



# Recent changes in the debt sustainability framework, and non-concessional borrowing

DMF Stakeholders' Forum

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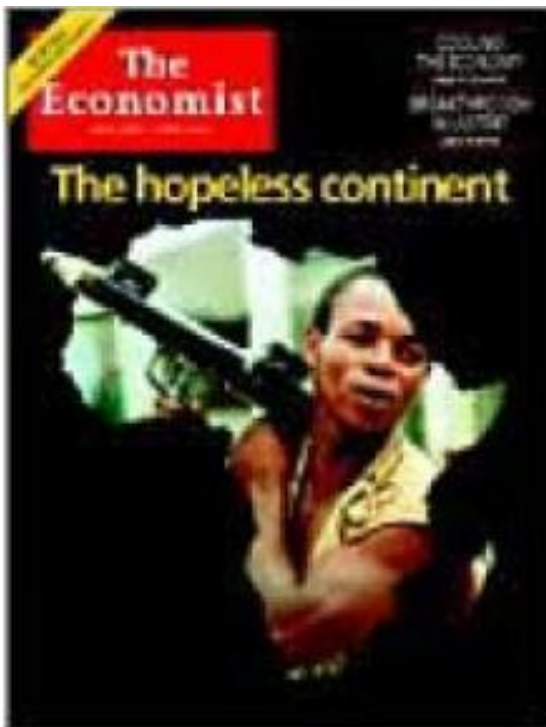
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# Outline of the Discussion

- I. Diagnostics
- II. Responses
- III. Concluding remarks

# Background

May 2000



November 2011



# Diagnostics: A Rising Africa...

Between 2000 and 2010:

→ **6 of the world's 10 fastest** growing economies were **ADF Countries**

→ Average growth of **more than 5%**

## World's 10 fastest growing economies<sup>b</sup>

(annual average GDP growth, %)

2001–2010 <sup>c</sup>		2011–2015 <sup>d</sup>	
Angola	11.1	China	9.5
China	10.5	India	8.2
Myanmar	10.3	<b>Ethiopia</b>	<b>8.1</b>
<b>Nigeria</b>	8.9	<b>Mozambique</b>	<b>7.7</b>
<b>Ethiopia</b>	8.4	<b>Tanzania</b>	<b>7.2</b>
Kazakhstan	8.2	Vietnam	7.2
<b>Chad</b>	7.9	<b>Congo</b>	<b>7.0</b>
<b>Mozambique</b>	7.9	<b>Ghana</b>	<b>7.0</b>
Cambodia	7.7	<b>Zambia</b>	<b>6.9</b>
<b>Rwanda</b>	7.6	<b>Nigeria</b>	<b>6.8</b>

a. *The Economist*, January 6, 2011.

b. Excluding countries with fewer than 10 million people.

c. 2010 estimate.

