AFRICAN
DEPARTMENT

Five Myths on the Impact of Public Debt on Central Banking in Africa

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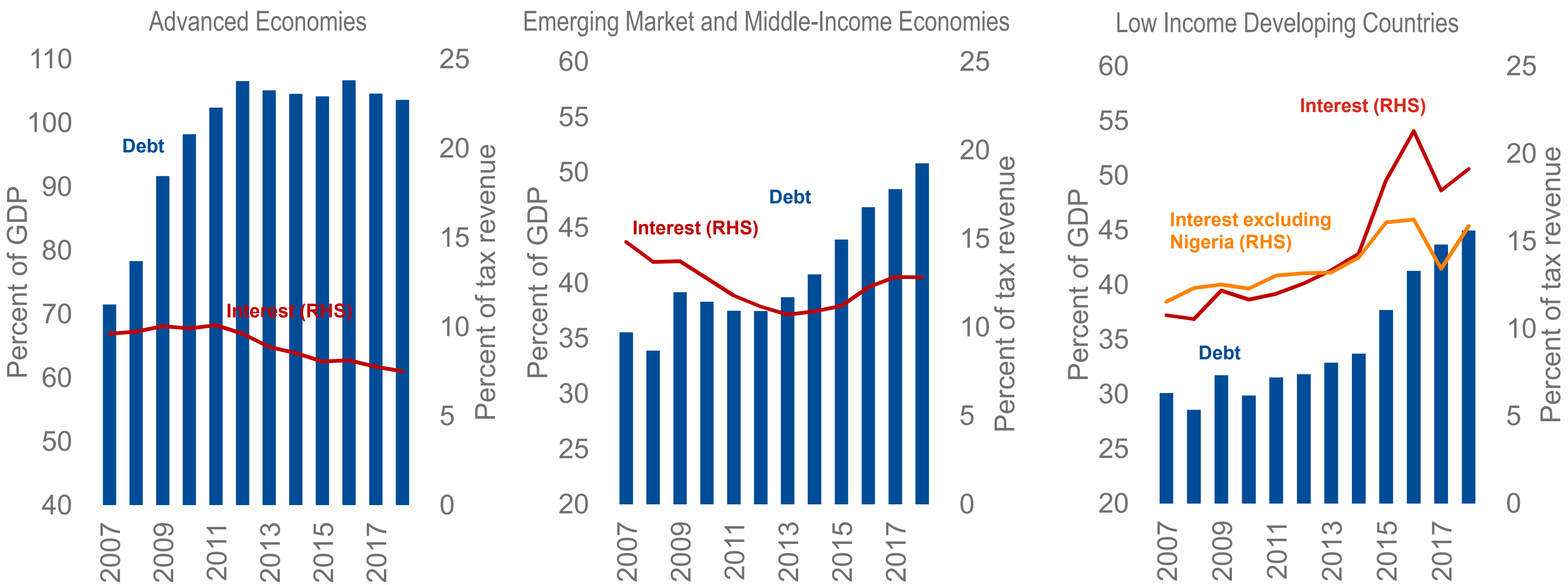
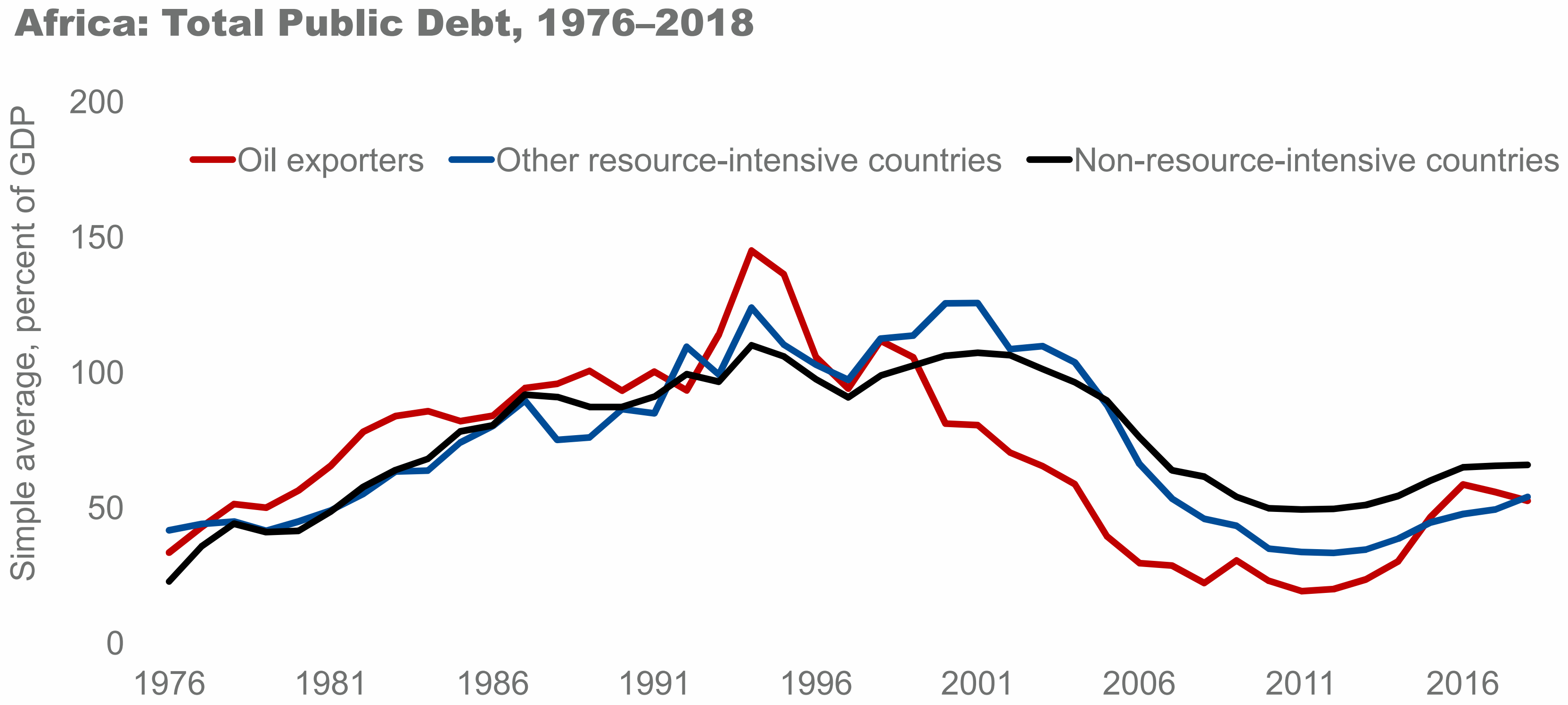
Public debt has increased across the world

