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A New African Debt Crisis?

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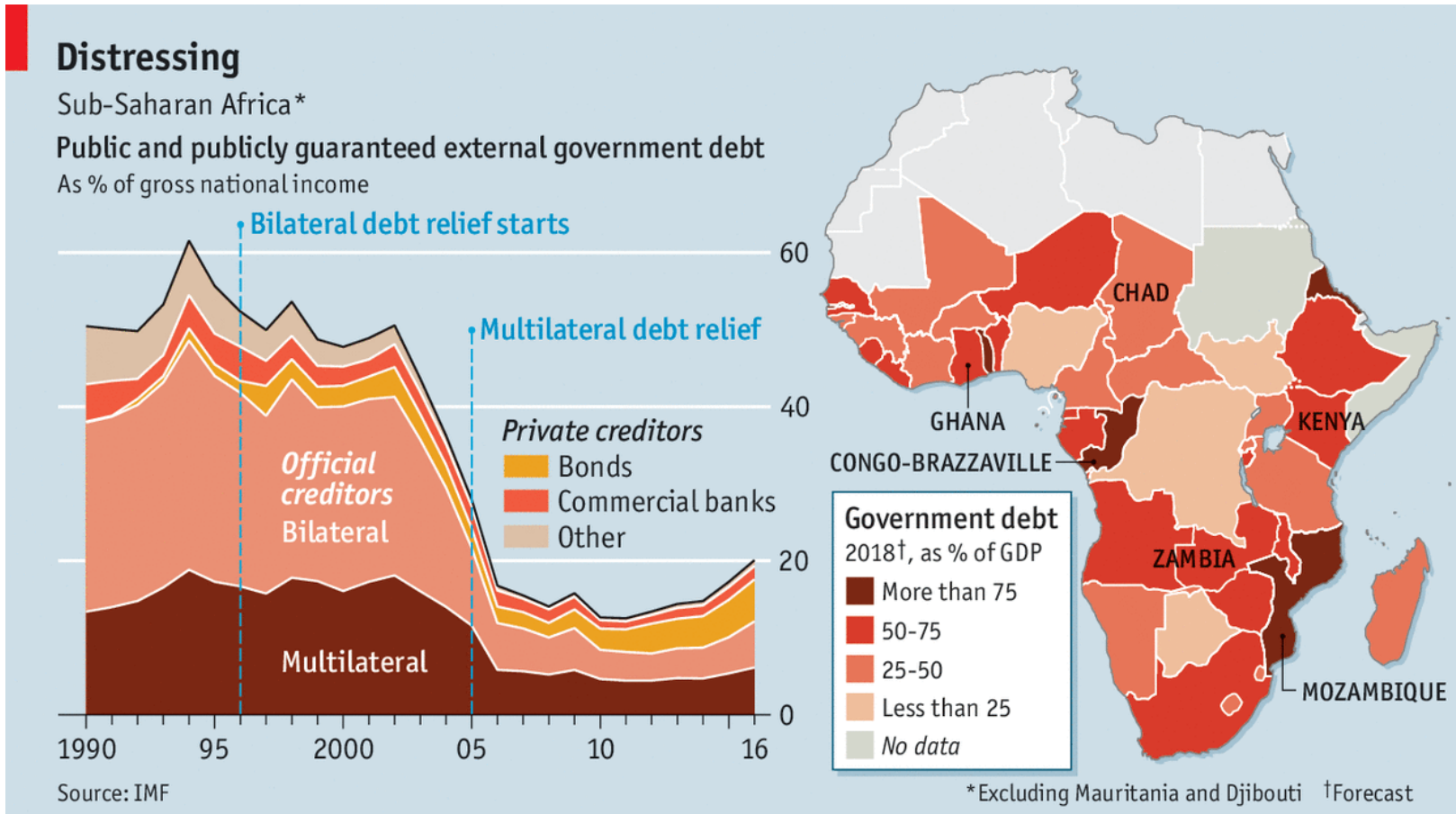
Debt: Virtues & Vices

