

Session IV: Special Challenges for Debt Management in Africa

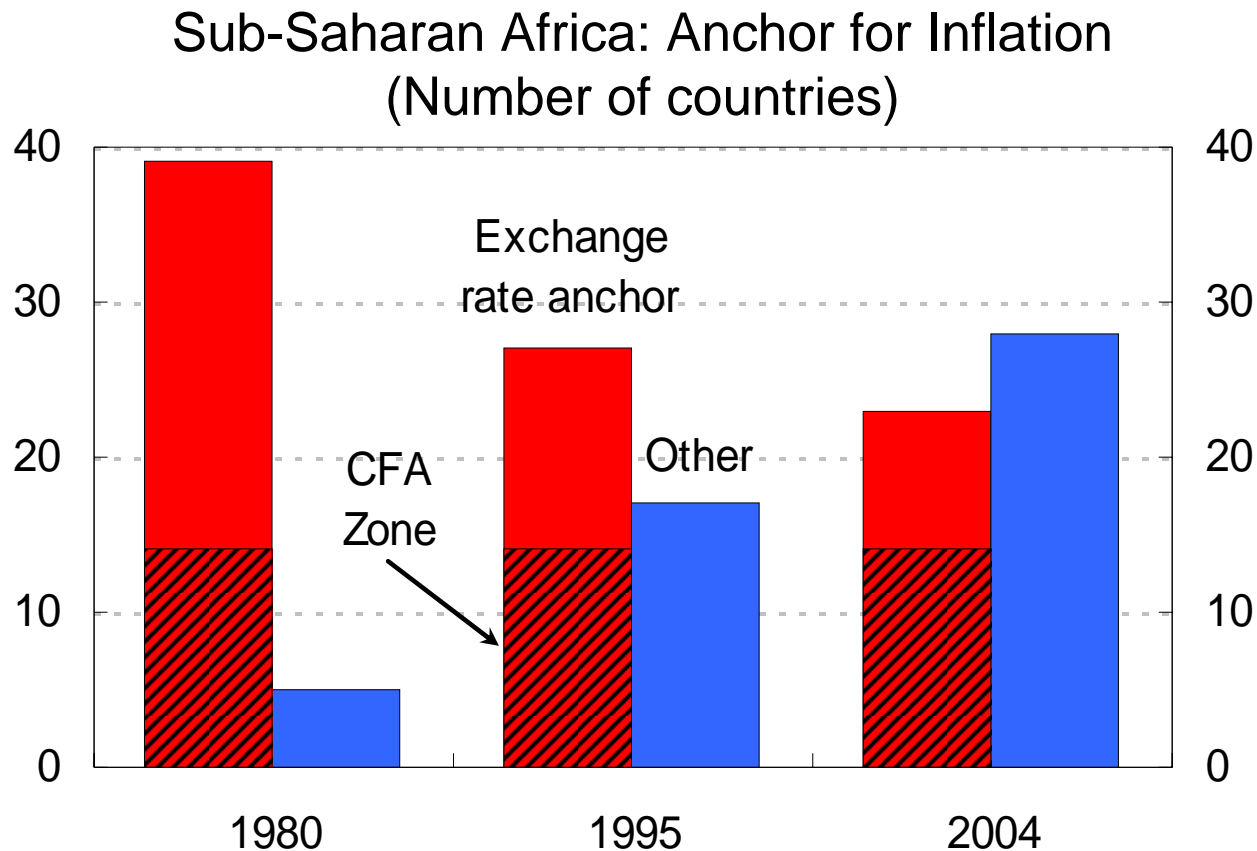
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Three key challenges for African Debt Managers

- Weaknesses in Monetary Policy
- Structure of Banking Sectors
- Capital Account Regime