General Government Gross Debt-to-GDP and Interest Bill-to-Tax Revenue Ratios, 2007–18



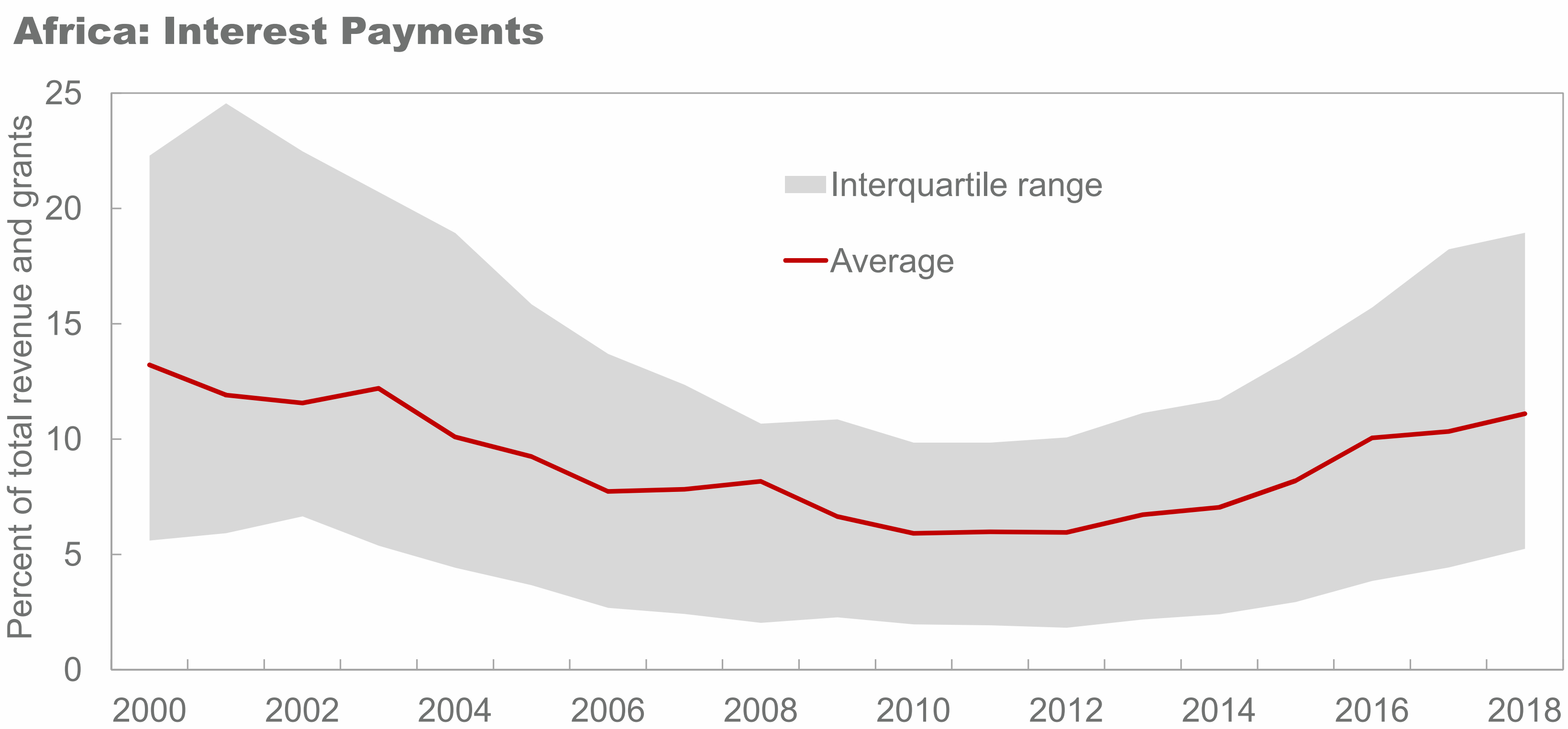
Source: IMF, World Economic Outlook database.

In Africa the debt increase has been most pronounced in oil exporters



Source: IMF, World Economic Outlook database.

The debt increase is concerning, as debt servicing capacity has deteriorated sharply