- Smooth Public Spending when (temporary) revenue shocks
- Fund projects with high social returns (> borrowing cost). But need good project appraisal!
- Domestic Public debt stimulates development of the financial sector (yield curve)
- Over-accumulation of foreign debt relative to capacity to service (from revenues & export earnings)
- Resource-rich countries over-estimate revenues or see price shocks as temporary (Angola, Nigeria)
- Private Sector (Corporate) debt accumulation can be opaque (e.g. Asia 1998 crisis).
- Dollars borrowed at floating rates: Fed tightening + currency risk (dollar appreciation)
- Debt Crises: debt service crowds out public spending on development (Zambia). Past Initiatives (HIPC, Enhanced HIPC, MIDRI) to free fiscal space for development & social sector spending – but slow
- Debt Crises cut growth & raise poverty: at worst => social crisis (Venezuela today)

Africa Debt

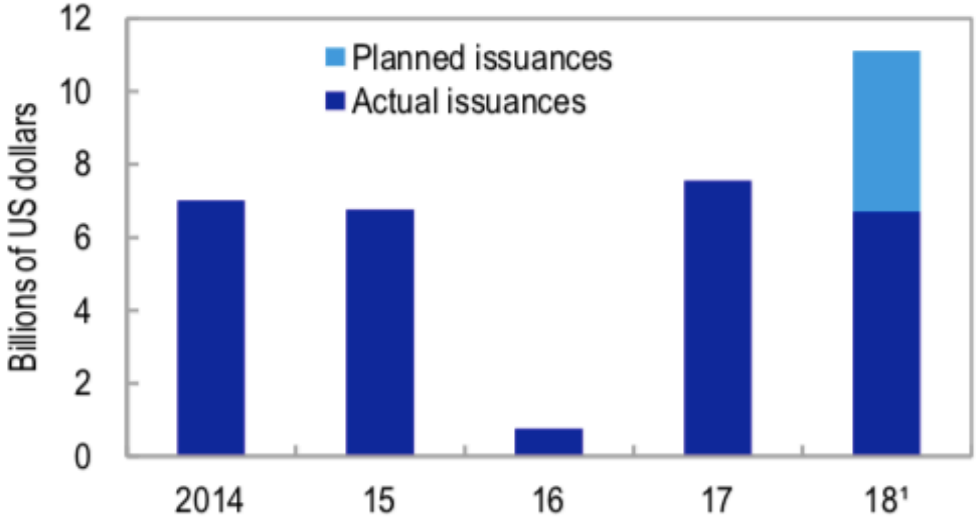
- Adjustment lending + bilateral loans of 1980s => unserviceable debt (Mozambique's debt/GDP > 1,000%) => slow process of debt cancellation (HIPC, Enhanced HIPC, MDRI).
- Re-entry of African countries to sovereign bond markets. Encouraged by re-rating of their debt as commodities markets entered a price 'super-cycle' from 2000s onwards.
- Today: External (sovereign) debt not yet back to pre-HIPC level (on average). But debt stock hard to estimate accurately (scale of Chinese lending)
- 8 African countries are in 'debt distress' (arrears etc.) & a further 10 are at risk (World Bank)
- Debt on non-concessional terms has risen (mostly debt on concessional terms previously). Tight legal agreements favour creditors (seizure of assets etc.)
- Default on external non-concessional debt => complicated work-outs & not favouring debtor (& US admin may oppose IMF programmes that bail out China e.g Pakistan)



Economist.com

Rise in Sovereign Debt

Figure 1.2. Sub-Saharan African Frontier Market Economies: International Sovereign Bond Issuances, 2014–18

