Formulation & Implementation of Debt Strategy in Changing Borrowing Environment

Key Challenges for Public Debt Management Strategy in Africa

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Discussion Outline

- Public Debt Management In MEFMI Region
- Execution of Debt Management Objectives
- Evolution of Public Debt Strategy Formulation
- Debt Management Strategies
- The Changing Environment
- The Consequences of the Changing Environment
- Challenges of Public Debt Management Strategy

Public Debt Management In MEFMI Region

- Requirement:
  - Sound Institutional and Legal framework
  - Credible Databases
  - Sound macroeconomic policies
    - Fiscal
    - Monetary
- Objectives:
  - Sustainable debt path (DSA)
  - Minimize government debt cost
  - Develop and maintain an efficient domestic market for government securities

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Execution of Debt Management Objectives

- Improving Debt Structure
  - Developing the Debt Portfolio reviews
- Developing and Publishing Debt Management Strategy
  - Long term strategies developed from the DSAs
  - Adoption of the debt strategies as budget documents
- Improving Debt Management Coordination and Information Flows
  - Development and Functionalization of Debt Management Offices
- Developing Domestic Public Debt Markets

Evolution of Public Debt Strategy Formulation

- Debt Crisis in late 1980s and early 1990s
  - Prudence in borrowing concern was debt burden
  - Sustainable indicators to remain low over a certain period
  - Countries assessed to prove eligibility for debt relief
  - No explicit strategy
  - Emphasis on external debt sustainability
- Debt Relief 1990s to 2000s
  - Eligibility was difficult 1996 change of eligibility criteria
  - Not only DSA but have documented Debt Strategy approved by the legislature and cabinet
  - Emerging Domestic Debt crises
- Multilateral Debt Relief Initiatives (MDRI) early to mid 2000
  - Majority were owed to Multilateral
  - Fiscal space created
  - Public Private Partnership
  - International Bond Market interest

Debt Management Strategies

- Maintain a prudent debt structure by:
  - Preferring the fixed-rate over the floating-rate debt
  - Emphasizing on extending and smoothing the maturity profile
  - Minimizing foreign currency risk
- Further diversify the debt portfolio:
  - Most of the debt was owed to a few Multilateral Financial Institutions who could not provide relief
- Develop an efficient and effective domestic market
- Increase the transparency and predictability of debt and aid disbursements

The Changing Environment

- The majority of African Countries that were HIPC have been weaned off
  - Of the 38 eligible African countries received relief and 10 are yet to receive relief due to
    - Conflict
    - Arrears
    - Weak Governance
- With the HIPC and MDRI the debt burden dropped significantly
- The Global Financial Crisis

The Consequences of the Changing Environment

- The Post HIPC, Post MDRI countries
  - With increased fiscal space countries sought for an opportunity to diversify the debt portfolio (Zambia went for Euro bond, Malawi went for sovereign rating, Kenya has issued domestic bond, Tanzania sought to have international bond)
  - Debts started to rise again
- The HIPC Countries
  - Reliance on grants makes the post conflict countries recover very slowly
- The Global Financial Crisis
  - Large and rising fiscal deficits
  - Dwindling reserves
  - Reduction in imports of essential goods
  - Sharp deceleration in growth
  - Reduction in private capital flows
  - Decline in revenues

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Challenges of Public Debt Management Strategy

- Change of focus from the long term trend in debt sustainability, to medium term cost and risk factors
  - Many countries have the medium term expenditure framework
- Capacity to conduct medium term debt strategy
  - Skills transfer to country officials will require resources
- In the past debt strategies met challenges that have to be addressed like:
  - Incomplete strategies
  - Uncoordinated and fragmented responsibilities
- Limited sources of financing for development
  - The source countries are also the most affected by the global financial crisis

THANK YOU

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