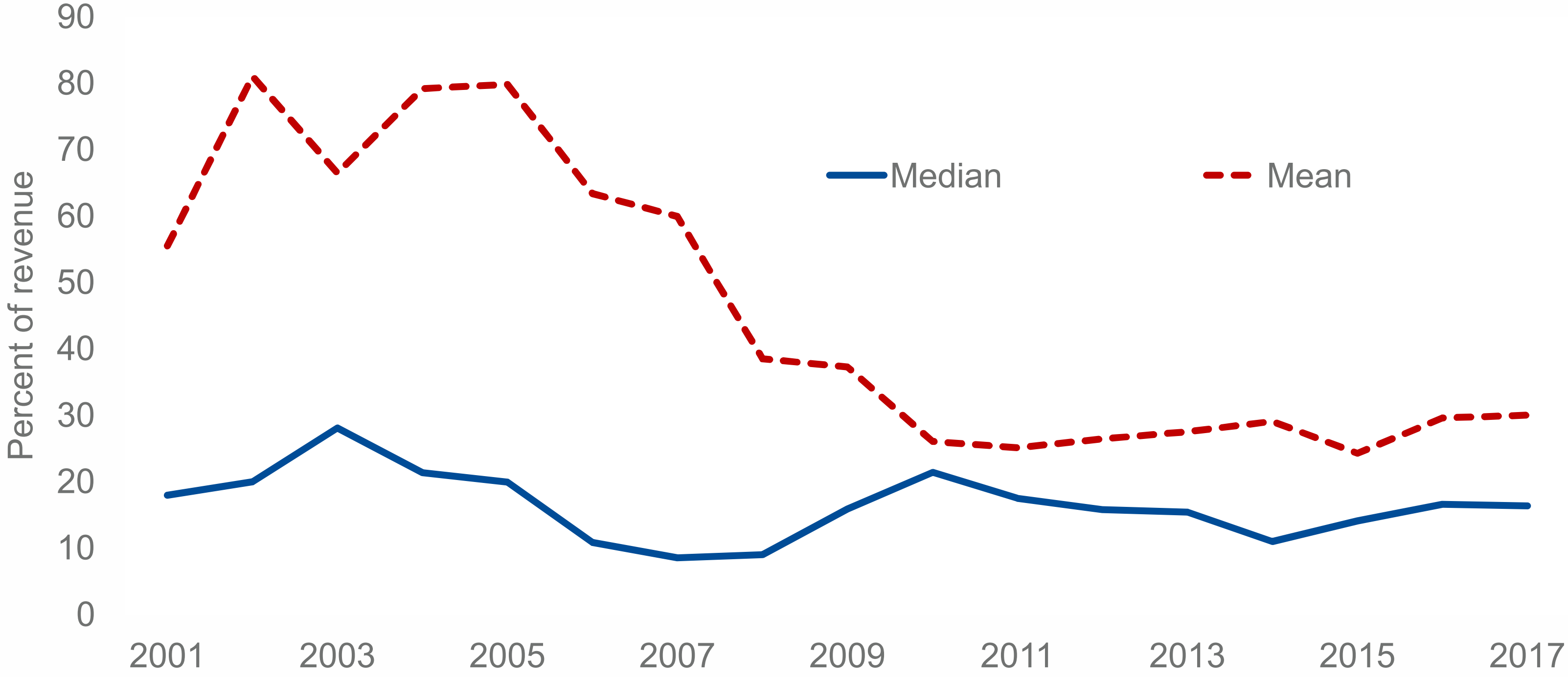


Source: IMF, World Economic Outlook database.

Myth 1: Fiscal dominance is a preoccupation of the past

Direct financing of the budget deficit by central banks above legal limits has declined over time

Sub-Saharan Africa: Outstanding Central Bank Claims on Government Above Legal Limits, 2001–17



Sources: CBLD; IMF, Monetary and Financial Statistics database; National authorities; and IMF staff calculations.