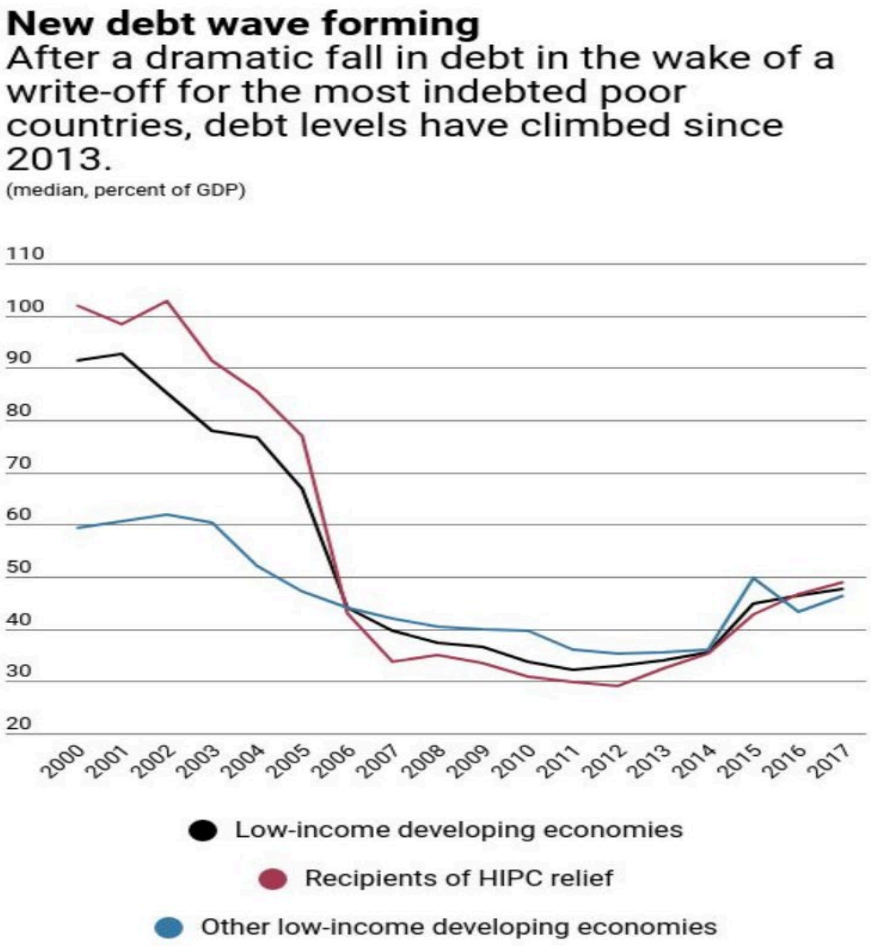


Source: Haver Analytics.

