Emerging analysis

Public debt profile of selected African countries

Sherillyn Raga, Yohannes Ayele and Dirk Willem te Velde

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Key messages

The Covid-19 and the Russia–Ukraine war have increased pressure for public borrowing in selected African countries (this paper focuses on Côte d'Ivoire, Ghana, Ethiopia, Morocco, Senegal, Togo and Tunisia) to address the adverse impacts of the overlapping shocks. Except for Ethiopia, public debt in selected African countries is projected to increase by 11 percentage points (pp) (Togo) to 22 pp (Ghana) of gross domestic product between 2019 and 2022.

In the recent decade up to 2019, several African countries have benefited from cheaper and longer-maturity external debt, guarantees on public debt issuances, external debt management and efforts to develop domestic debt markets in recent decade up to 2019. However, the commodity price hikes induced by the Russia-Ukraine war resulted in high inflation worldwide, triggering global monetary tighthening (i.e., policy rate hikes in advanced economies; and capital outflows from and currency depreciation in low- and middle-income countries), consequently increasing the cost and debt servicing of external debt.

The public debt composition exposes each country to specific risks. Ethiopia, Senegal and Tunisia may face interest rate risks for their debt with variable interest rates; Ghana, Ethiopia, Senegal and Tunisia may face refinancing risks for their short-term debt; Ethiopia and Ghana may face foreign exchange risks for their foreign currency-denominated debt amid currency depreciation, and contingency risks for their state-owned enterprise debt and/or public guarantees. The moderate to high risk of debt distress among the selected African countries in 2020–2021 is likely to be magnified in 2022-2023.

The Debt Service Suspension Initiative has provided liquidity support to participating countries but its impact has been limited. Progress on the G20 Common Framework for Debt Treatments has been slow. Expediting the global architecture for comprehensive debt relief (e.g., debt service suspension, restructuring and reduction) and shock financing needs to be on the top of global agenda to help African countries address short- and long-term public debt sustainability.

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About this publication

This paper is part of the regional project ‘Support to reform partnerships’. Data and information used for the analysis were mainly gathered between June and August 2022. The main sources are official country data releases and reports, complemented by analysis available in existing literature and reports (e.g., by the International Monetary Fund, the World Bank, the African Development Bank, among others). This paper benefited greatly from discussions held with GIZ staff, including Silke Hansen, Marieke Kelm, Matthias Nikolaus Mayer and Nina Prasch, among others.

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Contents

Acronyms

ADF	African Development Fund
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
BAM	Bank Al-Maghrib
BCEAO	Banque centrale des états de l'Afrique de l'Ouest (Central Bank of West African States)
BOG	Bank of Ghana
BOP	balance of payments
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Development and Cooperation)
CBE	Commercial Bank of Ethiopia
CBT	Central Bank of Tunisia
CFA	Communauté financière africaine (Financial Community of Africa)
CI	composite index
CRAs	credit rating agencies
DBE	Development Bank of Ethiopia
DSA	debt sustainability analysis
DSF	debt sustainability framework
DSSI	Debt Service Suspension Initiative
DTFE	Direction du trésor et des finances extérieures (Department of Treasury and External Finance)
ECOWAS	Economic Community of West African States
EIU	Economist Intelligence Unit
EU	European Union
EURIBOR	Euro Interbank Offered Rate
FDI	foreign direct investment
FRA	Fiscal Responsibility Act (Ghana)
FY	fiscal year
GDP	gross domestic product
HGER	Homegrown Economic Reform (Ethiopia)
IBRD	International Bank for Reconstruction and Development
ID	Islamic Dinar
IDA	International Development Association
IFC	International Financial Corporation
IGSD	Institute for Governance & Sustainable Development
IMF	International Monetary Fund
LAMC	Liability Asset Management Corporation (Ethiopia)
LIBOR	London Inter-Bank Offered Rate
LIC	low-income country
LMICs	low- and middle-income countries
MBPE	Ministère du budget et du portefeuille de l'état (Ministry of Budget and State Portfolio) (Côte d'Ivoire)
MDMS	Medium-Term Debt Management Strategy
MEF	Ministère de l'économie et des finances (Ministry of Economy and Finance) (Côte d'Ivoire, Morocco, Togo)
MFB	Ministère des finances et du budget (Ministry of Finance and Budget) (Senegal)

MIC	middle-income country
MoF	Ministry of Finance (Ethiopia, Tunisia)
MOF	Ministry of Finance (Ghana)
MTDS	Medium-Term Debt Management Strategy (Ghana)
NBE	National Bank of Ethiopia
NIS	National Institute of Statistics (Tunisia)
OECD	Organisation for Economic Co-operation and Development
POSSA	Private Organisations’ Social Security Agency (Ethiopia)
PPP	public–private partnership
PSSSA	Public Servants Social Security Agency (Ethiopia)
pp	percentage points
PPG	public and public guaranteed
PV	present value
RefPa	African reform partner
SDRs	special drawing rights
SOE	state-owned enterprise
SSA	Sub-Saharan Africa
TGT	Trésorerie générale de Tunisie (General Treasury of Tunisia)
UK	United Kingdom
UNDESA	United Nations Department for Economic and Social Affairs
UCF	Unit of Account
US	United States
VAT	value-added tax
WAEMU	West African Economic Monetary Union

Executive summary

The African countries Côte d'Ivoire, Ghana, Ethiopia, Morocco, Senegal, Togo and Tunisia – exhibited strong and stable economic performance in the decade prior to the Covid-19 pandemic, supported by their firm implementation of economic and social reforms. This paper focuses on these seven selected African countries, with which the German Federal Ministry for Economic Development and Cooperation (BMZ) has entered so-called Reform Partnerships. Despite these countries' track record on economic performance and reform, they have not been spared the consequences of adverse external shocks such as Covid-19 and the Russia–Ukraine war, which has put pressure on the sustainability of public debt, overall macroeconomic stability and their future growth trajectory.

This paper examines the debt profile of each of the seven African countries to understand the opportunities and challenges around public debt in these countries. Public debt, if managed well, can be conducive to economic development. It can facilitate consumption smoothing and help finance critical long-term investment (e.g., infrastructure, technology), provide less risky financial instruments to help develop nascent capital markets and finance counter-cyclical fiscal policies in times of shock. However, high levels of public debt increase countries' vulnerability to shocks, financial crises and crowding-out of private sector lending. Unsustainable debts may lead to debt distress, which can result in a loss of market access, higher borrowing costs and collateral damage to the economy (e.g., negative impacts on trade, investment and firms' financing), a reduction in private lending and expensive creditor lawsuits.

Many African countries, including Côte d'Ivoire, Ethiopia, Ghana, Senegal and Togo, have reduced their excessive debt service burden through debt relief under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, launched more than 20 years ago, driven by the strong participation of multilateral institutions and Paris Club creditors. However, in many African countries, debt composition in recent years has gone beyond official and bilateral borrowing (see IMF, 2019b). By analysing the debt composition of our seven African countries, this paper finds that, already before the pandemic and the war between Russia and Ukraine, most of these countries benefited from the following:

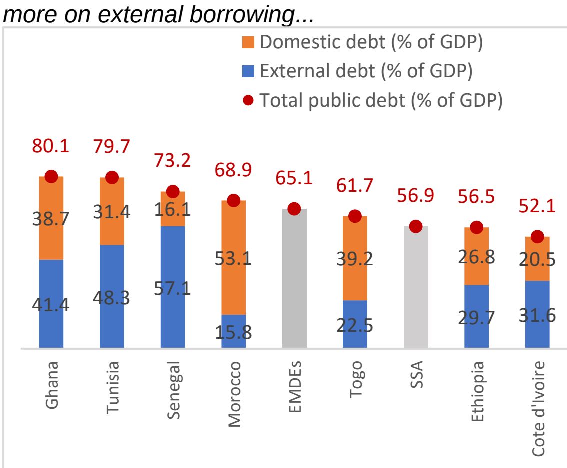
- cheaper and longer-maturity external debt, driven by multilateral borrowing and Eurobond issuances for most of the selected African countries
- secured guarantees for the public debt issuances of Togo and Tunisia, which have helped these countries lower their borrowing costs and lengthen the maturity of their overall debt portfolio
- active external debt management (in view of increased reliance on external debt for most of the selected African countries), including hedging, swaps, building foreign exchange buffers and wide prioritisation for concessional and semi-concessional external borrowing
- issuance of longer-dated debt securities and significant access to multilateral funding, backed by a good track record and efforts to develop domestic debt markets, which have helped narrow the interest rate charges between domestic and external sources in Côte d'Ivoire and Morocco.

The lingering effects of Covid-19, compounded by the spillovers from the Russia–Ukraine war, have, however, increased pressure to mobilise financing, at a currently challenging time when global financial tightening (e.g., increasing policy rates in advanced economies, capital outflows from low- and middle-income countries) is increasing the cost of public debt. Depending on the composition of their public debt, each African country is exposed to more specific risks to public debt (see also Figure ES1). For instance, among the selected African countries, there may be more prominent:

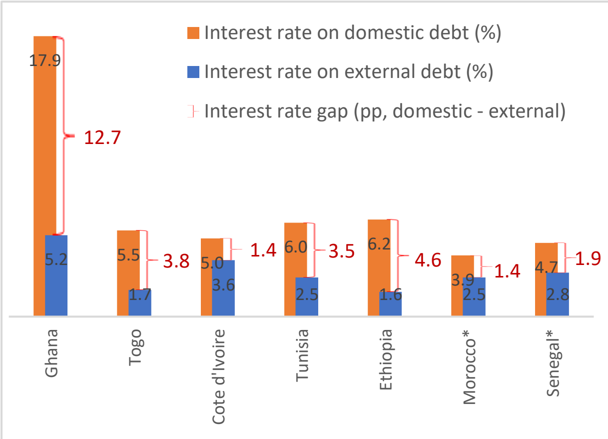
- *interest rate risks* for Ethiopia, Senegal and Tunisia, for which a higher proportion of their debt portfolios has variable interest rates
- *refinancing risk*s for Ethiopia, Ghana and Tunisia, with a high proportion of debt that needs to be refixed in 2022, and for Côte d'Ivoire, Ghana and Senegal, with a high share of domestic debt that needs to be financed as a result of maturation in 2023
- *foreign exchange risks* for Ethiopia and Ghana, which have significant foreign currency-denominated debt combined with currency depreciation under a floating exchange rate regime. Other African countries that have exchange rates that are pegged (mostly to the euro) may also be exposed to this risk, given current weakening of the euro
- *risks associated with state-owned enterprise (SOE) debts and public contingencies.* SOEs and/or public guarantees play a prominent role in the public debt of some countries (e.g., Ethiopia, Morocco, Senegal and Tunisia), putting more pressure on debt in the case that financial claims materialise.

Figure ES 1 Emerging risks to selected African countries' public debt composition

As of 2021, most of the selected African countries reached public debt levels above those of their counterparts in Sub-Saharan Africa, and relied more on external borrowing...

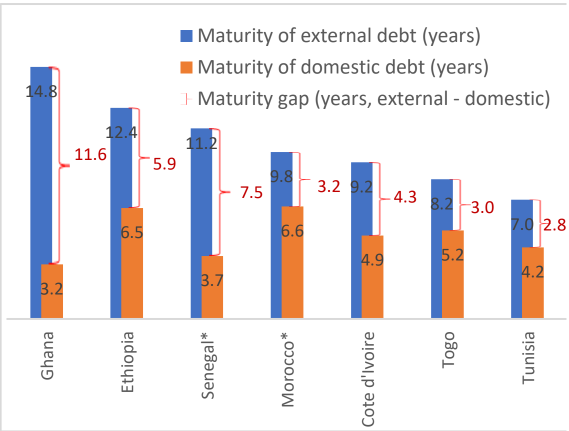


...given that, compared with public domestic borrowing, public external debt (especially from multilaterals) is cheaper...



Note: Data are as of 2021, except for *Morocco (as of 2020) and **Senegal (as of June 2020),

…and has longer maturity.



However, the current tightening of financial conditions driven by the inflationary and uncertain environment will increase interest, refinancing and foreign exchange risks to public debt for most of the selected African countries: 13–33% of public debt needs to be refixed in 2022.

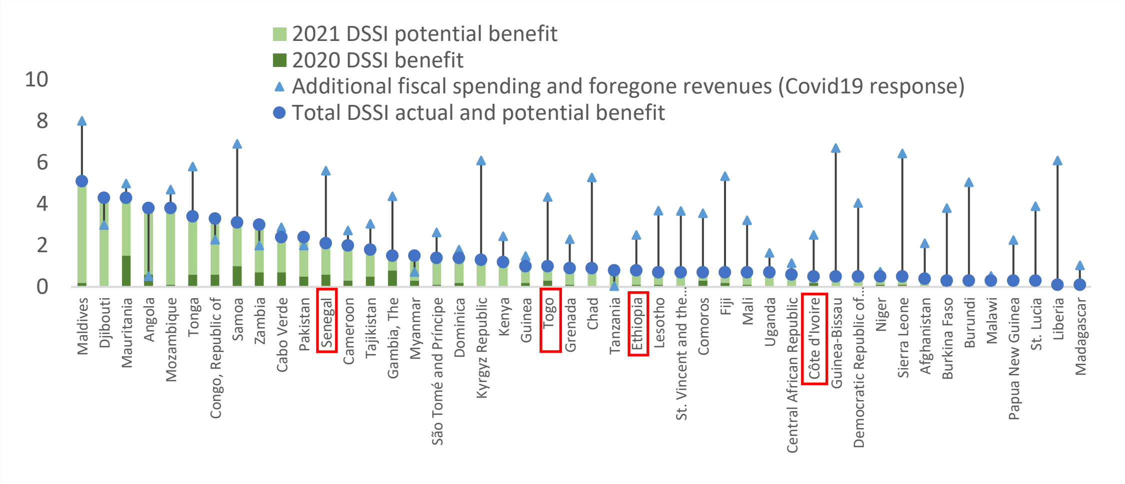
	External debt** (% of total, 2021)		Public debt (% of total, 2021)	
	US$ + € denominated debt	Variable interest rates	Maturing in 1 year	Refixing in 1 year
Côte d'Ivoire	80.7	7.6	9.4	14.5**
Ethiopia	55.0	25.9	10.3	20.0
Ghana	89.1	13.1	13.6	19.4
Morocco***	95.0	27.8	11.5	18.5
Senegal*	86.4	11.8	4.8	15.5
Togo	48.1	1.0	12.5	12.8
Tunisia	82.4	17.8	14.4	32.7

Notes: Data are as of 2021, except for * Senegal, where data are as of 2020; ** US$ + € denominated debt and debt with variable interest rates refer to public debt (no disaggregated data for external debt); for Côte d'Ivoire, debt to be refixed is as of 2020; *** for Morocco, public debt is as of 2020.

Source: Authors' compilation based on official government data/reports cited in Section 3 of this paper.

In view of unfavourable international financial market conditions, domestic borrowing (including from the region for countries within the West African Economic and Monetary Union) has grown faster in recent years, despite higher costs and the potential crowding-out effect. With regard to low-income countries (LICs), including four of the seven focus countries of this paper, the G20 Debt Service Suspension Initiative (DSSI) provided valuable liquidity support, although the initiative still fell short of fully financing the Covid-19 policy responses of most participating countries (Figure ES2).

Figure ES2 Estimated benefits from the DSSI in participating LICs, versus the Covid-19 response, 2020 and 2021 (% of GDP)



Notes: 2021 DSSI potential benefits are based on official reports submitted to the World Bank Debtor Reporting System but figures are preliminary as some administrative negotiations on the amount of debt service to be deferred is still ongoing for some countries. Estimates for the DSSI benefit for 2020 are derived from World Bank International Debt Statistics projections. Participating African countries within the focus of this paper are marked with a red outline.
Source: Authors based on data from World Bank (2022a) and IMF (2021a).

Expediting a global architecture for a comprehensive debt relief framework (including restructuring, reduction) and multilateral financing facilities in the context of significant global shocks needs to be on top of the global cooperation agenda. Measures for consideration include the following:

- Extend the DSSI and/or consider a debt service standstill while application to the G20 Common Framework for Debt Treatment ('the Common Framework') is in progress.
- Exert more international pressure to increase the participation of significant new creditors (China) in multilateral debt relief and restructuring efforts.
- Discuss and rethink the role of credit rating agencies' treatment (e.g., potential downgrades) of application to the DSSI/Common Framework, which may contribute to the non-participation of some eligible countries that could benefit from early participation in such initiatives.
- Extend eligibility of the DSSI/Common Framework to highly indebted middle-income countries (MICs) to mitigate debt distress in these MICs, which may have spillover effects on LICs.
- At the bilateral level, consider extending debt-for-development or debt-for-climate swaps, as well as sovereign guarantees to African countries' debt issuances.

- Design shock financing to address short-term debt stabilisation needs but also link it to financing to increase debt and macro resilience to future shocks (e.g., developing domestic debt markets that are less vulnerable to devaluations and the closure of international capital markets, encouraging economic diversification).

In the face of significant crises and high levels of public debt, policy-makers face significant demand for immediate basic public services. This makes it more challenging to obtain political buy-in and uptake with regard to increased spending on other public investment (e.g., related to climate change transition) conducive for economic transformation. One area of future research involves understanding the extent to which external shocks and their consequent effects in the form of a higher public debt service burden could derail long-term reforms in African countries.

1. Introduction

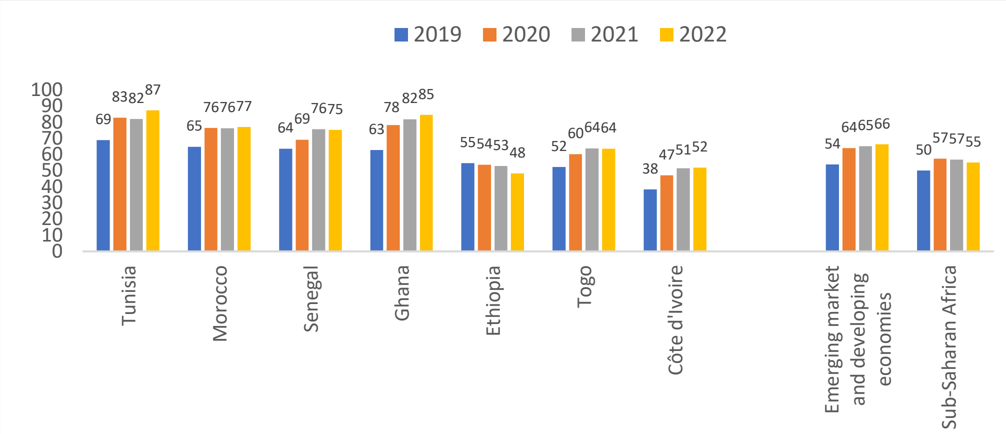
Multiple crises, including the economic fall-out of the Covid-19 pandemic and, more recently, commodity price shocks induced by the Russia–Ukraine war since February 2022, have had global impacts. The public spending necessary to mitigate the health and economic impacts of Covid-19 pushed already elevated levels of global public debt to its highest (99% of gross domestic product (GDP) in 2020) since World War II (IMF, 2022a). Disruptions in commodities trade (e.g., food, fuel, metals) due to the war in Ukraine are driving acceleration of inflation worldwide. On the one hand, higher prices reduce the public debt's real value (e.g., in terms of basket of goods and services). On the other hand, a high inflationary environment will likely exacerbate public debt pressures as governments protect the consumption of the most affected vulnerable households. In addition, current high inflation may also increase the cost of future borrowing as creditors demand higher nominal yields on public debt to compensate for expected eroded purchasing power and higher uncertainty (see Neely, 2022).

Many low-income countries (LICs) were already constrained prior to the Covid-19 crisis by a scarcity of financial resources, which limited their fiscal and liquidity support during the pandemic, compared with the unprecedented fiscal stimulus packages in advanced economies (see Raga and te Velde, 2022). LICs addressed the Covid-19 financing fall-out through increasing public debt. For example, in Sub-Saharan Africa (SSA), where many LICs are located, public debt increased by 7 percentage points (pp) to 57% of GDP between 2019 and 2020, and by more than 10 pp in some countries, such as Ghana (78% of GDP) and Morocco (57% of GDP) (Figure 1).

The G20 activated the Debt Service Suspension Initiative (DSSI), which benefited 38 out of 73 of the poorest countries, helping them concentrate their resources on their Covid-19 response before it expired in December 2021. However, the International Monetary Fund (IMF) has classified 60% of LICs as being at high risk of or already in debt distress, up from about 40% prior to the pandemic in 2019. The G20 Common Framework for Debt Treatments beyond the DSSI ('the Common Framework') was launched in November 2020 to take a case-by-case approach to addressing debt vulnerabilities. So far, it has received only four applications (Chad, Ethiopia, Somalia and Zambia) and it is yet to implement debt treatment (Paris Club, 2022).

In the current context of global uncertainty arising as a result of the Russia–Ukraine war, further public debt pressures will depend on individual countries' direct and indirect exposure to the channels of impact of the war (see Raga and Pettinotti, 2022). Countries that are dependent on imports of war-affected commodities (e.g., wheat, fuel, metals, food, fertilisers) may witness accelerating inflation, exchange rate depreciation and lower growth prospects, which will complicate their debt dynamics. The global uncertainty, combined with policy rate increase in advanced economies to arrest inflation, is tightening financial conditions and inducing capital outflows from low- and middle-income countries (LMICs). With these overlapping shocks, policy-makers will face the challenge of potential trade-offs between increasing public spending and mitigating debt distress.

Figure 1 Gross public debt, showing increases from pre-pandemic levels, especially in Ghana and Tunisia (% of GDP)



Source: Authors based on data from IMF (2022b).

Against this backdrop, this paper explores the public debt situation in seven African countries (Côte d'Ivoire, Ghana, Ethiopia, Morocco, Senegal, Togo and Tunisia). The German Federal Ministry for Economic Cooperation and Development (BMZ) calls these countries African reform partners (RPs), recognising and supporting their strong commitment to reforms. While most of the selected African countries were performing strongly prior the pandemic (e.g., 5–9% GDP growth in 2015–2019 for Côte d'Ivoire, Ethiopia, Ghana and Togo), they have not been insulated from the economic effects and public debt vulnerabilities of the recent pandemic and geopolitical shocks. These shocks may potentially derail long-term reforms to support economic growth and increased productivity. For example, in the face of limited resources and public debt during crisis, and given the consequent significant demand for basic public services, some policy-makers in LMICs have found it more challenging to obtain political buy-in and uptake with regard to increased spending on climate transition investment (see Raga and te Velde, 2022).

This paper is structured as follows. Section 2 provides key concepts and definitions of public debt and public debt management and sustainability, as well as an overview of the role of public debt in economic development. Section 3 presents the public debt profile of the seven African countries, covering public debt trends, management strategy and outlook. This section relies on secondary data, available government policy documents and reports, and existing latest debt sustainability analyses from the literature and by international institutions (i.e., this paper does not aim to conduct new debt sustainability analysis). Section 4 synthesises the findings from individual country cases with an overview of challenges and opportunities regarding public debt management in selected African countries. Section 5 concludes and provides policy suggestions.

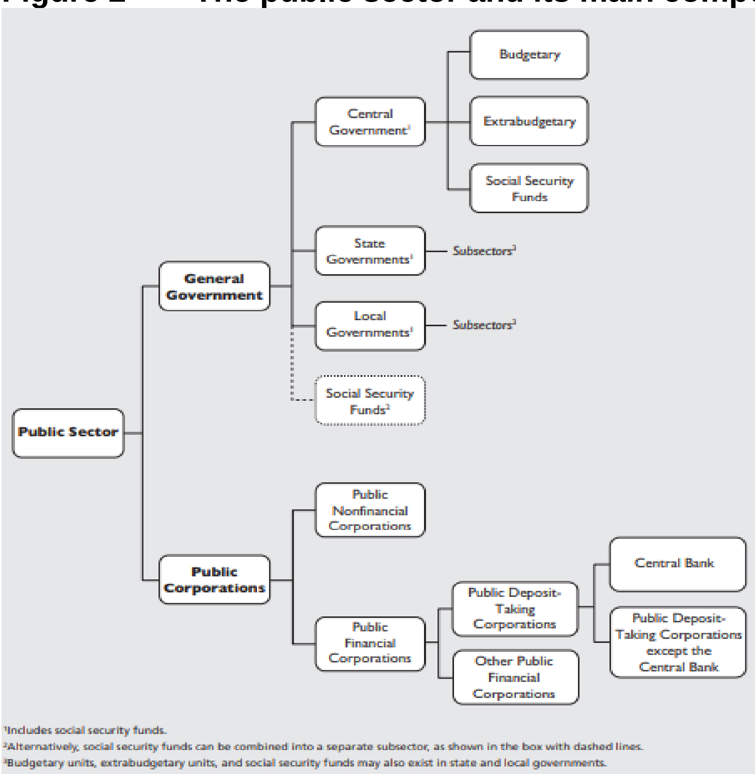
2. Public debt – what is it and why is it important?

2.1 Concepts and definitions

2.1.1 Public debt coverage

Debts instruments are financial instruments that require payment of interest and/or principal to the creditor at a future date or dates (IMF, 2020a). In the broadest definition, public debt covers all debts from the public sector (Figure 1). This includes borrowings by the general government, non-financial public enterprises and financial public enterprises (including the central bank[1]), as well as long-term obligations by the government (e.g., unfunded liabilities of social security funds) and known and anticipated contingent liabilities (e.g., ongoing restructuring of financial institutions, triggered guarantees for public–private partnerships) (IMF, 2018).

