ASSOCIATION OF AFRICAN

CENTRAL BANKS (AACB)

42nd ORDINARY MEETING

OF THE ASSEMBLY OF GOVERNORS

(Kigali, Rwanda, 1st August 2019)

2019 SYMPOSIUM ON THE THEME:

«RISING AFRICAN SOVEREIGN DEBT: IMPLICATIONS FOR MONETARY POLICY AND FINANCIAL STABILITY»

(Kigali, Rwanda, 31st July 2019)

DRAFT REPORT

ACRONYMS

AACB: Association of African Central Banks

ACB: African Central Bank

AfCFTA: African Continental Free Trade Area

AfDB: African Development Bank

AMCP: African Monetary Cooperation Program

AMI: African Monetary Institute

ASEA: African Securities Exchanges Association

AU: African Union

AUC: African Union Commission

CBE: Central Bank of Egypt

CBL: Central Bank of Liberia

ECB: European Central Bank

ECOWAS: Economic Community of West African States

GDP: Gross Domestic Product

HIPC: Heavily Indebted Poor Countries

IMF: International Monetary Fund

MDGs: Millenium Development Goals

MDRI: Multilateral Debt Relief Initiative

NBR: National Bank of Rwanda

REC: Regional Economic Community

SGP: Stability and Growth Pact

STC: Specialized Technical Committee

SSA: Sub-Saharan Africa

STC: Specialized Technical Committee

USA: United States of America

EXECUTIVE SUMMARY

1. At the global level, debt increased in both advanced economies and emerging and developing countries. Indeed, it increased, on average, from 70% of GDP in 2007 to around 100% of GDP in 2018 in advanced countries, from 35% to 50% of GDP in emerging and middle-income countries and from 30% to 45% of GDP in low-income developing countries. In Africa, debt has been on an upward trend in recent years, in connection with Eurobond issuance and the increase in the budget deficit. Data collected from 2008 to 2018 showed that the increase in the budget deficit was correlated with faster debt growth, which means that the countries with the highest fiscal deficits had the highest debt growth rates.

2. However, it is noted that, although increasing, the total debt of the African continent is small (about 2% of total world debt) compared to other regions, notably the United States of America (31.8% of global sovereign debt) and Japan (18.8% of global debt). As for the external debt of African governments, about 20% was owed to China, 35% to multilateral lenders, 32% to private lenders and 13% to other governments. In addition, a change in the composition and structure of African countries' debt was noted. Indeed, debt has been increasingly contracted from non-concessional sources at a higher cost and shorter maturity. The share of Paris Club debt declined sharply from 7.4% of GDP in 2007 to 2.2% in 2016 and bilateral debt from China increased from 0.3% to 4.2% % of GDP (14 times more) during the same period.

3. This is mainly attributable to greater borrowing capacity, as a result of massive and irrevocable debt relief for 33 African countries under the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI) programs, and an increased need for financing to achieve the ambitious Millenium Development Goals (MDGs). Furthermore, the decline in export earnings induced by falling commodity prices led countries to re-indebtedness, to such an extent that debt became a major concern for central banks again because of its impact on monetary policy.

4. Drawing on the lessons of the European debt crisis and various crises experienced by several nations of the world since the 1980s, it was noted that although the level of debt in Africa is not high, the burden of the debt-to-income ratio remains however relatively large. Thus, payment of debt service could be a significant problem in the future. In the absence of a successful restructuring or an adequate sinking fund, the accumulation of maturities around 2023 presents the risk of a potential debt service crisis for African countries.

5. Regarding the strategies to address the issue of increasing sovereign debt, it was recommended in particular to the States to improve their debt management frameworks to reduce risks, and continue prudent debt management by maintaining the balance of the national balance sheet. States must also ensure better management of their expenditure while strengthening the mobilization of domestic resources and implementing reforms to significantly improve the collection of domestic resources. Avoiding to resort systematically to indebtedness to finance projects is key. In addition, the introduction of new monetary policy frameworks, taking into account sovereign debt is also needed.

1. INTRODUCTION

1.1. The Association of African Central Banks (AACB) organized its traditional annual Symposium on July 31st, 2019 in Kigali, Rwanda, on the theme '*Rising African Sovereign Debt: Implications for Monetary Policy and Financial Stability',* prior to the 42nd Ordinary Meeting of the Assembly of Governors, held on August 1st, 2019.

1.2. More than two hundred and fifty (250) participants, including Governors and senior officials from thirty-six (36) central banks, as well as senior officials from partner institutions, regional and international organizations, participated at the symposium to exchange information and views, among others, on the increase of sovereign debt in Africa and its implications for monetary policy and financial stability. Resource persons (Governors, Speakers, etc.) presented papers and discussions followed. This report presents a summary of the proceedings.

2. OPENING CEREMONY

2.1. The opening ceremony was marked by four speeches that were delivered respectively by Mr. John Rwangombwa, Vice-Chairperson of the AACB and the Governor of the National Bank of Rwanda (NBR); His Excellency, Prof. Victor Harison, Commissioner for Economic Affairs of the African Union Commission (AUC), Mr. Tarek Amer, Chairperson of the AACB and Governor of the Central Bank of Egypt (CBE) and Mr. Édouard Ngirente, the Right Honourable Prime Minister of the Republic of Rwanda, who officially opened the meeting.

2.2. Mr. Rwangombwa stated that it was a pleasure for him to welcome the participants to Rwanda. He noted, in particular, the presence of the Rwandan Prime Minister, which demonstrated the importance his government attaches to the union of Africa.

2.3. After thanking the main speakers of the Symposium the Governor of the NBR recalled that the Association was created in 1965 and aims at promoting the cooperation in monetary, banking and financial sphere on the African continent. He reiterated that African countries are following a well thought out convergence process in preparation for the introduction of a single currency and the establishment of a common central bank in Africa. In this regard, he mentioned that African central banks often meet to discuss several topics related in particular to economic, monetary and financial issues on the continent.

2.4. He raised a concern about the size of African sovereign debt. He recalled that in 2017, the average public debt for the African continent was 45% of GDP, with 19 countries above the maximum 65% threshold set by the African Monetary Cooperation Program (AMCP). However, he added that based on the data African debt seemed to be low, compared to the rest of the world. He stated that the discussions of the Symposium would focus on how the increasing sovereign debt may affect the effectiveness of monetary policy, as well as financial stability of African economies.

2.5. Moreover, the Governor of the NBR indicated that the trade war between the United States of America (USA) and China, and the instability surrounding Brexit were posing some risks for African debt. He remarked that African governments should put their houses in order so that they would not be severely affected.

2.6. He highlighted that the commitment of African leaders to unite Africa, confirmed by the historical milestone which is the African Continental Free Trade Area (AfCFTA) was giving the confidence that the economies of the continent are solid and can face the challenges emanating from the global economy.

2.7. He concluded his remarks by thanking the organizing committee of the meeting for the job well done until then. He wished all participants a fruitful Symposium and invited the Governors to take some time to explore many tourist attractions Kigali had to offer.

2.8. Prof. Victor Harison, Commissioner for Economic Affairs of the AUC, on behalf of the President of his Institution, His Excellency Moussa Faki Mahamat, and on his own behalf, thanked the Authorities and the people of the Republic of Rwanda, for the warm and fraternal hospitality that had been accorded to him and his delegation. He also thanked the AACB members for the excellent arrangements made to ensure the success of the annual Symposium.

2.9. After sharing his point of view on the theme under discussions, he recalled that during the extraordinary Assembly of the African Union held in Niamey, Niger in early July 2019, the Heads of State and Government launched the Instruments of the Operational Phase of the African Continental Free Trade Area (AfCFTA), including the AfCFTA Trade in Goods password protected online portal, and the Continental Online Mechanism for Reporting, Monitoring, and Elimination of Non-Tariff Barriers within the AfCFTA.

2.10. The Commissioner for Economic Affairs of the AUC underlined that the continent had made steady efforts towards the establishment of the AfCFTA which constituted the largest free trade area in terms of the number of participating countries as it covers a market of 1.2 billion people and a gross domestic product (GDP) of $2.5 trillion. He argued that consolidating the continent into one trade area provides great opportunities for trading enterprises, businesses and consumers across Africa and can contribute in supporting sustainable development in the region.

2.11. However, he pointed out that it is critical that African countries diversify their economies in order to realise the full potential of the AfCFTA as opposed to being dependent on commodities such as oil and minerals, which have traditionally accounted for most of Africa's exports.

2.12. Furthermore, Prof. Victor Harison argued that the establishment of the African Financial Institutions becomes imperative as they constitute a prerequisite to the successful implementation of the AfCFTA and are the vehicles that will drive the continent's financial sector with a view to financing infrastructure deficits on the continent and facilitating productive transformation and trade among countries.