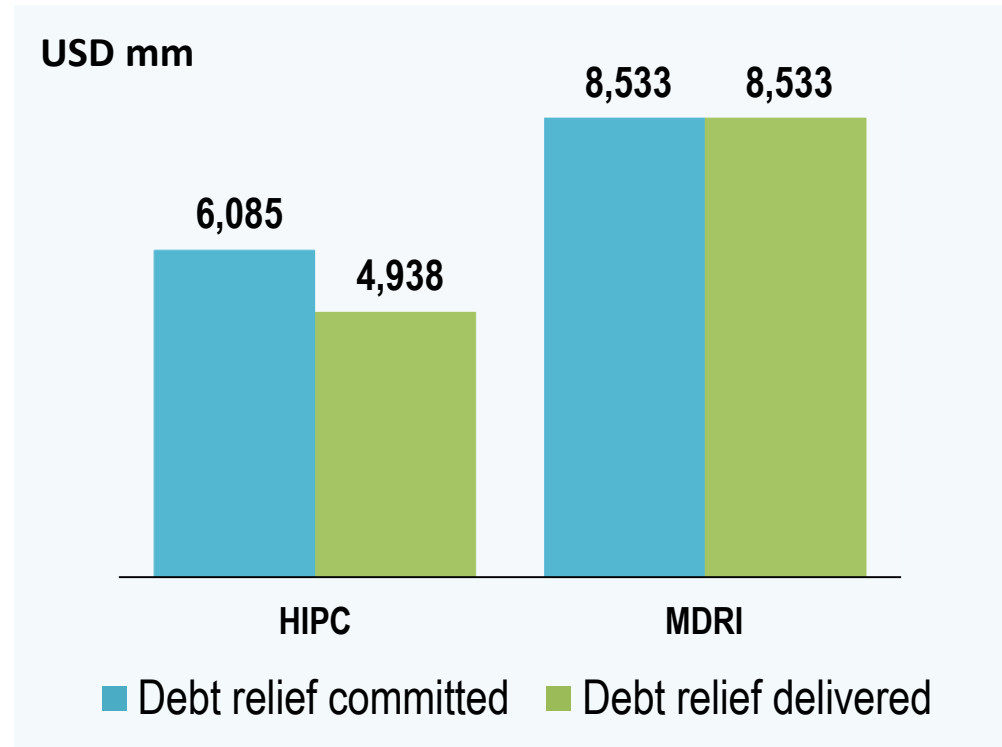
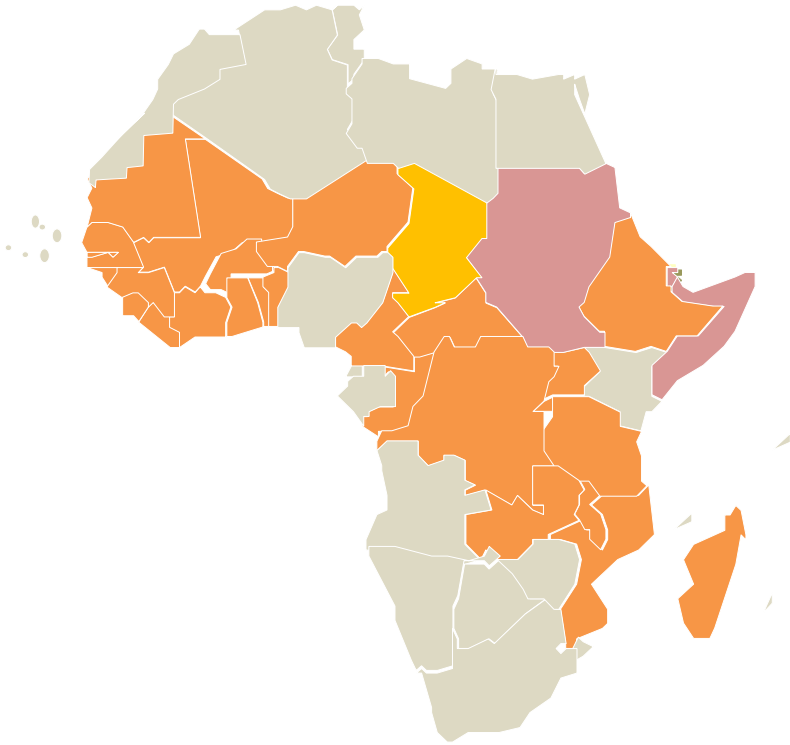
d. Forecast.



# Classification of RMCs by HIPC Status

(as at End-March 2014)

## Countries Status and Debt Relief Provided



Debt relief under HIPC and MDRI has substantially alleviated debt burdens in recipient countries and has enabled them to increase their poverty-reducing expenditure by almost three and a half percentage points of GDP between 2001 and 2012

