CONCEPT NOTE OF THE SYMPOSIUM ON THE THEME: 'RISING AFRICAN SOVEREIGN DEBT: IMPLICATIONS FOR MONETARY POLICY AND FINANCIAL STABILITY'

I. CONTEXT AND RATIONALE

During its annual meetings, the Association of African Central Banks (AACB) organizes a symposium to hold discussions and share experiences on topical issues relevant to monetary, banking and financial matters. In this regard, the proceedings of the symposium to be held during the next annual meetings in Kigali, Rwanda, in July and August 2019, will focus on the theme: '*Rising African Sovereign Debt: Implications for Monetary Policy and Financial Stability*'.

Despite the relief of a portion of the public debt of low-income countries since the early 2000s, through the Heavily Indebted Poor Countries (HIPC) initiative, which has helped to reduce the debt stock of these countries at a sustainable level, an increase in the public debt of African countries was recorded from 2010, in connection with the fall in commodity prices and the financing of major projects by some States, particularly in the area of infrastructure. Indeed, debt relief has not only made it possible to significantly reduce the number of African countries exposed to the risk of debt distress but also induces a greater borrowing capacity of the countries at a time when the financial conditions are more favorable to the debt on a global scale. In addition, in the early 2010s, African states committed themselves to ambitious development programs aimed at sustainable, strong and inclusive growth with a view to improving the living conditions of the population and reducing poverty. Achieving these objectives requires the mobilization of significant financial resources, which have resulted in large budget deficits, in a context of low tax revenue mobilization. These factors have favored, over the last ten years, the return to indebtedness of African States, both internally and externally.

Thus, the public debt recorded a strong growth in all the regions of the world, and more particularly in Africa, with an important evolution in volume as well as in composition. In fact, for low-income African countries, a deterioration in the ratings of the Debt Sustainability Framework (DSF) set up in 2005 is noted since 2014, which is a sign of a new accumulation of public debt in Africa.

Overall, the public debt of the African continent stood at 45% of GDP at the end of 2017 compared to 29.1% in 2013. In the World Bank's Africa Pulse 2017 report, 11 out of 35 low-income countries in Sub-Saharan Africa (31.4% of low-income countries) are classified as high risk of debt distress. Some countries (Mozambique, Congo, etc.) are at high risk of over-indebtedness. According to the World Bank's 2018 report, almost 40% of countries in sub-Saharan Africa are in danger of slipping into a major sovereign debt crisis, with 18 countries now at high risk of debt distress (more than double compared to 2013) and eight already in distress.

This rise in the risk of debt distress in Africa is mainly due to several combined factors, including the decline in commodity prices, the stagnation of official development assistance and increased use of debt to finance infrastructure and social sectors. Indeed, the majority of external financing of African borrowers between 2013 and 2014 was denominated in dollars, and accounted for 90% of international debt securities. These factors forced many African states to turn to international capital markets and other development and bilateral partners, including China, to meet their financing needs. Chinese loans increased from US $ 2.0 billion in 2005 to US $ 12.0 billion in 2015. The use of external indebtedness led to a significant increase in the external public debt, following the depreciation of currencies, as a significant portion of the debt is denominated in foreign currency, notably in US dollars and euros.

These developments have increased the risk of a return to public overindebtedness. Thus, in recent years, sovereign debt has become a major concern in Africa, not only because of its macroeconomic impact, but also because of its possible negative effects on the implementation of monetary policy and, overall, on the stability of the financial system. It is established that the level and structure of an economy's debt, especially in foreign currencies, could hinder the ability of the central bank to pursue its monetary objectives. In fact, a low and stable debt ratio gives monetary policy the necessary maneuvering measures to pursue the objective of price stability, because of the strong influences that the level of debt and its characteristics have on domestic interest rates and financial stability in an economy. Thus, central banks should ensure that the structure of public debt does not create financial vulnerability. In this regard, it is necessary to ensure better coordination between central banks and public debt managers, so as to avoid significant government indebtedness, which could create additional constraints on the central bank in implementing monetary policy in order to meet its objective of price stability.

II. OBJECTIVES OF THE SYMPOSIUM

The Symposium is aimed mainly at promoting exchanges among central banks Governors, policy-makers, international institutions and academic community on the implication for rising public debt in African countries for monetary policy and financial system stability in general. Discussions should include appropriate strategies for sovereign debt management, drawing on lessons learned in Africa and other regions of the world. The exchanges would also focus on the challenges faced by African countries, with a view to keeping the public debt at a sustainable level, consistent with the continent's economic growth objectives.