Figure 2 The public sector and its main components



Source: IMF (2014)

[1] Central bank debt issuance or foreign exchange swaps for the purposes of monetary policy or reserves management are excluded from external public debt (IMF, 2018).

2.1.2 Public debt instruments

Key public debt instruments include liabilities in the form of special drawing rights (SDRs); currency and deposits; debt securities; loans; insurance, pension, and standardised guarantee schemes; and other accounts payable, which in some countries are referred to as pending bills or short-term technical arrears (IMF, 2014). A combination of these instruments comprises the total gross debt (also referred to as total debt liabilities).

These public debt instruments may differ by term structure (e.g., interest rate, frequency of payment terms, grace period, maturity), valuation (e.g., market value, face value, nominal value), currency denomination and residency of holder (e.g., external or domestic debt) (IMF, 2018). External debt is further differentiated into debt from multilateral institutions (e.g., IMF, World Bank), official bilaterals (e.g., Paris Club, non-Paris Club) and commercial institutions (ibid.).

2.1.3 Public debt sustainability

The concept of public debt sustainability has definitional challenges from the theoretical, empirical and operational perspectives (see Debrun et al., 2020). Theoretically, macroeconomic identities dictate that a surplus in the balance of payments (BOP) and fiscal budget is necessary to repay debt, otherwise debt will increase over time (see computations in Mustapha and Prizzon, 2015). The IMF approach has evolved to generally regard public debt to be sustainable if the primary balance can stabilise debt in way that is both economically and politically feasible (IMF, 2013). In essence, debt sustainability reflects a country's solvency, liquidity and adjustment capacity:

- 'A government is solvent if the present value of its income stream is at least as large as the present value of its expenditure plus any initial debt (i.e., future primary balances must be greater than or equal to the public debt stock).
- A government is liquid if it is able to rollover its maturing debt obligations in an orderly manner.
- Debt sustainability also captures the notion that there are social and political limits to adjustments in spending and revenue that determine a country's willingness (as opposed to its economic ability) to pay' (see Mustapha and Prizzon, 2015).

Assessing debt sustainability is a complex process since it requires forward-looking assumptions on economic variables and political strategies of governments to pay its current and future obligations (Ams et al., 2020). Nevertheless, international organisations such as the IMF and the World Bank have developed some thresholds of public debt risk indicators and debt sustainability analysis (DSA) frameworks for countries based on their income level (i.e., LICs, emerging markets) (see IMF, 2013, 2018). The joint IMF and World Bank DSA focusing on LICs aims to 'ensure that countries which received debt relief are on a sustainable development track; allow creditors to better anticipate future risks and tailor their financing terms; and help client countries balance their needs for funds and ability to repay their debts' (World Bank, 2022b).

A typical DSA exercise involves assessment of relevant indicators at the macroeconomic level (e.g., growth and interest rates), debt service (i.e., payment of principal and interest) and debt profile (e.g., composition by maturity, currency denomination, investor base/market access) as well as the risks associated with these indicators (Box 1).

Box 1 Public debt risks

Jonasson and Papaionnau (2018) summarises the following key categories of public debt risks:

- **rollover/refinancing risk** – the risk that the debt may be rolled over at an unusually high interest rate or cannot be rolled over at all
- **market risk –** sharp movements in interest rates (interest rate risk) and exchange rates (exchange rate risk)
- **funding liquidity risk** – possible difficulty for the government in borrowing in a short period of time to service its debt on the due date
- **market liquidity risk** – risk that the investor faces from a quick diminishing of the trading volume of a bond or a series of bonds in the secondary market owing to, for example, abrupt changes in economic fundamentals or unanticipated cash flow obligations
- **credit risk –** risk associated with a country's own credit risk and/or a counterparty's ability to fulfil its obligations
- **legal risk** – uncertainties related to legal actions or shortcomings in the applicability or interpretation of contracts, laws and regulations
- **contingent risk** – potential financial claims against the government under certain circumstances and
- **operational risk** – a range of risks stemming from transaction errors, failures in internal controls and systems, legal shortcomings, security lapses or natural disasters.

Debt sustainability frameworks (DSFs) for LICs developed by the IMF and World Bank take into account a country's debt-carrying capacity based on a composite index (CI) of indicators and classify countries according to their institutional strengths, macroeconomic performance, buffers to absorb shocks, ability to handle debts and global environment (e.g., trade, remittances) (see IMF, 2018 for detailed DSF/CI classifications). DSFs have been a guideline for many LIC governments in the conduct of their own DSAs, and use indicative thresholds for public debt based on their debt-carrying capacity classification (Table 1). However, others have highlighted some shortcomings of the IMF's DSA, including that it does not account well for returns on public investment projects, and does not fully incorporate climate and sustainability risks and investment needs (see Volz et al., 2022).

Table 1 Debt-carrying capacity classification and debt thresholds for LICs

Debt-carrying capacity classification	CI score	Present value (PV) of public and public guaranteed (PPG) external debt in % of		PV of PPG external debt in % of		PV of total public debt
		GDP	Exports	Exports	Revenue	GDP
Weak	CI < 2.69	30	140	10	14	35
Medium	2.69 ≤ CI ≤ 3.05	40	180	15	18	55
Strong	CI > 3.05	55	240	21	23	70

Note: See IMF (2018) for a detailed methodology on computations of the CI and the corresponding classification of debt-carrying capacity.
Source: IMF (2018).

2.2 The role of public debt in economic development

Public debt, if managed well, can be conducive to economic development. It can facilitate consumption smoothing and enable long-gestation investment (e.g., infrastructure, technology) that is critical for growth and social development (see IMF, 2022a). The benefits of debt accumulation for growth depend on how productively and efficiently the debt is used (see Mustapha and Prizzon, 2015; Kose et al, 2020). For instance, in the case of Ethiopia, it is suggested that a massive scale-up in infrastructure investment funded through concessional and non-concessional financing since the early 2000s has contributed to sustained growth and poverty reduction in the country in the past decade (Fatás et al., 2020). However, Ethiopia's recent debt-financed expansion of infrastructure has started to present limitations in terms of absorptive capacity, crowding out private credit and widening external imbalances. This has contributed to the country's high risk of debt distress, constraining future growth (ibid.).

There is also evidence that the emergence of government debt securities has provided the financial market with less risky instruments, which have played a role in developing nascent financial and capital markets. However, a number of studies highlight the potential risks of 'crowding out'. For example, in a scenario where banks lend mainly to governments, which may be profitable but inefficient in terms of credit allocation to productive economic activities (see Hauner, 2009), government debt 'crowds out' lending to a private sector pursuing more productive activities.

Another use of public debt is to finance counter-cyclical fiscal policies in times of shock. If this is planned well, the government can run a deficit and accumulate debt during economic downturns and run a surplus and pay debts in good times (see Fatás et al., 2020). Policy responses during the pandemic demonstrated that countries that had exercised fiscal discipline in the years prior to the health crisis were able to increase their debts and deploy a fiscal stimulus that cushioned the negative impacts (Raga and te Velde, 2022).

The literature presents evidence on the risks associated with high levels of public debt. Such debt can exacerbate countries' vulnerability to shocks, increase their susceptibility to financial crises and siphon away resources from productive uses (IMF, 2022a; Koh, et al., 2020; Kose et al., 2020). Pre-existing high levels of debt also limit the capacity of governments to respond to shocks, as demonstrated by Kenya and Sri Lanka at the height of the Covid-19 pandemic in 2020 (Raga and te Velde, 2022).

Unsustainable debts may lead to debt distress – a situation whereby a country is unable to fulfil its debt obligations and requires debt restructuring, or when a country is accumulating arrears (Hakura, 2020; Chabert et al., 2022). Studies show evidence on the costs of public debt defaults, including loss of market access and higher borrowing costs, collateral damage to the economy (e.g., defaults are negatively associated with trade, investment and firms' foreign financing), a reduction in private lending, and expensive and protracted creditor lawsuits (see Ams et al., 2020). While there is consensus on the negative impact of defaults, the evidence on the persistence and magnitude of these effects is mixed, with higher borrowing costs remaining elevated one to seven years after default or restructuring (see Borensztein and Panizza, 2008; Cruces and Trebesch, 2013).

3. Public debt profile of selected African countries

This section presents the public debt profile of the seven African countries – namely, Ghana, Côte d'Ivoire, Ethiopia, Morocco, Senegal, Togo and Tunisia. Analysis covers country-level public debt trends, government debt management strategy and the outlook on public debt. The analysis relies mainly on secondary data and government policy documents and reports, complemented by latest debt sustainability analyses from the literature and by international institutions, and relevant assessments by credit rating agencies (CRAs).

3.1 Ghana

3.1.1 Recent economic performance

The Ghanian economy registered strong growth performance in the decade prior to the Covid-19 pandemic, with annual average GDP growth of 6.5% between 2011 and 2019 (Table 2), higher than the average growth in LMICs (5%) and SSA (3.5%) during the same period.[2] The economic growth has been driven largely by Ghana's major commodity exports and the mining sector. In 2020, Ghana was adversely affected by the pandemic disruptions, with GDP barely growing, at 0.5% (vs 5–6% pre-Covid growth forecast), inflation accelerating to almost 10% (from 7.1% in 2019) and unemployment increasing to 4.7% (from 4.3% in 2019). Ghana responded to Covid-19 with fiscal measures equivalent to 3.6% of GDP between January 2020 and September 2021, close to the average size of measures in low-income and developing countries (4%) though significantly lower than those of advanced economies (23.%).[3]

Ghana's economy had exhibited a quick V-shaped recovery by 2021 with 5.4% GDP growth and is expected to grow more strongly over 2023 to 2024 at rates comparable to pre-Covid IMF forecasts.[4] However, recent economic indicators show deterioration and there are downside risks. Table 2 shows that the public deficit, which started to widen significantly in 2020, is expected to remain wider

[2] Author's computations based on data from World Development Indicators.
[3] Authors' computations based on data from IMF (2021a).
[4] Average GDP growth for 2023–2024 is forecast at 5.2% and 5.0% based on the IMF's World Economic Outlook April 2022 and October 2019 (pre-Covid period), respectively.

than pre-Covid levels in the medium term, and public debt reached more than 80% of GDP in 2021. Data from the Ministry of Finance (MOF) (2022b) suggest the public debt-to-GDP ratio had increased significantly, by almost 14 pp, to 76.1% of GDP in 2020 (lower than the IMF estimate of 78.3% of GDP).

The IMF (2022b) forecasts that the already elevated inflation, at 9.8% in 2021, will further accelerate to 16.3% over 2022. However, inflation was already at 29.8% as of June 2022, largely because of spillovers from the Russia–Ukraine war and pass-through effects on Ghana's energy, transport and food prices as well as depreciation of the cedi (BOG, 2022). Since November 2021, the Bank of Ghana (BOG) has implemented a cumulative 550 basis points increase in its policy rate to arrest inflation, reaching 19% as of July 2022. However, more recent business and consumer surveys indicate that increased inflation expectations have been influenced by pressures on workplace cost-of-living allowances, risking a wage price spiral and more entrenched inflation (ibid.).

Recent data also point to a weakening external sector. BOG (2022) shows that, while the country registered a trade surplus at $1.4 billion as of July 2022 (driven by favourable global prices of Ghana's main exports, such as gold and crude oil), this is being offset by higher repatriation of profits and dividends, outflows in portfolio and other investment accounts, and lower foreign direct investment (FDI), resulting in an overall BOP deficit of $2.5 billion (vs $762 million in July 2021).

Table 2 Ghana: selected macroeconomic indicators and forecast

	2011–2019 (ave)	2019	2020e	2021e	2022f	2023f	2024f	2025f
Real GDP (% growth)								
IMF World Economic Outlook, April 2022	6.5	6.5	0.4	4.2	5.2	5.1	5.3	5.4
World Bank Global Economic Prospects, June 2022			0.4	5.4	5.5	5.2	5.0	
Ghana MOF, Budget Statement and Economic Policy, November 2021				4.4	5.8	5.4	5.3	6.0
Average consumer prices (% growth)	11.8	7.1	9.9	10.0	16.3	13.0	9.1	6.9
Government revenue (% of GDP)	13.6	13.9	13.3	14.7	16.5	16.2	16.0	16.0
Government expenditure (% of GDP)	20.2	21.1	29.0	26.3	25.2	23.9	23.7	23.4
Gross fiscal balance (% of GDP)	-6.6	-7.3	-15.6	-11.6	-8.7	-7.8	-7.7	-7.4
Primary fiscal balance (% of GDP)	-2.3	-1.4	-9.2	-4.1	-1.5	-0.6	-0.3	0.1
Gross government debt (% of GDP)	50.1	62.7	78.3	81.8	84.6	84.8	85.7	86.7
Current account balance (% of GDP)	-5.7	-2.7	-3.2	-3.0	-3.6	-3.5	-3.9	-3.8

Notes: e = estimate; f = forecast.

Sources: MOF (2022b), IMF (2022b), World Bank (2022c). Data for 2011–2019 (average) and 2019 are actual data, based on IMF (2022b). Except for real GDP, data for all indicators are based on IMF (2022b).

In view of the deteriorating economic conditions, the government sought IMF support on 1 July 2022. Initial reports indicate that the government is seeking IMF funding at around $1.5 billion (Benson, 2022; Dontoh, 2022). The BOG (2022) expects that the IMF programme will provide a stronger coordinated monetary and fiscal policy to anchor macroeconomic stability.

3.1.2 Public debt landscape

Total stock of public debt[5]

In 2020, the Ghanian government faced significant expenditure pressures, mainly for Covid-19 measures, combined with an increase in pre-existing financial and energy sector bailout costs (MOF, 2022b). For instance, it is estimated that Ghana committed 3.6% of 2020 GDP's worth of Covid19 response expenditure measures between January 2020 to September 2021 (IMF, 2021a). Meanwhile, expenditures related to financial and energy bailout costs widen the fiscal deficit by an additional 3.2% and 2.3% of GDP in 2020 and 2021, respectively (MOF, 2022b).

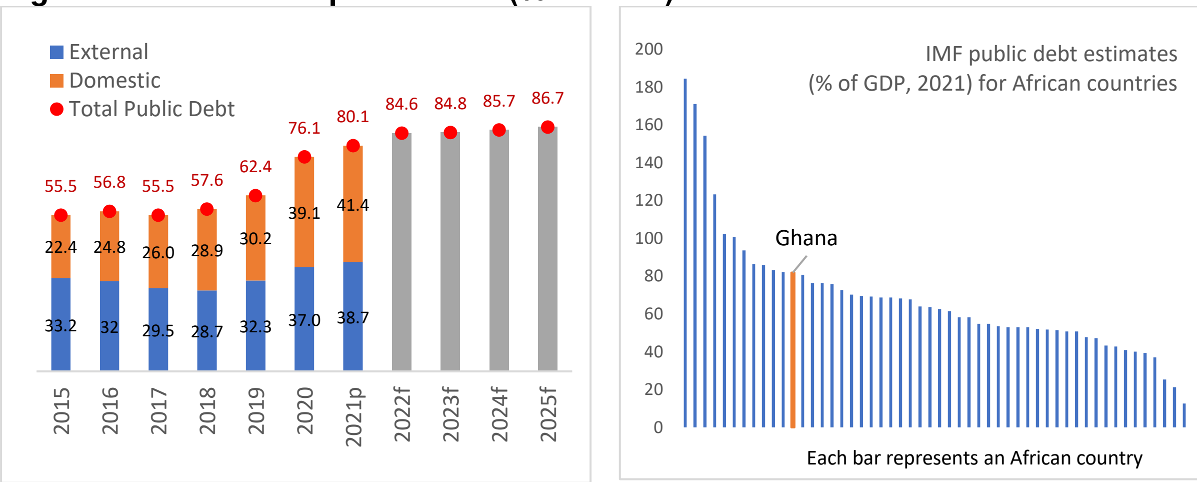
These expenditures, combined with lower revenues and the growth slowdown, led to a wider fiscal deficit, which reached 15.6% of GDP in 2020 before slightly narrowing to 11.6% by 2021 (Table 2). To meet the financing gap in 2020, the government mobilised funding worth 8.9% of GDP from the IMF Rapid Credit Facility (1.5% of GDP), the African Development Bank (AfDB) (0.1% of GDP), EU (0.1% of GDP), the BOG Asset Purchase Programme (2.6% of GDP) and the World Bank (4.6% of GDP) (MOF, 2021a).

In this context, public debt increased by almost 30% in 2020 ($50.8 billion) in value terms– significantly faster than the average growth rate of public debt did at less than 10% between 2015 and 2019.[6] As a proportion of GDP, stock of public debt increased from 62% in 2019 to more than 80% in 2021, relatively higher than for many counterparts in Africa (Figure 3). The expansion of public debt in recent years was mainly contributed by financial sector clean-up from 2018 to 2021, energy sector bail outs since 2019, and the Covid19 financing in 2020 (MoF 2022b, 2021b). In 2020 for instance, Covid19-related expenditures contributed to public debt worth 4.6% of GDP (MoF, 2021b). Meanwhile public debt related to energy and financial sector contingency costs reached 6% of GDP in both 2020 and 2021 (Table 3). As of 2021,Ghana's public debt was relatively higher compared to counterparts in Africa, and is projected to remain elevated over 2025 (Figure 3).

Domestic and external sources of Ghana's public debt had been at par with each other in the years prior to Covid-19 but by 2020 domestic debt had outpaced external debt, at 39% of GDP against 37% of GDP, respectively (Figure 3, Table 3). Compared with external debt, domestic debt is more expensive (17.9% vs 5.2% interest rate) and tends to have short maturities (3.2 vs 14.8 years) (Table 3). Consequently, the IMF (2022b) estimates that the debt service to revenue ratio has reached 130%, 31 pp higher than the ratio in 2019.

[5] In Ghana's official report, public debt covers all PPG debt (MOF, 2022b).
[6] Authors' computations based on data from MOF (2019, 2022b).

Figure 3 Ghana's public debt (% of GDP)



Notes: p = provisional; f = forecast.

Sources: Data on Ghana's public debt from 2015 to 2021 are based on MOF (2019, 2022b), while forecasts of Ghana's public debt for 2022 to 2025 are based on data from IMF (2022b). Public debt estimates for African countries are based on data from IMF (2022b).

Table 3 Ghana: cost and maturity profile of public debt

	Domestic debt			External debt			Total debt		
	2019	2020	2021p	2019	2020	2021p	2019	2020	2021p
Public debt (US$ billions)	19.0	26.1	30.3	20.3	24.7	28.3	39.4	50.8	58.6
Public debt (% of GDP)	30.2	39.1	41.4	32.3	37.0	39.0	62.4	76.1	80.1
Of which: public debt related to energy sector bailouts and financial sector clean up costs	5.1	6.1	6.0				5.0	6.0	6.0
Weighted average interest rate (%)	17.1	18.3	17.9	5.1	5.0	5.2	11.0	11.5	11.3
Average time to maturity (years)	5.8	3.3	3.2	12.4	12.7	14.8	9.8	9.2	10.6
Debt maturing in 1 year (% of total)	31.7	34.9	30.5	4.7	3.5	3.1	15.3	15.1	13.6
Average time to refixing (years)	5.8	3.3	3.2	12.0	12.4	14.4	9.5	9.0	10.3
Debt refixing in 1 year (% of total)	31.7	34.9	30.5	15.2	11.4	13.0	21.7	20.1	19.4

Note: p = provisional.

Source: MOF (2021b, 2022b).

External debt[7]

Ghana's external debt is denominated mainly in the US dollar (72% of the total). Public debt is owed mostly to commercial creditors (57%) as of 2022; around 80% of debt owed to them is in the form of Eurobonds[8] (MOF, 2022b). Of bilateral debt, the IMF (2021b) estimates that about $2.4 billion is owed to Paris Club members, while another $2.7 billion is owed to non-Paris Club countries ($1.9 billion to China) as of end-2020. Notably, concessional financing and interest-free debts registered declining shares by 2021, after increasing during the pandemic in 2020 (Table 4).

[7] Ghana's external debt is that issued to foreigners outside the domestic capital market (MOF, 2022b).

[8] Eurobonds are 'bonds issued by a borrower in a foreign country, denominated in a Eurocurrency (e.g., US dollar, Canadian Dollar, Yen, Euro) and underwritten and sold by an international syndicate of financial institutions' (MOF, 2021b).

Table 4 Ghana: composition of external debt (% of total external debt)

By currency	2019	2020	2021p
US dollar	70.7	70.0	71.7
Euro	16.6	17.3	17.4
Chinese yuan	2.6	3.8	3.3
UK pound	1.9	2.2	1.9
Japanese yen	3.0	2.0	1.8
Others	5.2	4.5	3.9

By creditor	2019	2020	2021p
Commercial	48.5	51.1	57.3
Multilateral	32.2	33.5	28.9
Bilateral	6.0	5.2	4.7
Export credits	5.2	3.9	3.5
Other concessional	8.1	6.2	5.6

By interest structure	2019	2020	2021p
Variable interest	14.0	11.9	13.1
Fixed interest	85.3	87.5	86.5
Interest-free	0.8	0.6	0.4

Note: p = provisional.
Source: MOF (2021b, 2022b).

Domestic debt[9]

Meanwhile, 85% of Ghana's domestic debt as of 2021 is 'marketable debt' consisting of financial securities and instruments that can be traded in the secondary market (Table 5). The increasing share of marketable debts in domestic debt stock is also aimed at ensuring the development of the domestic debt market (MOF, 2022b). By holder, domestic debts are owed mainly to local investors (84%), mostly to banks and non-bank financial institutions (e.g., individuals, firms and institutions). In 2020, government efforts to manage refinancing risks contributed to a decline in the share of short-term debt in domestic marketable debts, although the pandemic has induced an uptick of debt with shorter maturities (MOF, 2021b, 2022b; Table 5).

Table 5 Ghana: composition of domestic debt (% of total domestic debt)

By instrument	2019	2020	2021p
Marketable	77.4	82.0	85.3
Non-marketable	22.5	17.8	14.5
Standard loan	0.1	0.1	0.2

By creditor	2019	2020	2021p
Local	75	81.5	84.0
BOG	*14.8*	*22.5*	*19.8*
Banks	*29.5*	*28.8*	*30.4*
Non-bank	*30.7*	*30.2*	*33.8*
Foreign	25.0	18.5	16.0

By tenor*	2019	2020	2021p
Short term	20.0	13.7	14.6
Medium term	72.7	73.5	74.2
Long term	7.3	12.8	11.2

Note: p = provisional; *short-term instruments = 91-day,182-day and 364-day bills; medium-term instruments = 2-year notes and 3-year, 5-year, 6-year, 7-year and 10-year bonds; long-term instruments = 15-year and 20-year bonds.
Source: MOF (2021b, 2022b).

3.1.3 Public debt risk and outlook

The Ghanian government released its DSA and assessed that the country was at high risk of debt distress as of March 2022, having exceeded thresholds of debt sustainability indicators based on the country's debt-carrying capacity (MOF, 2022b; see Table 6). This is broadly aligned with the IMF's 2021 DSA for Ghana, which also classified the country as at high risk of debt distress. As of 2022, three CRAs downgraded Ghana's rating.

[9] Ghana's domestic debt refers to debt issued to the domestic capital market (MOF, 2022b).

Table 6 Ghana: debt sustainability indicators and projections

	Medium debt-carrying capacity thresholds*	Baseline scenarios 2022	2023	2024	2025
PV of external debt as % of exports	180	132.4	142.0	151.6	153.2
PV of external debt as % of GDP	40	42.1	45.9	47.2	47.1
PV of external debt service as % of exports	15	18.2	18.8	18.0	19.7
PV of external debt service as % of revenues	18	28.9	30.7	27.4	29.8
PV of public debt as % of GDP	55	87.8	88.2	88.8	87.4

Note: See Table 1 for summary of debt-carrying capacity classifications and thresholds, and IMF (2018) for a detailed methodology and discussions. Indicators in red indicate threshold breach; indicators in green indicate below-threshold projections.
Source: MOF (2022b).

Table 7 summarises the assessment of Ghana's debt sustainability by the Ghanian government and the IMF, as well as the assessment of three CRAs that all recently downgraded Ghana's credit rating. Four main risks were commonly identified. The first relates to the increasing costs of borrowing, driven by the growing reliance of the government on domestic borrowing, which tends to be more expensive (in terms of higher interest rates) and have a shorter maturity, increasing interest rate and re-financing risks. External debt denominated in foreign currencies may also be expensive if there are episodes of sharp exchange rate depreciation – especially since the cedi already depreciated by 35%[10] against the US dollar between January and August 2022. The second risk is of the tightening of global financial conditions, which may threaten Ghana's access to international capital markets (e.g., if Eurobond investors shift assets to safe havens) or weaken the cedi (e.g., if there is a surge in capital outflows) and expose public debts to foreign exchange risks. As of end-June 2022, significant capital outflows and lower FDI offset trade surplus from high export receipts (BOG, 2022).

The third risk factor lies in the credibility of the government to implement its fiscal consolidation efforts, which would largely shape investor confidence and hence the country's sustained ability (or inability) to borrow from diversified source at favourable terms. Fourth are potential adverse shocks to growth and terms of trade, which could widen the interest rate–growth differential, posing risks to overall debt sustainability through various macro-financial channels. This factor has become more relevant in the context of the Russia–Ukraine war, which is exacerbating Ghana's external and fiscal imbalances, making debt sustainability an immediate challenge (Standard & Poor's, 2022a).

