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Africa's debt crisis: no Gleneagles moment ahead

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Many African countries are currently experiencing a credit crunch. The crisis is sufficiently deep and widespread for the International Monetary Fund (IMF) to subtitle its April 2023 Regional Economic Outlook for Africa, 'The Big Funding Squeeze'. The fund predicts a second consecutive decline in Africa's growth rate, to 3.6 percent in 2023.

The IMF notes that no African country has been able to issue a eurobond – the term for sovereign bonds denominated in a major international currency – for over a year. While the situation varies between countries, a generally over-borrowed continent has been struck a triple whammy by, first lower economic activity as a result of the Covid-19 pandemic, then elevated inflation rates and, most recently, higher US dollar borrowing costs as the world has been forced to follow the US Federal Reserve's interest rate hikes.

Last year, the IMF warned that 60 percent of low income countries, worldwide, were either experiencing or in danger of debt distress. Sovereign spreads for Africa have soared to three times the emerging market average since the present credit tightening cycle began.

At the annual Spring Meetings, hosted by the IMF and World Bank in Washington in April, a senior IMF official called for 'another Gleneagles moment' to deal with Africa's sovereign debt crisis.

This is a reference to the G8 summit held at Gleneagles, Scotland, in 2005, which signed off on a debt cancellation process which ultimately saw US$130 billion in poor country debt being cancelled. That was partly a result of a high-profile public campaign, coordinated by the NGO coalition Jubilee 2000 and supported by such high-profile public figures as Irish rock star Bono.

There does not appear to be any such groundswell in 2023 although the need for debt restructuring is probably at least as urgent. The problem is that things have become

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much more complicated than they were 18 years ago. Then, the Highly Indebted Poor Countries (HIPC) initiative, which still exists, was funded mostly by developed, creditor nations, who wrote off bilateral debt, while about 44 percent of poor country debt was 'restructured' (deferred, written down) by multilateral lenders like the IMF and World Bank.

Between 2000 and 2015, 32 African countries had substantial potions of debt 'forgiven'. Very poor countries, like Malawi, Liberia and Sierra Leone, saw their debt obligations reduced by over 90 percent. Ghana's debt stock declined by 70 percent. The IMF 'forgave' all of the US$577 million that Zambia owed to it while other lenders wrote off another US$2 billion. The country's debt/GDP ratio fell from 161 percent in 1998 to 17.3 percent in 2010. In 2022, however, it had surged again, to 140 percent.

There have been at least two big changes to the nature of Africa's debt pile since Gleneagles. Lending by two players who were all but irrelevant in 2005, China and the private sector, have massively increased. So too has the continent's debt stock, which more than doubled between 2010, when it was US$321.5 billion, and 2021, when it had climbed to US$789.8 billion. The ratio of external debt to Gross National Income, for African countries, has climbed from 24 percent in 2010 to 43.1 percent in 2021.

A study by Boston University last year revealed that the private sector now accounts for 40 percent of Africa's debt stock and China for 13 percent. Debt to multilateral lenders makes up a further 32 percent of the continent's liabilities while bilateral debt, excluding China, is only 15 percent of the total.

The relatively low proportion accounted for by debt to Chinese entities might seem somewhat counter-intuitive to anyone listening to the debate. Earlier this year, on a visit to Zambia, the continent's first debt defaulter in the current era (in 2020), US Treasury Secretary Janet Yellen remarked that: 'I know the Chinese have been a barrier to concluding the negotiations.' Elsewhere, it has been suggested that China is creating 'a parallel system of development finance' which is 'widely considered more transactional and opaque'.

According to the Financial Times, 'some experts say that Beijing's lending spree and refusal to play by western-established rules is the single largest impediment to government debt workouts'. However, it is all too easy to exaggerate Beijing's role.

China is indeed Zambia's biggest bilateral creditor, with debts totalling US$6 billion (out of a total of about US$20 billion). And Chinese debt is notoriously fragmented and opaque. The reason is that

Chinese credits are advanced by a range of public and state-owned entities on a project basis. These lenders include EXIM Bank, China Development bank, Industrial and Commercial bank of China and Bank of China, although there are many other players, including Chinese local and regional governments.

Nevertheless, across the continent, debt to China is heavily outweighed by private sector debt. Africa's debt to China is about one-third of what it owes to bond holders, banks, and private investors. This is a result of what, until the present crisis upended perceptions, widely thought to be a great success – Africa's successful engagement with capital markets over the last decade-and-a-half. An IMF blog describes this access as 'hard-won access'.

Since 2007, 21 African governments have issued Eurobonds. In 2021, this stock accounted for US$144.7 billion of the continent's debt stock, with 'private credit' (loans and privately-placed bonds) accounting for another US$216 billion. This accounts for nearly 46 percent of Africa's total debt, according to World Bank figures. China's supposed reluctance to 'forgive' or write down African debt is at least partly because it does not see why its entities should take losses when the western private sector is exempt.

But private sector players do not fit easily into debt forgiveness programmes. This hardly mattered in 2005 when a much smaller proportion of poor country debt was in private hands. When the G20 announced a pause in official debt repayment for developing countries in the face of the pandemic (the Debt Service Suspension Initiative which has since transmuted into the Common Framework for Debt Treatments), the private sector was not a party to the agreement. The Global Sovereign Debt Roundtable which met at the 2023 Spring Meetings did make reference to the presence of 'representatives of the private sector' but this multilateral meeting has no power to make decisions binding on business.

A 'Gleneagles moment' does not looks possible. Sovereign debts will be restructured but the process will almost certainly be ad-hoc and conducted on a case-by-case basis. These processes are going to be much more time-consuming and resource-intensive than those which led to the G8 decision in 2005. The announcement on 22 June 2023, of the agreement between Zambia and its official creditors under the G20 Common Framework provides a baseline and for contingent treatment, linked to assessment of Zambia's policy development and economic performance and policy, is an important development, not only for Zambia.

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