2.13. With regard to the creation of the African Monetary Union with a single currency, he pointed out that the Economic Community of West African States (ECOWAS) were moving in the right direction with the planned creation of "ECO" in 2020.

2.14. After highlighting the volatility of African currencies, their illiquidity and their rarely traded status on the global financial market, he noted that this situation is one of the biggest barriers to effective implementation of the AfCFTA and the development of the continent, which has more than 40 currencies.

2.15. In this regard, he recalled that the AUC in collaboration with the AACB had engaged the Regional Economic Communities (RECs) in order to reach a consensus on the macroeconomic convergence criteria and timelines for the establishment of the African Central Bank. The Commission was planning to develop draft statutes and structure of the African Monetary Institute (AMI) that will lead the process of the implementation of the AMCP and a draft host country agreement for the AMI which will be discussed and agreed upon with Nigerian Authorities.

2.16. In this context, Prof. Harison indicated that the theme of the 2019 Symposium:" Rising African Sovereign Debt: Implications for Monetary Policy and Financial Stability" was extremely critical for many African countries because the pace of sovereign debt accumulation in recent years was becoming a cause for concern across Africa, as many of the countries that benefited from debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives (MDRI)are now at high risk of external debt distress.

2.17. Concerning the causes of indebtedness, he noted that the ratio of tax revenues to GDP in many countries remains low (below 20%), which is less than what is required to achieve the Sustainable Development Goals. This situation leaves countries with no option other than borrowing to finance public infrastructure investments.

2.18. To enable countries to finance their development, the AUC considers that the threshold of the debt-to-GDP ratio should be lifted from 65% to 70% in the macroeconomic convergence criteria, as recommended by the last African Union Specialized Technical Committee (STC) as public investment raises potential returns and improves economic growth.

2.19. Moreover, Prof. Harison stated that the Commission was convinced that by working together with partners, countries can be supported to improve domestic resources mobilization through improving tax policy and tax administration system. This could also be done by taking measures to enhance debt management capacity, promote economic transformation to reinforce resilience to shocks, enhance public investment spending that improves growth and greater transparency, terms and conditions of lending, and develop robust local currency debt markets to reduce the risks associated with foreign currency borrowing. Futhermore, he stated that as coordinated monetary and fiscal policies are central to sound macroeconomic management, the central banks should also play a critical role in this endeavor.

2.20. In concluding his remarks, the Commissioner for Economic Affairs of the AUC reiterated the willingness of the African Union Commission to strengthen collaboration with the AACB, the African Securities Exchanges Association (ASEA) and RECs in translating the establishment of the African Central Bank which is a keystone of the integration of the continent into a reality.

2.21. Governor Tarek Amer, Chairperson of the AACB, in his speech, welcomed all participants to the Symposium and pointed out that this event was a rare opportunity for senior decision-makers to gather in the region to exchange views on one of the key challenges facing African countries nowadays which was the rapid increase in sovereign debt levels.

2.22. He recalled that the International Monetary Fund (IMF) had warned African countries that their increasing indebtedness and failure to service their public debts were creating more poverty for their citizens and advised them to be attentive, and cautious about not overloading their countries with too much debt. Consequently, markets were particularly worried about the continuing adverse feedback loop between sovereign risk and financial sector weaknesses. He noticed that a concern is increasing about the prospect of a new sovereign debt crisis in the African continent as the median debt ratio as percentage of GDP increased from 31% in 2012 to 53% in 2017 in the region.

2.23. The Governor of the CBE stated that because of the rapid increase in debt (domestic and external) burden over the recent years, about one-third of the countries in sub-Saharan Africa is either in/or at high risk of debt distress, including the majority of countries that benefited from debt relief in the 1990s.

2.24. The Governor Amer stated that they are gathered as policymakers around the African region to assess whether this time characterized by a rising sovereign debt is different from a sovereign debt crisis or a fully-fledged crisis of confidence and to examine the drivers of this debt buildup, the composition of debt, and its design features.

2.25. He argued that African debt had risen again because of several factors, such as the consequences of the 2008 global financial crisis, the 2014 commodity prices slump and the low domestic savings rates (15% of GDP) and the infrastructure investment promises made by democratically elected governments.

2.26. On the other hand, the AACB Chairperson pointed out that while all of these might sound worrying, many analysts were of the view that policy makers should not be alarmed by the size of the debt and insisted that another systemic sovereign debt crisis was not imminent. The average total debt-to-GDP ratio for African countries at the time was at 53% compared with 90% during the worst cases of the 1980s and 1990s and it was predicted to stand at 47% by 2023. In his opinion, what he found "unsettling" was the rapid rate of increase in debt, rising debt servicing costs and the nature of the debt structure. Indeed, servicing costs doubled to 10% in 2017 from 5% in 2012 and markets were worried about a large spike of $12 billion in repayments due in 2024 mostly from smaller oil-importing countries. If the global economy will be in bad shape in 2024, it will not be easy to roll over debt.

2.27. In addressing this challenge of rising sovereign debt, the Governor of the CBE suggested the following solutions:

- Creating the necessary fiscal space to diversify the financing sources by African governments;
- Investing more in developing better debt management strategies;
- Prudent use of the borrowed funds backed by sound economic policies;
- Harmonizing international efforts and collaboration;
- Increasing development banks' capital to play a bigger role in infrastructure financing and alleviate pressures on national governments' budgets and the buildup of debt;
- Independent central banks could play a particularly important role in improving monetary policy and realizing financial stability in the African region.

2.28. He underscored that while Africa had not entered a debt crisis so far, there was no room for complacency and there were already signs that economic growth in emerging African countries was slowing. Also, weak trade numbers in other smaller economies confirms signals that the weakening external outlook may otherwise dampen strong growth in the region.

2.29. The Governor of the CBE said that he was confident enough that everyone in the meeting recognized that it is critical to continue the regional dialogue with our esteemed partners on how to prevent any type of debt crisis at any levels and standards. He argued that sharing successful different national approaches of central banks on sovereign debt management, would make them more powerful, keeping in mind that the management and governance of such type of data is crucial to harness Africa's potential to promote greater financial stability and reduce sovereign risks. This could only be achieved through increasing the soundness of monetary policy and financial stability that would later lead to a successful implementation of the debt management strategy and strengthened financial markets.

2.30. In conclusion, the AACB Chairperson said that he was confident that the participants would come out with valuable lessons and hoped that the discussions would be both productive and enjoyable.

2.31. Mr. Edouard Ngirente, the Right Honourable Prime Minister of the Republic of Rwanda, expressed his pleasure to have been invited to the Symposium. He welcomed and thanked the participants for attending the Symposium on behalf of the President of the Republic, His Excellency Paul Kagame, and on his own behalf, indicating that his presence at this meeting was a manifestation of the importance of the role of central banks in the integration process of the continent.He recalled that the AACB, established 54 years ago, had the main objective of monitoring monetary cooperation in Africa. In this regard,

2.32. the Prime Minister pointed out that Africa was continuing its journey along with the African Union Agenda 2063. He also emphasized the role of central banks in setting standards to promote financial transactions. He noted the importance of central banks in the provision of banking services and operations on the continent. In addition, he recalled that the central bank should continue to play its role as guarantor of price stability.

2.33. Before closing his remarks, the Prime Minister stressed the need for African decision makers to work together and combine their efforts. He also called on central banks to take steps to improve banking regulation to make trade easier.

2.34. Finally, the Prime Minister officially opened the Symposium, wishing the participants every success and a good stay in Kigali.

3. KEYNOTE ADDRESS BY Mr. ABEBE AEMRO SELASSIE

3.1. Mr. Abebe Aemro Selassie, Director of the African Department, International Monetary Fund (IMF), thanked the AACB for inviting him to discuss an important topic and expressed deep gratitude to the Governors. His presentation was on the '*Five Myths on the Impact of Public Debt on Central Banking in Africa*'. He focused his presentation mainly on the rising debt in the world and its implications for central banks.

3.2. Mr. Selassie showed that debt had increased globally, in both advanced and emerging and developing countries. Indeed, in advanced countries, he noted that the public debt as a percentage of GDP increased, on average, from 70% in 2007 to around 100% in 2018. In emerging and middle-income countries as well as in low-income developing countries, public debt as a percentage of GDP also rose to 50% and 45% in 2018 compared with around 35% and 30% respectively in 2007. In Africa, he noticed that the debt increase has been most pronounced in oil exporting countries before 2000. However, he noted a trend reversal since 2000, with a relatively higher increase for other countries (other resource-intensive countries or non-resource-intensive countries).