Weaknesses in Monetary Policy

- Applied frameworks now more complex

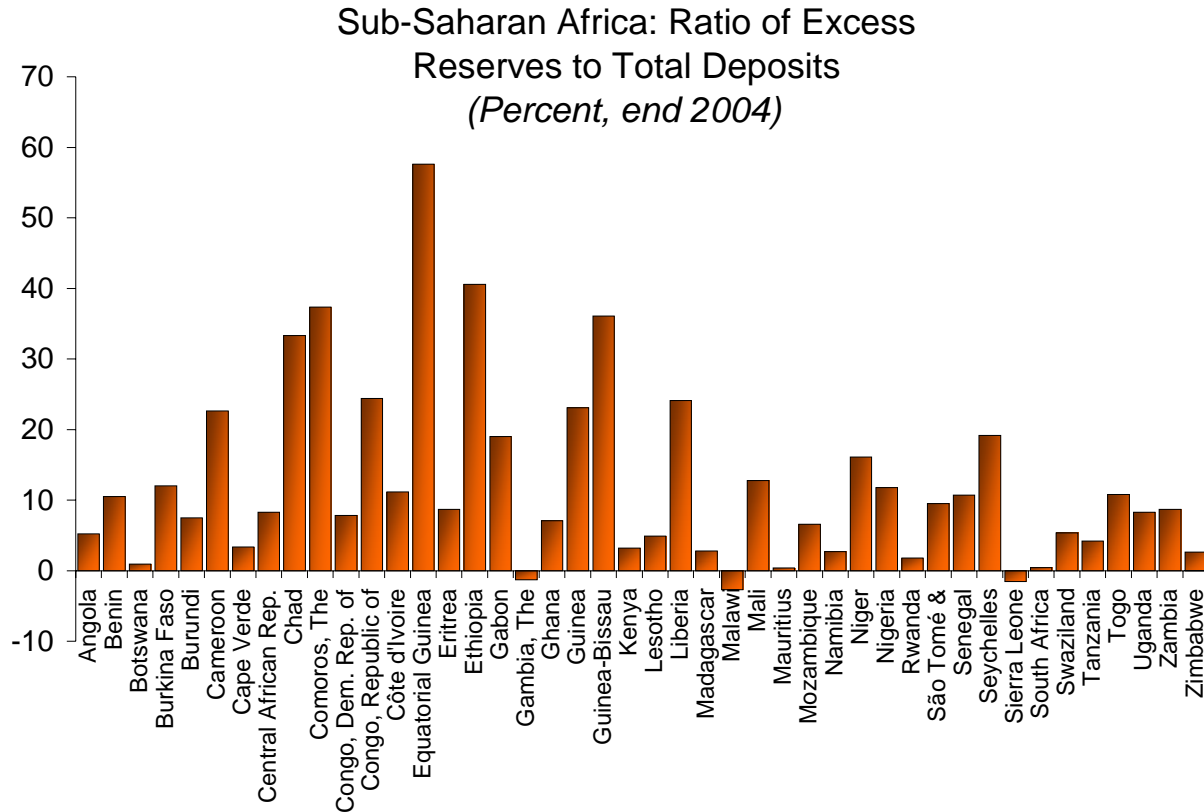


Weaknesses in Monetary Policy

- But, in many countries exchange rate remains de-facto target the exchange rate
- Monetary framework thus often intransparent and generates risk
- Formal and informal restrictions (including on interest rates) still widespread

Weaknesses in Monetary Policy

- Persistent Liquidity Overhang unaddressed



Source: IMF staff calculations.

