



10<sup>th</sup> UNCTAD DEBT MANAGEMENT  
CONFERENCE

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# 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

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# **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)



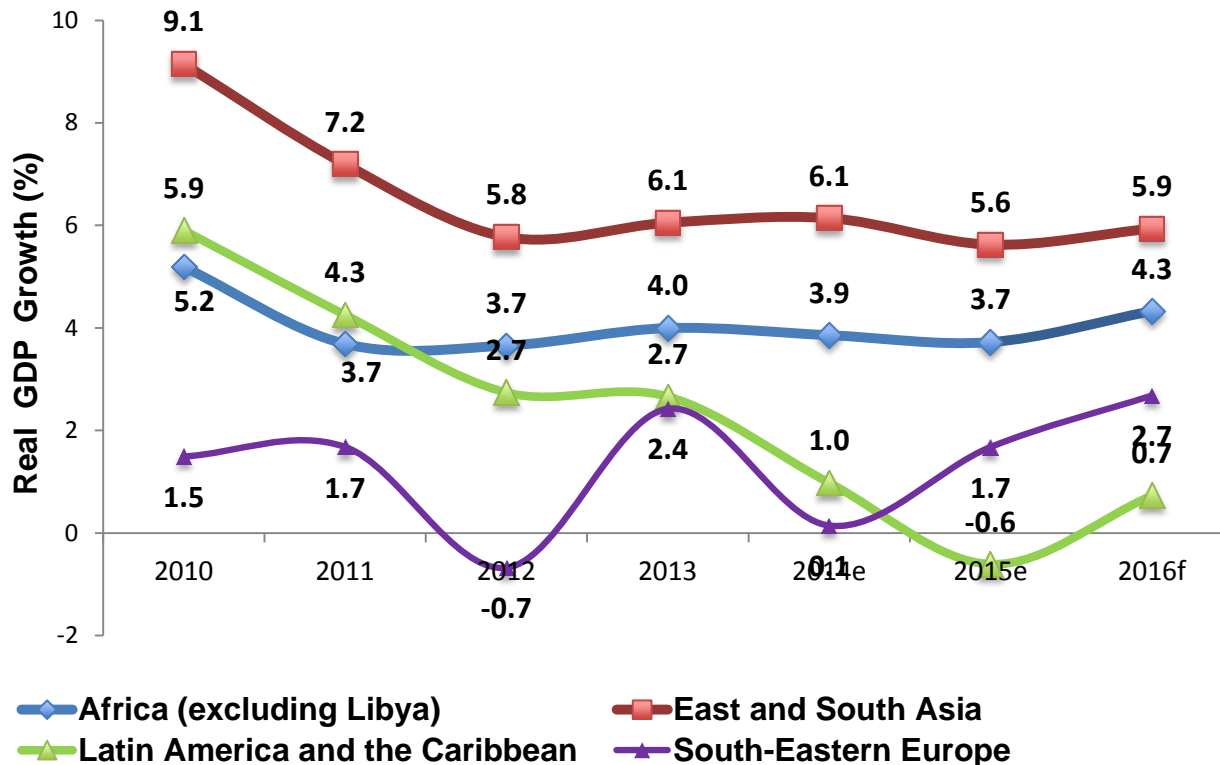


# What is Africa's growth and debt outlook?

- 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

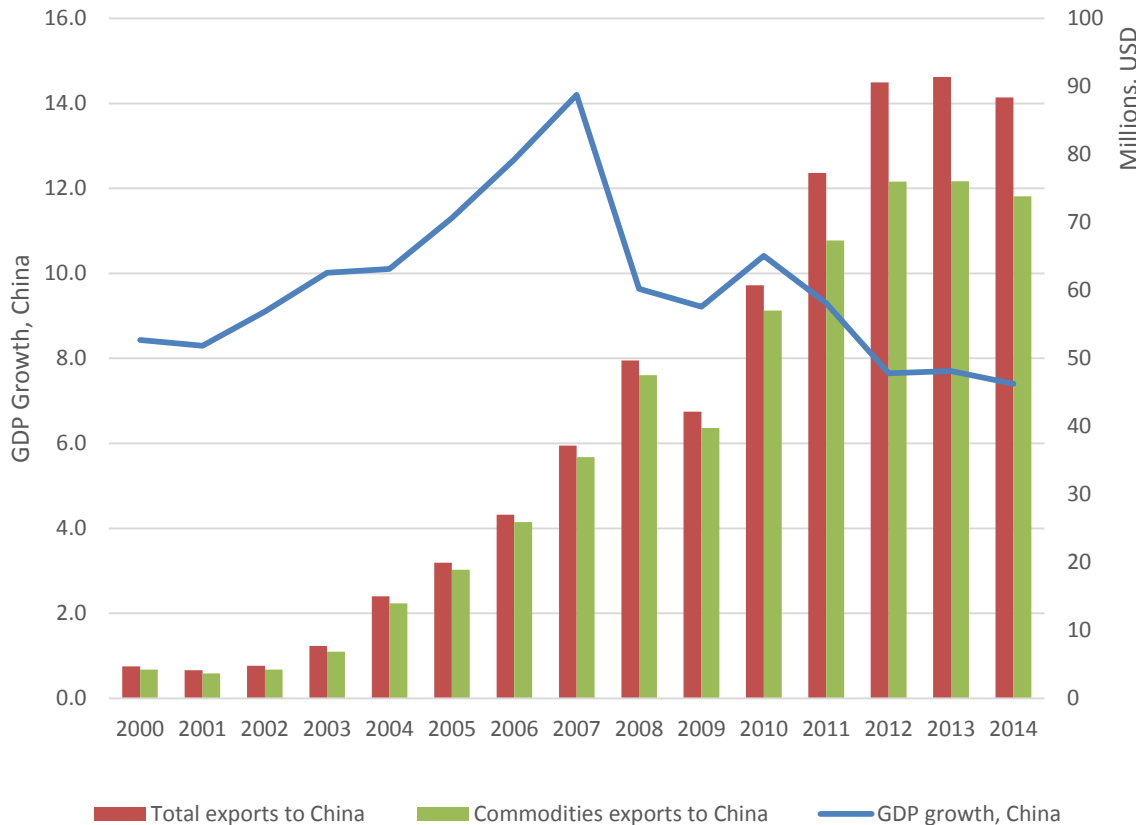
Source: UN-DESA (2015)



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# 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)



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## 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