Yet, high public debt can increase the risk of 'soft' fiscal dominance

Examples of soft fiscal dominance:

1. Pressures to contain domestic borrowing costs.
2. Fear of floating magnified when foreign currency debt is high.
3. Quasi-fiscal operations and expansion of the central bank mandate

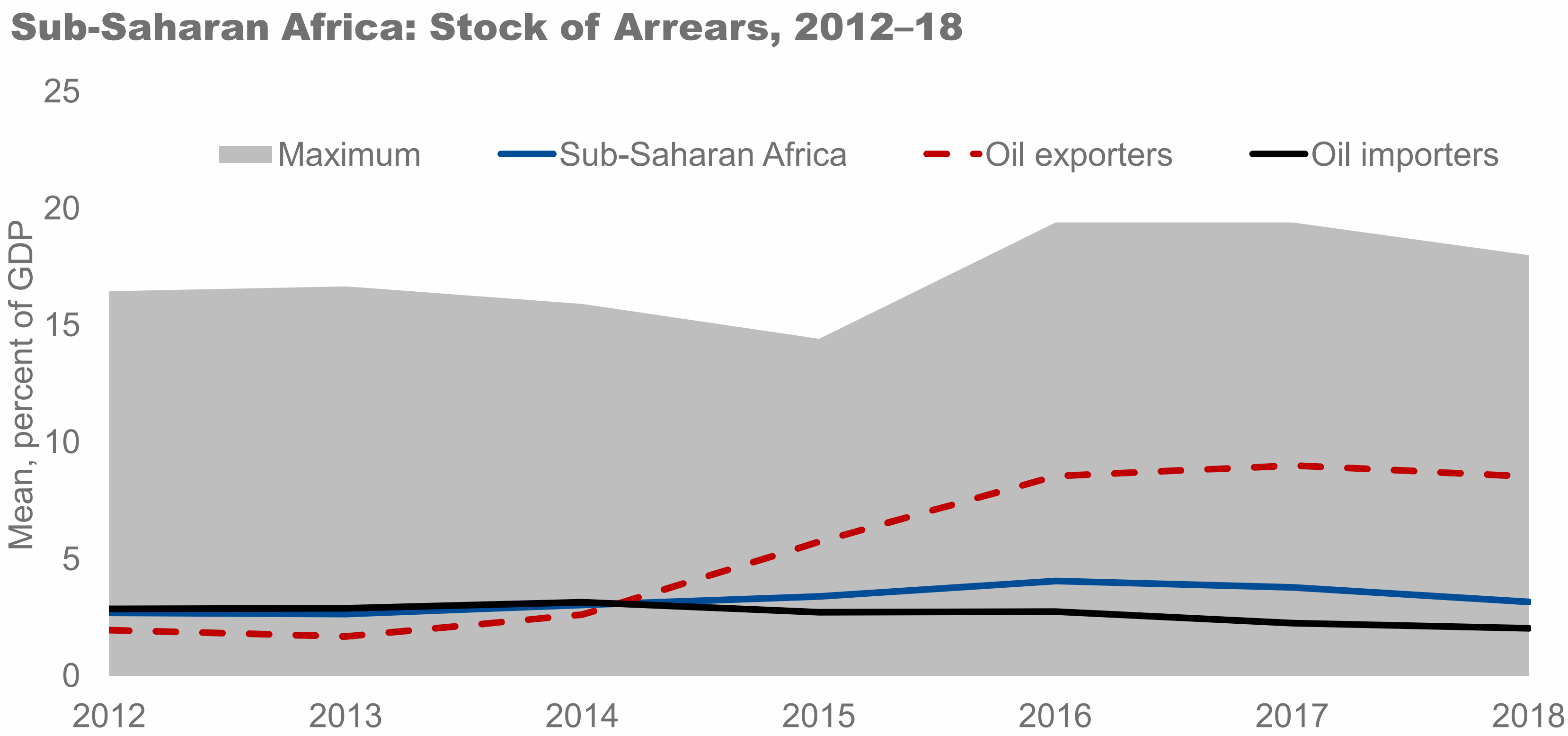
Myth 2: As long as public debt is sustainable, its level is irrelevant for monetary policy and financial supervision