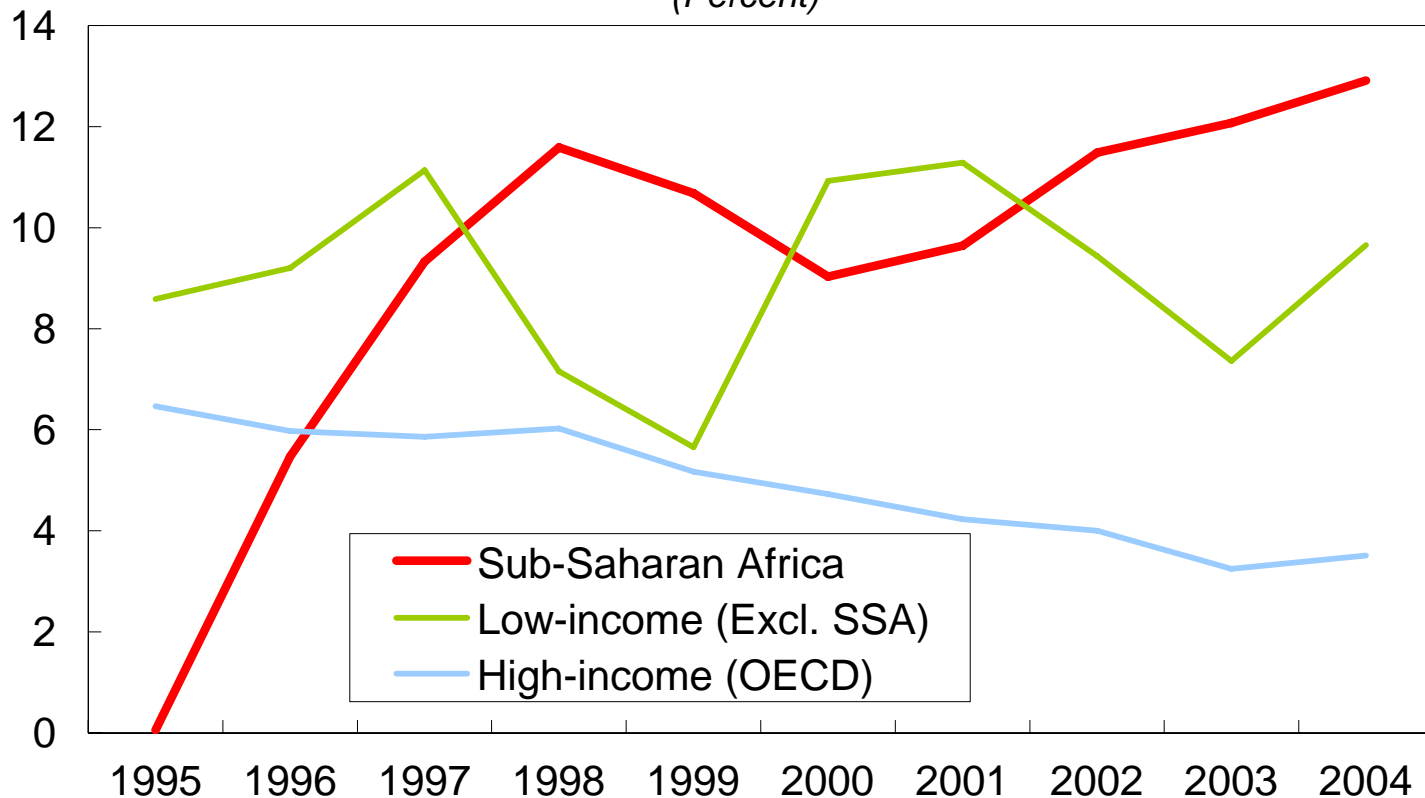
Weaknesses in Monetary Policy

- Slow down development of debt markets
- Contribute to high real interest rates through uncertainty about monetary stance
- Lead to possibly inadequate interest rate differentiation across countries

Non competitive Banking Sectors

- Keep interest (lending) rates high

Sub-Saharan Africa and Comparator Groups:
Real lending rates in SSA versus Rest of the World
(Percent)



