Africa’s debt amid the COVID-19 pandemic and the ramifications for the international community

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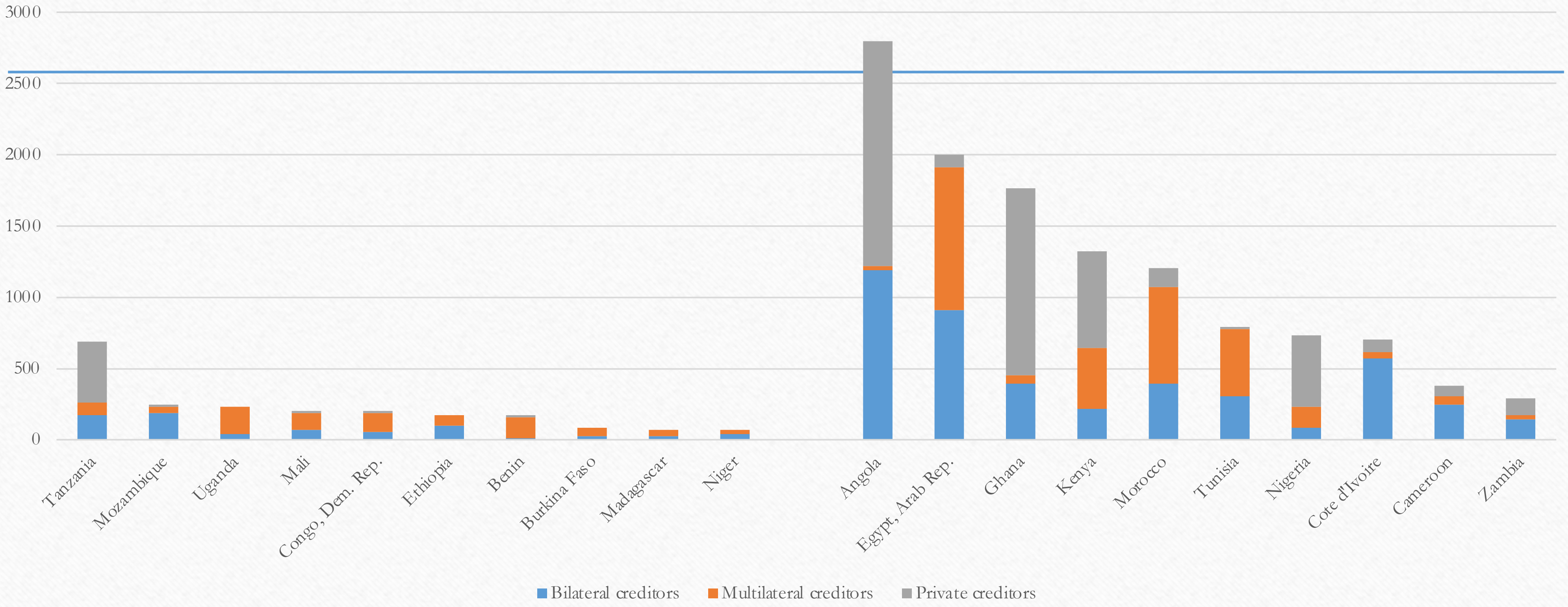
Background

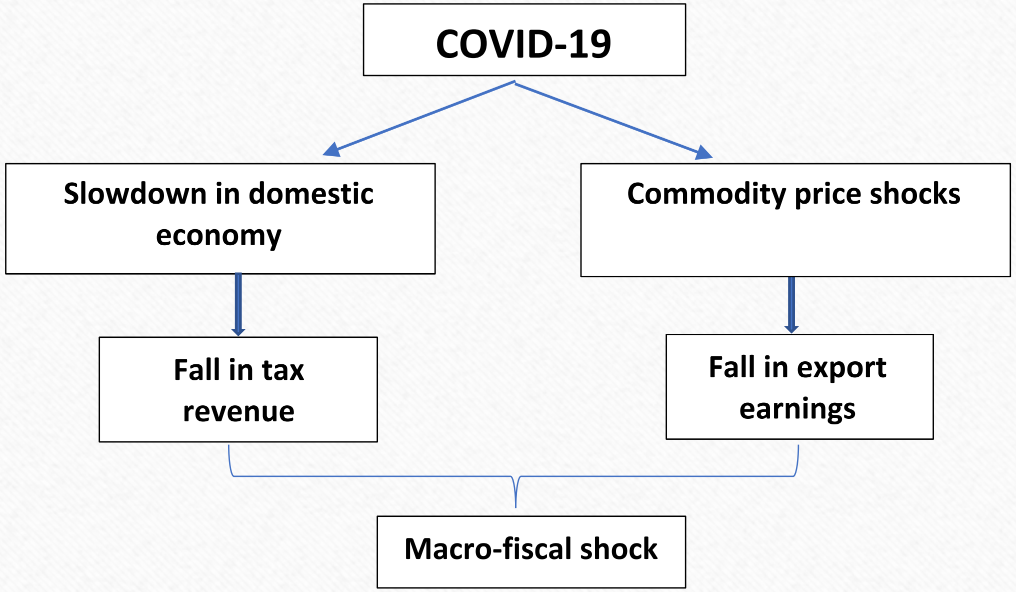
- The pandemic is taking place in a context where African countries were facing rising debt and high fiscal deficits, leading to limited fiscal space that has hindered their response
  - Government debt as a share of GDP increased from 31% to 50% between 2014 and 2019[1]
  - Fiscal balance as a share of GDP decreased from -3.1% to -4.3% between 2010-2016 and 2019[1]