# Diagnostics

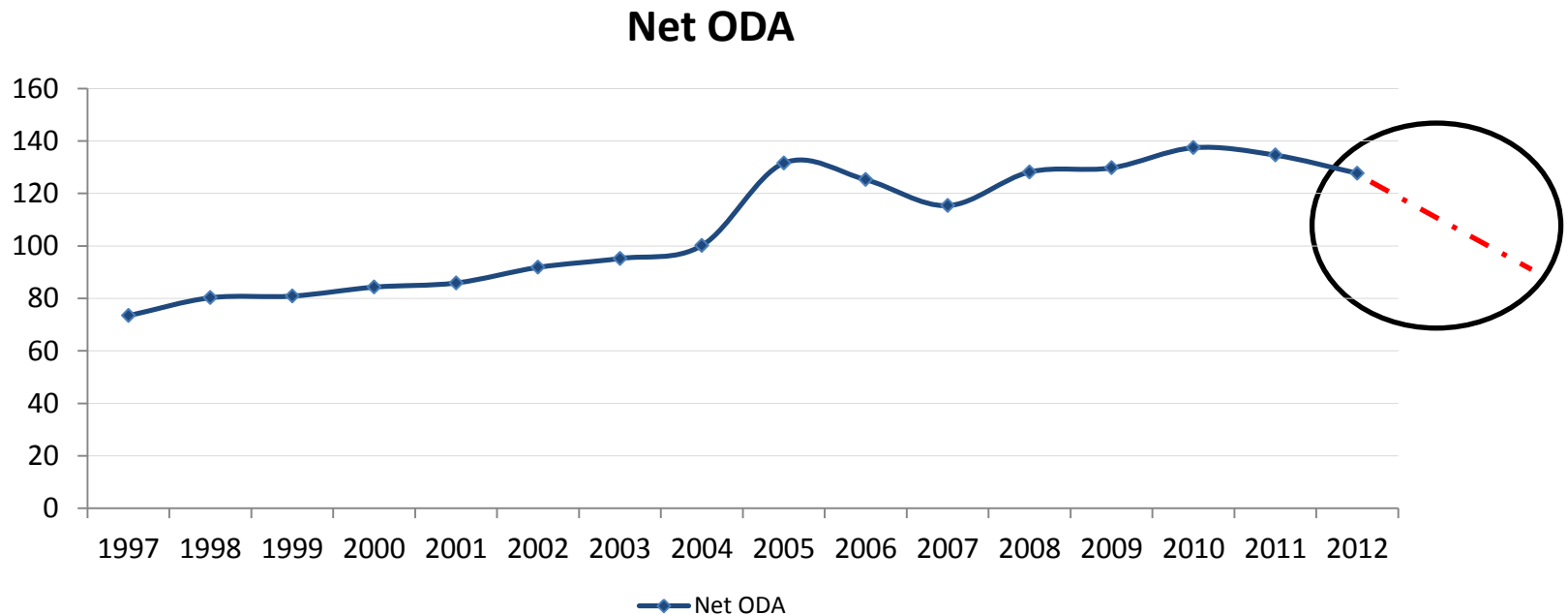
- Increased trend on [accessing international capital markets](#)
- Context of low interest rates

Country	Issue date	Maturity (years)	Amount (USD mm)	Yield	Subscr. (times)
Zambia	Aug-12	7	1,000	7 %	16
Rwanda	May-13	10	400	6.875 %	9
Nigeria	Jul-13	10	500	6.625 %	4,5
Ghana	Aug-13	10	1000	7.875 %	2,7

Country	10 year maturity Yield (end 2012)	10 year maturity Yield (end 2013)
United States	1.912 %	<b>3.028 %</b>
Germany	1.479 %	<b>1.929 %</b>
Italy	4.232 %	4.125 %
Portugal	6.329%	6.010%
Spain	5%	4.128%

# Diagnostics

- Post-HIPC and MDRI countries are still constraint by Debt Sustainability Framework
- Need for resources but concessional aid is declining



# Diagnostics

- Relative **low risk of debt distress**
- However some degree of **vulnerability to exogenous shocks**

Effect of Hypothetical \$500mn Eurobond Issuance

Country	% GDP	% Gov. Revenue	Increase in debt level (% leave)
South Africa	0.1	0.5	0.3
Nigeria	0.2	0.6	1
Kenya	1.1	4.2	2.2
Ghana	1.2	5.5	2.1
Cameroon	1.8	9.6	10



# Responses

- Amend the **Debt Sustainability Framework**
- Measures to **accompany** countries in **accessing to capital markets**
- Graduation frameworks for **smooth transition**
- **Innovative** Financial instruments

# RESPONSES: Debt Sustainability Framework

- More flexibility (debt limits)
- Smart Investments

# Responses: Access to Financial Markets

- Implement measures to **reduce effective borrowing costs**
  - Guarantees to extend debt maturities or Improve access to capital markets (e.g. ADF's new Partial Credit Guarantee)
- Need to **finance sustainable projects** (financing infrastructure gap)
- **Advisory services**

# Responses: Graduation

- **Graduation policy**
  - Creditworthiness assessment exercise
  - Differentiation among ADF countries under ADF 13
- Adoption in 2011 of the **Transition Framework** for countries changing status