III. SUB-THEME TO BE DISCUSSED

The symposium sub-themes are listed below:

3.1. African sovereign debt management strategies: lessons from regional and international experiences.

This sub-theme is expected to provide an opportunity to discuss regional and international experiences of sovereign debt management strategies and to draw lessons from them to ensure the sustainability of Africa's debt. In this respect, the experience of managing the recent sovereign debt crisis in Europe could be shared, in particular the measures taken by the European Union, notably the establishment of a protection mechanism for the euro area, and the aid provided to the countries in difficulty which made it possible to curb the crisis.

Thus, the session would allow share these experiences in order to highlight the lessons that could be drawn from them. Discussions on this sub-theme could include the following:

1. The origins of the sovereign debt crisis in the euro area;
2. Sovereign debt management strategies in the euro area and the lessons that could be learned from them;
3. International techniques and strategies as well as best practices for sovereign debt management;
4. The costs and risks associated with the various medium- and long-term debt strategies as well as the management methods for these costs and risks;
5. The challenges that African countries should face in adopting optimal strategies for sovereign debt management.

3.2. Rising external borrowing in Africa: challenges of debt sustainability and implications for monetary policy

The external debt of African countries increased by around 10 percentage points since 2010, reaching almost 40% of Gross Domestic Product (GDP) in 2017.

One of the reasons for the increase in the external public debt is the depreciation of domestic currencies, as a significant portion of the debt is denominated in foreign currencies, notably in US dollars and euros. Although the current level of debt in most African countries is unlikely to make monetary policy ineffective, it could be ineffective if the current and growing momentum of sovereign debt continues, particularly in the current context of rising protectionism that could have negative effects on growth and commodity prices, as well as rising interest rates at the global level.

Moreover, it is accepted that 'when a country's public debt reaches a level where its fiscal sustainability is potentially threatened, the monetary policy must necessarily be closely associated with public debt management and fiscal policy'[1]. In fact, it is established that the level and structure of an economy's debt, especially in foreign currency, could hinder the

1 / Goodhart Charles : « Politique monétaire et dette publique », Banque de France • Revue de la stabilité fi nancière • N° 16 • Avril 2012

central bank's ability to pursue its monetary objectives. For example, in a situation of strong pressure on the exchange rate, a high level of indebtedness denominated in particular in foreign currency, could lead to a depreciation of the national currency and outward capital flight. A high level of indebtedness could therefore affect the effectiveness of monetary policy. In this respect, the sustainability of sovereign debt is a challenge for governments in Africa, so as to prevent a sovereign debt crisis like that of some euro area countries. Thus, this sub-theme could be interested in the following issues:

1. Source of the rise in external indebtedness;
2. Definition and challenges of sovereign debt sustainability;
3. Impact of rising public debt on the state budget;
4. Impact of the growing indebtedness of African states on the implementation of monetary policy;
5. Role of central banks in managing a sovereign debt crisis.

3.3. Increasing African sovereign debt: implications for growth and the stability of the financial system

In Africa, indebtedness is the main instrument of financing the public deficit. In view of the permanent and increasing budget deficits recorded in most African States, they resort to indebtedness for their financing, which led to an accumulation of public debt, likely to threaten the stability of the financial system, and the economic growth.

In view of the harmful effect of a too high level of debt on growth, a maximum debt ratio (public debt / GDP< 65%) is set in the framework of the African Monetary Cooperation Program (AMCP) that countries should not exceed. This would mean that beyond this threshold, the ability of economies to sustain the burden of public debt over time and to create more wealth to simultaneously ensure debt service and the achievement of the structural transformation objectives of the debt economy becomes limited.

Furthermore, during the recent international financial crisis, the implementation of fiscal stimulus packages in developed countries and the resulting decline in development assistance contributed to the increase in public debt of the sub-Saharan African countries. Thus, it is noted an increase in the levels of external as well as internal debt in Africa, likely to undermine the macroeconomic and financial equilibrium and threaten growth prospects in the medium term. In addition, it should be noted that in recent years, sovereign debt tended to focus mainly on a creditor who is China.

Thus, this sub-theme should allow to exchange on the following questions:

1. When do you say that a country has a high level of debt?
2. How did the African public debt accumulate?
3. What are the risks associated with increasing African sovereign debt?
4. What is the potential impact of increasing public debt of African countries on sustainable growth?
5. By which mechanisms does rising sovereign debt affect growth?

6. What is the potential impact of the accumulation of public debt of African countries on the stability of the financial system?
7. What solutions could be envisaged in the event of disturbances of the financial system, induced by an accumulation of public debt?