3.3. The Director of the African Department of the IMF noted that the debt increase is a cause for concern, as debt servicing capacity had deteriorated sharply. He stated that the first myth was that fiscal dominance is a preoccupation of the past. He showed that direct financing of the budget deficit by central banks above legal limits has declined over time. He indicated that the direct financing of the deficit by central banks decreased, on average, from 80% of revenue in 2003 to around 30% in 2017.

3.4. Yet, Mr. Selassie argued that a high public debt can increase the risk of 'soft' fiscal dominance, for example, the pressures to contain domestic borrowing costs, the fear of floating magnified when foreign currency debt is high and the quasi-fiscal operations and expansion of the central bank mandate.

3.5. A second myth was that " as long as public debt is sustainable, its level is irrelevant for monetary policy and financial supervision ". In this regard, he indicated that a high public debt, even if it is sustainable, can complicate the work of central bankers because it weakens the transmission of monetary policy, generates complicated tradeoffs between exchange rate and growth objectives, at least when foreign currency debt is high and can create financial stability risks. Moreover, government arrears to suppliers translate into rising non-performing loans. He also pointed out the rising government arrears, in particular, those of the oil-exporting African countries, which are the highest, averaging about 8% of GDP in 2018 compared to around 2.5% in 2014.

3.6. In addition, the Director of the African Department of the IMF recalled that African banks were well exposed to sovereign securities. He noted that commercial banks' holdings of Government debt amounts, on average, to 17% of total assets in Africa in 2018 compared with 12% and 5% in emerging market economies and advanced economies, respectively.

3.7. A third myth was that " there is little that central banks can do to protect themselves and the financial sector ". Mr. Selassie underlined that central banks can take some actions to manage the spillovers of high public debt by continuing to strengthen the monetary policy framework, by stepping up communication on the role of central bank and the impact of policy measures, by addressing the bank-sovereign nexus, as well as by improving debt data collection.

3.8. A fourth myth was that "there is a still clear delineation of roles between monetary and fiscal policies". He stated that the dividing lines between monetary and fiscal policies has become more and more fuzzy. Therefore, one might refine the statement indicating that monetary policy aims at ensuring price stability and economic stabilization while fiscal policy aims at improving fiscal sustainability, allocation and redistribution.

3.9. A fifth myth was that "central banks can help governments alleviate the public debt burden". In this regard, Mr. Selassie noted that the scope for central banks to lower the debt burden seems very limited in Africa. He identified three main ways that monetary policy could reduce public debt:

1. Generating inflation risks;
2. Transferring seigniorage revenues to the budget;
3. Introducing financial repression regulations.

3.10. He finally indicated that seigniorage revenues are small compared to the debt burden. They represent around 1.5% of the debt burden in Africa.

4. **FIRST SESSION**

4.1. **Introduction**

4.1.1. This session was chaired by Prof. Florens Luoga, Governor of the Bank of Tanzania, on the theme "African sovereign debt management strategies: lessons from regional and international experiences", presented by Dr. Donald Kaberuka, Chairman of the SouthBridge and the former President of the African Development Bank (AfDB), and Mr. Gilles Noblet, Principal Advisor, Directorate General International & European Relations, European Central Bank (ECB).

4.2. **Summary of the presentations**

4.2.1. Dr. Kaberuka's presentation focused on « Debt *Dynamics: Reality, Perception and Way Forward* ». He first raised the question about whether Africa drowns in debt.

4.2.2. He highlighted that the main issue is the share of revenue generated to pay the external debt. Showing the trend of the mean average of African governments external debt payments as a percentage of government revenue during the period going from 1998 to 2017, he pointed out that debt levels are increasing rapidly for many African countries, with average government external debt payments doubling in two years, from an average of 5.9% of government revenue in 2015 to 11.8% in 2017. However, he showed that the total African debt is very low (around 2% of the global debt), compared to that of other regions. For example, the US debt amounted to roughly $20 trillion (107% of GDP), which is equal to 31.8% of the world's sovereign debt nominally, followed by Japan (18.8% of global debt), China (7.9%), Italy (3.9%) and France (3.8%).

4.2.3. He mentioned that of the external debt owed by African governments, around 20% was owed to China, 35% is owed to multilateral lenders, 32% to private lenders and 13% to other governments. However, interest rates tended to be higher on private sector loans or of the private lenders, which accounted for 55% of interest payments, compared to China which account for 17% of interest payments.

4.2.4. He also highlighted the creditors for the 15 countries in debt distress or at high risk. Thus, of the 15 African countries rated by the International Monetary Fund (IMF) as in debt distress or at high risk, on average 15% of their debt is owed to China, 11% to the Paris Club, 19% to other governments, 13% to the World Bank, 5% to the IMF, 16% to other multilateral institutions, and 21% to the private sector. Therefore, this picture portrayed that China was on average a less significant lender countries in debt distress.

4.2.5. To end his presentation, Dr. Kaberuka highlighted key elements of medium term debt strategies such as funding SDGs/managing risks, choice of investment, government transparency, fiscal discipline, maturities mismatches, targeting and debt management.

4.2.6. Mr. Gilles Noblet, Principal Advisor, Directorate General International & European Relations, European Central Bank (ECB), made a presentation on «*Ensuring Sound Fiscal Policies and Debt Levels: Lessons from European Reforms*». He pointed out the main lesson learned from the European sovereign debt crisis and went over the reforms aimed at strengthening the fiscal governance framework.

4.2.7. He first showed that several Nations of the world had experienced a debt crisis. The African debt crisis occured during the eighties. It was followed by the Latin American debt crisis and the United States S&L crisis between 1989 and 1991, the European Monetary System crisis in 1992-93, the Mexican peso crisis over the period 1994-1995, the Japanese crisis from 1997 to 1998, as well as the Russian default in 1998. In the early 2000s, the Argentine default was recorded between 2001 and 2002 and global financial crisis during 2007-2009, almost impacted the world economy. Moreover, the European debt crisis lasted over the period 2010-2011. He emphasized that the level of debt in Africa was not high, but the debt burden compared to income was quite high, showing that the debt service payment might constitute an important issue in the future.

4.2.8. He then showed the relationship between the level of debt and economic activity. Data collected over the period 2012-2018 in some countries suggests that lower debt was associated with higher economic growth captured by the real per capita GDP growth, and countries with high debt levels experienced the lowest economic growth rates.

4.2.9. Furthermore, Mr. Noblet portrayed the macroeconomic framework established in the European Union to deal with debt issues. Two types of policies are used such as the monetary policy and the fiscal policies.

4.2.10. Regarding the monetary policy, he stated that the primary objective of the single monetary policy prevailing in the European Union aims at maintaining price stability, and without prejudice to this objective, the monetary policy can support the policies in the Community. Also, he mentioned the independence of the European Central Bank, emphasizing that there was no monetary financing of governments.

4.2.11. For fiscal policies, Mr. Noblet pointed out the competence of Member States to monitor them. These fiscal policies are subject to common rules of budgetary discipline and surveillance. It was also highlighted that there is a bailout clause, indicating no debt mutualization.

4.2.12. He noted that the Stability and Growth Pact (SGP) prevailing in the EU was a rule-based framework for national fiscal policies but came out with some initial shortcomings, namely too much political discretion and too little automaticity, weaknesses in decision-making procedures and its enforcement, and too little national ownership.

4.2.13. Furthermore, he mentioned the European Central Bank's non-standard monetary policy measures composed of fixed-rate full allotment in main refinancing operations, targeted longer-term refinancing operations, asset purchase programmes, outright monetary transactions, forward guidance, and expansion of eligible collateral. Mr. Noblet stated that the main lesson for the European Monetary Union (EMU) was the need for fiscal soundness by implementing sound fiscal policies to promote stability, by building buffers in good times in order to reduce economic and social costs in recessions or crisis times. Avoiding pro-cyclical fiscal policies is key, because expansionary policies in boom periods would require larger consolidation during bad times. He also noted that fiscal soundness in the EMU requires counteracting deficit bias in form of expansionary fiscal policies or accumulation of high debt in a monetary union (no free-riding), and limiting the risk of spillover effects and contagion. Fiscal policy soundness also requires allowing for automatic stabilizers to work because they dampen cyclical fuctuations and provide a buffer against shocks.

4.2.14. He indicated that fiscal policies are important for monetary policy since there are possible risks from fiscal policy stance to price stability, either directly through an increase of the VAT, or indirectly through public wages and aggregate demand. Pointing out possible risks that may result from unsustainable fiscal policies, he mentioned that these risks increase pressure on the central bank to tolerate higher inflation that can erode the real value of debt, which brings about a risk of fiscal dominance. It can also have a negative impact on the financial institutions' balance sheet. Moreover, fiscal stress may lead to dysfunctional government bond markets, and thus hamper the transmission of monetray policy.

