

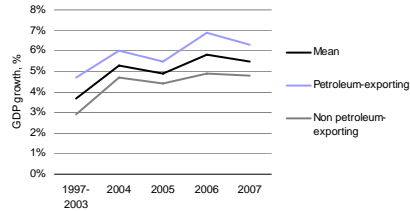
Overview Main Issues in Debt Management in African Countries

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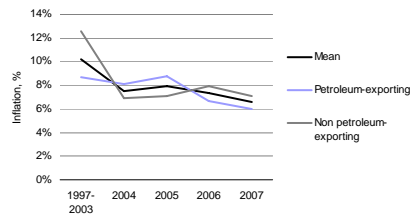
Agenda

- Economic environment
- Debt stock and debt markets
- Institutional considerations
- Debt strategy

- Economic growth is on track

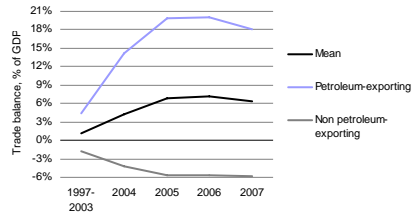


- Growth is accompanied by falling inflation

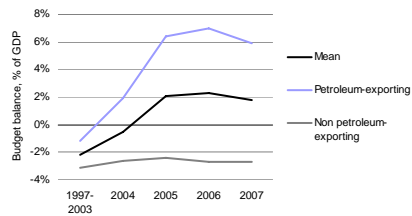


Trade balances

- Trade balances show a diverse picture but have improved for some (groups of) countries

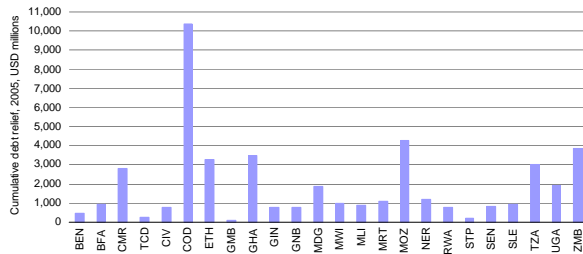


Improved budget balances



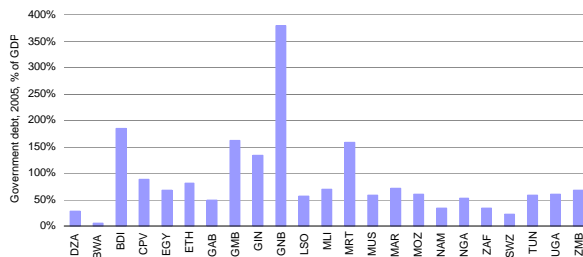
External debt relief

- Many countries have benefited from external debt relief under the HIPC initiative



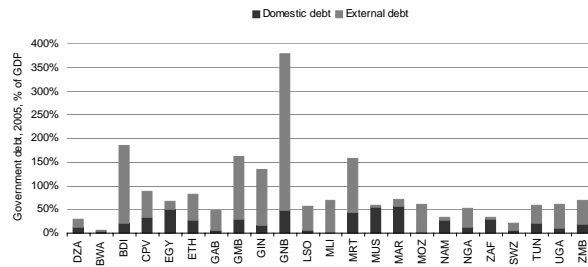
In many countries debt levels are a problem

- In many countries debt levels are a problem, especially in view of structural vulnerabilities
- Also after debt relief, risk-based debt sustainability needs to remain a focus of debt management strategy, supported by overall macroeconomic policy



External debt predominates

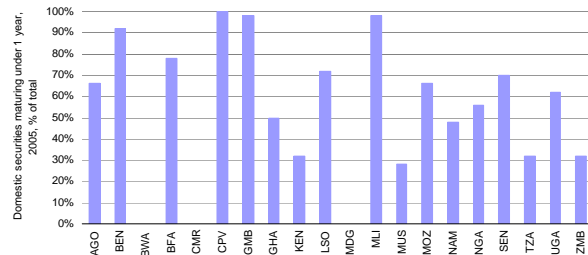
- This is typically a consequence of a reliance on concessional multilateral and bilateral funding and rudimentary domestic markets
- A number of African countries have good access to international capital markets and/or have begun to develop domestic markets
- Which policies and priorities for developing market-based funding?