High public debt, even if it is sustainable, can complicate the work of central bankers

High public debt…

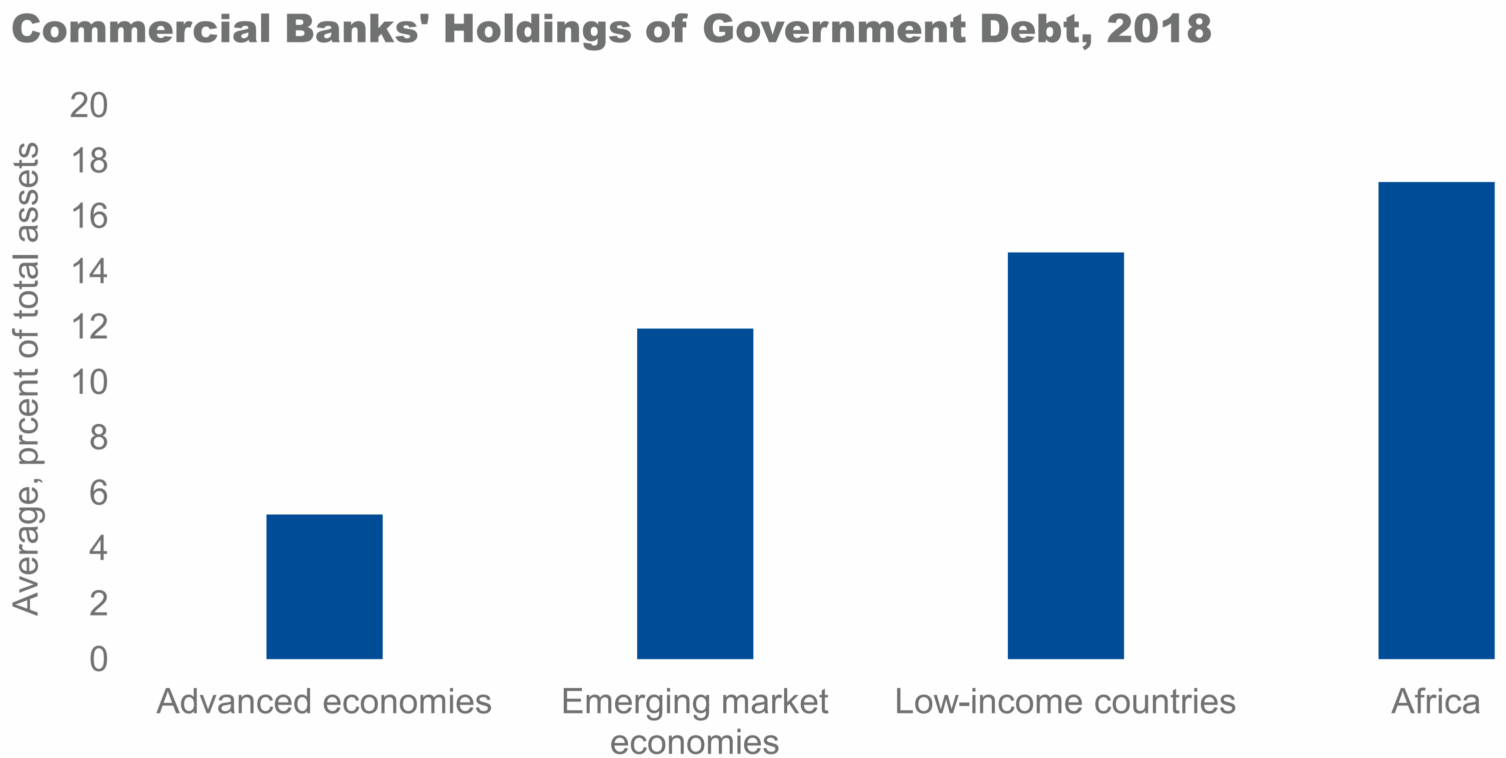
1. … weakens the transmission of monetary policy.
2. … generates complicated tradeoffs between exchange rate and growth objectives, at least when foreign currency debt is high.
3. … can create financial stability risks.