Non competitive Banking Sectors

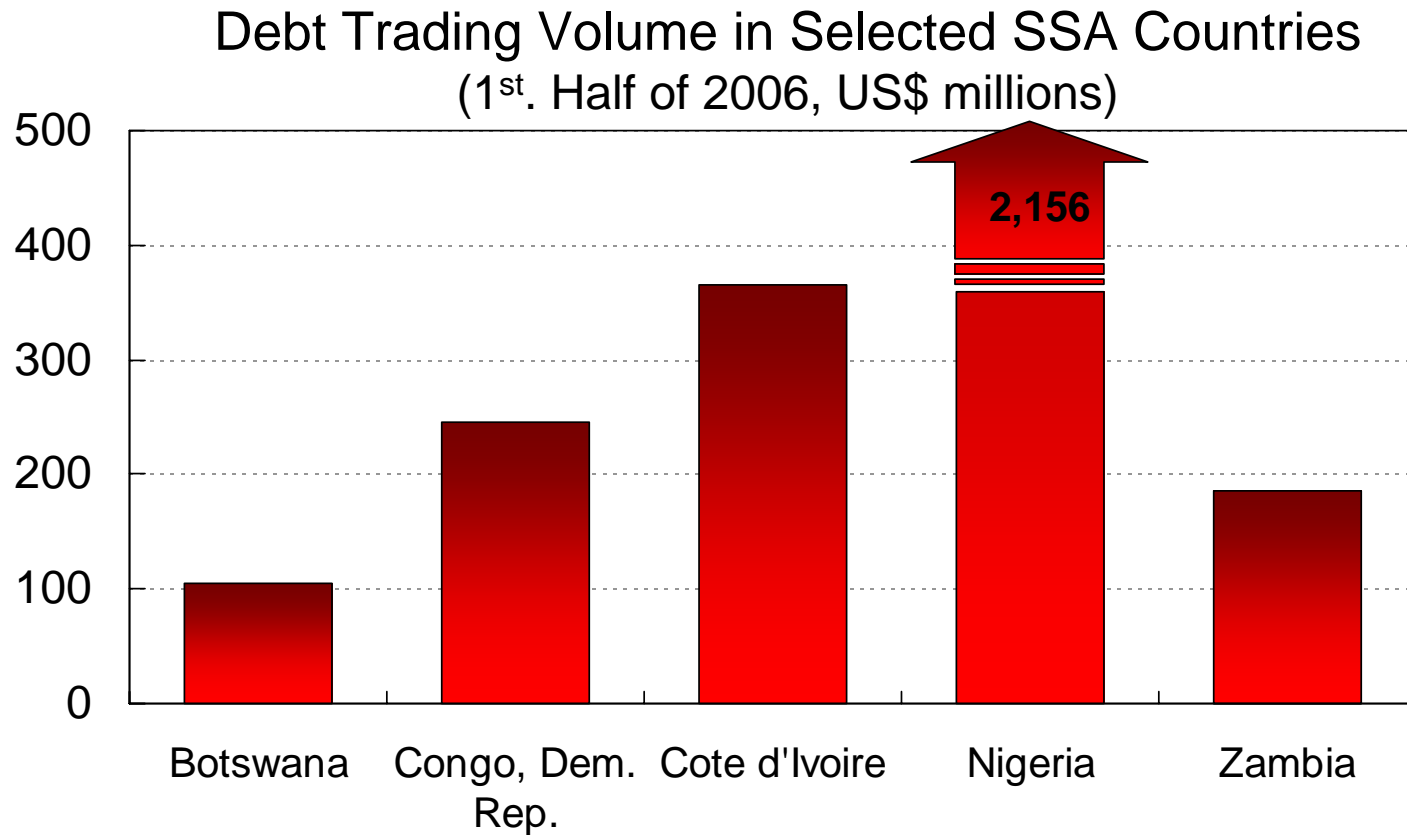
- Generally do not pressure for financial innovation
- If debt markets are introduced, may collude in auctions
- Less likely to build secondary markets

Capital Account Restrictions

- Most AFR Countries still restrict portfolio flows
- Restrictions justified with the need reduce macro volatility
- In the absence of investment instruments, restriction had relatively benign effects

Capital Account Issues

- But, things may be changing



Going Forward

- Debt market development needs to be part of a wider series of macroeconomic and institutional reforms
 - Increase transparency and consistency of monetary policy
 - Support efficiency in financial sectors, e.g. through elimination of protection
 - Review capital account rules and impact of foreign participation on sustainability of debt markets.