[10] Authors' computations based on data from Haver Analytics.

Table 7 Ghana: risks to public debt sustainability

Debt risks/ sustainability assessment	Categorical assessment	Key risks identified	Key remarks/ recommendations
MOF Ghana (March 2022)	High risk of debt distress	• Significant risks to public debt sustainability may emerge in scenarios of growth and terms of trade shocks, widening spreads and reduction of debt maturities	• Aggressive fiscal consolidation and building cash buffers to reduce debt levels and ensure timely debt servicing
IMF (July 2021)	High risk of debt distress	• Heavy reliance on domestic debt borrowing may push domestic absorption capacity, increasing probability of interest rate risks, private sector crowding-out, further central bank financing or accumulation of arrears	• Rigorous implementation of fiscal consolidation to achieve debt sustainability
Fitch (January 2022)	B- negative outlook (downgrade from last rating of B)	• Effective loss of access to international capital markets in 2H2021 following surge in public debt during pandemic; tightening global financial conditions; heavier reliance on domestic debt issuance with higher interest rate costs, in the context of already high debt service to revenue ratio	• Ratings can be upgraded if Ghana's access to international markets can be sustainably resumed; sustainably improve external liquidity; sustained and credible fiscal consolidation strategy
Moody's (February 2022)	Caa1 - stable outlook (downgrade from last rating of B3 stable)	• Debt and liquidity challenges, weak revenue generation, tight global financial conditions (increasing reliance on costly short-term debts), sizable risks to implementation of fiscal consolidation plans	• Ratings can be upgraded if fiscal consolidation proceeds more rapidly, and there is evidence of sustainably broadened public funding options for the government
Standard & Poor's (August 2022)	CCC+/C- negative outlook (downgrade from last rating of B- stable outlook)	• Exacerbated fiscal and external imbalances; high borrowing costs and soft growth would induce deterioration of debt-to-GDP ratio • Negative outlook in view of Ghana's limited commercial financing options, and constrained external and fiscal buffers	• Ratings can be upgraded if Ghana's external stress eases, which will allow the country to return to its GDP growth path, regain fiscal buffer and access capital markets

Sources: Fitch (2022a), MOF (2022c), Moody's (2022a), Standard & Poor's (2022a).

3.1.4 Government debt management strategy

The Ghanian government has been implementing its Medium-Term Debt Management Strategy (MTDS), in accordance with the requirements of the Public Financial Management Act 2016 (Act 921). The MTDS aims primarily to 'choose the optimal composition of debt instruments to ensure Government's financing requirements are met at the lowest possible cost with a prudent degree of risk' (MOF, 2022b). In this regard, the MTDS 2021–2024 has set systematic benchmark indicators to manage public debt risks (e.g., foreign currency, interest rate, rollover risks) while also taking into account fiscal performance thresholds set in the Fiscal Responsibility Act (FRA) 2018 (MOF, 2021a; see Table 8).

To support the primary objective, the MTDS aims to diversify debt investors and instruments (with the aim of lengthening debt maturity), develop a benchmark yield curve (to support the domestic debt market) and evaluate and manage risks embedded in the debt portfolio (MOF, 2022b). Some of the latest public debt management reforms include the following:

- To accelerate and deepen Ghana's fiscal consolidation efforts, the government has set a limit on new borrowing commitments, developed guidelines on the procurement of loans and public borrowing and an operational risk management framework, and passed and started implementing (in May 2022) an e-levy on targeted digital transactions to help revenue mobilisation.
- In 2020, the government developed and published new guidelines for primary dealers and bond market specialists to ensure their underwriting, distribution and marketing capabilities both local and internationally, and to support trade on the secondary market.
- In 2021, the government developed the Sustainable Financing Framework, which could be a basis for exploring green- and social-linked issuance of government financing instruments.
- Communications with market participants have been enhanced through dedicated MOF website sections on 'Investor relations' and 'Public debt' to enhance transparency and timely data provision.

Table 8 shows that, while some of the MTDS indicators have been within government thresholds, significant new domestic and external challenges have emerged since early 2021 when the MTDS 2021–2024 was formulated. The spillover effects of the Russia–Ukraine war on commodity prices since February 2022 and continued supply chain/trade disruptions resulting from Covid-19 have contributed to inflationary pressures in Ghana (initially through food prices, with recent second-round effects on non-food prices). Policy rate hikes of central banks in safe havens (e.g., the UK, the US) led to increased capital outflows and subsequently the depreciation of the cedi.

Table 8 Ghana: debt strategy performance indicators

Risk	Indicator	Government thresholds*	MOF Ghana (2022b) 2020	MOF Ghana (2022b) 2021p	IMF (2022b) 2022f
Foreign currency risk	% share of external debt in US$	70±5%	70.0	71.7	
Interest rate risk	% share of external debt in floating rate	15–20%	15.1	13.1	
	% share of public debt facing interest rate refixing in a year	30%	20.1	19.4	
Refinancing and rollover risks	% share of public debt maturing in 1 year	15–20%	15.1	13.1	
	Years of average time to maturity	Not less than 9.6 years	9.2	10.6	
Fiscal responsibility (fiscal consolidation)	Fiscal deficit	5% of GDP (FRA 2018)	15.0	11.9	8.7
	Primary balance	Positive (FRA 2018)	-8.6	-4.3	-1.5
	Limits on 2022 new borrowing commitments	Concessional: $2.5 billion; non-concessional: $2.0 billion			

Notes: Green (red) indicates that actual and preliminary figures are within (outside) government thresholds; p = provisional; f = forecast.
Source: FRA (2018); MOF (2021a)

To stabilise the economy and ease distress over uncertainty regarding public debt sustainability, the government has borrowed $750 million from Afreximbank, and sought the IMF's support in July 2022 (Standard & Poor's, 2022a). On 7 October 2022, an IMF visit was concluded, where IMF staff discussed with Ghanian policymakers areas that can be supported by IMF financing (IMF, 2022i).

3.2 Côte d'Ivoire

3.2.1 Recent economic performance

Côte d'Ivoire has been one of the fastest-growing countries worldwide since the end of its 2011 political crisis, with an annual growth of 8.2% from 2012 to 2019 (Table 9). Sources of sustained growth include acceleration of public investment; strong and diversified agricultural production; an increase in FDI; improvement in access to digital services; and improvement in access to electricity[11] at low prices (IFC, 2020). During the pandemic in 2020, the economy slowed down but managed 2% growth, partly because of its lower dependency on the sectors most affected by Covid-19 (e.g., tourism, services), as well as its deployment of a fiscal support package worth 2.5% of GDP[12] (IMF, 2021a).

By 2021, the Ivorian economy exhibited sharp economic growth recovery estimated at 7% (Table 9). However, increased government spending on pandemic and security measures widened the fiscal deficit and increased public borrowing in 2020 and 2021, limiting the policy space to address new shocks. In addition, inflation in Côte d'Ivoire accelerated to 5.6% in December 2021; it slowed to 4.6% in March 2022 but this is still beyond the Central Bank of West African States (BCEAO[13]) 1–3% target band. Higher prices have been driven by a combination of Covid-19 supply chain disruptions, regional instability and adverse weather shocks (IMF, 2022c).

These vulnerabilities may be compounded by new external shocks, including the potential impacts of the Russia–Ukraine war (e.g., higher food prices, bigger import bills and current account deterioration), the tightening of global financial conditions (e.g., higher borrowing costs) and uncertainty around new Covid-19 outbreaks (IMF, 2022c). The government has already implemented measures to alleviate inflation by introducing differentiated fuel price measures and three-month price caps and a customs duty exemption for wheat, which are expected to carry fiscal costs (ibid.). In view of potential risks to growth and public borrowing, the government expects a wider fiscal deficit (at 5.6% of GDP) than the IMF forecast (4.7% of GDP) in 2022, and may converge with the government

[11] Albeit with disruptions in late 2020 to August 2021.
[12] Author's computations based on data from IMF (2021c) include estimates of fiscal resources allocated or planned in response to the Covid-19 pandemic since January 2020, which will cover implementation in 2020, 2021 and beyond.
[13] The BCEAO manages monetary and exchange rate policies, to maintain a fixed peg between the CFA franc and the euro.

deficit target of 3% of GDP in 2025 (instead of the IMF forecast by 2024) (ibid.).

Table 9 Côte d'Ivoire: selected macroeconomic indicators and forecast

	2012–2019 (average)	2019	2020 e	2021 e	2022 f	2023 f	2024 f	2025 f
Real GDP (% growth)								
IMF World Economic Outlook, April 2022	8.2	6.2	2.0	6.5	6.0	6.7	6.4	6.2
World Bank Global Economic Prospects, June 2022			2.0	7.0	5.7	6.8	6.6	
Government views (as cited in IMF, 2022c)					6.9	7.2 (ave. 2023–2027)		
Average consumer prices (% growth)	1.0	0.8	2.4	2.5	2.2	2.0	2.0	2.0
Government revenue (% of GDP)	14.5	15.0	15.0	14.7	15.3	15.4	15.4	15.3
Government expenditure (% of GDP)	16.9	17.3	20.6	20.3	19.9	19.2	18.4	18.3
Gross fiscal balance (% of GDP)	-2.4	-2.3	-5.6	-5.6	-4.7	-3.8	-3.0	-3.0
Primary fiscal balance (% of GDP)	-1.2	-0.1	-2.3	-1.6	-1.1	-0.2	0.7	0.8
Gross government debt (% of GDP)	30.5	38.8	47.7	49.4	50.5	50.7	50.2	49.7
Current account balance (% of GDP)	-1.3	-2.3	-3.5	-4.3	-4.2	-3.9	-3.7	-3.6

Notes: e = estimate; f = forecast.

Sources: IMF (2022b, 2022c), World Bank (2022c). Data for 2012–2019 (average) and 2019 are actual data based on IMF (2022b); 2020–2025 data are based on IMF (2022c). Except for real GDP, data for all indicators are based on IMF (2022c).

In this context, IMF (2022c) and World Bank (2022c) project slower growth in 2022, at 6.0% and 5.7%, respectively, and 6.4% on average over 2025. In contrast, the government projects higher growth of 6.9% in 2022 and of 7.2% on average over 2027, on the back of the 2021–2025 National Development Plan's implementation of comprehensive reforms and investment as well as project roll-out from recent oil and gas discoveries (IMF, 2022c).

3.2.2 Public debt landscape

Total stock of public debt[14]

The pandemic pushed Ivorian public expenditure to 20.6% of GDP in 2020 (from 17.3% of GDP in 2019), without an increase in government revenues (Table 9). This contributed to the widening of the fiscal deficit to 5.6% of GDP in 2020 compared with 2.3% of GDP in 2019 prior to the pandemic. To meet the financing gap, the government increased its borrowing by 9 pp to 47.6% of GDP in 2020, and exceeded 50% of GDP by 2021. Nevertheless, this level is below the median of African countries (Figure 4) and within the West African Economic Monetary Union (WAEMU) convergence criteria[15] (i.e., less than or equal to 70% of GDP).

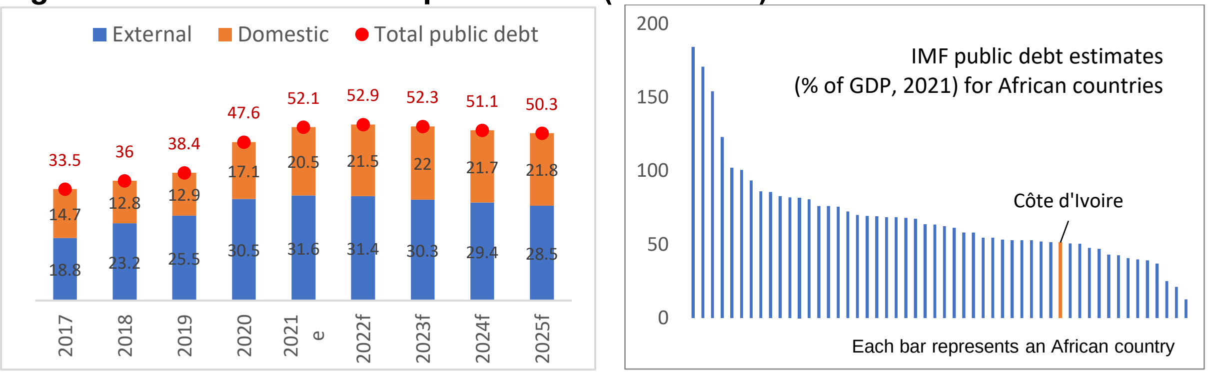
External financing has dominated total public debt since 2017, although its total share is projected to be on a gradually declining trend given the rising importance of domestic borrowing (Figure 4). The increase in domestic debt is driven largely by the issuance of public securities in the WAEMU market (MBPE, 2022). On average, domestic debt is relatively more expensive (in terms of higher interest

[14] In official reports, public debt coverage is limited to central government debt (MEF, 2021b, 2022).

[15] The WAEMU convergence criteria (e.g., covering fiscal balance, inflation, public debt, tax revenues) were suspended since April 2020 to allow members to raise their fiscal deficit to respond to the Covid19. There is no information on when the criteria will be reinstated.

rates) with shorter maturities compared with external debt, affecting the maturity profile and cost of overall public debt (Table 10).

Figure 4 Côte d'Ivoire's public debt (% of GDP)



Notes: e = estimates; f = forecast.
Sources: IMF (2021c, 2021d, 2022c).

Table 10 Côte d'Ivoire: cost and maturity profile of public debt

	Domestic debt			External debt			Total debt		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Public debt (US$ billions)	7.6	10.5	13.7	15.1	18.7	21.2	22.7	29.2	34.9
Weighted average interest rate (%)	5.0	5.0	5.0	3.9	3.1	3.6	4.3	3.8	4.1
Average time to maturity (years)	4.4	4.0	4.9	10.4	9.6	9.2	8.3	7.6	7.5
Average duration of rate adjustment (years)	4.5	4.0	4.9	10.3	9.0	8.6	8.0	7.2	7.1
Debt refixing in 1 year (% of total)		15.2			14.1			14.5	
Debt maturing in 1 year (% of total)		15.2			3.2		8.2	7.7	9.4
Debt maturing in 1 year (% of GDP)		2.7			0.9			3.6	
Public debt service (% of revenues)			23.0			18.3		37.8	41.3
Public debt service (% of GDP)			3.3			2.6		5.5	5.9

Source: Authors based on data from MEF (2021b, 2022), MBPE (2022).

External debt

External debt is mostly denominated in euro, aligned with the government strategy to limit the exposure of public debt to exchange rate risk given that the CFA franc is pegged to the euro (Table 11). Bondholders hold the highest share of external debt since 2019. The government issued seven international bonds between 2014 and 2021, with the objective of diversifying and securing financing with longer maturity at competitive terms (MEF 2021b, 2022; IMF, 2022b; MBPE, 2022). However, the share of debt owed to bondholders in total public debt has declined in the past two years, as the government has increased its mobilisation of concessional multilateral financing to help fund its policy measures to respond to the pandemic (IMF, 2022b). Notably, Côte d'Ivoire has joined the DSSI, although the impact of this on the country's debt service has limited effect (IMF, 2022b).

Table 11 Côte d'Ivoire: composition of external debt (% of total external debt)

By currency	2019	2020	2021
Euro	44.5	51.6	61.8
US dollar	36.1	25.8	18.9
West African CFA franc	11.1	15.3	12.6
Chinese yuan	4.0	3.7	3.4
Others	4.2	3.6	3.3

By creditor	2019	2020	2021
Bilateral creditors	18.1	17.4	16.5
Multilateral creditors	25.5	31.5	30.1
Bondholders	50.0	42.5	42.3
Other creditors	6.4	8.6	11.1

By interest structure	2019	2020	2021
Variable interest	5.3	7.3	7.6
Fixed interest	94.7	92.7	92.4

Source: Authors based on data from MEF (2019, 2020, 2021a, 2022).

Domestic debt

Most domestic debt is in the form of government securities (i.e., bills and bonds) and with medium-term maturity between one and 10 years (Table 12). More than 50% of domestic debt needs to be refinanced over 2021–2023 (MEF, 2021b). Domestic debt is mostly held by local and WAEMU investors (including the BCEAO) (see IMF, 2022b; MEF, 2022b). At the regional level, the government is mindful of potential effects of excessive recourse to the WAEMU market, including potential tightening of financing conditions and crowding out private sector credit in the region (IMF, 2022b).

Table 12 Côte d'Ivoire: composition of domestic debt (% of total domestic debt)

By instrument	2019	2020	2021
Treasury bills	2.2	6.7	4.3
Treasury bonds (by auction)	27.9	24.1	25.5
Treasury bonds (by syndication)	57.9	59.7	54.2
Bond certificates	2.3	2.8	4.6
Other borrowings	9.8	6.7	11.4

By tenor*	2019	2020	2021
Short term	2.2	7.5	4.3
Medium term	81.2	83.8	75.2
Long term	16.6	8.7	20.5

Note: * short-term instruments = less than 3 months to 12 months; medium-term: 1–10 years; long term: more than 10 years.
Source: Authors based on data from MEF (2022).

3.2.3 Public debt risk and outlook

The government recognises two key vulnerabilities in its debt portfolio: (i) refinancing risks from half of the domestic debt that needs to be refinanced until 2023, combined with large repayments for medium-term debts, largely to bondholders and multilaterals; and (ii) exchange rate risks of more than 20% of total debt (MEF, 2021b; MEF, 2022).

To manage these risks, the government has tapped international markets to increase the average maturity of overall debt, as well as implementing exchange rate (euro–US dollar) hedging[16] to increase the predictability of debt (MEF, 2022). The government feels that

[16] Foreign exchange hedging operations consist of swapping part of the debt service denominated in US dollar into euros via financial derivative instruments. This is motivated by decreasing foreign exchange exposure to the US dollar (and preference to the euro owing to the pegged nature of the exchange rate of the CFA franc to the euro). Hedging operations are targeted to Eurobonds and bilateral loans (MEF, 2022).

these risk management efforts have enabled Côte d'Ivoire to be at 'moderate risk' of debt distress based on the IMF's classification and to be one of the best-rated countries by leading CRAs (ibid.).

The IMF (2022c) has assessed debt distress risks as limited, but Côte d'Ivoire may have limited capacity to absorb new shocks. This is because of the country's relatively high debt-to-revenue ratio (estimated to peak at 57.5% in 2024), and the susceptibility of debt dynamics to commodity price and financial market shocks (ibid.).

Table 13 Côte d'Ivoire: debt sustainability indicators and projections

	Medium debt-carrying capacity thresholds*	Baseline scenarios			
		2022	2023	2024	2025
PV of external debt as % of exports	180	126.0	127.1	121.3	117.4
PV of external debt as % of GDP	40	28.3	27.4	26.4	25.5
PV of external debt service as % of exports	15	10.1	11.4	12.5	12.5
PV of external debt service as % of revenues	18	16.0	16.7	17.9	17.8
PV of public debt as % of GDP	55	54.4	53.8	52.8	52.0
Debt service as % of grants and revenues		43.2	51.7	57.5	57.5

Note: Indicators in red indicate threshold breach; indicators in green indicate below-threshold projections.
Source: IMF (2022c).

Nevertheless, the IMF expects public debt to remain generally stable over the 2032 projected horizon. Major CRAs have also affirmed a stable outlook for Côte d'Ivoire's credit rating (Table 14). Common public debt vulnerabilities identified may stem from government and financial market liquidity risks, higher borrowing costs (e.g., from policy rate hike pressures to contain inflation in international and regional markets) and political and social tensions.

Table 14 Côte d'Ivoire: risks to public debt sustainability

Debt risks/ sustainability assessment	Categorical assessment	Key risks identified	Key remarks/ recommendations
Government (MEF, April 2021; MPBE, March 2022)	Acknowledged IMF's DSA of moderate risk of debt distress	• Refinancing risks from concentration of the domestic debt that needs refinancing until 2023, and large repayments for medium-term debts • Vulnerabilities from exchange rate exposure of more than 20% of total debt	• The government prioritises concessional loans, recourse to local currency funding via regional markets and borrowing from international markets (especially in euros) with favourable conditions. This financing strategy involves domestic and external liability management, and foreign exchange hedges
IMF (July 2022)	Moderate risk of debt distress	• Debt distress risks remain moderate, but external debt service-to-revenue ratio (projected at 16% in 2022) is close to its thresholds (at 18%) • Debt dynamics are most vulnerable to commodity price shocks (given the country's commodity-driven exports)	• Sustainable debt trajectory is anchored on disciplined fiscal policy, effective revenue mobilisation and active liability management • The susceptibility of debt dynamics to commodity price shocks highlights the need to build resilience through greater competitiveness and diversification
Fitch (April 2022)	BB- stable outlook (affirmed last rating of BB- stable outlook)	• Stable outlook is anchored on fiscal prudence (e.g., no expected large additional subsidies) and reforms (e.g., rising tax collection), strong growth path and limited political risk • Debt might be exposed to interest rate risks, in view of rising inflation and increasing interest rates in international markets/EU	• Rating could be upgraded if GDP per capita improves on the back of private sector growth, greater political stability, continued fiscal prudence and progress to reduce budget deficit over the medium term

Debt risks/ sustainability assessment	Categorical assessment	Key risks identified	Key remarks/ recommendations
Moody's (June 2022)	Ba3 positive outlook (affirmed last Ba3 rating, changed from stable to positive outlook)	• Positive outlook reflects improvement in the country's economic growth, diversification and competitiveness; good governance track record in past National Development Plan implementation and macro-financial stability (via WAEMU efforts) • Some vulnerabilities from weak (but improving) institutions, susceptibility to government and banking sector liquidity risks and continued (but declining) political tensions	• Ratings could be upgraded if fiscal and debt metrics improved faster than expected (indicating improvement in shock absorption capacity); and if there were durable reduction in political risk without substantial fiscal costs
Standard & Poor's (May 2022)	BB- stable outlook (affirmed last rating of BB-/B stable outlook)	• Stable outlook with a balance of strong economic growth with risks around budgetary slippage and socio-political tension (based on publicly available press release on July 2021)	• Ratings could be upgraded if budgetary position improves more than expected, and external debt declines more than anticipated

Sources: MEF (2021b), Fitch (2022b), IMF (2022c), Moody's (2022b), MPBE (2022).

3.2.4 Government debt management strategy

The government annually updates its MTDS. The MTDS 2019–2023, updated in April 2021, aims to (i) meet public financing needs and payment obligations at the lowest possible cost; (ii) ensure risk to the public debt portfolio are within acceptable limits; and (iii) contribute to the development of the domestic market (MEF, 2021b). To help achieve this, the government utilises several public debt instruments, with priority being given to concessional sources, to instruments with longer maturities and to loans denominated in euros (owing to fixed parity with the CFA franc) (MBPE, 2022).

Between 2014 and 2021, Côte d'Ivoire successfully conducted seven Eurobond issuances, which helped lengthen the maturity of its overall public debt. The MTDS 2019–2023 initially aimed for a 60–40% split between external and domestic borrowing, respectively. However, in 2020, the share of the external debt was lower (51%) while the share of domestic debt was higher (49%) than the MTDS target (Table 14). This is mainly because of the necessary Covid-19 financing, mobilised through public security issuances in local and regional markets (ibid.). In addition, global financial conditions started to tighten in 2021, leading the Ivorian government to postpone its Eurobond issuance plan in the second half of 2021; it instead tapped financing from the IMF's SDR allocation (Mieu and de Bassompierre, 2021).

Recently, new fiscal pressures have emerged as a result of measures to curb the impact of the Russia–Ukraine war on Côte d'Ivoire, including a price cap on pump fuel and essential goods, export restrictions and a tax exemption on wheat, all amounting to 1% of GDP (Rajbhandari and Ibukun, 2022). In addition, further tightening of global financial conditions in 2022 has motivated the government to tap the WAEMU regional market with its five-year debt securities at a 5.2% interest rate (ibid.). This rate is relatively higher than the 3.6% average interest rate on external debt as of 2021 (see Table 10) and may further add to existing medium-term debt service pressures identified by the government in 2021 (see Table 14).

3.3 Ethiopia

3.3.1 Recent economic performance

The Ethiopian economy registered annual average GDP growth of 9.1% over the decade prior to FY2019/22, driven by economic transformation (e.g., the total value added of industry increased from 9.7% to 23.1% while the agriculture sector declined from 41.2% to 35% between 2011 and 2020). This was influenced by the manufacturing-led growth strategy of the government (see Raga, 2022). This high economic growth has significantly reduced poverty and improved human development indicators. However, the debt-financed public investment that drove growth has led to a rapid pile-up of domestic and foreign debt, acute shortages of foreign exchange and persistent double-digit inflation in 2011–2022 (IMF, 2020e).

To tackle these structural problems, the Ethiopian government started its Homegrown Economic Reform (HGER) programme in 2018, to run for three years, covering macroeconomic and financial sector reforms, structural and sectoral reforms (IMF, 2020e; MoF, 2020). The government has also developed a 10-year long-term economic development plan, aiming for Ethiopia to be classified as a middle-income country (MIC) by 2030.