Government arrears to suppliers translate into rising non-performing loans



Sources: Country authorities; and IMF, staff calculations..

African banks are well exposed to sovereign securities



Source: IMF, Monetary and Financial Statistics database; and IMF, World Economic Outlook database.

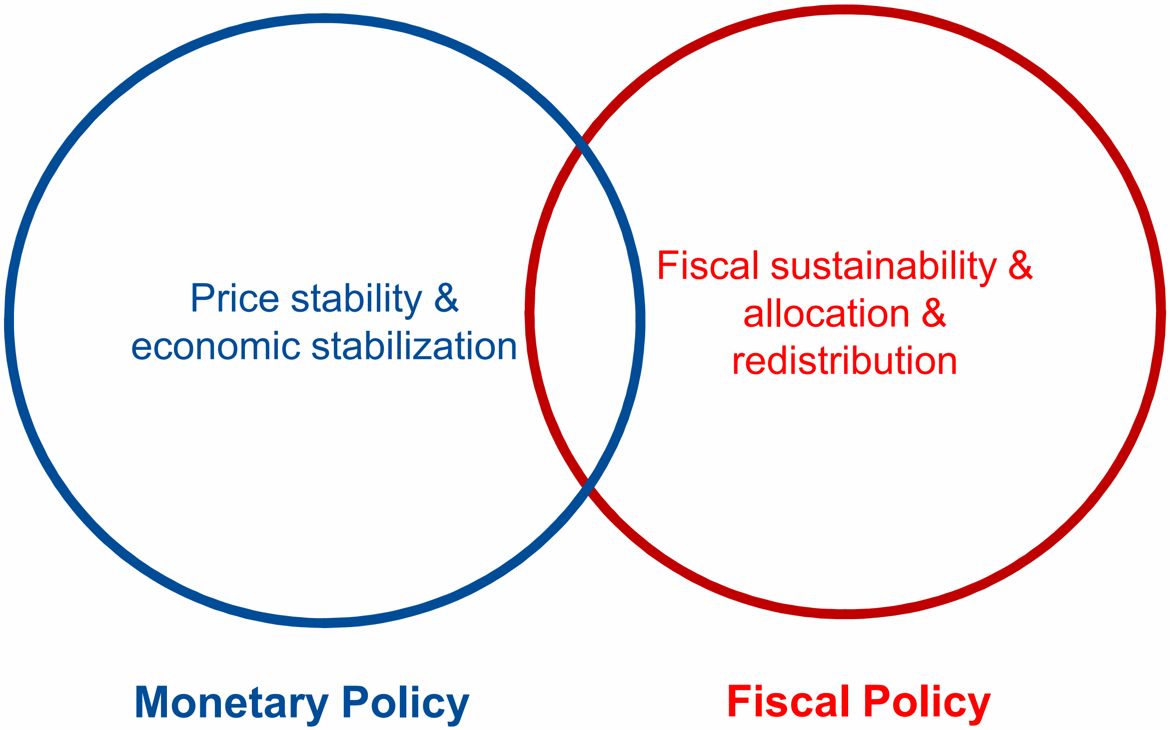
Myth 3: There is little that central banks can do to protect themselves and the financial sector

Central banks can take some actions to manage the spillovers of high public debt

1. Continue to strengthen the monetary policy framework.
2. Step up communication on the role of the central bank and the impact of policy measures.
3. Address the bank-sovereign nexus.
4. Improve debt data collection.