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Domestic debt is predominantly short-dated

- But some countries successfully issue across the yield curve and out to long tenors
- Issuance of domestic debt in some countries is erratic and in small volumes, leading to problems in developing fungible and liquid instruments and benchmarks

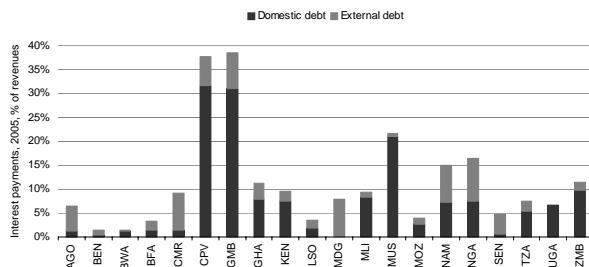


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Local banks main holders of domestic securities

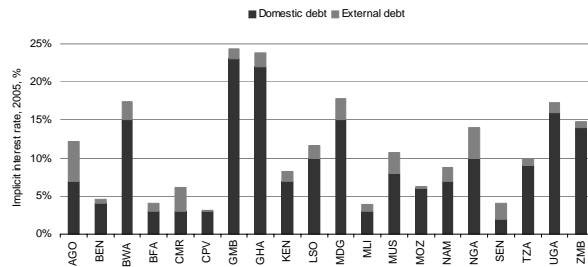
- A reflection weaknesses in their commercial lending operations or requirements to hold government securities?
- Some countries have relatively vibrant pension funds and other institutional investors, which encourages more diverse ownership
- Non-resident holdings are typically low
- What priority should be given to developing the domestic market and domestic investor base?
- What is the appropriate sequencing of steps?

Interest payments on domestic debt often consume a large share of revenues



Domestic debt is typically more costly than external debt

- This reflects in part the availability of external funding on concessional terms
- What is the appropriate balance between cost and risk?



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Other components of the debt stock

- Quasi-government debt is a feature of many African countries
- Some central banks issue their own bills to manage liquidity or implement monetary policy
- This may be a consequence of an absence of a sufficient supply government securities
- Does the existence of central bank bills impede further development of the government securities market?
- Are there pricing anomalies or fragmented liquidity when government securities and central bank bills co-exist?
- Some debt of state-owned enterprises, other government agencies, or the private sector is guaranteed
- But guarantees are often not well controlled or accounted for

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Institutional issues and problems (1)

- African countries generally have explicit legal requirements governing debt contracting and servicing
- But the framework is not always clearly defined and adequately implemented
- Legal requirements for transparency and public disclosure are often limited

Institutional issues and problems (2)

- Institutional responsibilities are often fragmented across front and back office functions, across domestic and external debt, and across agencies in African countries
- Middle office functions of debt strategy formulation and risk management are often absent
- These factors impede implementing a holistic approach to debt management
- Co-ordination between debt management and fiscal, monetary, and macroeconomic policies is often weak
- Specific institutional structure for debt management is less important than ensuring that there is good governance and that there are forward-looking policies focused on risk-based debt sustainability

Institutional issues and problems (3)

- Resources available to debt management are constrained in many countries
- This includes the quantity of staff, their skill levels, and technological resources for managing the debt stock and new debt issuance on a professional basis

Debt strategy

- A number of African countries have developed formal debt strategies
- A formal strategy explicitly balances cost and risk, takes account of demand constraints but often incorporates initiatives to develop the market and new funding sources, and supports macroeconomic stability and debt sustainability

Debt strategy is often *ad hoc*

- For many African countries debt strategy is *ad hoc*
- Range of funding sources is often narrow, and discretion in terms of the risk characteristics of new debt may be limited
- But opportunities may be missed, at the margin, to improve the structure of the debt or widen the range of funding sources
- For some countries that have benefited from debt relief, the lack of a formal debt strategy raises the risk of return to an unsustainable debt position in future

Final comments

- African countries are diverse in terms of their debt situation, debt management practices, and government securities markets
- Debt management is key component of a correct policy mix
- Debt management alone cannot solve macroeconomic imbalances or structural problems
- But an appropriate debt level and debt structure, as well as healthy domestic markets, can contribute to reducing vulnerabilities