# Is Africa hurtling towards a fiscal abyss?

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Between the 1980s and early 2000s, several developing countries (many of them in Africa) accumulated large amounts of debt, which negatively impacted on economic growth, exacerbating poverty and underdevelopment among these countries.




This experience created the impetus for the International Monetary Fund's highly indebted poor country (HIPC) and multilateral debt relief (MDR) initiatives through which the creditors forgave the debt owed by these countries. Most of the countries then on the road to debt forgiveness swore never again to be such a position. It is largely through this lens that the current debt situation in Africa is being monitored and assessed.

Debt-ridden African countries return to the IMF fold

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1. It is argued that the pace of debt accumulation is "too fast", and thus could become unmanageable. As noted by the World Bank (2018), average public debt in sub-Saharan Africa rose briskly from 37% of gross domestic product (GDP) in 2012 to 57% by 2017. Thus, it appears the concern here is less on the level of debt (as measured by debt-to-GDP ratio) and more on the growth rate of debt.
2. There has been a rapid increase in the number of sub-Saharan African countries at high risk of debt distress. According to the World Bank's Debt Sustainability Framework this number more than doubled, from 8 countries in 2013 to 18 countries in 2018, in less than a decade. If the current trends were to continue, the number is likely to rise sharply in the coming years.
3. Debt servicing has increased sharply and is becoming a serious burden for some sub-Saharan African countries. Costs averaged 11% of government revenues in 2016, up from just 4% in 2013. Indeed, some African countries are already facing debt default or debt restructuring, according to a 2018 IMF report.

## Blame commodities price burst, infrastructure and easy money

Evidence suggests that the recent rapid growth of debt has been largely driven by deteriorating fiscal positions of governments, coupled with exchange rate depreciations occasioned, at least in part, by softening commodity prices.

Most African countries are commodity dependent – realising strong growth during commodity super cycles and subdued growth during bursts. Weakened demand for commodities in the last few years has negatively impacted growth in the region which has further decreased government revenues, exacerbating the fiscal position of governments. The worsening fiscal positions, together with rising debt servicing costs, have ignited concerns about debt sustainability in Africa. These are further buttressed by the lack of diversification of most African economies away from commodities, which tends to heighten vulnerability to shocks.

Closing the infrastructure gap in sub-Saharan Africa is another major driver of public debt. The continent continues to face severe infrastructure backlogs, especially in power, transport and water and sanitation.

Without adequate investments in these, Africa's potential will remain untapped, and the continent may not be able to realise her development aspirations, including the United Nations 2030 Agenda for Sustainable Development. Indeed, diversification of African economies will require enhanced investments in infrastructure. For instance, manufacturing requires stable supply of affordable electricity and enhanced transport logistics (to transport raw materials and final goods).

Similarly, the digital economy requires governments to invest in appropriate education and skills for this economy. The African Development Bank in its *African Economic Outlook*, 2018, puts Africa's infrastructure needs at $130-170bn a year, with a financing gap of $68-108bn. The concerted efforts by African governments to close the infrastructure gap have resulted in them running high budget deficits and accumulating public debt.

It should be noted however that the fact that governments are investing in productive infrastructure, while commendable, does not suggest anything about the quality of the investments and the efficiency of implementing those projects, governance issues seem to crop up more often.

Well-designed and implemented infrastructure projects can generate a stream of returns over their life span that allows for the infrastructure to pay for itself. In contrast, poor investment decisions andor poor management of the infrastructure building programme serves to undermine the economic viability of the investment, and where the infrastructure is debt financed, results in a debt burden.

The apparent glut of finance (easy money) following the global financial crisis (and quantitative easing in developed economies) may have encouraged countries to accumulate debt at a much faster pace, borrowing from capital markets (domestic and international), multilateral institutions, Paris and non-Paris Club countries. Also, the HIPC and MDR initiatives meant many African beneficiaries found themselves with increased debt capacity, which may have increased their appetite for borrowing. Further, higher GDP growth in the region, in part driven by the commodity boom, may also have contributed to increased borrowing, as countries believed they had the means to repay.

## ABOUT THE AUTHOR

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