Myth 4: There is a still clear delineation of roles between monetary and fiscal policy

The dividing line between monetary and fiscal policy has become more and more fuzzy



Myth 5: Central banks can help governments alleviate the public debt burden

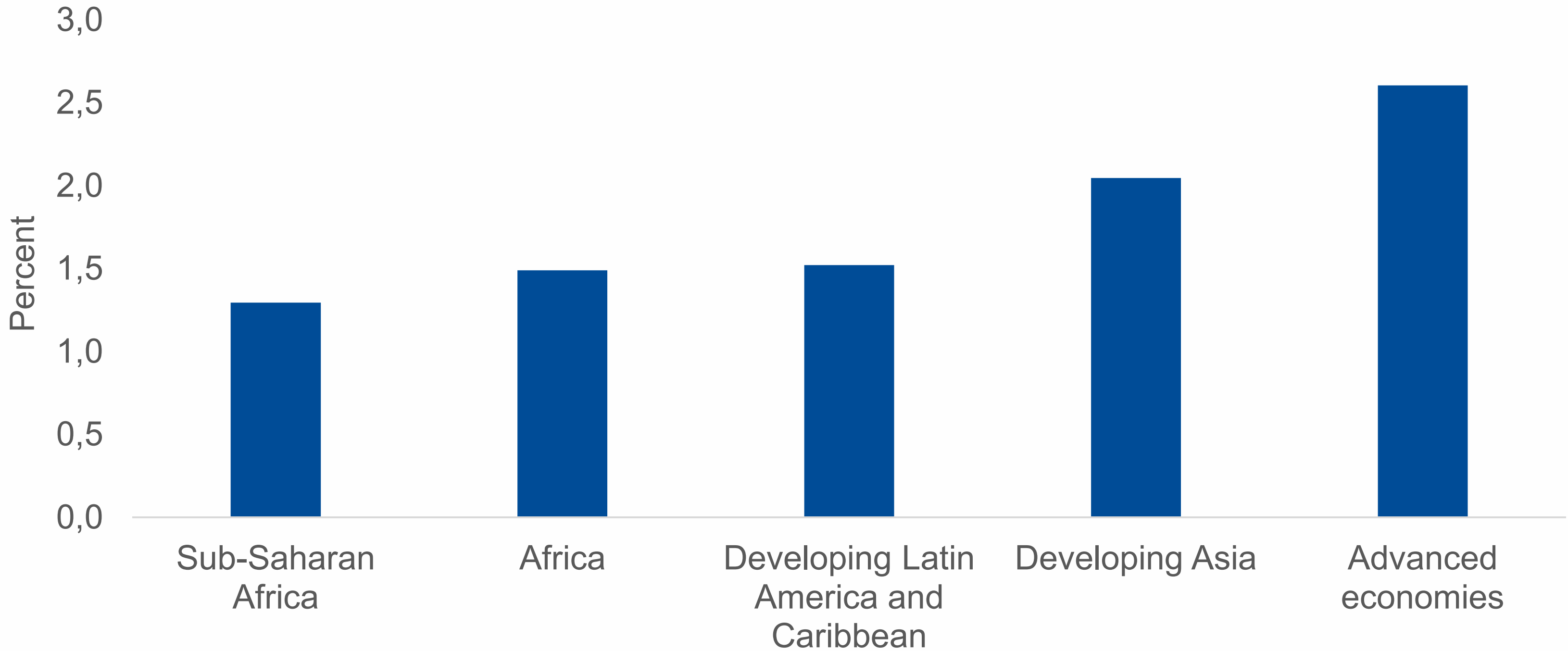
The scope for central banks to lower the debt burden seems very limited in Africa

Three main ways monetary policy could reduce public debt:

1. Generating a surprise in inflation?
2. Transferring seigniorage revenues to the budget?
3. Introducing financial repression regulations?

Seigniorage revenues are small compared to the debt burden

Seigniorage Revenues, Average 2010–18



Source: IMF, Monetary and Financial Statistics database; and IMF, World Economic Outlook database.
Note: Seigniorage is calculated as change in monetary base divided by GDP.

Thank you