# Responses: Innovative Financial Instruments

- Amendments of the **Credit Policy** (currently under revision)
- **Donor loans** (IDA-17, WG ADF-13)
- **Guarantees**

# African countries Issuing Bonds (2011-2013)



ADF Countries  
ADB Countries

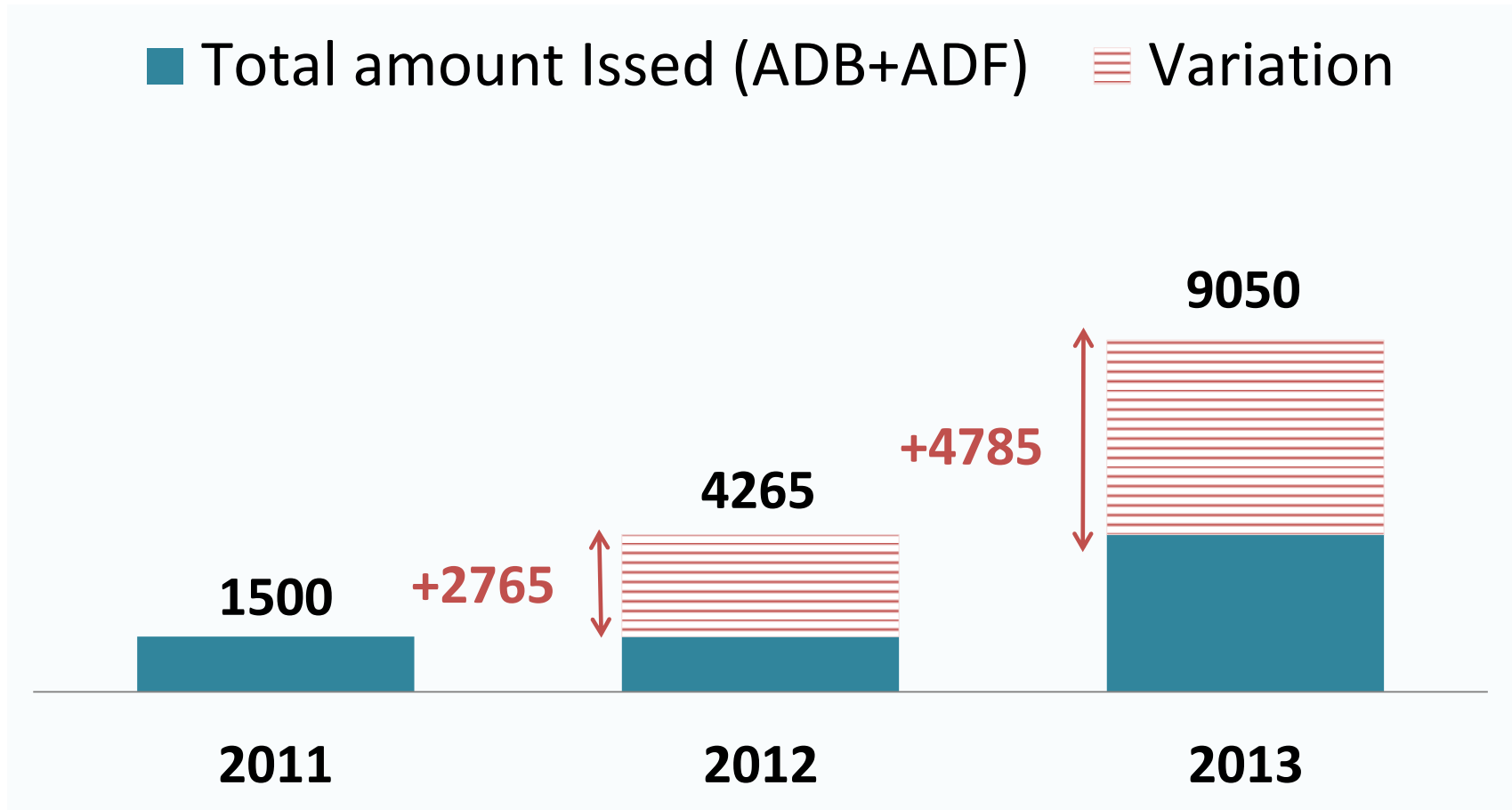
Africa bond issuance

<b>2008</b>	Lehman collapse
<b>2009</b>	200 mn USD
<b>2010</b>	4.8 bn USD
<b>2011</b>	1.5 bn USD
<b>2012</b>	4.3 bn USD
<b>2013</b>	9.6 bn USD