4.2.15. Approaching the reforms to strengthen the fiscal governance framework, Mr. Noblet highlighted the two arms of the Stability and Growth Pact. The first arm is preventive. It is made up of the definition of country-specific budgetary objectives (MTO), the surveillance of compliance with these MTO, the decision on significant deviation from the adjustment path, and the recommendation for correction. The second arm is corrective which is composed of deficit and debt reporting checked by Eurostat, the surveillance of compliance with deficit / debt criteria, the decision on excessive deficit and/or debt, and the recommendation for deficit reduction. The recommendations could lead to decisions on effective actions and sanctions.

4.2.16. He recalled at this point that fiscal policy matters for monetary policy and financial stability because of several risks it might lead to, namely risk of fiscal dominance, risk of dysfunctional government bond markets, risks to financial institutions' balance sheets. He also pointed out that well-designed fiscal rules are key, in particular in a monetary union, and effective implementation is crucial.

4.2.17. To conclude, he expressed hope that the lessons learned in Europe would be useful for African countries that are planning to create a monetary union.

4.3. **Summary of panel discussions**

4.3.1. Mr. Tiemoko Meyliet Kone, Governor of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), thanked the Governor of the National Bank of Rwanda for his hospitality and the facilities made available during their stay in Kigali. He said that he was asked to share the experience of the West African and Monetary Union (WAMU) member States. He thanked the previous presenters who presented the constraints facing each monetary union, in connection with the Growth and Stability Pact.

4.3.2. He noted that since its creation in 1962 until the end of the 1990s, the Statutes of the BCEAO allowed making direct monetary advances to the WAMU member States, like most African central banks. These advances should be reimbursed during the budget year. They were capped for each country at 20% of the tax revenue of their last fiscal year.

4.3.3. Following the macroeconomic shocks experienced by many countries in the 1980s and 1990s, the WAMU member States had difficulties to reimburse the monetary assistance granted by the BCEAO. These monetary loans represented US$1.3 billion and accounted for more than 33% of the tax revenue of the underlined year, for a standard set at 20%.

4.3.4. Given the consequences of this situation on the balance sheet of the central bank and on the macroeconomic stability of the WAMU member States, the Council of Ministers of the Union decided to abandon the monetary assistance of the central bank by 2002, to adopt more flexible and modern methods of financing economic development of the States, and to modernize the monetary policy instruments instructed by the International Monetary Fund (IMF).

4.3.5. He noted that the total amount of public debt of the WAMU member States is estimated at 34,171.9 billion FCFA by December 31, 2018. Compared to 2010, when it stood at 12,846.6 billion FCFA, this public debt more than doubled. As a percentage of GDP, this amount increased from 41.9% in 2010 to 45.8% in 2017 and 49.4% in 2018, although remaining below the community norm of 70% maximum. The stock of global debt is divided between external debt of 65.0% and domestic debt of 35.0%. In 2018, the evolution of domestic debt was marked by a fall in net resources mobilized on the regional public debt market, compared to 2017.

4.3.6. He stated that in the WAMU member States, coordination between national fiscal policies, which are the responsibility of the States and regional monetary policy, is essential for achieving the objectives of economic policy. Therefore, the BCEAO, in its capacity as financial adviser to the member States, provides its assistance through setting up the instruments and criteria for managing the public debt.

4.3.7. Mr. Kone highlighted that the BCEAO worked for the abolition of the use of monetary assistance by states to finance their budget deficit and the establishment of the public debt market by States. It also contributed to the creation of the WAMU-Securities Agency (Agence UMOA-Titres) to help member States to mobilize resources on favorable terms. Moreover, the

BCEAO worked to strengthen the supervision of the banking system, and to communicate with the States on the budgetary risks. For this reason, States are encouraged to maintain harmonious relations with the International Monetary Fund (IMF).

4.3.8. In the framework of the modernization of the Union's economic financing instruments, the Union Authorities identified financial markets as the preferred source of financing for development.

4.3.9. Mr. Kone ended his remarks by drawing some lessons from the WAMU member States' experiences. He pointed out that the development of the regional debt market offers real opportunities for resource mobilization for the member States. Strengthening of the mobilization of internal ressources and making reforms to significantly improve the collection of domestic ressources, and not to resort systematically to indebtedness to finance projects are key.

4.3.10. The second panelist, Mr. Lesetja Kganyago, Governor of the South African Reserve Bank (SARB), remarked that the dynamics of the debt has changed.

4.3.11. He noted that deficit is a function of revenues and expenditures. Given this function, he stated that the reason why African countries have a problem is that they are not generating enough revenues and are not managing expenditures in an efficient way, leading to serious debt issues resulting from an unsustainable deficit.

4.3.12. He noted that there is an increase of debt in the markets. Some countries have been able to access the international market and others are trying to develop the domestic market. Furthermore, he pointed out that if one country is facing a situation of distress, it might become a challenge and such a country should put in place debt management strategies.

4.3.13. Stating that borrowing requires a certain level of eligibility, he highlighted that it is important to have appropriate tools to deal with creditors.

4.3.14. He noted that debt management should form part of economic management policies given that sound fiscal policies are at the heart of debt management.

4.3.15. Answering a question about debt, he noted that it is the result of what has been happening to the deficit. Countries have problems because they do not produce enough and they do not manage their expenditures effectively. Mr. Kganyago added that debt should be used to generate or create an asset for the future of the nation or to invest in prosperity of the nation.

4.3.16. He raised a concern about the type of debt management strategies in place. First of all, he noted that coordination between fiscal and monetary policies is highly needed, since debt management strategies can have an impact on monetary policy. He also stated that central banks should regain their independence.

4.3.17. Although fiscal policy is complex, he stated that there is a need to think deeply about tax regulations, and recognized that fiscal policy has a deficit mitigating role.

4.3.18. Furthermore, he mentioned that some countries had continued to widen the magnitude of the deficit which was not prudent since excessive deficits will put pressure on the future generations. He emphasised that the purpose of borrowing must be to invest instead of borrowing for consumption purposes.

4.3.19. In conclusion, Mr. Kganyago emphasised the importance of transparency of policy decisions.

4.3.20. Mr. Djamal Eddine Benbelkacem, Deputy Governor of the Banque d'Algérie, focused his intervention on sharing the Algerian debt experience.

4.3.21. He mentioned three periods of debt. He said that, before the oil shock of 1986, investments were financed by debt and the debt amounted to 30% of GDP, representing half of the tax revenue. The budget deficit was around 40% of GDP.

4.3.22. He stated that there have been inappropriate policies, coupled with soft debt management, leading to an increase in debt which accounted for 50% of GDP over the period mentioned above.

4.3.23. He pointed out that in 1993, debt service accounted for 90% of total exports. He also noted that excessive short-term indebtedness, lack of anticipation and abrupt adjustment led to a decline in foreign exchange reserves. The consequence of this situation was the country's currency devaluation.

4.3.24. Between 2000 and 2014, there were huge surpluses, increasing the amount of the reserves which culminated to US$ 214 billion. This allowed the authorities to anticipate the debt payment of US$ 26 billion, and in 2009, the authorities suspended all external financing.

4.3.25. He highlighted that the 2000s were characterized by an increase in oil prices and there was a budget explosion. However, the country did not take advantage of the increase to manage its debt, even though it had more flexibility to do so.

4.3.26. Mr. Benbelkacem stated that the price per barrel fell sharply in 2014, leading to a deficit that amounted to US$ 194 billion in 2014 and the country refused to adjust. He noted that inappropriate fiscal policies lead to an increase in indebtedness and mentioned that in terms of oil taxation, the informal sector has grown so that indirect taxes were higher than direct taxes.

4.3.27. The Deputy Governor of the Banque d'Algérie ended his presentation by calling for tax revenue collection improvement, and emphasised that public spending must be used efficiently in order for it to have a positive and significant impact on economic growth.

4.4. **Conlusion of the Chairperson**

4.4.1. Following the presentation, the Governor of the Central Bank of The Gambia made some comments indicating that the debt was the result of the Government's fiscal policy. He added that only policies pursued by the Government and central banks could help stabilize the currency. In this regard, he called on member States to implement budget reforms.