In 2020, the Covid-19 pandemic negatively affected Ethiopia's economic activities. To minimise its impact, the government responded with fiscal measures, such as the Covid-19 Multi-Sectoral Preparedness and Response Plan, support to firms and employment, and tax relief. Between January 2020 and September 2021, fiscal and liquidity measures for Covid-19 reached 3.1% of GDP (IMF, 2021a). Covid-19 policies were supported by external financing, such as the IMF's financing facilities. Despite these measures, the pandemic slowed Ethiopia's growth to 6.1% and 6.3% in 2020 and 2021, respectively – though this was relatively better than the average growth performance in SSA, at -1.7% (Table 15; IMF, 2022b).

In 2022, the IMF estimates that Ethiopia's economic growth will slow to 3.8%. This is mainly because of the protracted conflict in the northern part of the country, which started in November 2020, drought, the lingering effects of the pandemic and the spillover effects of the Russia–Ukraine war (IMF, 2022g). The current account deficit is expected to widen as the recent increase in FDI and gains in coffee exports may be offset by the negative impact on exports of the removal of Ethiopia's access to the US African Growth and Opportunity Act (AGOA) for 2022 (AGOA, 2021), as well as higher import bills as a result of Russia–Ukraine war-induced hikes in global prices of food, energy and fertilisers. The government budget deficit is expected to widen between 2022 and 2025 because of lower revenues and higher expenditures (Table 15). Although gross government debt as a share of GDP is expected to decline to 48.3% and 42.7% in 2022 and 2023, respectively, from 53% in 2021, the country is currently experiencing high risk of debt distress and asking for debt treatment under the G20 Common Framework.

Table 15 Ethiopia: selected macroeconomic indicators and forecast

	2011–2019 (ave)	2019	2020 e	2021 e	2022 f	2023 f	2024 f	2025 f
Real GDP (% growth)								
IMF World Economic Outlook, April 2022			6.1	6.3	3.8	5.7	6.4	6.8
World Bank Global Economic Prospects, June 2022	9.5	9.0	6.1	6.3	3.3	5.2	5.9	
Ethiopian government			6.1	6.3	6.5			
Average consumer prices (% growth)	14.4	15.8	20.4	26.8	34.5	30.5	19.0	12.4
Government revenue (% of GDP)	14.9	12.8	11.7	11.0	10.5	11.7	12.2	12.7
Government expenditure (% of GDP)	17.2	15.4	14.5	13.8	14.5	15.0	15.0	15.2
Gross fiscal balance (% of GDP)	-2.3	-2.5	-2.8	-2.8	-4.0	-3.3	-2.8	-2.5
Primary fiscal balance (% of GDP)	-1.8	-2.0	-2.4	-2.2	-2.9	-2.2	-1.3	-1.2
Gross government debt (% of GDP)	49.2	54.7	53.7	53.0	48.3	42.7	37.7	35.5
Current account balance (% of GDP)	-7.1	-5.3	-4.6	-3.2	-4.5	-4.4	-4.0	-3.7

Notes: e = estimate; f = forecast. 2019 refers to the fiscal year 2018/2019, and so on.
Sources: IMF (2022b); World Bank (2022); NBE(2022). Data for 2011–2019 (average) and 2019 are actual data based on IMF (2022b); except for real GDP, data for all indicators are based on IMF (2022b).

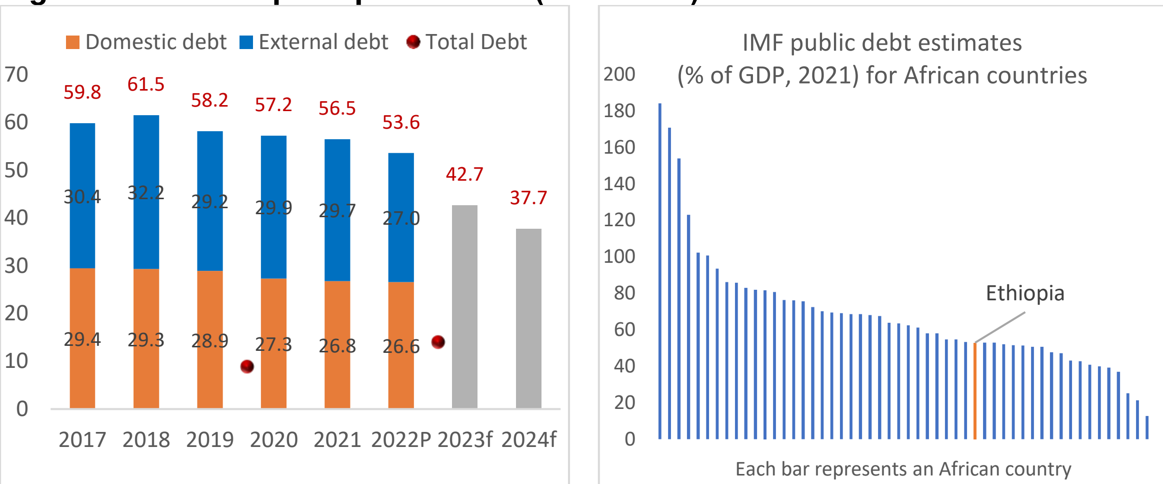
3.3.2 Public debt landscape

Total stock of public debt[17]

Ethiopia's substantial public infrastructure investment in the past two decades has built up domestic and external debt. Foreign borrowing has tripled, from $7.3 billion in 2010 to more than $29.5 billion in 2021 (MoF, 2022a). In 2022, Ethiopia's total debt stock stood at $56.5 billion (53% of GDP); it is divided almost equally between domestic and foreign debt (Figure 5). Provisional debt data for FY2021/22[18] indicate that external debt has declined by approximately $1 billion while domestic debt has increased by $1.4 billion. The increase in domestic debt owes partly to a bigger supplementary military budget because of the conflict in the northern part of the country, which is likely being financed through domestic borrowing through the sale of treasury bills.[19] Despite the expected fall in the share of overall public debt in GDP over 2025 (Table 15), the Ethiopian government is currently at high risk of debt distress. This is indicated by high levels of debt relative to exports (Table 19). The country has been negotiating for debt treatment under the G20 Common Framework.

[17] Ethiopia's total public debt includes public and public guaranteed debt (MoF, 2022a).
[18] The Ethiopia fiscal year runs from July to end of June. This figure is reported provisionally on April 2022
[19] https://addisfortune.news/supplementary-budget-raises-worries-over-deficit-financing/

Figure 5 Ethiopia's public debt (% of GDP)



Notes: p = provisional; f = forecast.
Sources: Data on public debt for 2017–2022 are based on MoF Ethiopia (2022a, 2022b), while forecasts of public debt for 2023–2024 are from IMF (2022b). Public debt estimates for African countries are based on IMF (2022b).

Table 16 provides Ethiopia's public debt cost and maturity profile. The average interest rate for Ethiopia's total public debt is 3.8%, and the average time to maturity is 9.6 years. External debt has cheaper interest rates and longer maturities than domestic debt. For example, in 2021, the weighted average interest rates for domestic and external debt were 6.2% and 1.6%, respectively, while the average maturity time for external debt was double that of domestic debt. However, compared with domestic debt, external debt has a higher proportion of debt that needs to be refixed in the short term. These features of domestic and external debt expose Ethiopia's public debt to refinancing and interest rate risks (more details in Section 3.3.3).

Table 16 Ethiopia: cost and maturity profile of public debt

	Domestic debt			External debt			Total debt		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Public debt (US$ billions)	26.7	26.2	26.1	27	28.9	29.5	53.7	55.1	55.6
Weighted average interest rate (%)	5.5		6.2	2.6	1.6	1.6	4.0	8.3	3.8
Average time to maturity (years)	8.1	7.4	6.5	11.9	11.8	12.4	10.0	4.2	9.6
Debt maturing in 1 year (% of total)	18.5	8.1	17.5	5.8	5.5	4.0	24.2	10.9	10.3
Average time to refixing (years)	8.1	7.36	6.5	9.7	9.6	9.9	8.9	5.6	9.0
Debt refixing in 1 year (% of total)	18.5	8.2	17.5	37.0	31.5	29	27.7	5.5	20
Debt at variable interest rates			10.6			25.8			18.7

Notes: 2019 refers to the fiscal year 2018/2019, and so on.
Source: MoF (2022a, 2022b).

External debt

Table 17 shows Ethiopia's external debt composition by currency, creditors and interest structure. As of 2022, nearly half of total external debt is denominated in US dollars; next is a 42.4% share of external debt in SDRs. By creditor, 52.2% of Ethiopia's foreign debt is from multilateral institutions ($14.9 billion), followed by a 28.3% share owed to bilateral partners ($8.1 billion). Of the total debt from multilaterals, 75% is from the World Bank's International Development Association (IDA). Next is the Arab Bank for Economic Development in Africa (14.2%). More than 88% of the $8 billion in bilateral debt is owed to non-Paris Club members (75% is from China); the share of debt to creditors of the Paris Club is $0.9 billion.

As of 2022, 74.3% of Ethiopia's external debt had a fixed interest rate, 24% had a variable interest rate and only 1.7% is interest-free. Nearly 100% of the central government's external debt has a fixed interest rate, but the majority of the debt of Ethiopia Airlines and other state-owned enterprises (SOEs) has a variable interest rate, at either three months or six months LIBOR plus the margin (MoF, 2022a). Recent policy rate hikes by the European Central Bank and the US Federal Reserve have increased the interest rate risks on a quarter of external debt with a variable rate.

Table 17 Ethiopia: composition of external debt (% of total external debt)

By currency	2020	2021	2022 p
US dollar	54.1	50.9	49.1
SDR	38.7	41.4	42.4
Euro	3.9	4.1	4.9
Chinese yuan	1.7	1.8	1.8
UK pound	0.3	0.3	0.3
Japan yen	0.4	0.3	0.4

By creditor	2020	2021	2022 p
Multilateral	47.7	50.8	52.2
Bilateral	29.8	28.7	28.3
Commercial banks	13.1	12.2	11.5
Eurobond	3.5	3.4	3.5
Others	5.9	4.9	4.5

By interest structure	2020	2021	2022 p
Fixed interest	68.6	72.6	74.3
Variable interest	29.8	25.9	24.0

Note: p = provisional. 2020 refers to the fiscal Year 2019/2020, and so on.
Source: MoF (2022a, 2022b).

Domestic debt

Ethiopia's domestic debt is shaped by borrowing of the central government (58.4% share as of 2022) and SOEs (41.6%), such as Ethiopian Electric Power, Ethiopian Electric Utility, the Sugar Corporation, Ethiopian Railways Corporation and Ethiopian Shipping and Logistics Services Enterprises, and non-government guaranteed borrowing by Ethiopian Airlines and Ethio telecom.

Table 18 shows the composition of total domestic debt by instrument and creditor. The main instruments used for domestic borrowing by the central government of Ethiopia are treasury bills, government bonds, direct advances[20] and the newly introduced treasury notes.[21] Treasury bills are usually short-term instruments sold in a weekly auction twice a month with maturities of 28, 98, 182 and 364 days. On the other hand, government bonds are a long-term debt instruments with 10 or more years of maturity. SOEs have long played a significant role in Ethiopia's debt composition. The main instruments they use are bonds and loans. Of the total domestic debt, 28.2% comprises SOE corporate loans, followed by treasury bills, government bonds and notes; 10.5% of the debt is direct advances.

[20] A direct advance is a government overdraft from the central bank.
[21] Three-year treasury notes have been introduced recently to facilitate the conversion of existing treasury bills to market-determined treasury bills (MoF, 2022a).

Table 18 Ethiopia: composition of domestic debt (% of total domestic debt)

By instrument	2020	2021	2022p
Central government	47.1	51.1	58.4
Government bonds	*24.8*	*21.1*	*17.4*
Treasury notes	*16.3*	*12.6*	*10.3*
Treasury bills	*2.6*	*10.3*	*20.2*
Direct advances	*3.4*	*7.1*	*10.5*
SOEs	52.9	48.9	41.6
SOE bonds	*39.6*	*12.5*	*13.4*
SOE loans	*13.4*	*36.5*	*28.2*

By creditor	2020	2021	2022p
Central government	47.1	51.1	58.4
NBE	*25.1*	*24.0*	*24.3*
CBE	*2.9*	*5.9*	*9.9*
DBE	*3.6*	*4.6*	*3.8*
Other banks	*0.6*	*1.1*	*4.9*
POSSA and PSSSA	*14.6*	*15.4*	*15.4*
Others	*0.4*	*0.1*	*0.1*
SOEs	52.9	48.9	41.6
DBE long-term loans	*0.2*	*0.1*	*0.0*
CBE corporate bonds	*39.6*	*12.5*	*13.4*
CBE long-term loans	*13.2*	*2.4*	*2.4*
Transferred to LAMAC	*0.0*	*33.9*	*25.8*

Note: p = provisional; NBE = National Bank of Ethiopia; CBE = Commercial Bank of Ethiopia; DBE = Development Bank of Ethiopia; POSSA = Private Organisations' Social Security Agency; PSSSA = Public Servants Social Security Agency; LAMC = Liability Asset Management Corporation.
Source: MoF (2022b).

The main creditors of the central government's domestic debt are the NBE, followed by the PSSSA and the POSSA. The two social security agencies primarily own short-term treasury bills and the newly introduced treasury notes. On the other hand, the main creditors of the SOE debt are the LAMC and the CBE.

3.3.3 Public debt risk and outlook

The MoF (2022a) has identified the following risks to its current public debt portfolio, most of which are related to the short-maturity profile and expensive cost of SOE debts, as well as the dependency on external borrowing currency debt:

- **Costs of public debt:** The levels of domestic and external debt are on a par with each other, despite the former being significantly more expensive (6.2% interest rate) than external debt (1.6%). There is also a need to closely monitor SOE borrowing. Compared with central government borrowing, SOE debt has a higher interest rate (1.3% vs 4% for SOEs) and has a higher proportion of debt at variable interest rates.

- **Refinancing risk:** Public debt principal repayments are expected to peak in FY2022/23. Domestic debt principal payments account for 75% of total public debt principal payments due in FY2021/22 and 2022/23. This is because of higher shares of domestic debt with shorter maturities (e.g., in terms of average years of maturity, and proportion of debt maturing within one year), largely in the form of treasury bills and notes, exposing this debt component to higher refinancing risks. In contrast, external debt is assessed to have low refinancing risks, mainly because of its large component of concessional loans with long maturities.

- **Interest rate risk:** Interest rate risks are especially prevalent with regard to external debt, driven by the composition of SOEs' external debt. Compared with central government's external debt, SOEs' external borrowing has a higher component of external debt at variable interest rates (0.5% vs 75%), shorter years to refixing of interest rates (14.6 years vs 1.4 years for SOEs) and, consequently, a higher proportion that needs refixing within one year (0.2% vs 75% for SOEs) as of June 2021. Vulnerability to interest rate risks of domestic debt is limited to the proportion of debt that needs refixing within one year, mainly for short maturities of treasury bills (see Table 16).

- **Foreign exchange risk:** More than half of Ethiopia's public debt comes from external borrowing (see Table 16). In the context of Ethiopia's floating exchange rate regime, a significant depreciation of the Ethiopian birr to foreign currency will increase the debt service burden and budgetary expenses, but this risk is expected to be mitigated through available foreign reserves.

Table 19 summarises Ethiopia's debt sustainability indicators from 2021 to 2025. External debt and external debt service ratios have surpassed suggested thresholds, going beyond the country's debt-carrying capacity, based on the IMF's DSF for LICs. External debt is expected to remain under pressure in 2023. Meanwhile, the PV of total public debt as a share of GDP in 2021 was 43%, below DSF thresholds (55%); it is expected to decline over 2025. Although the government has assessed that Ethiopia's public debt remains sustainable over the medium term (MoF, 2022a, 2022b), backed up by the suspended payment of external debt servicing ($116 million) under the G20 DSSI, it has applied debt treatment under the G20 Common Framework (IMF, 2022g).

Table 19 Ethiopia: debt sustainability indicators and projection

	Medium debt-carrying capacity thresholds*	2021	Baseline scenarios			
			2022	2023	2024	2025
PV of external debt as % of exports	180	241.7	202.7	189.3	173.1	150.3
PV of external debt as % of GDP	40	18.93	21.8	20.7	18.6	16.8
PV of external debt service as % of exports	15	22	14.6	13	13.5	20.7
PV of external debt service as % of revenues	18	12.4	11	9.8	9.9	15.7
PV of public debt as % of GDP	55	43	42.7	38.9	35.5	32.4

Notes: See Table 1 for a summary of debt-carrying capacity classifications and thresholds and IMF (2018) for a detailed methodology and discussions. Indicators in red indicate threshold breach; indicators in green indicate below-threshold projections.
Source: MoF (2022a, 2022b); IMF (2020e). The 2021 figure (threshold) is based on IMF Article IV projections, as cited in MoF (2022a).

Meanwhile, Table 20 summarises the risk assessment of Ethiopia's debt by the IMF and international CRAs. Moody's and Fitch downgraded Ethiopia's credit rating in their latest assessments, following the government's announcement that it was seeking debt treatment under the G20 Common Framework and the heightened social tension and conflict in the northern part of the country. CRAs may upgrade their rating if there is clarity on the G20 Common framework, an increase in exports and external finance, and evidence of improved political stability and credible peace development.

Table 20 Ethiopia: risks to public debt sustainability

Debt risks/ sustainability assessment	Categorical assessment	Key risks identified	Key remarks/ recommendations
MoF Ethiopia (March 2021)	Medium risk of debt distress	• Refinancing risk, interest rate risk and exchange rate risk	• To mitigate risks to public debt, the government has applied for debt treatment under the G20 Common Framework; it will limit non-concessional borrowing by SOEs and boost export performance to generate foreign currencies to pay the principal and debt servicing of the external debt
IMF (May 2020)	High risk of debt distress	• A need for a comprehensive solution that addresses debt sustainability and challenges associated with borrowing by SOEs	• Further tightening the spending envelope for SOEs
Fitch (January 2022)	CCC (maintained)	• Government's announcement on applying for debt treatment under the G20 Common Framework • Emergence of external financing gaps and downward pressure on already low foreign exchange reserves	• Ratings can be upgraded if there is clarity that the G20 Common Framework will not lead to a default event, if acceleration in exports lead to stronger external finances and higher foreign-currency reserves
Moody's (October 2021)	Caa2 (downgraded from last rating of Caa1, negative outlook)	• Protracted delays and lack of resolution for Ethiopia's application to the G20 Common Framework • Continued heightened social tensions and conflict	• Ratings can be upgraded if the Common Framework to be concluded will have no or very limited losses for private sector creditors and there is evidence that political stability and peace are durably restored across the country
Standard & Poor's (March 2022)	CCC/C (maintained from last rating of CCC/C, outlook negative)	• Reescalation of political tensions and reduced multilateral and bilateral financial support	• Ratings can be upgraded if there is political stabilisation; Ethiopia's commercial obligations will not be included in the upcoming debt restructuring agreement

Sources: Moody's (2021b), Fitch (2022d), Standard & Poor's (2022b), MoF (2022a, 2022b), IMF (2020e).

3.3.4 Government debt management strategy

The Ethiopia Financial Administration Proclamation, amended in 2016, gives the Ministry of Finance (MoF) the legal mandate to develop the country's debt management strategies, conduct cost and risk analysis, compile and disseminate annual public debt statistics and prepare an annual DSA every fiscal year. The Medium-Term Debt Management Strategy (MDMS) 2016–2020 was designed by the MoF in collaboration with the IMF and World Bank but the pandemic interrupted preparation of the MDMS for 2021–2025. In both MDMS periods, the strategy aims to raise resources at minimum cost and with a prudent level of risk for federal government budgetary requirements and to promote the development of domestic debt markets. In this regard, the government has been executing the following policies.

- As part of the HGER, the government aims to reform fiscal policy to address the debt vulnerabilities, specifically through reducing the large debt vulnerability of borrowing SOEs and controlling new debts. It especially aims to reduce SOEs' net borrowing requirements to 2.5% of GDP throughout the programme, privatise and open the competition for selected sectors (e.g., telecoms, sugar) and strengthen the governance and management of key SOEs.

- It is planned to increase exports to earn foreign reserves as this will help the government pay off its external debt and debt servicing.
- The government aims to re-profile debts to extend the grace period and maturity of some loans.
- The public–private partnership (PPP) framework will be prioritised to fund infrastructure development.

3.4 Morocco

3.4.1 Recent economic performance

Morocco's economy contracted severely, by 6.3%, in 2020 at the peak of the Covid-19 pandemic and disruptions, losing nearly 9 pp of GDP growth between 2019 and 2020 (Table 21). In response, the government deployed fiscal and liquidity support measures worth 6.3% of GDP over 2020–2021.[22] The increase in government expenditure doubled the fiscal deficit in 2020, which reached 7.6% of GDP (Table 21). The fiscal deficit was partially filled by IMF financing and two Eurobond issuances in 2020 (AfDB, 2022).

By 2021, Morocco registered stronger-than-expected 7.3% GDP growth, driven by an exceptional agricultural harvest, a rebound in exports and persistent remittances. The growth was also supported by a continued accommodative fiscal and monetary policy stance and a successful Covid-19 vaccination campaign (IMF, 2022e).

Table 21 Morocco: selected macroeconomic indicators and forecast

	2011–2019 (ave)	2019	2020	2021 e	2022 f	2023 f	2024 f	2025 f
Real GDP (% growth)								
IMF World Economic Outlook, April 2022	3.5	2.6	-6.3	7.2	1.1	4.6	3.0	3.0
World Bank Global Economic Prospects, June 2022				7.4	1.1	4.3	3.6	
Government views (BAM, MEF Morocco), March 2022				7.3	0.7	4.6		
Average consumer prices (% growth)	1.0	0.2	0.6	1.4	4.4	2.3	1.9	2.0
Government revenue (% of GDP)	26.8	25.6	28.6	26.3	27.7	27.3	27.8	28.1
Government expenditure (% of GDP)	31.8	29.4	36.1	32.7	33.9	33.5	33.1	32.5
Gross fiscal balance (% of GDP)	-5.0	-3.8	-7.6	-6.5	-6.3	-6.2	-5.3	-4.4
Primary fiscal balance (% of GDP)	-2.4	-1.5	-4.9	-4.2	-3.9	-3.9	-3.0	-2.2
Gross government debt (% of GDP) *		60.2	72.2	68.9	77.1	77.5	78.0	77.8
Current account balance (% of GDP)	-5.5	-3.7	-1.5	-2.9	-6.0	-4.0	-4.5	-3.8

Notes: e = estimate; f = forecast: * There are discrepancies between IMF (2022b) and the latest data release by the government as of June 2022 (MEF, 2022a). For this indicator, we adopted the government data up to 2021 and the IMF forecast from 2022 onwards.
Sources: BAM (2022a); IMF (2022b); MEF (2022b); World Bank (2022c). Except for real GDP, data for all indicators are based on IMF (2022b).

The Moroccan economy faces domestic and external challenges in 2022. Unfavourable climatic conditions and the negative spillover effects of the Russia–Ukraine war are to offset recovery in the travel

[22] Author's computations based on data from IMF (2021a).

and transport sectors, slowing GDP growth to a range between 0.7% and 2.5% (BAM, 2022a; MEF, 2022b). A poor harvest, global energy and food price hikes and imported inflation are estimated to accelerate domestic inflation to 4.7% in 2022 (compared with 1.4% in 2021) (BAM, 2022a).

As of April 2022, inflation is already at 4.5% – the highest level in 28 years (MEF, 2022b). The fiscal deficit and debt pressures will remain elevated, given the likely sharp rise in public expenditure for subsidy costs. The current account deficit will likely widen significantly compared with last year, given higher import bills (e.g., for energy, wheat, consumer goods) and slower growth in exports and remittances in 2022. Official reserve assets are estimated to be able to cover more than six months of imports for 2022 and 2023.

With the assumption that the agricultural shock will dissipate by 2023, the central bank forecasts economic growth recovery at 4.3%, aligned with the forecast by international institutions (Table 21).

3.4.2 Public debt landscape

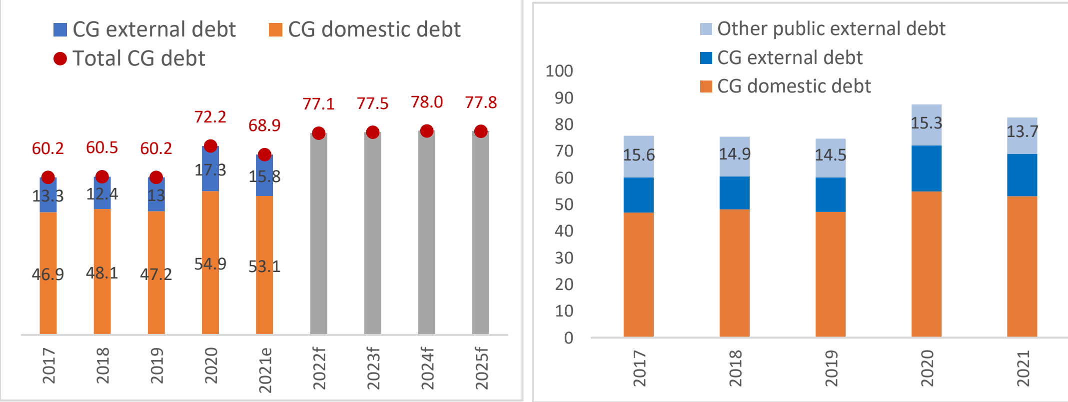
Total stock of public debt[23]

The pandemic doubled Morocco's fiscal deficit (as a share of GDP) as the government significantly increased its spending to mitigate its impact in 2020 (Table 21). While good tax collections and exceptional financing mechanisms[24] built up revenues in 2021, public expenditure was marked up by higher subsidies, wage bills and investment (BAM, 2022b). In this context, Morocco's public debt jumped by 12 pp to 72.2% of GDP in 2020, and slightly improved to 68.9% of GDP in 2021 (Figure 6). Official data and IMF forecasts refer to public debt as borrowing only by the central government.