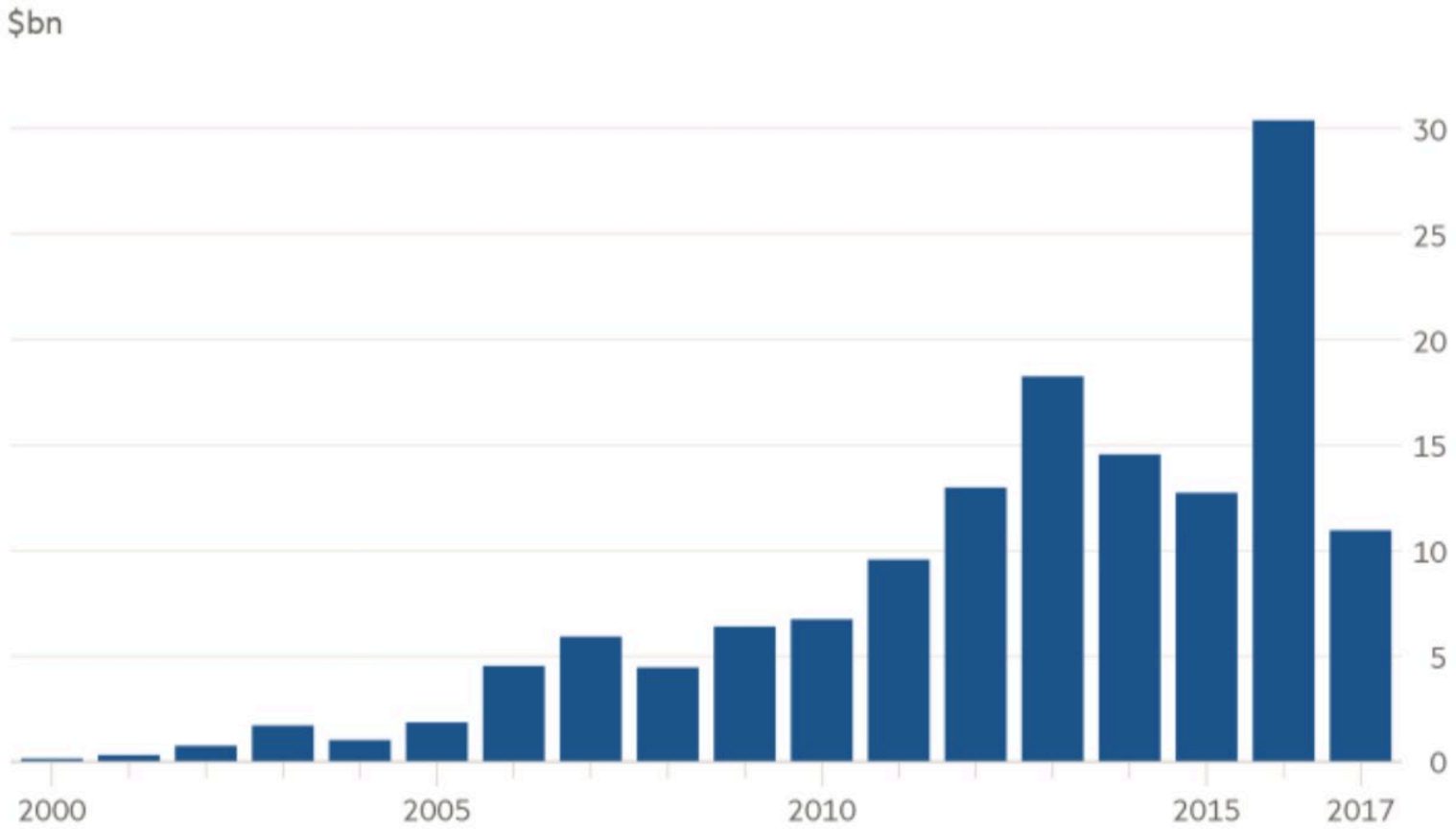
Note: Sub-Saharan African frontier market economies include Angola, Cameroon, Republic of Congo, Côte d'Ivoire, Ethiopia, Gabon, Ghana, Kenya, Mozambique, Namibia, Nigeria, Senegal, Tanzania, and Zambia.

[1] Data are as of March 2018.

Debt/GDP Ratios Rising Again



China’s Loans to Africa



Source: Johns Hopkins SAIS China-Africa Research Initiative

Low Income Countries: Share of Non-Concessional Finance

Conclusions

- Global credit tightening. Fed. ECB. Wind-down of quantitative easing after 08-09 financial crisis. Risk of rate/dollar ‘overshoot (<= US fiscal policy)
- Inadequate fiscal buffers e.g in the oil exporting economies: hit by slump in oil price after ‘14 (budgets assumed $100+ oil price future. Back to $60).
- If China-US trade war leads to a big slowdown in Chinese growth then commodity prices will weaken
- Currencies of commodity exporters usually depreciate following commodity price fall – increasing domestic cost of servicing $ debt
- ‘State contingent debt’ linked to GDP or commodity-price metrics. ‘Odious debt’: much discussed. Not enough action
- “Only when the tide goes out, do you see who has been swimming naked” (Warren Buffet)

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