4.4.2. In conclusion, the Chairperson of the session thanked the presenters and panelists for sharing their experiences.

5.. **SECOND SESSION**

5.1. **Introduction**

5.1.1. This session was chaired by Dr. A. R. Matlanyane, Governor of the Central Bank of Lesotho. Its theme was "*Increasing African Sovereign Debt: Implications for the Growth and Stability of the Financial System*", presented by Dr. Vera Songwe, Executive Secretary, UN Economic Commission for Africa (UNECA).

5.2. **Summary of the presentation**

5.2.1. Dr. Songwe first recalled the requirements to meet the Sustainable Development Goals (SDGs). She noted that incremental financing needs are estimated between US$ 614 billion and US$ 638 billion per year. Moreover, incremental spending needs for low-income countries and lower -middle-income countries are estimated at $ 1.2 trillion per year, which translates into an estimated 11 percent of GDP between 2015 and 2030. She then raised a concern about the level of revenue which was below what was required to be achieved by the SDGs.

5.2.2. She pointed out that the ECA economic report on Africa identified five key sources of revenue that could lower the financing gap. This includes the adoption of appropriate fiscal policy, the taxation of the 'hard to reach sectors, non-tax revenues, leveraging the use of IT to strengthen tax administration, and policies to tackle base erosion and profit shifting, which might represent a significant percentage of GDP.

5.2.3. However, she highlighted that an increase in revenue alone was not a sufficient source of financing for this gap. Showing that debt sustainability was important for ensuring achievement of the SDGs, and revenue leakages to pay off debt could be diverted from spending on the SDGs; she noted that high debt levels, and therefore unstable macro economies could unravel development gains, therefore push back the vulnerable in society into poverty.

5.2.4. She showed the growth of debt to GDP ratios in Africa over the period 2009-2018, as well as compared to the IMF debt threshold and African Monetary Cooperation Program (AMCP) debt threshold. It was noted that 24 African countries had debt to GDP ratios above the IMF debt threshold of 55% of GDP, and 19 African countries considering the AMCP debt threshold of 65% of GDP.

5.2.5. After underlining that Africa's debt had taken an upward trend during recent years, growing at a faster rate (9.3%), she highlighted that, on average, interest rates had been higher than GDP growth in Africa, which led to an increase in the debt burden. Furthermore, data collected from 2008 to 2018 showed that widening fiscal deficit was correlated to faster growth of debt, meaning that the countries with the highest fiscal deficits had the fastest rate of growth in debt. Additionally, she stated that an increase in the current account deficit was correlated to faster growth of debt. For example, Ethiopia's imports had tripled compared to exports, leading to a widening of the country's current account deficit over the aforementioned period.

5.2.6. She noted that there had been a steady rise in the amount of Eurobonds issued in Africa since 2009, culminating to US$ 27.1 billions in 2018, leading to an increase in debt servicing costs, and there is a negative link between increasing public debt and sustainable growth. This leads to crowding-out private investment, the rising cost of borrowing that lowers investment and increases public deficit, high future taxes causing negative intergenerational transfers, future inability of the government to make investments to finance development expenditures, and eventually address the currency or banking crisis.

5.2.7. After recalling the challenges/risks associated with foreign currency borrowing versus the opportunities/benefits from the local currency borrowing, she raised a concern about a decline of the total reserves to external debt.

5.2.8. The Executive Secretary of UNECA ended her presentation by highlighting policy responses to the issue of rising sovereign debt. She emphasized the need to increase borrowing in local currency in both domestic and international markets to lower exposure and exchange rate risks. It is also important to update and adopt debt management frameworks and strategies to new debt structures, macroeconomic uncertainty and global market risks.

Futhermore, a rebalance of fiscal policy to maintain government spending while increasing revenue to reduce fiscal deficits without austerity is needed as well as more innovative financing mechanisms to crowd-in private sector investment.

5.3. **Summary of panel discussions**

5.3.1. Dr. Patrick Njoroge, Governor of the Central Bank of Kenya, thanked Dr. Songwe for her comprehensive presentation and noted that debt issues had real implications for monetary policy and financial stability. Given these implications, he mentioned that it was important to recognize that future debt situation would not be the same as the one which happened before.

5.3.2. He raised a concern about the level of debt threshold for sustainability, pointing that increasing debt threshold does not solve the debt management issue, since discussions should lead to think about debt management strategies, seeking specific advices about what to do, and challenges to be resolved.

5.3.3. He highlighted that there was a need to rely on the experiences of countries that had succeeded in this process of properly managing their debt. Rwanda had done a good job in this area which was not the case for Kenya.

5.3.4. Dr. Njoroge stated that most of external debts were not concessional, and that high level of debt would have more impact on exchange rates, inflation and monetary policy. Consequently, high external debt could become more harmful for local markets and might lead the country to become more vulnerable.

5.3.5. He ended his presentation by highlighting the importance of the capacity of the government to repay debt, and the relevance of having adjustment measures when the government is facing high deficit.

5.3.6. Mr. Yandraduth Googoolye, Governor of the Bank of Mauritius, started his presentation by referring to several African countries that have borrowed heavily in recent years in order to fund development projects or to provide for stimulus packages as a means to boost their economies after the global financial crisis. However, some countries have faced significant difficulties in servicing their debts as they failed to generate additional tax revenues. Some of these countries also face major vulnerabilities such as low domestic savings and climate-related changes.

5.3.7. He noted that debt by itself is not necessarily harmful. What really matters is the size of the debt relative to the economy, as a high level of debt constrains the fiscal space. Unsustainable debt levels may also wipe off official foreign exchange reserves and force a devaluation of the domestic currency.

5.3.8. He highlighted the Mauritian experience regarding sovereign debt. The various initiatives taken by the government over the past few years to ensure greater fiscal resilience have resulted in sustained ability to meet debt obligations. He also pointed out that the government remains committed to fiscal consolidation and plans a gradual reduction in the debt-to-GDP ratio to below 60 per cent by 2021.

5.3.9. The Governor of the Bank of Mauritius also noted that sound debt management strategies are instrumental in ensuring financial stability. The speed at which debt is accumulated and the way in which debt is managed are crucial. These should be kept under control to avoid painful economic adjustments in the future.

5.3.10. Mr. Majozi V. Sithole, Governor of the Central Bank of Eswatini, recognized that his country also faced an increase in debt. Noting that the question of the threshold level does not matter, he pointed out that an increased in debt has a negative impact on inflation and this situation compromises the credibility of the government.

5.3.11. He highlighted that issuance of securities can reduce banks' liquidity which can lead to financial instability. Furthermore, he noted that in a case government has low repayment capacity, it can depreciate the currency.

5.3.12. He showed that increased debt implies fiscal dominance and might put pressure on the central bank to grant monetary advances to the government. There was a need to have good collaboration with the central bank in order to properly enact sound rules that can better manage the country's debt.

5.3.13. The Governor of the Central Bank of Eswatini stated that member countries can not continually increase the debt threshold. They need to think about tax policy and the issue of domestic debt that constitutes a real threat to financial stability. Since the Government can not increase revenue, the problem was more about high expenditure and not over than above low revenue.

5.4. **Conclusion of the Chairperson**

5.4.1. Drawing conclusions from the session, the Governor of Central Bank of Lesotho stated that the important issue was the relevance of fiscal policy. She noted the need to put a limit on the debt and not to continue to increase the debt ratio. She also focused on fiscal policy and the issue of backlogs that could pose a threat to financial stability.

6. **THIRD SESSION**

6.1. **Introduction**

6.1.1. This session was chaired by Mr. Alain Hervé Rasolofondraibe, Governor of the Banky Foiben'i Madagasikara. The theme was on "*Rising external borrowing in Africa: Challenges of debt sustainability and implications for monetary policy*" presented by Mr. Ndulu Benno, Professor, Mwalimu Nyerere Chair in Development, at University of Dar-es-Salaam and former Governor of the Bank of Tanzania. The panel consisted of the Bank of Ghana (BoG), the Bank of Mozambique, the BEAC and the IMF.

6.2. **Summary of presentation**

6.2.1. Prof. Ndulu focused his presentation on the recent major changes in the level and composition of African debt, the causes of these changes, key risks to be managed in the near and medium terms and how African central banks could address the challenges.

6.2.2. He indicated that after the international financial crisis, Subsaharan Africa's (SSA) debt accumulation was followed by a period of debt reduction, following a period of declining debt that accompanied deep debt-stock relief from official creditors in the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) campaigns.

6.2.3. The average ratio of public debt to GDP in SSA had since risen from about 30% in 2012 to 37.8% in 2017. Africa was not alone in its recent surge in debt, suggesting the importance of common global drivers.