Comprehensive public debt data beyond the central government are being developed, and official public external debt data have recently been published. Figure 6 (right panel) shows that external debt by other public institutions outside the central government will add about 15% of GDP to the total central government debt. Given issues related to data availability, and for comparability between domestic and external debt, we focus on debt incurred by the Treasury (unless otherwise stated).

[23] For this analysis, Morocco's public debt refers to central government data (specifically from the Treasury), as presented in official annual debt reports by the Department of Treasury and External Finance (DTFE). However, it may be noted that the government has also started publishing overall public external debt (e.g., including external debt by SOEs, other public institutions).
[24] Mainly concerning the sale of non-financial assets by the state, combined with leasing contracts for the assets sold (BAM, 2022b)

Figure 6 Morocco's public debt (% of GDP)



Note: CG = central government (or by the Treasury).
Sources: Authors based on data from MEF (2022d) for 2017–2021 and IMF (2022b) for the 2022–2025 forecast.

Domestic borrowing dominated Morocco's pre-Covid public debt portfolio, comprising 78% of the total debt portfolio, reaching 47% of GDP in 2019. Domestic debt increased further by almost 8 pp to 55% of GDP in 2020 – nearly twice the increase (by 4 pp of GDP) in external debt (Figure 6). Domestic debt has been relatively more expensive and has shorter maturities than external funding. However, the cost of Morocco's public borrowing from both domestic and external sources has been declining in recent years (Table 20). In addition, the interest rate gap between external and domestic government borrowing has been closing, going from a differential of 190 basis points in 2019 to 127 basis points in 2021.

Table 22 Morocco: cost and maturity profile of the public debt*

	Domestic debt			External debt			Total debt		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Public debt (US$ billions)	61.1	71.1	73.4	16.8	22.4	22.0	77.9	93.5	95.4
Average interest rate (%)	4.2	3.9	3.7	2.6	2.5	2.4	3.9	3.6	
Average time to maturity (years)	6.6	6.6	6.4	8.1	9.8		6.9	7.4	
Short-term debt (% of total)	13.7	13.5		11.7	5.1		13.2	11.5	
Debt for refixing in 1 year (% of total)							21.0	18.5	
Debt in foreign currency (% of total)							21.9	24.6	

Notes: * Public debt here refers to central government debt (excluding debt by other public institutions, SOEs and public guarantees).
Sources: Authors based mainly on updated data from MEF (2022a) as of June 2022, and supplemented by latest data from DTEF (2022a, 2021a); BAM, 2022b

External debt

External debt by Morocco's central government increased by 4.9 percentage point to 18% of GDP in 2020 (Figure 6), as part of government fund mobilisation to finance its Covid19-related expenditures. Table 21 shows that by currency, Euro and US dollars have dominated the country's external debt portfolio, with 63% and 32% share as of 2021. This is aligned with the government aim to structure its external debt closer to the currency basket to which Dinar is being traded (i.e., weight of 60% Euro and 40% US dollar) to reduce foreign exchange rate risk (DTFE, 2022a; Reuters, 2020; more on section 3.4.4).

By creditor, more than half (52%) of total external debt were owed to multilateral creditors, followed by 36% share of external debt owed via debt issuance in the international financial market. Bilateral lending comprises 13% of Morocco's external borrowing, of which 8% are owed to EU countries.

Table 23 Morocco: Composition of external debt (% of total external debt) *

By currency	2019	2020	2021
Euro	66.7	60.6	63.1
US dollar	26.4	33.5	31.9
Japanese yen	2.5	1.9	1.6
Others	4.4	4	3.4

By creditor	2019	2020	2021
Bilateral	13.3	11.6	13.0
EU countries	*6.5*	*6.9*	*8.0*
Arab countries	*3.6*	*2.5*	*2.1*
Multilateral	55.7	51.7	52.0
Bondholders	31.0	36.7	35.0

By interest structure	2019	2020	2021
Variable IR	35.7	31.3	27.8
Fixed IR	64.3	68.7	72.2

Note: *refers to external borrowing by the only the central government.
Source: Author based on data from MEF (2022d).

It should be noted that the granular decomposition of external debt presented above refers to borrowing only by the central government. Comprehensive public external debt data as of 2021 indicate 54% and 45% shares of borrowing by central government and SOEs, respectively, in Morocco's total public external debt (MEF, 2022e).

Domestic debt

Morocco's central government has been reliant on domestic sources for its public borrowing. As of 2021, domestic debt makes up 77% of the country's total domestic debt portfolio. There is limited information on the decomposition of Morocco's domestic debt. By instrument, around 95% of total domestic debt between 2019 and 2021 comprised auctioned Treasury bonds (BAM, 2022b). The average interest rate for domestic debt has been declining gradually since 2010 but registered a relatively higher reduction, by 50 basis points, between 2019 and 2021, reflecting the accommodative stance of Bank Al-Maghrib (BAM) and the slight improvement in maturity of domestic debt during the pandemic (Table 24; DTFE, 2022).

Table 24 Morocco: composition of domestic debt (% of total domestic debt)

By instrument	2019	2020	2021
Treasury bonds	95.1	94.9	94.9
Other instruments	4.9	5.1	5.1

By creditor	2019	2020
Mutual funds	33	36
Banks	28	30
Insurance companies, pension funds	22	20
Others	17	14

By tenor*	2019	2020
Short-term	13.7	13.5
Medium- and long-term	86.3	86.5

Sources: Authors based on data from BAM (2022b) for domestic debt instruments; MEF (2022f) for domestic debt creditors; and DTEF (2022) for tenor of domestic debt.

3.4.3 Public debt risk and outlook

The relatively accommodative environment during the pandemic in 2020–2021, combined with government efforts in mobilising domestic and external financing with favourable terms and longer maturities, helped reduced the costs and risks of Morocco's public debt (see Table 25). However, ongoing challenges related to Russia–Ukraine war-induced commodity hikes and draught will likely lead to higher import bills and subsidies (e.g., for liquified petroleum gas, flour), since Morocco imports 90% of its energy needs and sources 20% of its cereal imports from Russia and Ukraine (Fitch, 2022c). The global financial tightening (e.g., recent policy hikes by the US, EU and UK) may also put pressure on domestic interest rates,[25] with implications for debt servicing capacity and refinancing costs.

Despite the new challenges, the latest assessments by the IMF and CRAs highlight Morocco's favourable debt composition, which will limit its potential debt vulnerabilities. These include the moderate share of foreign currency debt in the debt portfolio, strong official creditor support, a large and long-term domestic investor base and comfortable levels of external liquidity (Table 25). Current domestic and external conditions may increase spending pressures for subsidies but Morocco's economic resilience and the government's demonstrated crisis management during the pandemic has increased confidence in its ability to implement its planned fiscal consolidation, leading to public debt reduction (Moody's, 2022d). These fiscal reforms need to be expedited, in view of the public debt's (i.e., in terms of indicators of public debt level, fiscal financing needs and public debt profile) sensitivity to various shock scenarios (IMF, 2022f; see Table 25).

Table 25 Morocco: risks to public debt sustainability

Debt risks/ sustainability assessment	Categorical assessment	Key risks identified	Key remarks/ recommendations
Government views (as cited in IMF 2022f)		• The government recognises the need to reduce debt in the medium term and the need to find appropriate fiscal space to fund reforms	• To create fiscal space, the government may need to carefully sequence reforms, further efforts to implement fiscal reforms, rationalise fiscal spending and use leveraged financing and PPPs
IMF (February 2022)	Sustainable central government debt, but with increased vulnerability to shocks	• While debt-to-GDP has significantly increased recently, the debt profile (e.g., long maturity, low foreign currency-denominated debt, large base of long-term domestic investors) limits potential vulnerabilities. However, worse starting conditions after the pandemic increased public debt sensitivity to shocks in the near term (e.g., contingent liabilities from SOE guarantees, unfunded public pension schemes)	• Since debt levels exceed 70% of GDP under various shock scenarios, there is a need to accelerate fiscal consolidation to bring the debt-to GDP ratio closer to the empirical high-risk level of 70% of GDP over the medium term
Fitch (May 2022)	BB+ stable outlook (affirmed last rating of BB+ stable outlook)	• Public debt and fiscal deficit are higher than peers of comparable rating, but this is balanced with Morocco's strong credit fundamentals and economic performance (e.g., low inflation and output volatility) and favourable debt composition (e.g., less exposure to foreign currency debt, large domestic base, strong official creditor support). There will be spending pressures for health and social (subsidy) benefits, which may be supported by VAT	• Ratings can be upgraded if there is a material and sustained reduction in general government debt (underpinned by narrowing of fiscal deficit), narrowing of the current account deficit, economic reforms and diversification that can lead to

[25] BAM (2022a) predicts that inflation will accelerate to 4.2% in 2022 from 1.4% a year earlier. BAM has not increased its policy rate (at 1.5%) as of its latest Board meeting in March 2022.

Debt risks/ sustainability assessment	Categorical assessment	Key risks identified	Key remarks/ recommendations
		collections in the near term, and fiscal reforms with higher growth in the medium term	stronger medium-term growth prospects
Moody's (July 2022)	Ba1 stable outlook (affirmed last rating of Ba1, but changed from negative to stable outlook)	• Morocco's credit profile is constrained by a higher public level than the median Ba-rated countries, exposure to contingent liabilities, relatively low-income levels and a subdued growth trend. However, the government's demonstrated crisis management capacity during the pandemic underpins expectations that it will be able to implement its fiscal consolidation to stabilise the fiscal deficit and debt ratio. In addition, economic resilience and the foreign exchange build-up will provide buffers to maintain social stability in the face of price shocks from the Russia–Ukraine war	• Ratings can be upgraded if there is a sustained reduction in debt levels combined with improved trend growth in the non-agricultural sector that helps boost Morocco's income levels
Standard & Poor's (April 2021)	BB+/B outlook stable (lowered last rating of BBB-/A-3 stable outlook)	• Budgetary consolidation over 2021–2024 is likely to be slow; rising government debt; increase in state guarantees has spurred a significant rise in contingent liabilities	• Ratings may be upgraded if budgetary consolidation is markedly faster than expected, if ongoing transition toward a more flexible exchange rate bolsters Morocco's external competitiveness and if continuing economic diversification yields less volatile and higher rates of economic growth, significantly raising the economy's GDP per capita

Sources: Standard & Poor's (2021b); Fitch (2022c); IMF (2022f); Moody's (2022d).

Table 26 Morocco: public debt risk assessment

Sources/ indicators of public debt risks	Sensitivity of public debt risks indicators under shock scenarios				
Debt level*	Real GDP growth shock	Primary balance shock	Real interest rate shock	Exchange rate shock	Contingent liability shock
Gross financing needs**	Real GDP growth shock	Primary balance shock	Real interest rate shock	Exchange rate shock	Contingent liability shock
Debt profile***	Market perception	External financing requirements	Change in the share of short-term debt	Public debt held by non-residents	Foreign currency debt

Notes: * The cell is highlighted in green if the emerging market debt burden benchmark of 70% of GDP is not exceeded under the specific shock or baseline, yellow if exceeded under a specific shock but not the baseline, red if the benchmark is exceeded under the baseline and white if the stress test is not relevant; ** the cell is highlighted in green if the gross financing needs benchmark of 15% of GDP is not exceeded under the specific shock or baseline, yellow if it is exceeded under a specific shock but not the baseline, red if the benchmark is exceeded under the baseline and white if the stress test is not relevant; *** the cell is highlighted in green if the country value is less than the lower risk assessment benchmark, red if it exceeds the upper risk assessment benchmark and yellow if it is between the lower and upper risk assessment benchmarks. If data are unavailable or the indicator is not relevant, the cell is white. The lower and upper risk assessment benchmarks are 200 and 600 basis points for bond spreads; 5% and 15% of GDP for the external financing requirement; 0.5% and 1% for the change in the share of short-term debt; 15% and 45% for the public debt held by non-residents; and 20% and 60% for the share of foreign currency-denominated debt.
Source: IMF (2022f).

3.4.4 Government debt management strategy

Morocco's public debt management strategy has an overall objective of meeting the financing needs of the government while reducing the cost of borrowing, limiting the risks of the debt portfolio and contributing to the development of the domestic debt market (MEF, 2022d). Domestic debt management typically involves swaps, repurchases and early redemption operations of short-term debts. These efforts are aimed at reducing refinancing risks by avoiding concentration of debt repayments in certain months or years (see MEF, 2022f).

To help develop the domestic debt market, the government has taken measures to increase transparency (e.g., an electronic bidding system for bond auctions, periodic announcements of financing needs and publishing of data bulletins), predictability (e.g., established schedule of issuances by tenor) and coordination with the central bank to discuss topics or exchange data of common interest (MEF, 2022f).

The government has also taken steps to manage the sustainability of external debt. It actively aims to align the currency composition of external debt with the dinar currency basket, pegged with the euro and the US dollar with 60% and 40% weight, respectively (e.g., as of 2021, 63% and 32% of external debt are denominated in euros and US dollars, respectively). In addition, as part of the government agreement with Italy since 2013[26], 5.8 million Moroccan Dirham (about $603 million) of public debt owed to Italy in 2019 was converted into public investment (i.e., human development, archaeological projects) (DTFE, 2021).

During the peak of the Covid-19 disruptions in early 2020, the government rebalanced its external and domestic borrowing (which favoured the latter in earlier years). While domestic creditors temporarily recoiled from the market owing to uncertainty in the early stages of the pandemic, the government mobilised fast disbursements of external financing (e.g., from the World Bank and IMF) to help finance its pandemic response (MEF, 2022f). The government has issued bonds into the international market in euro (€1 billion in 2020 with 5.5- and 10-year maturities) and in US dollars ($3 billion in 2020 with 7-, 12- and 30-year maturities), with investors from different geographical regions (ibid.). These efforts are seen to have helped in increasing the diversity of external funding sources and establishing new benchmarks on Morocco's credit curve (ibid.).

Notably, except on the budgetary rule under the Finance Act stipulating that 'borrowing proceeds may not exceed the sum of investment expenditure and the debt principal repayment

[26] In October 2013, Morocco and Italy to convert 165 million Moroccan Dirham (about $19.6 million) into public investment (see MEF, 2013).

for the budget year', there is little information on the availability of a medium-term public debt strategy or framework with benchmarks or anchors that reconciles supporting economic activity with preserving public finances in the medium to long term (see BAM, 2022b).

3.5 Senegal

3.5.1 Recent economic performance

The Senegalese economy grew steadily at an annual average of 5% in the decade (2011–2019) prior the Covid-19 pandemic (Table 27). Nearly 60% of the country's GDP is driven by the services sector, with important contributions from the manufacturing sector as well (20%).[27] In the context of severe declines in Senegal's services sector (e.g., tourism, travel and transport) and rising unemployment at the peak of the pandemic in 2020, GDP growth slowed to 1.3% (IMF, 2021a). In response, the government deployed fiscal measures worth 7% of GDP between January 2020 and September 2021, higher than equivalent Covid-19 measures in low-income and developing countries (4%) but significantly lower than those in advanced economies (23%).[28] Policy responses were supported by international financing (e.g., IMF lending, DSSI participation, Eurobond issuances).

By 2021, the Senegalese economy exhibited a higher-than-expected recovery, at 6.1% (vs prior government forecast at 5.4%), driven by a strong rebound of the industry and services sectors. However, Senegal's recovery from Covid-19 may be halted by multiple shocks in 2022, including the spillover effects of the Russia–Ukraine war on food and oil prices (e.g., Senegal is a net importer of fuel, food and metals – see Raga and Pettinotti, 2022), tighter global financial conditions and regional political instability, including Economic Community of West African States (ECOWAS) sanctions on trading with Mali.[29] Domestically, social tensions are rising, including demands for cash transfers, wage increases and energy subsidies, in the context of accelerating inflation (IMF, 2022d; MFB, 2022).

Recent data also point to deteriorating indicators (IMF, 2022d). The current account deficit is expected to have significantly widened in 2021, largely as a result of high services imports for Senegal's hydrocarbon projects, and to remain elevated in 2022 owing to deterioration of the terms of trade. Inflation had already reached 6.3% year on year in March 2022, compared with an annual average of 2.2% in 2021. Food inflation alone has reached 11%, increasing food security concerns. A supplementary budget was adopted in May 2022 for temporary and targeted fiscal measures to protect the most vulnerable and stabilise prices. In this context, the government

[27] Authors computations based on data from https://unstats.un.org/unsd/snaama/Downloads
[28] Authors' computations based on data from IMF (2021a).
29 Mali has been one of the main destinations of Senegal's exports. Between 2019 and 2021, 20% of Senegal's exports went to Mali. Exported Senegalese products to Mali are largely hydrocarbons and cement (MFB, 2022).

expects a wider fiscal deficit, at 6.2% of GDP (vs 4.8% of GDP in an earlier forecast) in 2022 (MFB, 2022). Public debt levels – already at moderate risk of debt distress in 2021 – are expected to remain elevated, at 75% of GDP, in 2022, further narrowing fiscal space.

In view of overlapping shocks and vulnerabilities, Senegal's GDP growth is expected to slow to 5% in 2022, before significantly growing over the medium term in anticipation of the growth boost from the commencement of hydrocarbon production in 2023 (see Table 27; IMF, 2022d; MFB, 2022).

Table 27 Senegal: selected macroeconomic indicators and forecast

	2011–2019 (ave)	2019	2020	2021 e	2022 f	2023 f	2024 f	2025 f
Real GDP (% growth)								
IMF, June 2022				6.1	5.0	8.3	10.9	4.8
World Bank Global Economic Prospects, June 2022				6.1	4.4	8.5	10.6	
Senegalese government, June 2022	5.0	4.6	1.3	6.1	5.1	7.8 over 2023–2025 (10.5% in 2023)		
Average consumer prices (% growth)	1.0	1.0	2.5	2.2	5.5	3.1	2.0	2.0
Government revenue, excluding grants (% of GDP)	19.2	20.3	20.2	19.4	20.7	21.2	21.6	22.4
Government expenditure (% of GDP)	23.1	24.2	26.6	25.7	26.9	25.7	24.6	25.4
Gross fiscal balance, including grants (% of GDP)	-3.9	-3.9	-6.4	-6.3	-6.2	-4.5	-3.0	-3.0
Primary fiscal balance (% of GDP)	-2.3	-1.9	-4.4	-4.3	-4.2	-2.5	-0.9	-0.9
Total public debt service (% of revenue)			27.3	25.3	26.5	27.4	28.1	31.1
Current account balance, including official transfers (% of GDP)	-7.2	-7.9	-10.9	-13.3	-13.2	-8.8	-4.2	-4.1

Notes: e = estimate; f = forecast.

Sources: 2011–2019 (average) data based on IMF (2022b); 2019 data based on IMF (2022b), except for 2019 data on gross government debt, which are based on IMF (2021e); except for real GDP, 2020–2025 data for all indicators are based on IMF (2022d) and World Bank (2022c).

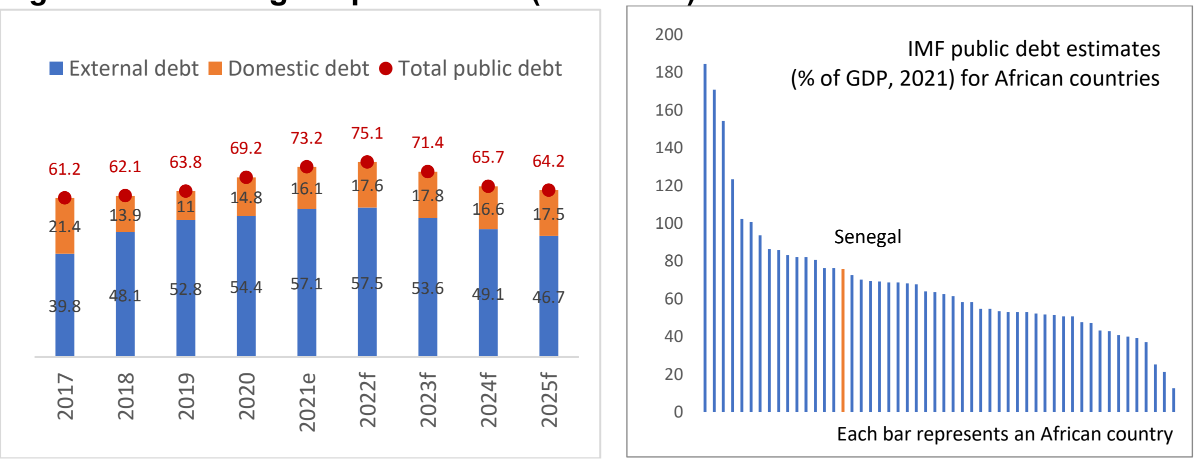
3.5.2 Public debt landscape

Total stock of public debt

Senegal's public debt has been increasing gradually over the past decade, partly to support investment identified in the country's development strategy, the Plan for an Emerging Senegal. However, Covid-19 impacts led to increased public expenditure and lower revenues, widened the fiscal deficit to 6.4% of GDP and pushed public debts to 69% of GDP in 2020. To ease this financing gap, Senegal has participated in the DSSI, which provided debt service relief worth 0.2% of GDP in 2020 and 0.5% of GDP in 2021 (IMF, 2022d). Senegal has also increased its recourse to domestic borrowing (Figure 7), which typically has relatively higher interest rates and shorter maturities than external sources (see Table 28).

Public debt remained elevated, at 73% of GDP, in 2021, and is expected to peak at 75% of GDP in 2022 to cope with ongoing external and domestic challenges. These include expenses related to the food and energy price shock (worth 1.7% of GDP), public sector wage increases (0.6% of GDP) and additional security-related spending (0.4% of GDP), which together are higher than the planned offsetting savings and revenue measures (1.1% of GDP) in the supplemental budget adopted in May 2022 (IMF, 2022d). To meet the financing gap, the government expects increased financing through multilateral lending (e.g., IMF, World Bank, AfDB) and government debt issuances.

Figure 7 Senegal's public debt (% of GDP)



Sources: Data on the left-hand panel are compiled from IMF (2020b, 2020c, 2022d, 2022e); data on the right-hand panel are based on IMF (2022b).

Table 28 Senegal: cost and maturity profile of public debt

	Domestic debt			External debt			Total debt		
	2019	2020 (Jun)	2021	2019	2020 (Jun)	2021	2019	2020 (Jun)	2021
Public debt (US$ billions)	1.9	2.8	4.8	11.4	11.6	13.7	13.4	14.4	18.6
Weighted average interest rate (%)	5.8	4.7		2.9	2.8		3.6	3.2	
Interest payment (% of GDP)	0.5	0.6		1.4	1.4		2.1	1.9	
Average time to maturity (years)	3.6	3.7		11.0	11.2		10.0	9.7	
Debt maturing in 1 year (% of total)	15.7	8.5		5.6	3.9		8.3	4.8	
Debt maturing in 1 year (% of GDP)	1.3	1.0		2.7	1.9		4.8	2.9	
Average duration of rate debt refixing (years)	3.6	3.7		10.5	10.6		9.8	9.3	
Debt refixing in 1 year (% of total)	15.7	8.5		17.4	17.2		12.2	15.5	
Debt with fixed interest rates (% of total)	100	100		84.3	85.3		91.7	88.2	
Debt in foreign currency (% of total)							85.5	80.3	

Sources: Authors; 2019 and June 2020 data are based on MFB (2020), 2021 data are based on CFA franc data from MFB (2022) and annual average exchange rate is from the World Bank database.

External debt

External debt comprise nearly 74% of Senegal's public debt as of 2020 and 2021.[30] Public debt is denominated mainly in euros (45.8% of total public debt) and US dollars (40.6%) as of end-2021 (MFB, 2022). External debt is largely owed to multilaterals (42% of external debt), such as the World Bank and the IMF, followed by Eurobond holders (30%) and bilateral partners (22%) as of 2021 (Table 29). A third of bilateral borrowing is from Paris Club members, while more than 42% of bilateral debts are from China.

[30] Authors' computations based on IMF (2022d) data.

Table 29 Senegal: external debt by creditor (% of total external debt)

By creditor	2020	2021
Bilateral	24.2	22.4
o/w Paris club	7.8	7.5
EXIM China	10.2	9.4
Multilaterals	39.6	42.3
o/w World Bank	19.9	18.8
IMF	3.8	7.5
Bondholders (Eurobonds)	31.3	29.8
Other creditors	4.9	5.4

Table 30 Senegal: domestic debt by instrument (% of domestic debt*)

By instrument	2020	2021
Bonds	73.6	85.6
Bills	3.3	2.4
Loans	23.2	12.0

Note: * Domestic debt includes government securities issued in local currency and held by WAEMU residents.

Source: Authors based on data from IMF (2022d, 2022e).