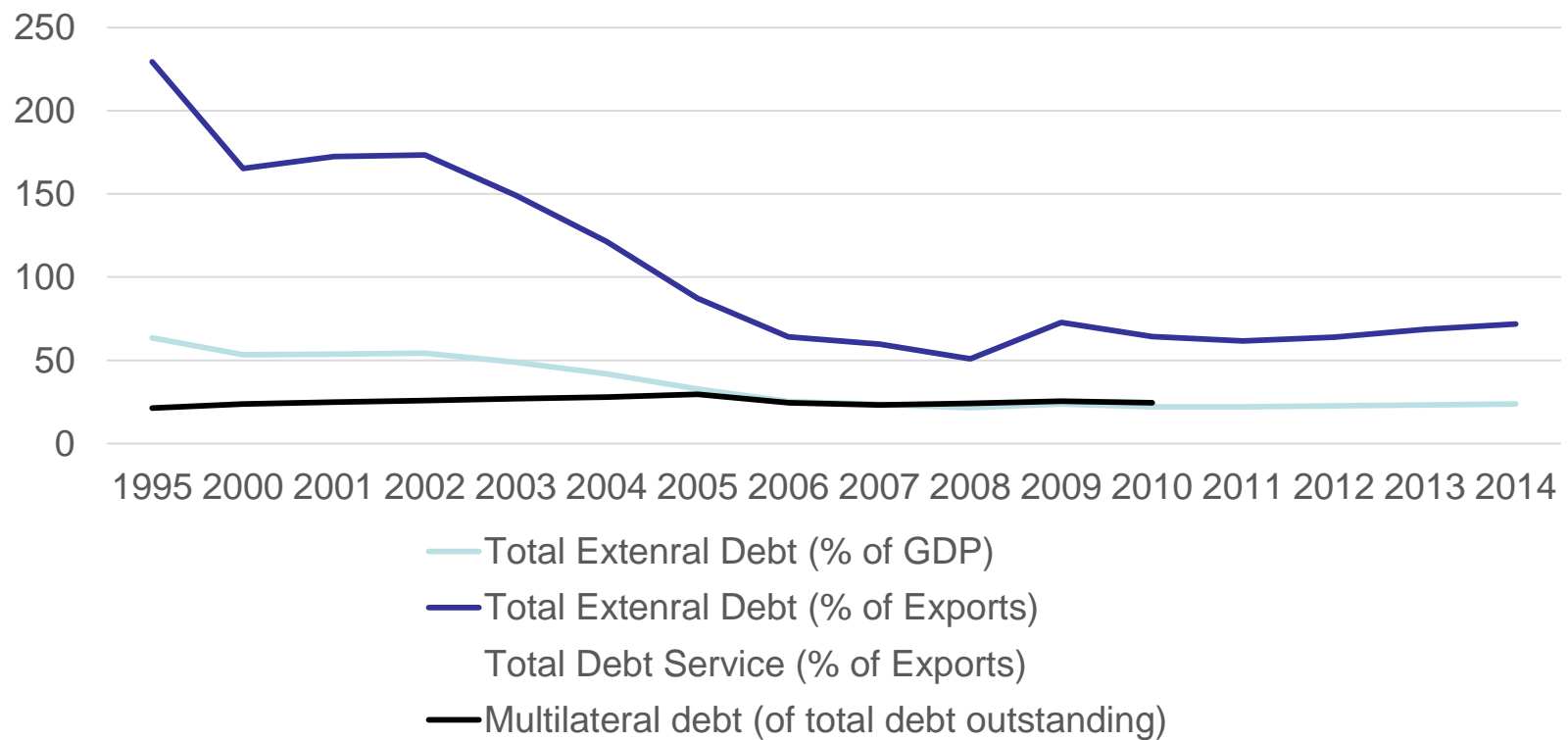
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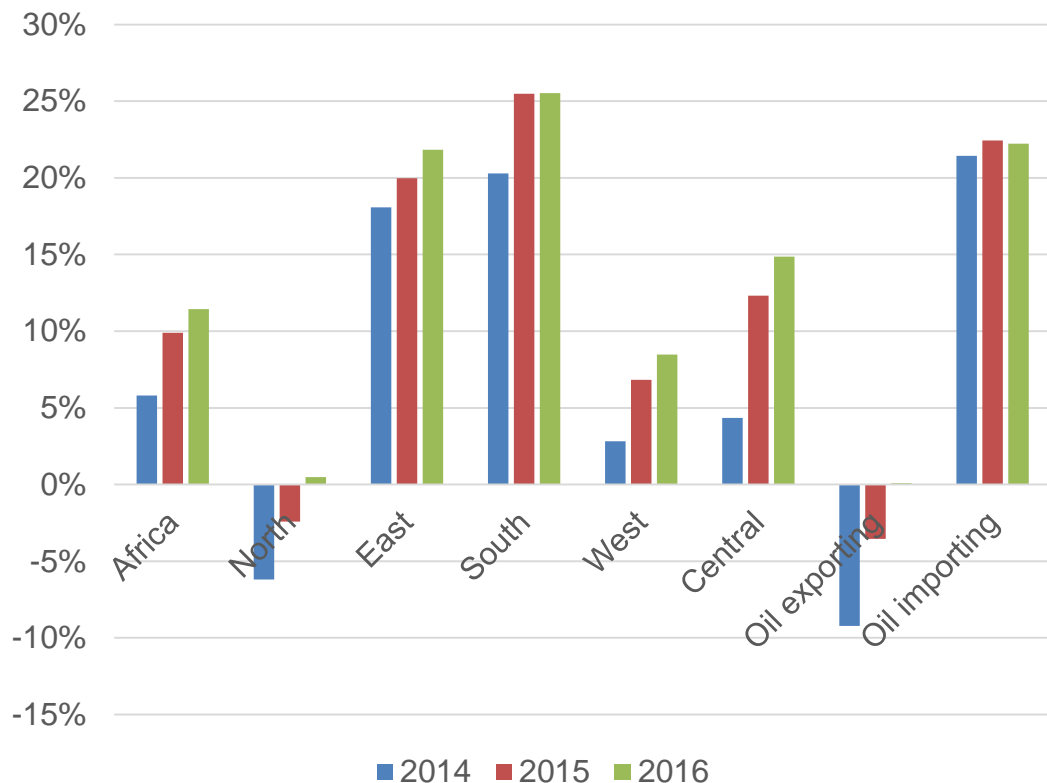


# Trends of Africa's Total Debt

Source: AfDB data portal



# 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)



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# 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





# Macroeconomic Determinants of Debt Sustainability

**2. *Interest rate rises*** in developed countries lead to increases 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 depreciation 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)



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# 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!**



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