6.2.4. Moreover, Prof. Ndulu indicated that African debt episode was characterized by three distinct phases:

1. A phase of economic stagnation and mounting debt problems running from 1980 to the mid-1990s where the growth of debt outpaces that of exports and GDP;
2. A second phase running from the mid-1990s to the peak of the global financial crisis in 2010 of falling debt-to-GDP and debt-to-export ratios, through a combination of debt cancellation, strong growth in GDP and export revenues facilitated by a long boom in the primary commodity prices;
3. A third phase characterized by a rising debt-GDP ratio and debt-export ratio running to the current period and resulting from a combination of rapid accumulation of new debt enabled by enhanced creditworthiness (from debt relief and good policy /growth) and very low interest rates due to the Quantitative Easing (QE), the global recession, and the fall of commodity prices.

6.2.5. In 1995, SSA External Debt to GDP ratio was 115%, reached a bottom of 30% in 2012 before rising to the 2017 level of about 38.7%. It has since 2017 plateaued and indications are that the ratios will decline with the projected revival of growth and a stop in the decline of commodity prices according to the World Economic Outlook (WEO). In terms of levels, ratios in SSA remain lower than in other regions.

6.2.6. However, the level of debt service remained worrying. The former Governor of Bank of Tanzania showed that between 2013 and 2017, the debt service burden for the majority of countries had accelerated and a rising proportion of countries was at high risk or in debt distress already.

6.2.7. Prof. Ndulu stated that maturity bunching around 2023 posed a potential debt servicing crisis in the absence of successful restructuring or adequate sinking Fund. He revealed that in 2013 out of 39 African low -income countries, 12 were categorized with low risk of debt distress, 10 countries represented a high risk and none under distress. By 2018, only 4 (Senegal, Tanzania, Uganda, Rwanda) remained at low risk of debt distress, 12 were at high risk of distress and 6 in distress.

6.2.8. Regarding two important distinguishing compositional features of recent African debt, he noted first of all, that debt had increasingly been acquired from non-concessional sources at high cost and shorter maturity. Commercial debt had increased from 2.7% in 2007 to 5.6% of GDP (doubled) in 2016 and domestic debt at market rates has increased from 10.8% of GDP to 15.8%. Secondly, the composition of creditors was also hugely different. The share of Paris Club debt declined sharply from 7.4% of GDP in 2007 to 2.2% in 2016 and bilateral debt from China increased from 0.3% to 4.2% of GDP (14-fold) in the same period.

6.2.9. He added that these compositional changes implied, on the one hand, that the external position of many African countries was more exposed to changes in global interest rates and financial market sentiment than it was two decades ago (per dollar of external debt), and on the other, that new issues of creditor coordination would have to be navigated in order to secure protective debt restructurings and handle payments crises.

6.2.10. He stated that these trends could be explained by four key influential factors:

- A greater ability to borrow had resulted from massive irrevocable debt relief which 33 African countries received under the HIPC and MDRI programs;
- A greater need of financing was partly reflected by the drive to fill the huge infrastructure gap constraining growth and the achievement of the ambitious MDG targets, particularly those related to human capital and welfare;

- The risks from the fragility of economies in terms of civil strife, susceptibility to natural disasters and dependency on volatile commodity market. All small island economies, more than 90% of fragile countries, and more than 85% of commodity exporters, were classified either at high or moderate risk;
- A Moral Hazard from irrevocable debt relief.

6.2.11. Moreover, Prof. Ndulu argued that according to studies (Easterly, 2018, etc.), HIPC debt relief would be wasted if the policy environment for growth did not change and that there was little basis to expect it to change. Instead, a wealth windfall from debt relief and high discount rate would spur a consumption boom and a debt unsustainability spiral.

6.2.12. He indicated that other studies (Djimeu, 2018, etc.) found a large and statistically significant contribution of the HIPC Initiative to public investment and also to growth. Cassimon et al. (2015) found that both initiatives led to increased revenue collection consistent with debt overhang effects but the MDRI also led to increased current spending associated with MDGs.

6.2.13. Concerning the monetary policy, the presenter identified two key channels of transmission of pressures from debt distress to monetary policy:

- The exchange rate for external debt to keep servicing costs in local currency down – provide relief to the primary deficit;
- The interest rate for domestic debt: To lower interest rates to keep rollover or servicing cost down and hence provide relief to the primary deficit; or lower borrowing costs for the capital budget.

6.2.14. He argued that distress from increased debt service requirements or restricted access to new credit endangers the newly rebuilt assets (physical, human and policy environment), as it happened in the 1980s.

6.2.15. He identified many key risk drivers, including:

- The maturity mismatches – shorter- term debt financing long gestation infrastructure investments;
- The rollover risk: Consistent with the end of QE, interest rates are rising, increasing the cost of rolling over existing debt;
- The coordination challenges in debt resolution, with the increasing importance of private creditors and the emergence of China;
- In some cases, currency mismatches – the payment of external debt by revenue streams in local currency.

6.2.16. The former Governor of the Bank of Tanzania claimed that with the end of Quantitative Easing and the rise in interest rates, two major impacts were worrisome vis à vis macrostability with USA moving full steam to reversal while Europe was winding down QE:

- The reversal of capital flows back to USA and Europe to take advantage of higher returns and reduced risks – likely to engender significant pressures and volatility of exchange rate and tightening of liquidity particularly if foreign currency denominated deposits decline and subdues liquidity injection via outflows of foreign savings;
- The initial large negative effect on central bank income via revaluation losses as the price of its foreign assets decline with the rise in interest rate - engendering inadequacy of capital and threat to central bank independence.

6.2.17. To manage risks, he recommended to pursue prudential debt management by keeping the national balance sheet balanced. He also indicated that government borrowing that accompanies an economic or social infrastructure surge would be viewed as sustainable if the new infrastructure were self-financing.

6.2.18. Moreover, he recommended compliance with the dynamic rule by which in accumulating new debt, the cost of new borrowing (real interest rate) should not exceed real growth rate of the economy. He also invited to establish a debt service sinking fund to deal with the challenge of maturity bunching while pursuing restructuring that deals with maturity mismatches (Examples of Ethiopia, Kenya, Nigeria and Ghana).

6.2.19. To protect central bank independence/autonomy, Prof. Ndulu recommended pushing back on pressures to fixing interest rates and exchange rates. He added that capital adequacy of central banks is pivotal for avoiding recourse to budgetary financing of monetary operations.

6.2.20. Ultimately, he pointed out that it was key to enshrine central bank autonomy with associated accountability and transparency in respected constitutions.

6.3. **Summary of panel discussions**

6.3.1. At the outset of her remarks, Mrs. Elsie Addo Awadzi, Deputy Governor of the Bank of Ghana, noted that Ghana went through periods where debt trajectories were at relatively high levels. Indeed, she said that in 2000, Ghana's debt level stood at 89% of GDP and that to this end, her country was among the first candidates for the debt relief program. However, the debt level had fallen to 20% of GDP in 2006, in connection with debt relief that benefited the country. Ghana's debt was 55.4% of GDP in 2018.

6.3.2. Turning to the question of debt structure, Mrs. Awadzi recalled that the debt was composed of multilateral debts and the Paris Club, as well as China. She added that domestic debt accounted for about 30% of the country's total debt.

6.3.3. She said that in Ghana the central bank considers that the debt was not a risk because the country was not at a high risk level but was rather vulnerable.

6.3.4. Regarding the factors that contributed to the debt, the Deputy Governor reported low interest rates, following the international financial crisis and the commitment of the Government in many investment projects, particularly in the field of infrastructure.

6.3.5. To avoid the risk of debt, she said that the Government of Ghana had learned from the experiences of other countries about their debt management. To this end, the Government had put in place measures to effectively combat the country's over-indebtedness, with a view to preserve the country's repayment capacity.

6.3.6. However, the Deputy Governor noted shortcomings, which led to an increase in external debt. She said that the Government had thought that export earnings from the sale of gold, coconut, diamonds, etc. could contribute to the repayment of the external debt. In this context, agreements had been signed with creditors, in connection with the increasing risks of falling into a situation of over-indebtedness.

6.3.7. To avoid this situation, she recommended continuing efforts to build trust between the country and its partners. She also encouraged the conduct of a transparent monetary policy because the central bank works for the people. In a healthy environment, she called for strategies related to the country's fiscal situation.

6.3.8. Finally, Mrs. Awadzi concluded her remarks by inviting the central bank to continue efforts, despite the job well done, in connection with current commercial debt conditions that seemed to be unfavorable.

6.3.9. Taking the floor, Mr. Dieudonne Evou Mekou, Deputy Governor of the Banque des Etats de l'Afrique Centrale (BEAC), said that the volume and structure of African debt had evolved in recent years.