Domestic debt

Senegal's domestic public borrowing grew faster (e.g., increase by 3.8 pp of GDP) than external debt (e.g., increase by 1.6 pp of GDP) during the pandemic (see Figure 7), reflecting the increase in issuances of public securities in the WAEMU regional market (MBPE, 2022). The IMF (2022d) indicates that Senegal's credit is strong in the regional CFA franc market, as the country is able to issue at increasingly longer maturities. On the one hand, increasing access to the regional market is aligned with the government's aim to contribute to deepening domestic markets (i.e., domestic debt includes government securities in local currency and held by WAEMU residents) (MFB, 2020). On the another hand, domestic debts are relatively more expensive and have shorter maturities, posing interest rate and refinancing risks (more details in the next sections).

3.5.3 Public debt risk and outlook

The Senegalese government identifies public debt and guarantee risks in its latest multi-year budgetary and economic programming document (for 2023–2025) (MFB, 2022). These include:

- **Refinancing risk:** About 30% of domestic debt as of end-2021 has to be refinanced over 2022–2023, reflecting a fairly high concentration of domestic debt maturities.
- **Interest rate risk:** Potential interest rate fluctuations will have a limited impact on current debt service since 90% of public debt is at fixed interest rates, but these may have considerable impact in case of greater use of non-concessional loans in the future (e.g., less access to concessional finance as country income grows).
- **Foreign exchange risk:** 40% of public debt is denominated in US dollars, with implications for debt service in the event of significant depreciation of the CFA franc against the US dollar.
- **Risks related to public debt guarantees:** As of 2020, government-guaranteed loans represented 3.7% of GDP, posing fiscal and public debt risks in the event of guaranteed claims.

The latest DSA for Senegal conducted by the IMF (2022d) classifies the country's debt profile as at moderate risk of debt distress – for both external debt and overall public debt. Moderate risks to external debt distress stem from the country's exposure to export shock (e.g., in the event of slower demand or downgraded output of the hydrocarbon sector) and tightening of global financial conditions. There is moderate risk to overall public debt, given current levels are already reaching threshold levels of 70% of GDP (Table 31) and its vulnerability to growth shocks.

This is aligned with the shock sensitivity test by the Ministry of Finance and Budget (MFB) (2020) in the MTDS 2021–2023, wherein debt ratio indicators are vulnerable to growth shocks and fluctuations in interest and exchange rates. While Moody's (2022c) recognises the exchange rate exposure of Senegal's high foreign currency debt, this is mitigated to some extent by the pooled reserves within WAEMU. Senegal's estimated interest rate payments for 2022 (10.5% of revenue) are also at par with other countries (11% of revenue) within the same Ba3 Moody's rating. Overall, the government and IMF are of the view that Senegal's public debt is sustainable, with moderate risks of debt distress and limited space to absorb new shocks (IMF, 2022d).

Table 31 Senegal: debt sustainability indicators and projections

	Strong debt-carrying capacity thresholds*	Baseline scenarios 2022	2023	2024	2025
PV of external debt as % of exports	240	211.6	186.2	147.2	142.7
PV of external debt as % of GDP	55	52.9	49.3	45.0	42.9
PV of external debt service as % of exports	21	17.2	16.5	15.7	16.3
PV of external debt service as % of revenues	23	15.3	15.2	16.5	16.3
PV of public debt as % of GDP	70	69.3	66.0	60.8	59.6
Debt service as % of grants and revenues		25.1	26.0	26.8	29.8

Note: Indicator in red indicates threshold breach; indicators in green indicate below-threshold projections.
Source: IMF (2022d).

Table 32 Senegal: risks to public debt sustainability

Debt risks/ sustainability assessment	Categorical assessment	Key risks identified	Key remarks/ recommendations
Government, June 2022		• The current debt portfolio is exposed to refinancing risk from high concentration of domestic debt, foreign exchange risk owing to high concentration of foreign currency-denominated debt (e.g., US, euro) and fairly significant level of public guarantees (3.7% of GDP)	• To address exchange rate risk, the government has carried out hedging agreements and increasing recourse to regional markets or euro-denominated funding sources (MFB, 2022) • To address refinancing risk, the government redeemed in 2021 more than half of its 2014 Eurobonds (due 2024) (MFB, 2022) • In the medium term, the government aims to reduce reliance on borrowing by implementing a medium-term revenue strategy and containing fiscal deficit within the regional target (3% of GDP) (IMF, 2022d)
IMF, June 2022	Moderate risk of debt distress	• Senegal is vulnerable to growth and export shocks, heightened uncertainty over global economic outlook and elevated debt service • Significant risks may emerge if there are sustained high commodity prices in the event of a protracted Russia–Ukraine war, a	• Need for prudent borrowing strategy to leave policy space for future shocks. May involve restraint on new borrowing, focusing on concessional and regional financing, and strengthening debt

Debt risks/ sustainability assessment	Categorical assessment	Key risks identified	Key remarks/ recommendations
		significant increase in borrowing cost with further tightening of global financial conditions, future waves of Covid-19, especially with low vaccination rates in Senegal, substantial delays in hydrocarbon projects, deterioration of regional security and occurrence of natural disasters	management (especially for maturing Eurobonds) • To increase fiscal space in the medium term, enhance revenue base (including sound management of oil and gas revenues) and gradually eliminate costly food and energy subsidies
Moody's, March 2022	Ba3 stable outlook (affirmed last Ba3 rating, changed from negative to outlook)	• Fiscal consolidation will be a protracted process (given spending pressures amid rising oil and food prices) but would be supported by IMF financing and ongoing efforts in strengthening revenue mobilisation • There are risks associated with Senegal's high level of foreign currency debt but this is mitigated by its WAEMU membership (e.g., with pooled foreign exchange reserves with 6 months' import cover as of end-2021) • While on a declining path, current high debt levels remain a constraint on the government's capacity to absorb shocks and support economic development	• Rating can be upgraded if there is a more rapid and material decrease in the debt burden than anticipated, which can improve the government's capacity to absorb shocks. This would likely be related to sustained fiscal consolidation and durable improvements in domestic revenue generation

Sources: IMF (2022d); MFB (2022); Moody's (2022c).

3.5.4 Government debt management strategy

The Senegalese government implements its MTDS (latest for 2021–2023) with the aim of meeting its financing needs and payment obligations at low cost; ensuring that public debt portfolio risks are within acceptable limits; and developing and deepening Senegal's public debt markets (MFB, 2020).

In the near term, the government recognises the current debt portfolio's vulnerabilities to refinancing, interest and exchange rate risks (see Section 3.5.3). To achieve the MTDS objectives and address risks to public debt, the government plans to:

- strategically use non-concessional financing for projects with high returns
- introduce active debt portfolio management to reduce refinancing and foreign exchange risks, especially for Eurobonds and
- set a ceiling on the proportion of debt with variable interest rates and denominated in the foreign currencies other than the euro (MFB, 2022).

To manage exchange rate risk, the government has entered into hedging transactions and tapped regional markets (MFB, 2022). To manage refinancing risk pressures, the government redeemed more than half of its 2014 Eurobonds (due 2024) in 2021 (ibid.).

The government is aware that it may lose its access to concessional financing (which constitutes 43% of public debt as of June 2020) as the country moves towards its ambition of being an emerging economy. In this regard, it is considering tapping more funding from the regional market, which is estimated to have an annual absorptive capacity for Senegal's debt securities of up to FCFA 500 billion;

increasing semi-concessional financing through the AfDB and World Bank International Bank for Reconstruction and Development (IBRD) windows; and financing PPP-linked innovative projects (MFB, 2020).

To ease pressure for future borrowing, the government has pointed to ambitions to gradually reduce its reliance on borrowing by growing domestic revenues through implementation of the medium-term revenue strategy (e.g., including digital innovations for revenue mobilisations) and containing fiscal deficits in line with regional commitments at 3% of GDP by 2024, aligned with regional targets (IMF, 2022d). On the expenditure side, the government has indicated plans to gradually phase out energy subsidies starting in 2023; accelerate efforts to reduce the cost of electricity and fuel production; and strengthen its mechanism for targeted and temporary social safety nets (ibid.). Complementary efforts include upgrading and digitising debt data management as well as improving budget execution and evaluation and selection of investment projects.

3.6 Togo

3.6.1 Recent economic performance

Togo exhibited robust economic growth at an annual average of 5.7% between 2011 and 2019 (Table 33). The agriculture sector contributes a quarter of the economy's total value-added; this is followed by a 13% share from the manufacturing sector.[31] However, in 2020, the Covid-19 pandemic and pockets of drought and flooding disrupted Togo's growth momentum, with GDP growth slowing to 1.8% in 2020 (see World Bank, 2022c). In response to the pandemic, the government unveiled fiscal measures worth 4.3% of GDP (IMF, 2021a). The Covid-19 disruptions induced lower revenues and a significant increase in expenditures, shifting a fiscal surplus of 1.6% of GDP in 2019 to a deficit of 6.9% of GDP (Table 33).

Togo experienced a rebound in GDP growth by 2021, at 5.1%, driven primarily by the extractive industries and manufacturing on the supply side, and private consumption and investment on the demand side (AfDB, 2022). However, some vulnerabilities continued to build up in 2021, including accelerating inflation (4.3%) and a high fiscal deficit (6.5% of GDP), exceeding regional targets. The fiscal deficit relies on external financing, which has further pushed public debts to 63.8% of GDP; the country was already at high risk of debt distress prior to the pandemic (World Bank, 2022c).

Spillovers from external shocks into energy and food price hikes induced by the Russia–Ukraine war and increasing security threats from the conflict in the Sahel could put a strain on Togo's current account balance and economic growth. For instance, 40% of Togo's wheat imports in 2020 were from Russia (AfDB, 2022), and

[31] Authors based on 2011–2019 data from https://unstats.un.org/unsd/snaama/Downloads

ECOWAS' sanctions on Mali will negatively affect Togo's trade balance (Mali being one of the top destinations for Togo's exports).

However, implementation of public investment in modernisation of the agriculture sector, infrastructure and mining exploration, as well as increased spending on social and private sector development under the Togo 2025 Government Roadmap, is expected to support the country's medium-term growth prospects (MEF, 2022a; World Bank, 2022c). In particular, the envisioned agricultural transformation is expected to help increase the domestic food supply and ease inflation, while also contributing to higher exports of cash crops and agro-industrial products (MEF, 2022a). In this context, the government expects 5.9% GDP growth in 2022 and 6.8% annual average growth between 2023 and 2025, which are more optimistic than forecasts by the IMF and World Bank (Table 33).

Table 33 Togo: selected macroeconomic indicators and forecast

	2011–2019 (ave)	2019	2020	2021 e	2022 f	2023 f	2024 f	2025 f
Real GDP (% growth)								
IMF World Economic Outlook, April 2022	5.7	5.5	1.8	5.1	5.6	6.2	6.5	6.5
World Bank Global Economic Prospects, June 2022			1.8	5.1	5.0	5.8	6.4	
African Development Bank, May 2022			1.8	4.8	5.8	6.8		
Government views, June 2022			1.8	5.5	5.9	6.5	6.9*	7.0
Average consumer prices (% growth)	1.4	0.7	1.8	4.3	4.6	2.0	2.0	2.0
Government revenue (% of GDP)	16.0	17.7	16.2	16.3	18.8	18.1	17.5	18.0
Government expenditure (% of GDP)	19.8	16.0	23.1	22.8	23.7	22.1	20.4	21.1
Gross fiscal balance (% of GDP)	-3.8	1.6	-6.9	-6.5	-4.9	-4.0	-3.0	-3.0
Primary fiscal balance (% of GDP)	-2.3	3.6	-4.6	-4.0	-2.5	-1.5	-0.5	-0.7
Gross government debt (% of GDP)	48.8	52.4	60.3	63.8	63.6	62.3	60.1	58.3
Current account balance (% of GDP)	-5.1	-0.8	-1.5	-3.3	-5.9	-6.4	-5.1	-4.2

Notes: e = estimate; f = forecast; * authors based on data from MEF Togo (2022a).

Sources: 2011–2019 (average) data are based on IMF (2022b); except for real GDP, 2020–2025 data for all indicators are based on AfDB (2022); IMF (2022d); MEF (2022a); World Bank (2022c).

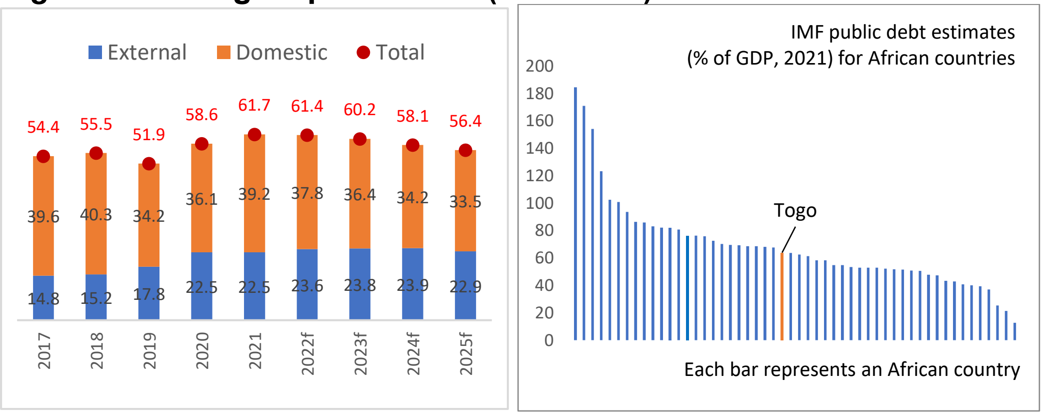
3.6.2 Public debt landscape

Total stock of public debt

Togo's public debt increased gradually between 2011 and 2019, with an annual average of 49% of GDP (Table 33). The pandemic in 2020 induced an increase in public borrowing by nearly 7 pp to 58.6% of GDP. Public debt continued to be elevated, at 61.7% of GDP, in 2021 (based on MEF, 2022a estimates), slightly below the median level of public debt in Africa (63% of GDP) as of 2021. Togo has been relying heavily on domestic borrowing. As a proportion of GDP as of 2021, domestic and external debt stood at 39% and 23%, respectively (Figure 8). Although in value terms, external borrowing grew faster (by 42%) than domestic debt (by 28%) between 2019 and 2021.[32]

[32] Authors' computations based on data from MEF (see Table 34).

Figure 8 Togo's public debt (% of GDP)



Sources: IMF (2022b); MEF (2022a, 2022b).

The increase in domestic borrowing has been driven largely by government security issuances and SDR disbursements (MEF, 2022c). Compared with external sources, domestic borrowing has been more expensive and of shorter maturity, although terms and maturities of domestic debt have been improving in recent years. For instance, the weighted interest rate on domestic loans declined from 6.1% in 2019 to 5.5% in 2021, and average time to maturity went up from three to four years during the same period (Table 34).

Table 34 Togo: cost and maturity profile of public debt

	Domestic debt			External debt			Total debt		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Public debt (US$ billions)	2.5	2.9	3.2	1.3	1.8	1.8	3.8	4.8	5.0
Weighted average interest rate (%)	6.1	6.1	5.5	1.5	2.0	1.7	4.5	4.5	4.1
Interest payment (% of GDP)	2.6	2.1	2.2	0.4	0.5	0.4	3.0	2.6	2.6
Debt service (% of GDP)	11.1	10.3	9.9	1.1	0.8	0.8	12.2	11.0	10.7
Average time to maturity (years)	3.1	3.1	5.2	8.8	8.7	8.2	5.1	5.2	6.4
Debt maturing in 1 year (% of total)	20.3	22.6	16.5	4.2	4.4	5.6	14.7	15.6	12.5
Debt maturing in 1 year (% of GDP)	9.2	8.3	6.5	1.0	1.0	1.3	10.2	9.3	7.8
Average time to refix (years)	3.1	3.1	5.3	8.8	8.7	8.2	5.1	5.2	6.3
Debt refixing in 1 year (% of total)	20.3	22.6	16.5	4.2	4.4	6.6	14.7	15.6	12.8
Debt with fixed interest rates, including Treasury bills (% of total)	100	100	100	100	100	99.0	100	100	99.6
Treasury bills as % of total debt	5.3	4.5	0.0	0.0	0.0	0.0	3.5	2.8	0.0
Debt in foreign currency (excludes debt in CFA franc and euro) (% of total)							22.2	19.5	18.7

Sources: MEF (2020, 2021b); MEF (2022a, 2022b) especially for data from 2021.

External debt

Togo's external debt has nearly doubled, going from $1 billion in 2017 to $1.8 billion in 2021, reaching 22.5% of GDP (MEF, 2022b). Table 35 summarises the evolution of public debt in the past three years. The share of the euro-denominated debt in total external borrowing increased from 18% in 2019 to nearly 30% in 2021, partially offsetting the declining share of US dollar- and Chinese yuan-denominated debt. By creditor, 49% of external debt is owed to multilaterals (mostly concessional), and another 47% to commercial banks. Of all the external debt owed to commercial banks, 60% is owed to Eximbank China, 20% to Société Générale (France), 13% to Bank of Tokyo and 7% to Eximbank India (MEF, 2022c). By tenor, nearly all external debt in 2019 was at a fixed interest rate, mostly between 0.1% and 2%. Togo has slowly started to borrow funding at variable interest rates; this comprised 1% of total external debt as of 2021.

Table 35 Togo: composition of external debt (% of total external debt)

By currency	2019	2020	2021
Euro	18.1	28.9	29.5
US dollar	24.9	17.9	18.6
West African CFA franc	17.0	20.5	18.8
Chinese yuan	22.3	16.5	16.5
UCF (AfDB)	3.9	4.5	4.7
SDR (IMF)	3.9	3.6	3.8
ID (Islamic Development Bank)	6.3	5.0	4.8
Others	3.5	3.0	3.3

By creditor	2019	2020	2021
Bilateral	4.3	3.6	4.4
Official development assistance	*4.3*	*3.6*	*4.4*
Debt security holders	0.0	0.0	0.0
Multilaterals	44.2	48.8	48.9
Concessional	*43.7*	*47.4*	*47.1*
Commercial banks (with head offices in India, China, France, Japan, etc.)	51.5	47.6	46.6

By interest structure	2019	2020	2021
Variable rate	0.0	0.2	1.0
6-month EURIBOR	*0.0*	*0.2*	*1.0*
Fixed rate	100	99.8	99.0
Interest free	*6.6*	*6.8*	*6.5*
0.1–1.0%	*35.1*	*45.3*	*45.5*
1.0–2.0%	*43.0*	*27.4*	*28.4*
2.0–4.0%	*5.0*	*3.5*	*3.5*
4.0–6.5%	*10.4*	*16.8*	*15.1*

Sources: Authors based on data from MEF (2021b, 2022b).

Domestic debt

Domestic debt has been a significant source of Togo's public borrowing, growing gradually from $2.7 billion in 2017 to $3.2 billion in 2021, reaching 39% of GDP (MEF, 2022b; Figure 8). Domestic debt includes all commitments denominated in CFA francs and comprises government securities issued in the regional market and loans contracted with local banks (MEF, 2021c). A substantial share of domestic debt has been in the form of government securities, which reached 82.4% of total domestic debt borrowing in 2021 (Table 36). In 2021, the increase in government's conventional loans was driven by disbursements of SDR allocations (MEF, 2022c).

Table 36 Togo: composition of domestic debt (% of total domestic debt)

By type/ instrument	2019	2020	2021
Consolidated arrears	3.4	3.1	0.3
Debts of liquidated state companies	2.5	2.3	2.0
Conventional debts*	16.6	10.5	15.3
Government securities	77.5	84.1	82.4

By tenor	2019	2020	2021
Short term	11.2	10.0	2.3
***Immediate*	5.9	5.4	0.0
6 months–1 years	3.9	4.5	2.3
Medium- or long-term	88.8	90.0	97.7
1–3 years	9.2	9.9	6.3
3–5 years	22.5	31.9	36.3
5–10 years	43.6	36.0	35.7
More than 10 years	13.4	12.2	19.5

Note: * Includes West African Development Bank commitments, SDR allocations and other loans and excludes government securities; ** immediate refers to immediate due or payable, and includes arrears and interest due on arrears.
Sources: MEF (2022a, 2022b).

By maturity, it may be noted that the share of short-term domestic debt declined by nearly 8 pp between 2020 and 2021, partly through clearance of immediate due and payables (e.g., arrears and interest due on arrears) as well as the shift towards loans of longer maturity (between three and five years and more than 10 years) (Table 36).

3.6.3 Public debt risk and outlook

Togo's government identifies the following costs and risks to the existing debt portfolio in its annual debt report of December 2021 and its multi-annual budget and economic programming document of June 2022 (MEF 2022b, 2022c).

- **Cost:** The debt portfolio is dominated by domestic borrowing in the form of government securities. On average, interest rates on domestic sources are at least three times as high (5.5%) as those on external sources (1.7%). Lowering the cost will depend on the government's capacity to mobilise concessional debts.
- **Refinancing and interest rate risks:** The current condition of tightening financial conditions (i.e., higher borrowing costs) poses refinancing and interest rate risks. This is in view of the 12.5% share of debt maturing in 2022, which is equivalent to 7.8% of GDP. The amount of debt that needs to be refixed in a year is also around the same magnitude.
- **Exchange rate risk:** 18.6% and 16.5% of total external debt is denominated in US dollars and Chinese yuan, respectively, which may pose some risk in the event of a sharp depreciation of the CFA franc against these currencies.

Togo's Ministry Economic and Finance (MEF) report of June 2022 shows that the government-conducted DSA suggests a high risk of debt distress (for both external and domestic debts) over 2021–2022 (MEF, 2022a). In the event of a growth shock in 2022, the present value of Togo's public debt will exceed the threshold of 55% of GDP until 2024 (ibid.). Pre-existing vulnerabilities identified by the IMF and CRAs in 2020/21 related to Togo's public debt risks associated with a high reliance on domestic debt, and prudent fiscal policy implementation (Table 37) will likely come under more pressure in view of current challenges (e.g., Russia–Ukraine war spillovers).

Table 37 Togo: debt sustainability indicators and projections

	Medium debt-carrying capacity thresholds*	Baseline scenarios 2022	2023	2024	2025
By IMF (2020d)					
PV of external debt as % of exports	180	65.1	62.3	59.0	55.5
PV of external debt as % of GDP	40	18.5	17.8	17.0	16.1
PV of external debt service as % of exports	15	5.1	5.8	6.3	6.7
PV of external debt service as % of revenues	18	7.2	8.1	8.9	9.3
By Togo government *(MEF, 2022c)*					
PV of public debt as % of GDP	55	57.8	52.7	*Downward trend*	
Debt service as % of grants and revenues			13.4 (MEF, 2022a)		

Notes: * MEF (2022c) classifies the country's debt-carrying capacity as 'medium' based on a composite index score of 2.89. See IMF (2022d) for details on computations of the index and debt-carrying capacity classifications. Indicators in red indicate a threshold breach; indicators in green indicate below-threshold projections.
Sources: IMF (2020d); MEF (2022a, 2022c).

Table 38 Togo: risks to public debt sustainability

Debt risks/ sustainability assessment	Categorical assessment	Key risks identified	Key remarks/ recommendations
Government, June 2022	High risk of overall debt (external and domestic debt) distress	• High risk of debt distress mainly stems from the projected primary fiscal balance deficit over the medium term, which would be financed by government securities. Refinancing risks, interest risks, exchange rate risks and risks of over indebtedness are also acknowledged	• To contain risk to public debt, government aims to lengthen maturity profile of public debt and prioritise concessional financing, financing with fixed interest rates and euro-denominated debt
Joint World Bank and IMF, March 2020	Moderate risk of external debt distress; high risk of overall debt distress	• Moderate risk of external debt may stem from high domestic debt – which is currently defined by currency rather than residence (e.g., risk may arise from local currency debt owed to non-residents, possible debt reprofiling operations or need to incur fiscal costs for privatisation of two public banks). Overall public debt is at high risk of distress (exceeding thresholds of debt indicators); a downward trend of debt depends on achieving a primary surplus of 1% of GDP and a substantial reduction in public debt	• There is a need for sustained fiscal consolidation, improved debt management and macroeconomic policies aiming to reduce the level of public debt to prudent levels over the medium term
Moody's, November 2021	B3 stable outlook (affirmed last rating of B3 stable outlook)	• Weak institutions and governance (e.g., history of pre-IMF programme fiscal slippages, track record of arrears); sizable government funding and debt rollover risks increase the liquidity risk but this could be tempered by WAEMU membership	• Rating can be upgraded with a clear downward trend of public debt, backed by prudent fiscal policies, lengthening of the debt maturity profile and lower debt rollover needs
Standard & Poor's, October 2021	B/B stable outlook (affirmed last rating of B/B stable outlook)	• Heightened external and fiscal pressures owing to Covid but WAEMU membership provides a policy anchor and access for reserve buffers • Rates may be downgraded if the government's budgetary performance deteriorates and GDP growth performs more weakly than forecasted	• Rating can be upgraded if GDP growth is higher than expected and the budget deficit and public debt decline materially

Sources: IMF (2020d); Moody's (2021a); Standard & Poor's (2021a); MEF (2022b).

3.6.4 Government debt management strategy

Togo has been regularly updating its MTDS, with the latest MTDS 2021–2025 updated as of March 2021. The MTDS aims to meet the financing needs of the government (e.g., aligned with resources needed for Togo 2025 Roadmap) at the lowest cost and risk, containing public debt risks at acceptable levels, developing the domestic debt market and lengthening the maturity profile of domestic debt (MEF, 2021c).

