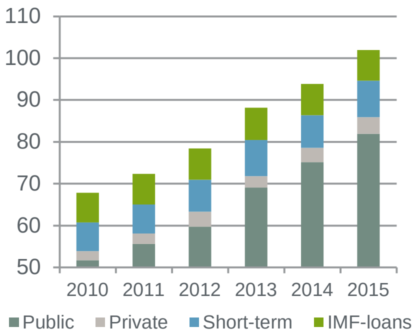
Significant economic downturn since 2014

From 2000 to 2014, the 27 African LICs achieved impressive economic growth averaging 6.3 % per annum. The decline in global commodity prices since 2014 has impacted on them in different ways. As oil importers, they are benefiting from the lower oil price. But as producers and exporters of agricultural goods and metals, they are earning less foreign currency. On balance, the negative effects predominate. From 2014 to 2016, the African LICs' GDP growth fell from 6.6 % on average to 4.7 %. This still appears to be considerable but amounts to a significant slowdown in economic development given their high annual population growth of 2.9 %. During the same period, the budget deficit climbed from 3.4 to 4.4 % of GDP, the current account deficit rose from 8.9 to 9.5 % of GDP, and the currencies fell against the US dollar by 24 %, sending inflation soaring from 4.3 to 16.3 % (all figures GDP-weighted average).

The African LICs responded to these negative trends since 2014 with a variety of measures. Individual countries are attempting to raise tax revenues, but in many places investments are being reduced and domestic debt is on the rise. The inflow of funds from abroad is also increasing.

Figure: External debt of African LICs, 2010–2015

Debt levels in USD billions



Source: World Bank, own calculation.

External debt is on the rise

As a result of the massive HIPC debt relief, the African LICs' external debt had fallen significantly to USD 57 billion by 2006. Since then, and since 2010 in particular, debt levels have increased again considerably, reaching a historic high of USD 102 billion in 2015. The debt-to-GDP ratio also increased from 27 % in 2012 to 31 % in 2015. The figure illustrates that the absolute debt levels of private debtors, short-term debt and IMF concessional loans have hardly changed since 2010. Most of the strong rise is due to public debt (beyond the IMF loans and short-term debt), which increased by USD 30 billion from 2010 to USD 82 billion in 2015.

This public debt has four components. Loans from development organisations take the biggest share and make up 70 % of the total increase of USD 30 billion. In an LIC it is not surprising that this item should predominate. What is noteworthy, however, is the remaining 30 % or USD 9.1 billion in absolute terms, which is made up of bank loans, bonds and other funding from private creditors. These investors provide funds even though only six African LICs have a sovereign rating issued by a rating agency (all of which are in the speculative grade category) and even though these countries' debt crisis is still fresh in their memory.

Debt sustainability is increasingly becoming an issue

Borrowing from abroad may currently be attractive because of the low interest rates, but it can be a burden nevertheless. The volatile economic growth of Africa's LICs can make debt-financed projects unprofitable, and the previously mentioned depreciation of their currencies makes the exchange rate risk a reality, causing the debt burden to grow significantly.

The IMF and the World Bank periodically analyse the debt sustainability risk of countries. Currently they rate it low in a mere five African LICs, but moderate in 16 and high in three countries (Burundi, Chad and the Central African Republic), as well as unsustainable in Zimbabwe, which is in arrears on repayments. Since 2009/2010 this rating has deteriorated in six countries (Ethiopia, Madagascar, Mali, Mozambique, Chad and the CAR). Moreover, some middle income countries are also at high risk. So when a country borrows from abroad it needs to carefully weigh not just the opportunities but also the risks involved, and it needs to practise sound debt management. ■