6.3.10. He argued that debt relief through HIPC and MDRI helped to reduce the stock of debt of African countries. However, he pointed out that the decline in export earnings induced by falling commodity prices led countries to re-indebtedness, to such an extent that debt has become a major concern again for central banks because of its impact on monetary policy.

6.3.11. As regards to the Economic and Monetary Community of Central Africa (EMCCA), the Deputy Governor of the BEAC indicated that several factors, including the macroeconomic framework's stability, combined with the recovery of oil prices after the financial crisis had encouraged countries to engage in investment projects. This dynamic led States to resort to external debt, especially from partners such as China.

6.3.12. Moreover, he noted that the drop in oil prices recorded in 2014 considerably reduced the financial capacity of the EMCCA member States, which led them to resort to debt. Thus, the debt ratio rose from 23% of GDP in 2014 to 46% of GDP in 2018, below the threshold of 70% required in general.

6.3.13. Mr. Mekou noted that debt service affects countries. In this regard, he stated that the pace at which States are falling into debt remains worrying. At this rate, he noted that debt could become a burden instead of being a lever for the economies.

6.3.14. In addition, he argued that the acceleration of debt had increased debt service, with significant pressure on the treasuries of the States. Furthermore, he noted that the decline in revenue and the increase in debt led the central bank to reduce the assistance to the States of EMCCA. He added, however, that this situation fostered an increase in domestic debt, in relation to the recourse of the States to the financial market. The strong pressure exerted by the States on the banks had resulted in a deterioration of the quality of their portfolio. However, banks were still profitable, given the efforts of the Banking Commission.

6.3.15. The Deputy Governor of the BEAC stressed that the central bank has a major role to play in the process of deleveraging the debt of States and that its strength lies in the strengthening of the institutional capacities in debt management. He added that the BEAC has resolved to carry out an accommodative monetary policy and to assist the States. In this respect, a monetary policy reform was conducted, which led to the establishment of a market for negotiable debt securities. He also pointed out that the definitive abolition of the monetary financing of the States could be favored by the creation of this market. He mentioned the development of a specific framework to find solutions to the situation of the affected banks.

6.3.16. Finally, he called for coordination of monetary and fiscal policies, because of the interrelationship between the two policies. In this regard, he reassured that EMCCA was working hard to strengthen this coordination.

6.3.17. Following this presentation, Dr. Tobias Adrian, Financial Counsellor and Director of the Monetary and Capital Markets (MCM) Department, IMF, noted that the appetite of African States for debt in international financial markets had increased in recent years. He noted that in 2018, securities issues reached US$ 90 billion, half of which was issued by Nigeria and Angola. The second half was distributed mainly between Côte d'Ivoire and Senegal.

6.3.18. He recalled that in 2008, almost all low-income countries had low debt capacity. He revealed the existence of new debt borders between countries in recent years. Indeed, he noted that 16 countries in sub-Saharan Africa were at high risk of over-indebtedness, 19 had low or high vulnerability, and yet were not under pressure.

6.3.19. Dr. Adrian reported on the growing debt burden and the change in the composition of the debt structure. He noted that bilateral and commercial debts had increased considerably in relation to the evolution of the total debt. He also noted an increase in the public debt contracted with China. Revealing that the 2/3 of the debt growth was attributable to market debts and this situation was due to exchange rate fluctuations, he added that the share of concessional debt remained unchanged.

6.3.20. He also indicated that some countries (Côte d'Ivoire, Ghana, Nigeria, etc.) had issued Eurobonds in a context where global market conditions had become more difficult and more sensitive. Countries had responded to exchange rate pressures through a policy of flexibility, using the rate of inflation. He added that some countries had suffered from borrowing in international markets. However, he noted that all countries in subSaharan Africa had lower debt levels than the rest of the world.

6.3.21. The Director of the IMF's MCM Department said that the mechanism for transmitting monetary policy varies from one country to another. He argued that the financing and interest rate of the loans affected central banks monetary policies transmission mechanisms.

6.3.22. In this regard, he recommended the introduction of new monetary policy systems. Taking the example of bond issues, he urged central banks to develop a monetary policy framework that takes into account debt. Finally, he recommended the establishment of a market framework for a credible monetary policy framework.

6.4. **Summary of discussions and conlusion of the Chairperson**

6.4.1. After the presentations, the concerns raised during the discussions focused mainly on debt relief and rising debt ratios, the intervention in the market as an investor or speculator and the link between monetary policy and capital coming from abroad, as well as the market discipline.

6.4.2. Responding to these concerns, panelists indicated that arguments for debt relief had been advanced and that bargaining committees have been put in place and negotiations have been made. They argued that it is possible to start from the assumption of irreversible debt relief whereby by changing the policy, the country could experience an investment boom. They estimated that differences were noted between the period before the year 1999 and that after the 2000s, which could justify the debt relief and the increase in the debt ratio.

6.4.3. Concerning market intervention as an investor or speculator, panelists argued that the HIPC initiative was premised on the fact that increased investment is key to getting out of debt. With the securities market, investments have to be made in the field of infrastructure. They reported on the Government of Ghana's readiness to open up capital and the central bank's awareness of its catalytic role in controlling market volatility. In this regard, they indicated that the Ghanaian market needed real investors for its deepening and not speculators.

6.4.4. Regarding the link between monetary policy and capital coming from abroad, the panelists argued that some reforms were implemented in countries, while noting the differences between the countries with high liquidity like South Africa and those with reduced liquidity. They said that in the first group of countries, inflows of capital from abroad to the country help the latter to move forward. Based on low-income economies, they noted that foreign capital had also often helped the central banks of these countries to set up their monetary policy. They also noted that the mission of central banks is to regulate some economic policies. Furthermore, they noted that central banks faced the management of foreign exchange inflows with a lower exchange rate following the repatriation of US dollar-denominated export earnings.

6.4.5. On the issue of market discipline, panelists argued that the HIPC initiative was good in itself but that there was a lack of a coaching program. In the end, all the countries returned to the market, in connection with the race of States towards emergence. In this regard, they questioned the fact that it would have been necessary for these countries to benefit from support instead of being subject to the requirements of investors. They added that countries should be able to anticipate and accumulate reserves during good market times and that market discipline is needed. They reminded central banks of their responsibility to urge States to be cautious.

7. FOURTH SESSION

7.1. Introduction

7.1.1. This session was chaired by Mr. John Rwangombwa, Vice-Chairperson of the AACB, and the Governor of the National Bank of Rwanda. It focused on "*Rising African Sovereign Debt: Implications for Monetary Policy and Financial Stability*." It recorded, under the experiences of Sub-regions, three presentations from the Central Bank of Egypt, the Bank of Zambia and the Central Bank of Liberia.

7.2. Summary of presentations

7.2.1. Experience of the Central Bank of Egypt

7.2.1.1. The presentation of the experience was made by Mr. Tarek Amer, Governor of the Central Bank of Egypt (CBE). The Chairperson of the AACB focused his presentation on the evolution of Egypt's macroeconomic indicators, their effects on the structure of the economy and reforms.

7.2.1.2. Governor Tarek Amer noted an increase in the country's GDP over the past four years. He revealed that the growth rate reached 1.7% and that the budget deficit was financed by domestic and external debt. He said that this situation had allowed the Government to create jobs and implement many investment projects. He believed that growth and its quality are key elements that promoted high consumption.

7.2.1.3. He also reported a high level of inflation of 32.95%, in connection with the depreciation of about 40% of the currency. The Governor of the CBE indicated that it was difficult to curb inflation, in a context characterized by strong resistance against the reforms initiated by the Government and by strong external pressures. He noted that despite these constraints, the Government continued its actions, with a heavy reliance on domestic debt. He also added that issues of securities on the international market had been made and that external funding had also been received.

7.2.1.4. The Chairperson of AACB noted the progress made over the last 20 years. Among other things, he mentioned the numerous projects started to implement monetary policy and the investments made. He added that the implementation of these projects resulted in an increase in the external debt, resulting from high total expenditures relative to revenues.He reported that the change was taking place in the right direction, given the various reforms under way, notably the implementation of the new Value Added Tax (VAT) and other measures taken in the field of transport which had favored the increase of State revenue. He noted that these measures helped to reduce the level of the budget deficit to 9% against 70% previously, although it still remained relatively high.

7.2.1.5. In addition, he reported on free trade agreements with other countries and higher import prices in connection with the depreciation of the exchange rate. He also noted the improvement of the current account, which stood at 2.4% of GDP, as a result of new exchange rate regime and investor confidence, despite the shocks observed in 2018. This improvement led to an increase in international reserves. He reported that the rating of Egypt had improved according to the rating agency Fitch. In spite of these recorded performances, he indicated that many challenges remained, considering the risks related to an increase in the debt in Africa in general, and of Egypt in particular.