During the pandemic in 2020, the government was able to mobilise external debt with a longer maturity of up to 10 years (six years on average) at a 4.5% rate, and secured guarantee for debts to finance projects from the African Trade Insurance Agency (MEF, 2021a, 2021c; Togo First, 2021). These enabled Togo's debt reprofiling through buy-back of loans with a residual maturity of three years with rates from 6.6% to 7.6% (MEF, 2021c).

The MTDS focuses on mobilising external debt through concessional and semi-concessional loans, and loans from international banks for the debt reprofiling operations, and issuing medium-term loans (of five years or more) in the regional market (MEF, 2022c). In November 2021 and March 2022, Togo issued 15-year bonds in the regional market (Togo First, 2022a). In April 2022, the World Bank allocated $100 million financing to support Togo's inclusive growth programme and tax reforms (Togo First, 2022b).

In the medium term (2023–2025), the government aims to mitigate the following public debt risks: refinancing risks, by lengthening the debt maturity; interest rate risks, by prioritising debt with fixed interest rates; and exchange rate risks, by giving preference to debt denominated in the euro or in other currencies with favourable terms (MEF, 2022a). A more holistic government approach to ensure medium-term debt sustainability includes:

- continuing fiscal consolidation by mobilising revenues, strengthening tax policy and streamlining expenditures that would help bring down the fiscal deficit to 3% of GDP by 2024, make some provisions to address external shocks (e.g., the spillover effects of the Russia–Ukraine war and Sahel conflict) and ease debt pressures
- improving institutional capacity to benefit from financing facilities (e.g., the World Bank IDA, the AfDB African Development Fund – ADF[33]) and bilateral grants. New flows of concessional debt would be devoted exclusively to growth-inducing investment
- active public debt management through the repurchase and exchange of government securities and renewing/reprofiling
- debt to manage refinancing risks and
- strengthening institutional, legal and operational capacity as well as stakeholder coordination to enable sound implementation of debt strategy (MEF, 2022a).

3.7 Tunisia

3.7.1 Recent economic performance

Tunisia started a political transition in January 2011 that brought democracy and political freedom with a new constitution and fair elections (OECD, 2022). Following the revolution in 2011, Tunisia's average GDP growth remained sluggish in the next decade (2.4% between 2012 and 2019) and below pre-revolution economic performance (4.2% between 2001 and 2010) (Table 39; IMF, 2022b). Income per capita fell and unemployment rate rose over the decade, reaching more than 15% after 2011 (World Bank, 2022f).

When the pandemic peaked in 2020, Tunisia's economy contracted significantly, by 9.3% – the biggest economic contraction since 1956. More than 80,000 small and medium enterprises have been declared bankrupt or have left the country since early 2020 (France24, 2022). In response, the government announced Covid-19 fiscal and liquidity

[33] The ADF is the concessional window of AfDB Group. It contributes to poverty reduction and economic and social development in least developed African countries by providing concessional funding for projects and programmes, as technical assistance for studies and capacity-building (AfDB website).

measures worth 3.5% of GDP between January 2020 and September 2021 (IMF, 2021f). Lower revenues and a significant increase in public expenditure has widened the fiscal deficit to 9.1% of GDP, compared with 3.6% of GDP in 2019 (Table 39). The financing gap has been filled by increased government borrowing, pushing public debts higher by 14 pp to 83% of GDP in 2020.

Table 39 Tunisia: selected macroeconomic indicators and forecast

	2011–2019 (ave)	2019	2020 e	2021 e	2022 f	2023 f	2024 f	2025 f
Real GDP (% growth)								
IMF World Economic Outlook, April 2022	1.8	1.5	-9.3	3.1	2.2	2.0	1.8	1.8
World Bank Global Economic Prospects, June 2022			1.3	-8.7	3.1	3.0	3.5	
MoF Budget Statement and Economic Policy, November 2021								
Average consumer prices (% growth)	4.8	6.7	5.6	5.7	7.7	6.9	7.3	7.5
Government revenue, including grant (% of GDP)	23.5	26.0	25.5	25.8	28.5	27.2	27.4	27.5
Government expenditure (% of GDP)	28.3	29.6	34.5	33.5	35.9	33.7	33.3	33.0
Gross fiscal balance (% of GDP)	-4.9	-3.6	-9.1	-7.7	-7.4	-6.7	-6.2	-5.8
Primary fiscal balance (% of GDP)	-2.9	-1.0	-5.9	-4.9	-4.4	-2.2	-1.2	-0.5
Gross government debt (% of GDP)	57.0	69.0	82.9	82.0	87.3	96.5	98.5	99.7
Current account balance (% of GDP)	-9.2	-7.8	-5.9	-6.2	-10.1	-9.3	-9.2	-9.0

Note: e = estimate; f = forecast.

Sources: IMF (2021f, 2022b); World Bank (2022f). Data for 2011–2019 (average) and 2019 are actual data based on IMF (2022b). Except for real GDP, data for all indicators are based on IMF (2022b). 2023–2025 data are based on the 2021 IMF Article IV for Tunisia.

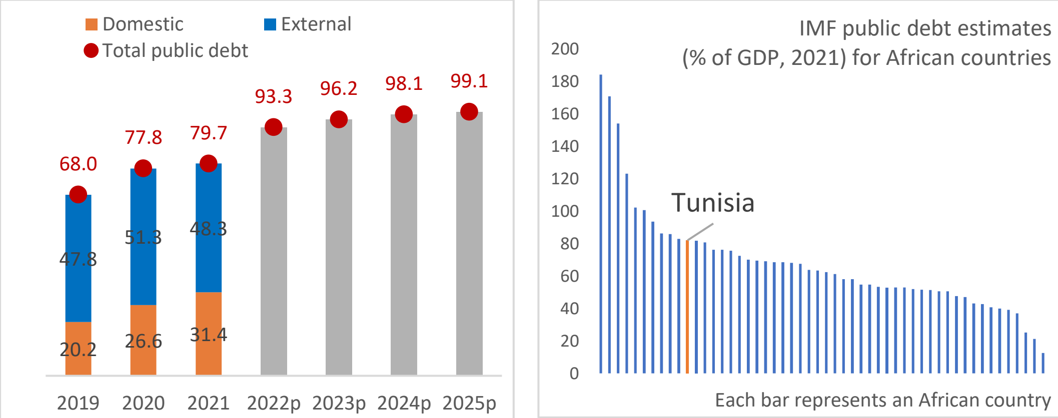
The Tunisian economy rebounded with 3.1% growth in 2021 but the spillover effects of the Russia–Ukraine war are expected to slow GDP growth to 2.2% in 2022.[34] The current account deficit is expected to reach 10% of GDP in 2022. Inflation has already been accelerating; it was at 8.1% as of June 2022, the highest rise in prices in three decades (NIS, 2022), driven mainly by the Russia–Ukraine war-induced rise in fuel and commodity prices, supply chain bottlenecks created by the pandemic and wage pressures from the public sector. To combat the rising prices, the Central Bank of Tunisia (CBT) raised interest rates by 75 basis points to 7.0% in May 2022 (CBT, 2022). Forecasts of economic indicators point to weak performance over the medium term, including a declining growth rate, elevated inflation and rising public debt (Table 39; IMF, 2021f).

3.7.2 Public debt landscape

Tunisia's public debt as a share of GDP had declined in 2019 from 2018 owing to low real interest rates and appreciation of the Tunisian dinar (IMF, 2021f). However, higher Covid-related expenditures pushed public debt by nearly 10 pp to 68% of GDP in 2020; this continued to rise, to $37 billion or 80% of GDP as of 2021 (Figure 9). The government has increased its reliance on domestic debt, which grew faster (by 73.3%) than external debt (by 12.6%) between 2019 and 2021 (Table 40).

34 The IMF World Economic Forecast of April 2022 did not produce the 2023–2027 projections forecast because of ongoing technical discussions pending potential programme negotiations. The projects are from IMF's Article IV on Tunisia.

Figure 9 Tunisia's public debt (% of GDP)



Notes: p = provisional; f = forecast.
Sources: 2019–2022 data are from MoF (2021) while forecasts for 2023–2025 are based on IMF (2021f). Public debt estimates for African countries are based on data from IMF (2022b).

Table 40 summarises the cost and maturity profile of Tunisia's public debt. Between 2019 and 2021, average time to maturity shortened from 6.3 to 5.9 years, and the share of debt maturing within one year increased from 9.7% to 14.4%. While there has been a decline since 2019 in the proportion of public debt with variable interest rates, and that which needs refixing within one year, these remained high, at 19% and 33%, respectively. There is also a relatively high proportion of foreign currency-denominated debt, at 65% as of 2021. These characteristics increase the vulnerability of Tunisia's debt portfolio to refinancing and interest rates risks, especially for the domestic debt component, which generally has shorter maturities and is more expensive than external debt. This is especially relevant in the current context of global financial tightening, and the recent policy rate hike by the CBT to arrest inflation (CBT, 2022).

Public debt is expected to increase further over the medium term, reaching nearly 100% of GDP by 2025 (Figure 9). The latest assessment by the IMF (2021f) suggests that Tunisia's medium-term public debt will be unsustainable in the absence of broadly supported strong and credible reforms (more details on public debt risks and outlook are in Section 3.7.3).

Table 40 Tunisia: cost and maturity profile of public debt

	Domestic debt			External debt			Total debt		
	2019	2020	2021p	2019	2020	2021p	2019	2020	2021p
Public debt (dinar billions)	24.7	31.8	40.8	58.6	61.3	62.9	83.3	93.0	103.7
Public debt (US$ billions[35])	8.4	11.3	14.6	20.0	21.8	22.5	28.4	33.1	37.1
Interest rate cost (%)	6.7	8.3	6.0	2.6	2.7	2.5	3.8	4.4	3.8
Average time to maturity (years)	4.9	4.9	4.2	6.9	6.7	7.0	6.3	6.1	5.9
Debt maturing in 1 year (% of total)	15.3	13.3	26.0	7.3	9.9	6.9	9.7	11.1	14.4
Average time to refixing (years)	2.8	3.0	2.8	4.5	4.0	5.9	4.0	3.7	4.7
Debt at variable interest rates (% of total)	28.6	24.0	20.5	27.4	32.5	17.8	27.8	29.6	18.9
Debt refixing in 1 year (% of total)	43.0	36.7	46.0	33.7	41.5	24.0	36.5	39.8	32.7
Share of debt in foreign currency (% of total)	6.5	11.1	9.7	100	100	100	72.3	69.6	64.5
Debt denominated in euro (% of total)				55.7	58.4	60.3			

Note: p = provisional.
Source: MoF (2021).

[35] We use the IMF's official period average exchange rate to convert Tunisia's dinar to the US dollar.

Composition of external and domestic debt

Table 41 shows Tunisia's external debt composition by currency and creditors. As of 2021, the euro dominated the currency composition of external debt (with a 60.3% share of external debt), followed by debt in the US dollar (22.1%) and in the Japanese yen (10.2%). The increasing share of euro-denominated debt is consistent with hedging efforts by the government, given the that the EU is Tunisia's leading trading partner (MoF, 2020).

By creditor, more than half of Tunisia's external debt is extended by multilateral institutions (54%); this is followed by debt issuances through the international financial market (24.7%) and debt owed to bilateral partners (17.7%) (MoF, 2021). Of the total debt from multilaterals, nearly two-thirds is owed to the World Bank IBRD, the IMF and the AfDB (IMF, 2021f; MoF, 2021). Meanwhile, major bilateral creditors include France (28% of bilateral debt), followed by Saudi Arabia (22%). Notably, part of Tunisia's past Eurobond issuances were covered by third-party sovereign guarantees from the US and Japanese governments (IMF, 2021f). In 2018, guaranteed Eurobond issuances were launched at more favourable rates (1.2% to 2.5%) than were unsupported bonds (3.5–5.7%) (EIU, 2018).

With respect to domestic public debt, by instrument, treasury bills constitute nearly half. The rest of is in the form of General Treasury of Tunisia (TGT) deposits and domestic debts denominated in foreign currency (Table 42).

Table 41 Tunisia: composition of external debt (% of total external debt)

By currency	2019	2020	2021
US dollar	27.4	24.8	22.1
Euro	55.7	58.4	60.3
Japanese yen	10.9	10.6	10.2
Others	5.9	6.3	7.4

By creditor	2019	2020	2021
IMF SDR allocations	0.0	0.0	3.4
International financial markets	35.5	30.8	24.7
Multilateral	48.8	52.9	54.2
Bilateral	15.7	16.2	17.7

Note: p = provisional.

Source: MoF (2020, 2021).

Table 42 Tunisia: composition of domestic debt (% of total domestic debt)

By instrument	2019	2020	2021e
Debt (medium-/long-term)	100.0	100.0	92.6
TGT deposits	*35.1*	*23.8*	*28.8*
Securities – treasury bills	*57.4*	*55.6*	*46.7*
Credits – foreign currency	*6.5*	*11.1*	*9.7*
Other debt	*1.0*	*9.6*	*7.4*

By tenor*	2019	2020	2021e
1-year maturity	15.3	13.3	26.0
5-year maturity	51.8	54.7	58.5

Note: e = estimate.

Source: MoF (2020, 2021).

3.7.3 Public debt risk and outlook

Tunisia's debt profile in recent years has been characterised by shortening debt maturities, with a high proportion of debt at variable interest rates and in foreign currencies, exposing the debt portfolio to refinancing, interest rate and exchange rate risks (Section 3.7.2). In February 2021, the IMF (2021f) already indicated that, in the absence of strong fiscal discipline and a credible medium-term framework, Tunisia's debt-to-GDP ratio would likely be on an increasing trend, reaching 100% of GDP by 2025.

The IMF's (2021f) DSA exercise suggests a heightened sensitivity of Tunisia's central government debt level, gross financing needs and debt profile to almost all shock scenarios (Table 43). In particular, the IMF identifies significant public debt sensitivity to sharp exchange rate depreciation, failure to implement fiscal adjustments and the existence of large contingent liabilities from SOEs, especially if combined with low economic growth. CRAs also downgraded Tunisia's credit rating to a negative outlook in their assessments of 2021 compared with early 2020, in view of the potential risk of default owing to protracted delays in agreement on the new IMF programme or in the implementation of government reforms (Table 44). All these vulnerabilities are likely to be magnified in the current context, with the external shock from the Russia–Ukraine war likely to decelerate Tunisia's GDP growth, further accelerate the already high inflation and contribute to a wider fiscal deficit and increasing debts (IMF, 2022h). As of June 2022, Tunisia is in discussion with the IMF on accessing the Extended Fund Facility to support its economic policies and reforms (ibid.).

Table 43 Tunisia: debt sustainability indicators and projections

Sources/ indicators of public debt risks	Sensitivity of public debt risks indicators under shock scenarios				
Debt level	Real GDP growth shock	Primary balance shock	Real interest rate shock	Exchange rate shock	Contingent liability shock
Gross financing needs	Real GDP growth shock	Primary balance shock	Real interest rate shock	Exchange rate shock	Contingent liability shock
Debt profile	Market perception	External financing requirements	Change in the share of short-term debt	Public debt held by non-residents	Foreign currency debt

Note* The cell is highlighted in green if the emerging market debt burden benchmark of 70% of GDP is not exceeded under the specific shock or baseline, yellow if exceeded under a specific shock but not the baseline, red if the benchmark is exceeded under the baseline and white if the stress test is not relevant; ** the cell is highlighted in green if the gross financing needs benchmark of 15% of GDP is not exceeded under the specific shock or baseline, yellow if it is exceeded under a specific shock but not the baseline, red if the benchmark is exceeded under the baseline and white if the stress test is not relevant; *** the cell is highlighted in green if the country value is less than the lower risk assessment benchmark, red if it exceeds the upper risk assessment benchmark and yellow if it is between the lower and upper risk assessment benchmarks. If data are unavailable or the indicator is not relevant, the cell is white. The lower and upper risk assessment benchmarks are 200 and 600 basis points for bond spreads; 5% and 15% of GDP for the external financing requirement; 0.5% and 1% for the change in the share of short-term debt; 15% and 45% for the public debt held by non-residents; and 20% and 60% for the share of foreign currency-denominated debt.
Source: IMF (2022f).

Table 44 Tunisia: risks to public debt sustainability

Debt risks/ sustainability assessment	Categorical assessment	Key risks identified	Key remarks/ recommendations
IMF (July 2021)	High risk of debt distress	• Significant risks from exchange rate depreciation and failure to implement fiscal adjustment, especially if combined with sustained lower growth	• A strong fiscal consolidation and medium-term structural reform programme are urgently needed to restore public debt sustainability

Debt risks/ sustainability assessment	Categorical assessment	Key risks identified	Key remarks/ recommendations
Fitch (March 2022)	CCC- negative outlook (downgrade from last rating of B-)	• Heightened fiscal and external liquidity risks, default is probable because of further delays to agreement of a new IMF programme or delays in reform implementation	• Ratings can be upgraded if there is increased confidence in Tunisia's ability to obtain a consistent inflow of sufficient bilateral and multilateral creditor support
Moody's (October 2021)	Caa1 (downgrade from last rating of B3 stable)	• Weakening governance, in particular lower quality of Tunisia's institutions, large external imbalances and reliance on continued inflows, protracted negotiations for a new IMF programme and insufficient progress on reform implementation significantly raising liquidity risks, which could lead to default over time	• Ratings can be upgraded if government's economic and fiscal reform implementation will lead to a stabilisation and eventual debt reduction and Tunisia's ability to access official and capital market funding at affordable costs to meet its upcoming debt service payments in the next few years

Sources: Fitch (2022f); IMF (2021f); Moody's (2022f).

3.7.4 Government debt management strategy

Since 2005, Tunisia's General Directorate of Public Debt Management and Financial Cooperation has been responsible for managing the country's public debt. Specifically, the Public Debt Strategy Department is responsible for monitoring developments in international financial markets and their impact on the level of external public debt, while the General Directorate of Debt Management and Financial Cooperation implements the debt management strategy (e.g., buyback or redemption operations to lengthen the maturity of the debt profile) (MoF, 2020).

On the external public debt management front, the General Directorate of Debt Management and Financial Cooperation aims to ease the debt burden on public finances and limit financial risks linked to the fluctuation of exchange rates and the variation of interest rates. It monitors the evolution of swaps and references interest rates in international financial markets to carry out hedging transactions. Other debt management strategy includes conversion of foreign debts into development projects, especially for loans, from France, Germany, Italy and Belgium. For example, €2.9 million in debt from Belgium was converted into development projects in 2019; €15 million in debt from Germany was converted into a coastal protection programme in 2020; and a total of €50 million in debt from Italy has been converted since 2016 to development aid for health, education and infrastructure in disadvantaged regions, as well as job creation and the development of small businesses through microcredits (MoF, 2020).

In its 2020 public debt report, the government recognised the need to modernise its debt management system, in view of the lack of a short- and medium-term debt strategy, the absence of a systematic approach to assess and monitor risks associated with contingent liabilities and the absence of infrastructure (e.g., a integrated computer system) for the better management of Treasury operations, among others (MoF, 2020).

4. Opportunities and challenges for debt management in selected African countries

Public debt management strategies in our seven African countries generally involve three common objectives: to meet the financing needs of the government at the lowest possible cost; to mitigate risks to public debt; and to support the development of domestic and regional markets to diversify sources and lengthen the maturity profile of overall debt. The following highlights how the selected African countries have been managing their borrowing strategies to their benefit in the past few years, and the significant public debt risks they are facing in the context of overlapping global shocks (with domestic and regional disruptions for some countries) in 2022 and the near term.

External financing has offered cheaper and longer maturities than domestic funding for all selected African countries, although access is weak in periods of significant uncertainty and shocks. Figure 10 shows that, with the exception of Morocco and Togo, the selected African countries have borrowed more from external than from domestic sources. This may have been driven primarily by the cheaper interest rate charges and longer maturity profiles of external debt compared with domestic debt. For example, the interest rate charged on domestic debt is at least three times that on external debt in Ethiopia, Ghana and Togo. In terms of years of maturity, external debt is twice to four times longer than domestic debt in all seven African countries. This has potentially been shaped by the dominant share in total external debt of multilateral borrowing, which typically offers concessional and/or fixed rates.

With the exception of Togo, the African countries have also issued debt securities (Eurobonds) on international financial markets; for Côte d’Ivoire and Ghana, around 40% of their respective external debt comprises Eurobond issuances. Nevertheless, international investors’ sentiment shift easily at the sign of any uncertainty (local or domestic), which increases borrowing costs. For example, unfavourable market conditions in 2021 led to the postponement of Côte d'Ivoire's Eurobond issuances, which instead tapped the regional market to mobilise funding. Box 2 describes the advantages of Eurobond issuances and the sources of risks in relying on them.

Box 2 Advantages of and risks around increasing Eurobond issuances by African countries

Smith (2021) summarises the following advantages and risks around the increasing importance of Eurobond issuances for African countries.

- **Growing asset class:** As of 2021, the stock of African Eurobonds had reached $140 billion, issued in euros and US dollars, with a long maturity profile, of 30 years or more. Most issuances are from emerging economies (e.g., Egypt, Nigeria, South Africa) but a sizeable amount (in proportion to GDP size) come from Angola, Côte d'Ivoire, Gabon, Ghana, Senegal and Zambia.
- **Market access and empowered debt management:** Eurobonds provide quick financing that governments can invest flexibly. Debt management offices are empowered in such a way that they can tailor the denomination, currency and payment schedule of debt issuances.
- **Benchmark of country risk for the private sector:** All terms and conditions of Eurobonds are published by the exchanges on which the bonds are listed, and have gained relatively wide coverage in the global financial media, providing a benchmark for country risk that helps attract other capital flows.
- **Major risk that Eurobond holders' sentiment can change quickly:** While the cost of sovereign bonds is based on an assessment of economic, political, social, environmental and market (e.g., boom or bust) factors, Eurobond holders' sentiments can shift quickly, even if any uncertainty does not originate from the issuing sovereign (e.g., Covid-19). This increases borrowing cost and foreign exchange risks for the debt portfolio.

Guarantees on public debt issuances in selected African countries have helped lower the cost of borrowing for these countries and supported the reprofiling of their debt composition towards long-term debt. For example, part of Tunisia's past Eurobond issuances were guaranteed by third-party sovereigns such as Japan and the US, which secured interest rates that were cheaper by up to 4 pp than was the case for unsupported ones (EIU, 2018). In Togo, the African Trade Insurance Agency guaranteed FCFA 67 billion in debt from a commercial bank in Tokyo with 10-year maturity, a two-year grace period and a 4.7% interest rate, which helped repay FCAF 65 billion in domestic (regional) debt with 3.5 years of residual maturity and a 6.9–7.5% interest rate (Togo First, 2021).

The reliance on external debt of selected African countries has led to active debt management strategies to mitigate foreign

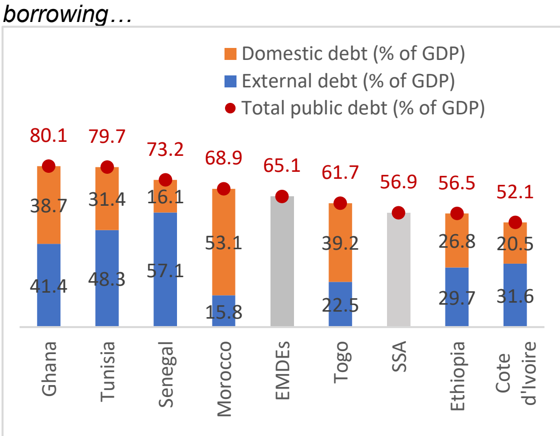
exchange rate risks. These countries have been implementing hedging or swap operations, increasing the share of foreign debt denominated in the foreign currency to which the local currency is pegged (e.g., the euro in the case of African countries in WAEMU using the CFA franc; and major trading partners' currencies such as the US dollar and the euro for the Moroccan dirham and the Tunisian dinar). For selected African countries with flexible exchange rates, efforts have been focused on developing domestic debt markets and longer debt instruments, as well as building foreign exchange buffers.

Côte d'Ivoire and Morocco exhibit the smallest gaps between the interest rates of domestic and external debts among the seven African countries, highlighting the importance of building a good track record and developing domestic debt markets. Morocco enjoys both lower interest rates on domestic and international debt, and the smallest interest rate gaps between these two funding sources compared with other African countries (Figure 10). The relatively lower domestic borrowing cost may be driven by the large local investor base, which comprises mostly medium- to long-term investors (see Table 24). Meanwhile, Morocco's steady access to international markets at favourable terms in the past 10 years and since the pandemic have been influenced by the country's good track record and favourable ratings (IMF, 2022f). Market participation may have also been encouraged through Morocco's effort to increase its transparency by means of periodic data publication and closer coordination between MEF and BAM. Meanwhile, Côte d'Ivoire's strategy prioritises concessional and semi-concessional borrowing, but also issuing longer-dated debt securities on both international and regional markets at favourable terms. For instance, as of 2021, 31% of Côte d'Ivoire's external debt was owed to multilaterals; this has largely been concessional, especially during the pandemic. In addition, Côte d'Ivoire has smoothed out its domestic debt maturity in favour of longer-dated securities, with 75% of domestic debt having five- to 10-year maturity, and 20% with maturity above 10 years (Table 12).