The biggest debtors



COVID-19 and the twin fiscal shocks

- Lockdown measures leading to restrictions to domestic economic activities and trade, and the associated commodity price shock caused a twin fiscal shock
- Existing and emerging fiscal concerns led to debt relief measures:
  - G20 countries debt moratorium until Dec. to developing countries, 40 African
  - IMF debt service relief until Oct. to vulnerable countries, 19 African
  - IMF emergency financial assistance



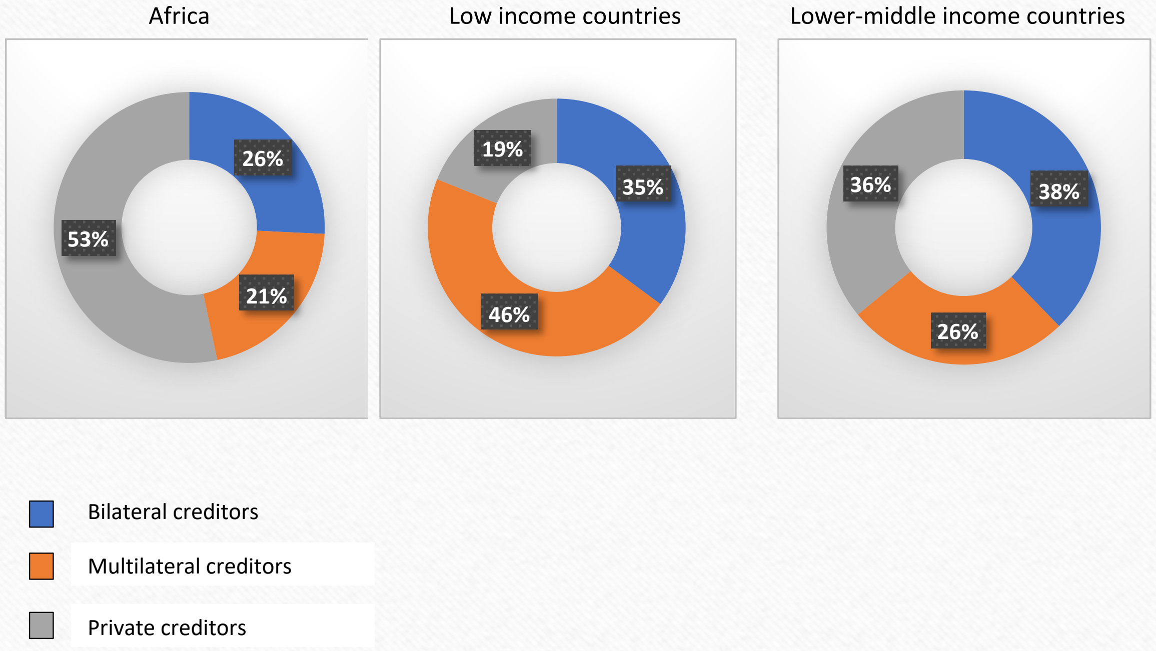
Is this adequate?

- Depends on who you're asking and on how long the pandemic will last…

	Description	Countries
Winners	Eligible to both debt moratorium packages as well as emergency financial assistance	A few countries including Burkina Faso, Mali, and Mozambique*
Near winners	Fail to access or are not eligible to debt moratorium packages but access emergency financial assistance	Nigeria, Ghana and Kenya**
Those left behind	Not eligible to debt moratorium packages and haven't accessed emergency financial assistance	South Africa, Zimbabwe, Algeria or Morocco***

The non participation of private creditors

- Private creditors are the continent's biggest lenders and their non participation implies that governments may have to utilize debt service relief funds to finance private credit



Implications for Africa

- The size of debt will increase as estimates show that government debt as a share of GDP will increase from 50% to 56% between 2019 and 2020, with concerns about debt sustainability and the continent's future fiscal position[1]
- Changing creditor landscape away from bilateral and private creditors to multilateral creditors and most notably, domestic debt market*, thus crowding out private sector borrowing
- Despite these efforts, the continent still does not have sufficient fiscal space to respond aggressively to the pandemic causing concerns for public health and the economy
- Enhanced domestic resource mobilization such as tax**; counterintuitive

Conclusion

- Efforts are a step in the right direction and is important for signaling, however, more can be done:
  - Prepared to extend debt service moratorium period
  - Participation of bilateral and private creditors in order that countries do not prioritize debt service in the near-term and to avoid debt defaults, debt restructuring and debt forgiveness in the long-term
  - Freeze credit ratings to allay concerns of governments
  - Grant based finance rather than credit to avoid debt ballooning