7.2.1.6. Finally, the Governor of the CBE indicated that recommendations were made for African countries to achieve strong growth.

7.2.2. **<u>Experience of the Bank of Zambia</u>**

7.2.2.1. The experience of the Bank of Zambia was presented by Dr. Denny Kalyalya, Governor of the Bank of Zambia. He focused his presentation on Zambia's debt dynamics and the financial market, as well as the recommendations.

7.2.2.2. Dr. Kalyalya noted that Zambia was among the countries that experienced an acceleration of debt, with a high trend. He noted that in 2010 and 2011, high debt growth had been observed, coupled with high unemployment, which put severe pressure on the Government.

7.2.2.3. He also reported that as early as 2012, a debt buildup was recorded. This tension was accentuated by the drought, which led to numerous power cuts, the country depending on the hydraulic energy. He also noted the significant depreciation of the exchange rate, leading the Government to resort to the central bank.

7.2.2.4. The Governor of the Bank of Zambia argued that the efforts of the central bank had reduced the spread of interest rates. He added that the discussions with the Ministry of Finance on the autonomy of the central bank had ultimately allowed to obtain the mandate to regulate inflation between 6% and 8%. He said that with the best efforts, inflation had been kept under control and maintained in its target range in 2016 and 2017.

7.2.2.5. However, he stated that the monetization of the debt led to slippages, which led to wage arrears of civil servants. He identified liquidity problems that led to securitization, which made it difficult for the State to borrow. In light of these problems, South Africa assisted the State.

7.2.2.6. He noted that the arrival of certain players in the market, in order to carry out several transactions, favored an increase in debt service, due to the non-performance of the debt.

7.2.2.7. He pointed out that despite the payment of contractors' bills, liquidity was insufficient, which created resistance against the conduct of monetary policy. In this regard, the central bank refocused on targeting to raise the interest rate.

7.2.2.8. Dr. Kalyalya argued that the Government should be selective in its indebtedness, and think at the same time how to amortize their cost. He added that the role of the central bank is to make the market aware of the issues and to ensure that the State is up to its commitments.

7.2.2.9. To close his remarks, the Governor of the Bank of Zambia reported that he had invited the Government to consider controlling its expenses, in order to meet the aspirations of the people.

7.2.3. **Expérience of the Central Bank of Liberia**

7.2.3.1. Mr. Nathaniel R. Patray, Governor of the Central Bank of Liberia (CBL), made a presentation. He stated that the theme of the debt was of paramount importance, considering the economic conditions and the growth of the African debt.

7.2.3.2. After pointing out that African decision-makers were responsible for this situation, he indicated that they should make sure that Africa gets back on track. In this regard, he noted the progress made based on the African Development Bank (AfDB) report on Africa's economic prospects, which showed high rates of economic growth for the different sub-regions of Africa. He noted that the prospects for economic growth were also good, with a rate of nearly 6% expected for the East African subregion in 2020.

After having defined the different loan profiles in terms of maturity (short term <1 year, medium- term between 1 and 5 years and long term beyond 5 years), he noted that the States borrowed from multilateral institutions. In this regard, he pointed out that it was imperative that the countries of sub-Saharan Africa assess the risk of sovereign indebtedness. He urged States to recall the experience that led to the debt relief initiative to avoid falling back into the debt trap. He thus recommended improving the recovery base.

7.2.3.3. Taking the example of Liberia, he noted that the country's debt-to-GDP ratio was lower than that of sub-Saharan Africa. He added that the President of the Republic asked the central bank to stop financing the budget deficit. In addition, the country adopted the US dollar as its currency to limit the volatility of the exchange rate. This new situation was bringing challenges for the central bank.

7.2.3.4. In addition, the Governor of the CBL stressed that the central bank was independent in the implementation of its monetary policy and that the Governor can advise the Government. He added that central bank assistance to the State was capped at 10% of the total revenue of the Government over the last 2 years.

7.2.3.5. He reported on the establishment of a liquidity management group which would be the first decision-maker of the Debt Management Committee. He indicated that the Governor was a member and that the Deputy Governor was the Chairperson of another Committee.

7.2.3.6. In addition, Mr. Patray noted that the CBL improved the conduct of its monetary policy through the implementation of certain tools. In particular, he stated that the central bank influences the conditions of the banking market by using the interest rate.

7.2.3.7. Finally, the Governor of the Central Bank of Liberia made the following recommendations for mitigating vulnerabilities:

Ensure better management of public expenditure by implementing a good revenue collection policy;

Improve tax management;

Strengthen public financial management; Improve the debt management framework to reduce risks;

Ensure better coordination between monetary and fiscal policies; Strengthen the autonomy of the central bank, with the support of a strong political will.

7.3. **Summary of discussions and conlusion of the Chairperson**

7.3.1. Following the presentations, the issues raised by the participants centered around the monetary financing of the State in Zambia, the maintenance of a sustainable debt ratio in Rwanda, despite numerous investment projects in the field of infrastructure and coordination between the monetary and fiscal authorities in debt management, as well as information on securities issues in Rwanda.

7.3.2. Reacting to the issue about financing of the State by the Bank of Zambia, Governor Kalyalya reported that there was no more monetary balance in case the State is financed by the central bank. After recalling that the central bank's lendings were made at the market rate, he mentioned a problem with liquidity management. Taking the example of Rwanda in terms of indebtedness, he noted that the question that arises is that of governance. The Governor of the Bank of Zambia said that the loans should be repaid to avoid the infernal circle of debt and to maintain confidence. Finally, he called on member States to strengthen good governance. Regarding the maintenance of the debt ratio of Rwanda at a sustainable level notwithstanding the many investment projects undertaken, the Governor of the National Bank of Rwanda argued that several factors contributed to this situation, including the observed discipline in the use of resources, the fight against corruption and the high level of investment returns as well as borrowing at concessional rates. Regarding the coordination between monetary and fiscal authorities in debt management, he reported that after the HIPC initiative, an agreement had been reached with the Government to define the manner of regulating the relations between the two authorities. He added that with an inflation at a high level, the monetary financing of the State had been limited. However, he acknowledged that coordination between monetary and fiscal authorities remained a major challenge for central banks. Indeed, he indicated that the monitoring and implementation of the agreements between the Central Bank and the Ministry of Finance in terms of debt management remain problematic. He added that the coordination was still in place but did not seem to be effective.

7.3.3. Approaching the concern over securities issuing, the Governor of the NBR recalled that the issuing of 18.3 billion and 7 billion were an internal debt, guaranteed by the Government with Treasury bills, following the laws in force. He argued that pressure was being put on the Government to present collateral close to the maturity of the loans. He added that it may also have calls for funds in addition to the guarantees required. Concerning collateral, he mentioned various maturities of bonds that could be accepted (2 years, 3 years, 5 years, 10 years and even 15 years). Moreover, after recalling that the tax burden rate was 17%, he stressed that the concern is to push the Government to seek other sources of funding. In this regard, he pointed out, in addition to the increase in revenue, the need to reduce expenditure. The Governor of the NBR also stated that the central bank had recommended in 2017 to the Government to favor local borrowing and reduce its exposure vis-à-vis the outside. However, he noted the recovery in external debt, in connection with low interest rates. Finally, he called for measures not only for debt management but also for expenditures management.

7.3.4. To conclude, the Vice-Chairperson of the AACB thanked all the speakers for the questions asked and the rich debates that followed, before inviting the participants to the gala dinner.

8. <u>**THE RESOLUTIONS OF THE SYMPOSIUM**</u>

8.1. The Governors considered that Member States should improve their debt management frameworks to reduce risks, and continue to pursue prudent debt management strategies by maintaining the balance of the national balance sheet. In this regard, they reminded central banks of their responsibility to urge States to exercise caution. Moreover, they noted that transparency is important for the debt management.

8.2. The Governors urged the States to ensure better management of their expenditures while implementing good tax collection policies. In this regard, governments should strengthen the mobilization of internal resources and make reforms to significantly improve the collection of domestic resources. Avoiding to resort systematically to indebtedness to finance projects is key. Furthermore, they called for efficient use of public spending by looking at its productivity in order to impact significantly on economic growth.

8.3. The Governors also recommended the introduction of new monetary policy frameworks, taking into account sovereign debt. Also, they called for the coordination of monetary and fiscal policies, as well as the coordination among creditors to ensure the restructuring of the debt and manage the crises related to defaults. They stressed the need for the governments to have good collaboration with the central banks to properly enact sound rules that can better manage countries' debts.