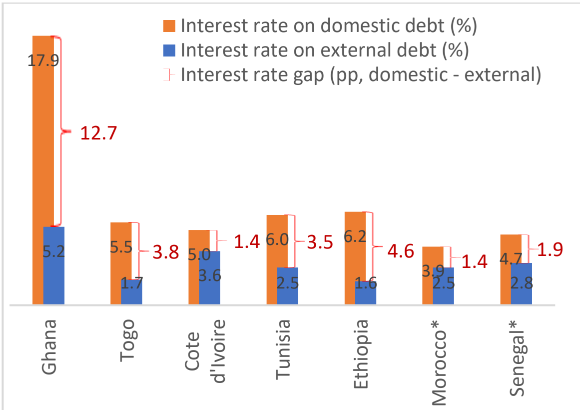
The compounding challenges of the lingering effects of Covid-19, the spillovers of the Russia–Ukraine war on commodity price hikes and global financial tightening owing to the high-inflation environment pose serious threats to public debt and the overall macro-financial stability of most of the selected African countries. While many African countries have benefited from increasing access to international markets in recent years, global shocks as a result of Covid-19 and the Russia–Ukraine war have led some governments to put in place social safety nets (e.g., food and energy subsidies) to preserve the consumption of the most vulnerable and ease social tensions, widening the fiscal deficit and putting more pressure on to increase public debt. In Ghana, for example, gains from higher prices of commodity exports (e.g., oil, gold) were offset by significant capital flows as of June 2022, and faster inflation was driven by increases in ex-pump petroleum prices, transport costs, food prices and the pass-through effects of depreciation (BOG, 2022). The latest data (as of 2022) point to elevated inflation in selected African countries: Ghana's inflation reached 29.8% in June 2022, Ethiopia's inflation over 2022 is expected to reach 34.5%, Morocco and Tunisia recently registered a multi-decade record and countries in WAEMU (Côte d'Ivoire, Senegal and Togo) have all exceeded the regional inflation target of up to 3%. On the one hand, higher inflation can reduce public debt's real value (e.g., the value of the debt in terms of a basket of goods and services). On the other hand, the high-inflation environment could put pressure on central banks to increase their policy rates, which may translate to higher domestic borrowing costs and tame growth prospects. It could also increase future borrowing costs with regard to external sources, as investors demand higher interest rates to compensate for higher uncertainty.

Figure 10 Emerging risks to public debt profile of selected African countries

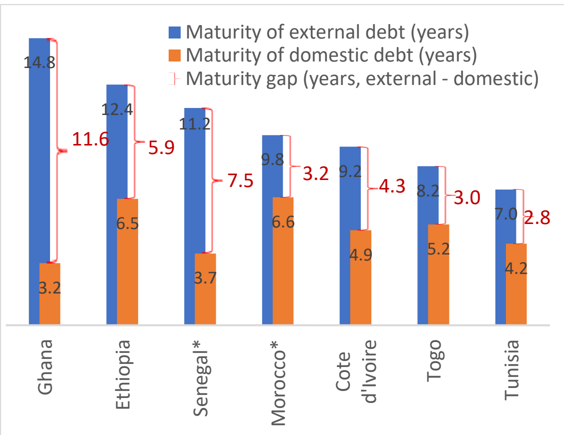
As of 2021, most of the seven African countries had reached public debt levels above those of their counterparts in SSA, and relied more on external borrowing…



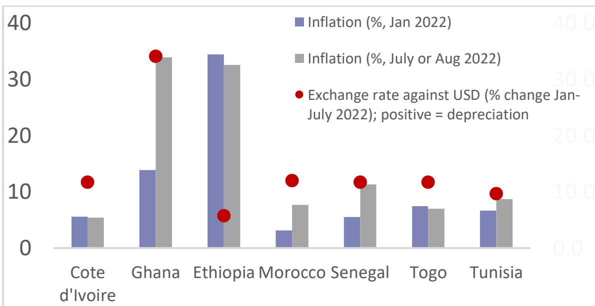
…given that, compared with domestic borrowing, the cost of external debt, especially from multilaterals, is cheaper (by up to 13 pp in Ghana)…



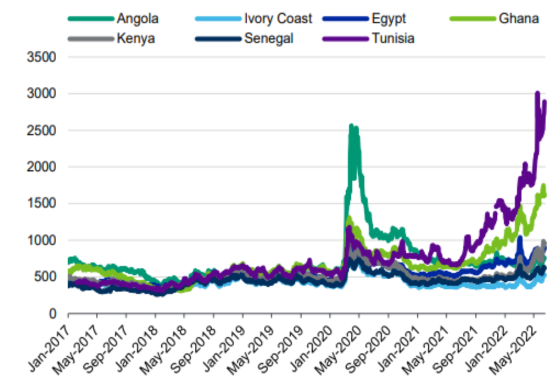
…and external debt has longer maturity (by up to 12 years in Ghana).



However, the inflationary environment in 2022, triggered by Covid-19 supply chain disruptions and Russia–Ukraine war-induced commodity price hikes has led to global financial tightening (e.g., higher interest rates in advanced economies, capital outflows from LMICs). Pass-through effects to faster inflation and exchange rate depreciation have been most prominent in Ghana.



External and domestic conditions may increase domestic borrowing costs if central banks in selected African countries increase policy rates to stabilise prices and manage capital flow. Sovereign spreads are already increasing as of June 2022.



Source: Graph lifted from Moody's (2022e).

These global financial conditions will put interest rate, refinancing and foreign exchange rate risks on the public debt for most of the selected African countries: 13–33% of public debt to be refixed in 2022 may face higher interest rates.

	External debt** (% of total, 2021)		Public debt (% of total, 2021)	
	US$ + € denominated debt	Variable interest rates	Maturing in 1 year	Refixing in 1 year
Côte d'Ivoire	80.7	7.6	9.4	14.5**
Ethiopia	55.0	25.9	10.3	20.0
Ghana	89.1	13.1	13.6	19.4
Morocco***	95.0	27.8	11.5	18.5
Senegal*	86.4	11.8	4.8	15.5
Togo	48.1	1.0	12.5	12.8
Tunisia	82.4	17.8	14.4	32.7

Notes: Data are as of 2021, except for * Senegal, where data are as of 2020; ** US$ + € denominated debt and debt with variable interest rates refer to public debt (no disaggregated data for external debt); for Côte d'Ivoire, debt to be refixed is as of 2020; *** for Morocco, public debt is as of 2020.

Sources: Unless otherwise stated, figures, charts and table are based on authors' compilation of official government data cited in Section 3 of this paper.

In addition, the inflationary environment worldwide has induced policy rate hikes in advanced and emerging economies to arrest inflation, capital outflows from LMICs and widening sovereign spreads (i.e., higher borrowing cost). Hence, these recent developments may increase the following risks to the public debt portfolio of selected African countries:

- *interest rate risks* on the proportion of public debt portfolio with variable interest rates (12–19% of public debt in Ethiopia, Senegal and Tunisia; 18–28% of external debt in Ethiopia, Morocco and Tunisia)
- *refinancing risk*s for a high proportion of debt that needs to be refixed in 2022 (20% and 33% of total public debt in Ethiopia and Tunisia, respectively; 30% and 46% of domestic debt in Ghana and Tunisia, respectively); or that needs to be financed owing to upcoming maturity (30-50% of domestic debt is maturing over 2023 for Côte d'Ivoire, Ghana and Senegal)
- *foreign exchange risks*, especially for selected African countries with significant foreign currency-denominated debt, and that have recently been experiencing currency depreciation under a floating exchange rate regime (Ghana and Ethiopia)
- *risks associated with SOE debts and public contingencies.* SOEs and/or public guarantees have played a prominent role in the public debt composition of some African countries (e.g., Ethiopia, Morocco, Senegal and Tunisia). For example, public guarantee claims reach up to 3.5% of GDP in Senegal; SOE

external debt will add 15% of GDP’s worth of debt to Côte d’Ivoire central government debt.

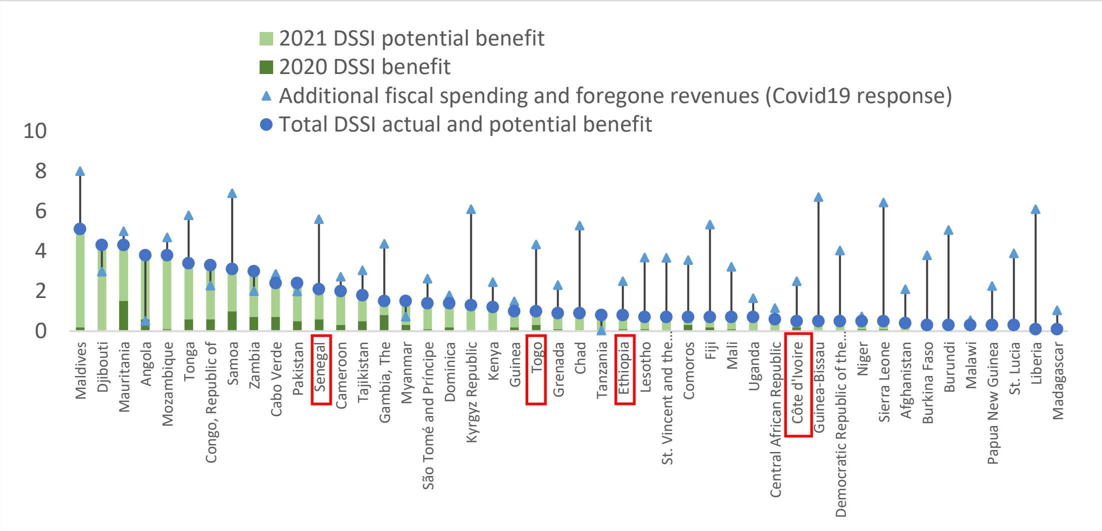
The risk of debt distress over 2020–2021 was already high for Ghana and Ethiopia, and moderate for Togo; Côte d’Ivoire and Senegal’s risk of debt distress may be put under pressure owing to ongoing external shocks in the near term. On top of this, selected African countries are also experiencing domestic and/or regional shocks, such as drought in most cases, regional insecurity (including ECOWAS sanctions on Mali) and the conflict in northern Ethiopia and consequent loss of access to AGOA. As of 2022, at least one CRA has assigned a ‘negative outlook’ for Ghana, Tunisia and Ethiopia; the former two have ongoing discussions with the IMF while Ethiopia is progressing with its application to the G20 Common Framework.

In view of unfavourable international financial market conditions, domestic borrowing by selected African countries has grown faster in recent years, despite higher costs and the potential crowding-out effect. On the one hand, increasing access to the domestic debt market is aligned with most governments’ medium- to long-term goal of increasing the domestic investor base and lengthening the maturity of domestic debt instruments, including those from WAEMU regional markets. In addition, most of these countries resorted to domestic debt sources when international terms become relatively unfavourable owing to uncertainty regarding the lingering effects of Covid-19 in 2021, and more recently amid the Russia–Ukraine war. On the other hand, domestic debts are relatively more expensive and have shorter maturities, posing interest rate and refinancing risks in the near term. It may be noted, however, that in some cases episodes of sharp depreciation will make external debt denominated in foreign currency also expensive (e.g., higher levels of local currency needed to pay foreign currency-denominated debt).

The DSSI provided valuable liquidity support but fell short of fully financing Covid-19 policy responses in LICs, including some participating African countries. The DSSI extended some breathing space to participating LICs to reallocate their deferred debt service obligations towards their policy response. Estimated DSSI benefits over 2020–2021 would have been equivalent to around a third of Covid-19 fiscal packages in Ethiopia and Senegal and around a fifth in Côte d’Ivoire and Togo (Figure 11). Ghana has not been eligible to access the DSSI since the scheme requires existing or a request for IMF support; Ghana requested support only in July 2022. Overall, a third of eligible LICs did not apply to the DSSI, while the Common Framework received only four applications and is yet to implement debt treatment – potentially because of eligible countries’ fear of adverse effects of debt relief participation on future market access, or of restrictive conditionalities.

The first debt treatment agreement for Chad was reached on 11 November 2022 – nearly two years after Chad's application to the Common Framework (MFB, 2022). However, the World Bank has expressed concerns on the appropriateness of the terms of agreement which indicates no immediate debt reduction, consequently maintaining a high debt service burden for Chad (Shalal, 2022). Box 3 highlights the key challenges around the DSSI and the Common Framework beyond the DSSI.

Figure 11 Estimated benefits from the DSSI in participating LICs, versus the Covid-19 response, 2020 and 2021 (% of GDP)



Notes: 2021 DSSI potential benefits are based on official reports submitted to the World Bank Debtor Reporting System but figures are preliminary as some administrative negotiations on the amount of debt service to be deferred is still ongoing for some countries. Estimates for the DSSI benefit for 2020 are derived from World Bank International Debt Statistics projections. Participating African countries within the focus of this paper are marked with a red outline.
Source: Authors based on data from World Bank (2022a) and IMF (2021a).

Box 3 Challenges around the G20 Debt Service Suspension Initiative and the Common Framework

Many African countries, including Côte d'Ivoire, Ethiopia, Ghana, Senegal and Togo, have reduced their excessive debt service burdens through the debt relief under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, launched more than 20 years ago, driven by the strong participation of multilateral institutions and Paris Club creditors (see IMF, 2019b).

However, the debt composition of many African countries in recent years has gone beyond official and bilateral borrowing, and addressing domestic and external shocks (e.g., Covid-19 impacts) has increased pressure for public borrowing. The G20 launched the DSSI in April 2020 to help LICs reallocate their debt service payments towards their Covid-19 policy responses, initially until December 2020; this was extended to December 2021. In November 2020, the Common Framework for Debt Treatment beyond the DSSI was introduced as a case-by-case approach to addressing debt vulnerabilities. Despite the availability of these debt relief opportunities and increasing debt distress vulnerabilities, a third of LICs deferred application to the DSSI, while the Common Framework received only four applications (Chad, Ethiopia, Somalia and Zambia) and is yet to implement debt treatment (Paris Club, 2022). After nearly two years since Chad applied to the Common Framework in January 2021, Chad became the first country to have a debt treatment agreement with its creditors on 11 November 2022 (MFB, 2022).

Current debates on the relevance of these initiatives include the need to address the following bottlenecks.

- *The DSSI has involved only official creditors, limiting the size of debt relief*. The G20 has called on private creditors to participate in the initiative on comparable terms but only one private creditor has done so (World Bank, 2022a). In addition, some governments see only modest gains from participation in the DSSI in the absence of private sector participation. For example, Table B1 indicates that 15-57% of external debt in selected African countries are owed to commercial banks or via Eurobond issuances. This is compounded by other fears, such as of restrictive conditionalities of IMF programming (i.e., DSSI eligibility criteria) and of credit rating downgrades that may stem from application to the DSSI (Fresnillo, 2020; Humphrey and Mustapha, 2020; Griffith-Jones and Kraemer, 2021).

Table B1. Composition of external debt, 2021 (% share of total external debt)

	Commercial banks and/or Eurobonds	Multilateral	Bilateral	Others
Cote d'Ivoire	42.3	30.1	16.5	11.1
Ethiopia	15.0	52.2	28.3	4.5
Ghana	57.3	28.9	4.7	9.1
Morocco	35.0	52.0	13.0	0.0
Senegal	22.4	42.3	29.8	5.5
Togo	46.6	48.9	4.4	0.1
Tunisia	24.7	54.2	17.7	3.4

Source: Government reports cited in Section 3 of this paper.

- *The Common Framework requires the participation of private creditors, which has contributed to its significantly slow progress and implementation.* To overcome collective action challenges and ensure fair burden-sharing, the Common Framework requires private creditors to participate on comparable terms as official creditors. Coordination takes time among stakeholders, including Paris and new and non-Paris Club creditors (e.g., China and India), domestic institutions and multiple agencies (IMF, 2022a). One suggestion is to allow for a comprehensive and sustained debt service payment standstill for the duration of the negotiation to provide relief to debtors under stress and incentivise faster procedures for debt restructuring (Georgieva and Pazarbasioglu, 2021).
- *Fear of credit rating downgrades may have been deterring participation debt relief frameworks* (UNDESA, 2022). Credit rating agencies generally characterise defaults as missed payments on non-official debts, such that debt suspension under the DSSI is not considered a default (or a risk of one) since the private sector is not involved in a mandatory way. There is empirical evidence that, on average and at least in the short term, DSSI participation helped lower the spreads of participating countries vs non-participating counterparts, although the size of the decline varies widely (e.g., by 37 bps in Fuje et al., 2021; by 200 bps in Lang et al., 2021). Meanwhile, debt treatment

under the Common Framework requires debt restructuring with all creditors and may result in debt reduction, which falls under the criteria of a default or increased likelihood of one, further limiting their access to capital markets (Griffith-Jones and Kraemer, 2021). This was evident in Ethiopia: CRAs downgraded Ethiopia's rating and government bond yields increased by 3 pp from below 6% in January 2021 to above 9% in February 2021 following the country's application to the Common Framework (Strohecker, 2021).

- *Eligibility for for the DSSI and the Common Framework is limited to 73 LICs and LMICs but it may be extended to heavily indebted countries* that can benefit from creditor coordination (Georgieva and Pazarbasioglu, 2021).
- *The terms and size of debt treatment need to be appropriate to the short- and long-term debt vulnerabilities of recipient countries.* For instance, the World Bank expressed concerns that the first debt treatment agreement for Chad under the Common Framework does not include immediate debt reduction, such that the high debt service burden may continue to crowd out priority expenditures on food, health, education and climate (Shalal, 2022).
- *A long-term oriented approach is needed to help countries address underlying debt sustainability issues.* The DSSI provides liquidity support and the Common Framework helps coordinate debt treatment but there is a need for international coordination to address long-term debt sustainability issues. Some are advocating for debt cancellation, including for multilateral debt and restructuring (Fresnillo, 2021); others for reforms to international credit rating systems to support sustainability development goals (UNDESA, 2022); others for developing local currency debt for both domestic and international markets (Griffiths et al., 2020); others for designing financing facilities (e.g., by multilaterals, development banks, public–private, etc.) to address both the short-term goal of macroeconomic stabilisation and also the long-term goals of resilience against future shocks and climate change (Volz et al., 2021; Raga and te Velde, forthcoming).

Debt-for-development swaps have been in place in Morocco and Tunisia since even before the pandemic, as a promising mechanism to achieve debt sustainability and social and environmental goals in the current context of multiple crises. Prior to and during the pandemic, Tunisia successfully converted its debt with Belgium, France, Germany and Italy into development projects, such as in coastal protection; aid for health, education and infrastructural development in disadvantaged regions; and job creation and small business development. Similarly, Morocco has converted its public debt owed to Italy into public projects focused on human development and archaeological activities. Debt-for-climate swaps have been implemented at a lower scale in the past (e.g., in Bolivia, Brazil, Poland, Seychelles) and have demonstrated the advantage of this instrument in easing the debt burden, addressing domestic vulnerability to climate change and contributing to achievement of global environmental goals (IGSD, 2020). However, in the absence of a global framework for such swaps, their bilateral nature makes them less transparent, with significant delays in negotiations. Nevertheless, Chamon et al. (2022) argue that debt-for-climate swaps are useful to expand government climate investment in the absence of conditional grants or more comprehensive debt restructuring, such as in the current context.

A global architecture for a comprehensive debt relief framework (including restructuring, reduction) and financing facilities in the context of significant global shocks needs to be on top of the global cooperation priority agenda. Most of the countries that are the focus of this paper are among the top performers in Africa and the world in terms of GDP growth in the past decade, partly because of their demonstrated commitment to implementing economic and social reforms. Yet they have not been spared the adverse spillover effects of shocks such as Covid-19 and the Russia–Ukraine war – whose origins are geographically remote from Africa. In the current context of commodity price shocks and policy rate hikes in advanced economies and emerging markets, fiscal resources are being squeezed to alleviate the rising cost of living and preserve the consumption of the poorest, at the same time that costs of public borrowing from international markets have increased (e.g., increasing sovereign spreads, see Figure 10). Pressing issues need to be discussed at an accelerated level with high political support (e.g., at the G7, G20):

- Expedite and incentivise participation in the Common Framework. This includes encouraging the participation of countries showing clear warning signs of increasing debt distress, as well as official and private sector creditors. There is also a need to recognise an increased role for new and significant creditors (e.g., China extends significant bilateral lending to Ethiopia, Senegal and Togo) in expediting debt restructuring efforts. Discussions with CRAs may also be necessary on rethinking their treatment (e.g., potential downgrades) of application to the DSSI/Common Framework, which may be partly influencing the non-participation of some eligible countries that may benefit from early participation in such initiatives.

- Extend the DSSI and/or consider a debt service standstill while application to the Common Framework is in progress.

- Extend eligibility for the DSSI/Common Framework to highly indebted MICs (to mitigate debt distress in these MICs, which may have spillover effects to LICs).

- At the bilateral level, consider extending debt-for-development or debt-for-climate swaps, leveraging successful past swaps in the African context. This may fill in the financing gap for necessary public services and investment, at a time when fiscal resources are limited, debt service is high and certain African countries cannot access international markets. Sovereign guarantees on African countries' debt issuances may also help countries gradually reprofile their short-term debt into longer-term debt with more favourable rates in stable times, and preserve access to international markets, especially during shock episodes.

- Design shock financing facilities to provide quick concessional or grant-based liquidity support, especially in the context of global financial tightening or heightened uncertainty when borrowing from international markets is expensive. Financing can be designed to address short-term stabilisation needs, but also be linked to public spending geared towards increasing public debt and macroeconomic resilience to future shocks (e.g., institutional capacity for debt management; developing domestic debt and the financial market; investment in climate-responsive infrastructure; strengthening social safety net systems; economic diversification).

5. Conclusion

Côte d'Ivoire, Ghana, Ethiopia, Morocco, Senegal, Togo and Tunisia exhibited strong and stable economic performance in the decade prior to the Covid-19 pandemic, supported by their firm implementation of economic and social reforms. Yet these selected African countries have not been spared adverse external shocks such as Covid-19 and the Russia–Ukraine war, which have put pressure on the sustainability of their public debt, their overall macroeconomic stability and their future growth trajectory.

This paper has examined the debt profile of the seven African countries to understand the opportunities and challenges around public debt management in each. In recent years prior to the pandemic and the latest geopolitical war, these countries were able to benefit from cheaper and longer maturities of external debt compared with domestic debt; guarantees for public debt issuances, which helped lower borrowing costs and lengthen the debt maturity profile; active external debt management; and a good track record combined with development of domestic debt markets to improve debt terms for both domestic and external debt.

However, the combined challenges of lingering effects of Covid-19, and spillovers from Russia–Ukraine have increased pressure to mobilise financing, at a difficult time when global financial tightening is increasing the cost of public debt. The composition of public debt of most of the seven African countries will increase the following public debt risks:

- *interest rate risks* on the proportion of the public debt portfolio with variable interest rates (Ethiopia, Senegal and Tunisia)
- *refinancing risk*s for the high proportion of debt that needs to be refixed in 2022 (Ethiopia, Ghana, Tunisia); or of domestic debt that needs to be financed owing to upcoming maturity over 2023 (Côte d'Ivoire, Ghana and Senegal)
- *foreign exchange risks*, especially for African countries with significant foreign currency-denominated debt, and that have recently been experiencing currency depreciation under a floating exchange rate regime (Ethiopia, Ghana)
- *risks associated with SOE debts and public contingencies.* SOEs and/or public guarantees have played a prominent role in the

public debt composition of some African countries (Ethiopia, Morocco, Senegal, Tunisia).

Against the backdrop of tightening financial conditions and squeezed fiscal resources, most of the selected African countries have resorted to their domestic debt market, and some have participated in the DSSI. However, domestic debts are generally more expensive, with shorter maturities, and participation in the DSSI/Common Framework has been constrained by limited private sector participation and potential impacts on market access. In this context, the call to expedite a global architecture for a comprehensive debt relief framework (including debt service suspension, debt restructuring and debt reduction) has never been more important. The following policy measures to help LICs, including some of the selected African countries, need to be supported at the global level with high-profile political support (e.g., G7, G20):

- Extend the DSSI and/or consider a debt service standstill while application to the Common Framework is in progress.
- Exert more international pressure to increase the participation of new significant creditors (China) in multilateral debt relief and restructuring efforts.
- Discuss and rethink the role of CRAs' treatment (e.g., potential downgrades) of application to the DSSI/Common Framework, which may partly influence the non-participation of some eligible countries that may benefit from early participation in such initiatives.
- Extend eligibility of the DSSI/Common Framework to highly indebted MICs (to mitigate debt distress in these MICs, which may have spillover effects to LICs).
- At the bilateral level, consider extending debt-for-development or debt-for-climate swaps, and sovereign guarantees of African countries' debt issuances. Swaps may help African countries fill their financing gap for necessary public services and sustainable investment. Guarantees on African countries' debt issuances may help them reprofile their short-term debt with longer-term debt in stable times, and secure market access during shock episodes.
- Design shock financing to address short-term stabilisation needs (e.g., prevent debt distress) that is also linked to financing to increase debt and macroeconomic resilience to future shocks (e.g., economic diversification, climate-responsive investment) to help long-term debt sustainability.

In the face of significant crises, limited resources and high levels of public debt, policy-makers face significant demand for basic immediate public services and safety nets. This makes political buy-in and take-up regarding increased spending on other public investment conducive for economic transformation more challenging (e.g., as seen during the pandemic, see Raga and te Velde, 2022). One area of future research relates to understanding the extent to which external shocks and their effects on a higher public debt service burden potentially derail long-term reforms in African countries (e.g., shifting of public resources from long-term transformative public investment towards short-term public expenses and debt service payments).

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