Sustainable Development Goals and the Challenges Ahead

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD
Debt Management in Africa

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Context

- The year 2015 - busy year for development practitioners
- SDGs replacing MDGs - Sept. 2015
- FfD3 - July 2015 -AAAA
- CoP21 in Paris - Climate Summit Dec. 2015
- The implementation of SDGs necessitate a large amount of development finance
What does Agenda 2063 say about debt & its sustainability?

- Agenda 2063 – Africa’s roadmap of development
- Leaders committed to reduced *unsustainable levels of debts* and to DRM (p.18)
- Africa benefitted from global debt reduction initiatives (HIPC, MDRI…etc)
What is Africa’s growth and debt outlook?

- Growth remains largely unchanged

- Medium term prospects remain good

- Weak global economy, monetary tightening, weather related shocks and security concerns in some countries remain a challenge
Africa’s growth remains on track despite global economic slowdown

Mainly underpinned by:
- Increasing domestic demand
- Improving macroeconomic environment in a number of countries
- Increasing public expenditure (infrastructure)
- Increasing investment ties with emerging economies

Source: UN-DESA (2015)
Chinese slowdown remains a risk to Africa’s growth

- Despite China’s growth decline, Africa’s exports to China have remained relatively high;
- The effect of China’s slowdown may remain small for Africa due to the recovery in Europe.

Sources: UNCTADstat (2015)
Debt and SDGs

- Africa needs to grow at double digits with large financing gaps to achieve SDG 1 by 2030

- It needs 70 Billion USD per year for climate change adaptation & mitigation (SDGs 13)

- A responsible borrowing in the next 15 years & beyond is required to achieve the agreed SDGs
Trends of Africa’s Total Debt

Source: AfDB data portal

- Total External Debt (% of GDP)
- Total External Debt (% of Exports)
- Total Debt Service (% of Exports)
- Multilateral debt (of total debt outstanding)
Africa’s net debt increased

- Net debt of Africa increased from 5.8 per cent to 9.9 per cent of GDP between 2014 and 2015, relative to 1.6 per cent in 2013.

- But there is a considerable fall in the net debt of North African and oil exporting countries.

Sources: ECA calculations based on EIU (2015)
Debt Trends

- The key drivers of debt dynamics include:
  - high growth
  - low interest rates and debt relief

- Africa’s external debts improved significantly over the past decades but net debt increased

- Total debt-to-GDP ratio dropped from 53.4 to 23.7 % in 2014

- However, huge variations exist across countries
Sources of Debt

- Compositions of debts is changing from external to domestic, also from public to private
- Multilateral loans - only 21% of total debt
- South-South bilateral loans also emerging
- Private lending constituted 49% of total external outstanding debts
- Sovereign bonds issued reached to $18bln in 2014 from less than $1bln in 2008
Macroeconomic Determinants of Debt Sustainability

1. *Declining commodity prices* reduce debt repayment capacity & ability to borrow

- They also lead to weak fiscal sustainability
- However, fiscal sustainability can be enhanced with sufficient DRM efforts
- For key commodity importers (e.g. Ethiopia, Rwanda …etc), commodity price decline narrows the fiscal deficit and can serve as an opportunity
2. *Interest rate rises* in developed countries lead to increases in interest payments & threaten repayment ability

- Interest rate increases can also reduce risk appetite of investors
- For Africa, this might mean a decline in FDI inflows and limited GDP growth

3. *Increase in government expenditure* unmatched by government revenue
Macroeconomic Determinants of Debt Sustainability

4. **Exchange rate** risks often follows rise in interest rates

- Currency deprecation induced by monetary tightening (e.g. rise in interest rate in the US)

- This, in turn, reduces debt sustainability potential
Strategies for better debt management

- Developing & maintaining strong institutions & sound macro policies
- Prepare bankable projects with return investments with debt servicing potential
- Reduce heavy reliance on commodity exports and diversify the economic structures (e.g. via industrialization)
Conclusions

- Africa continued to grow at a reasonable rate with a rate above the global average
- There are increasing financial needs for its development plans and visions
- Both internal and external macroeconomic factors determine the outlook of Africa’s debt sustainability in the short-term
- Medium to long-term debt sustainability outlook are uncertain
THANK YOU!