# African Countries accessing financial markets (excluding South Africa)

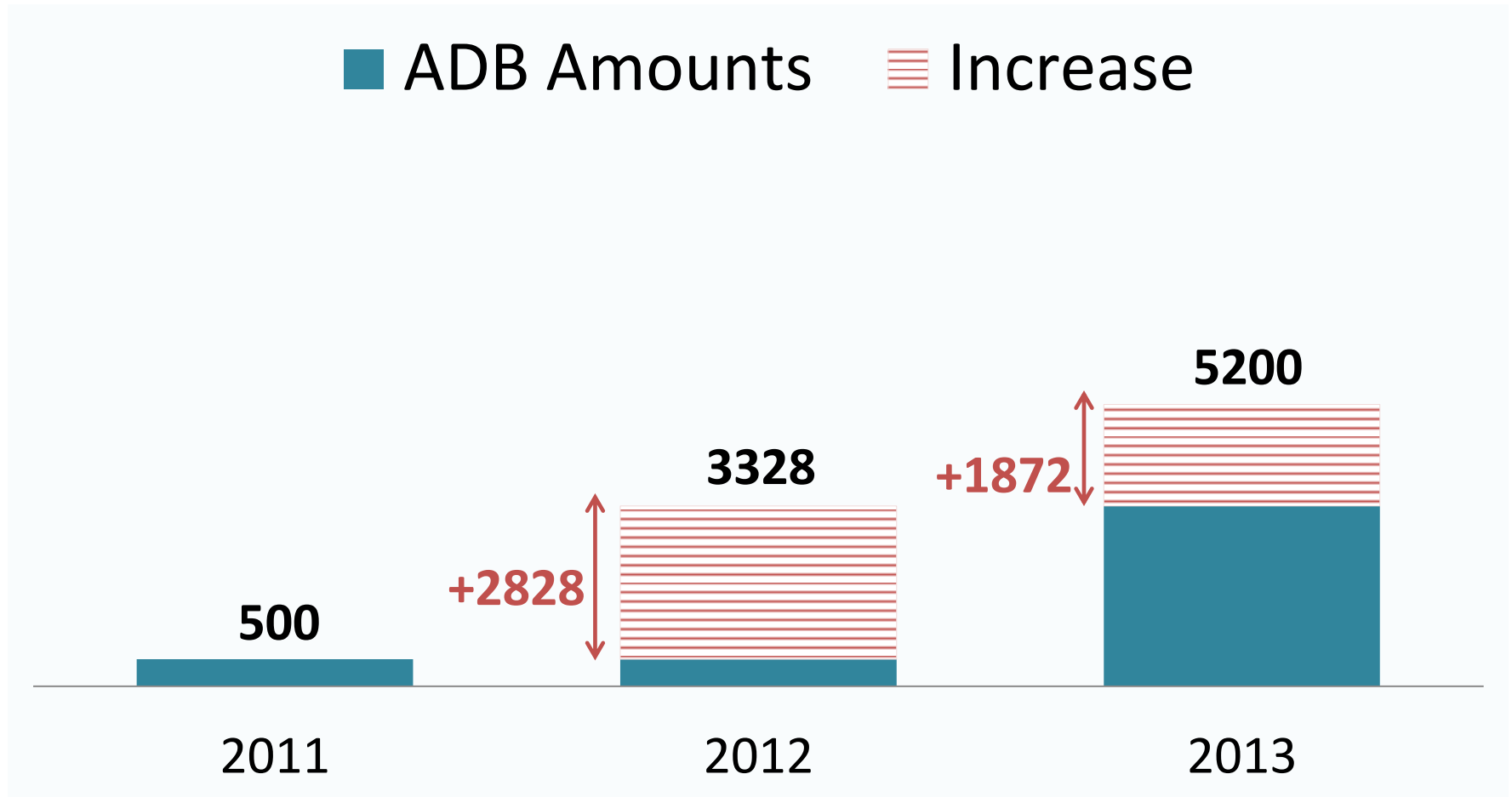
- Exponential growth in the last 3 years



With an average spread of 563 basis points



# ADB Countries accessing financial markets (excluding South Africa)

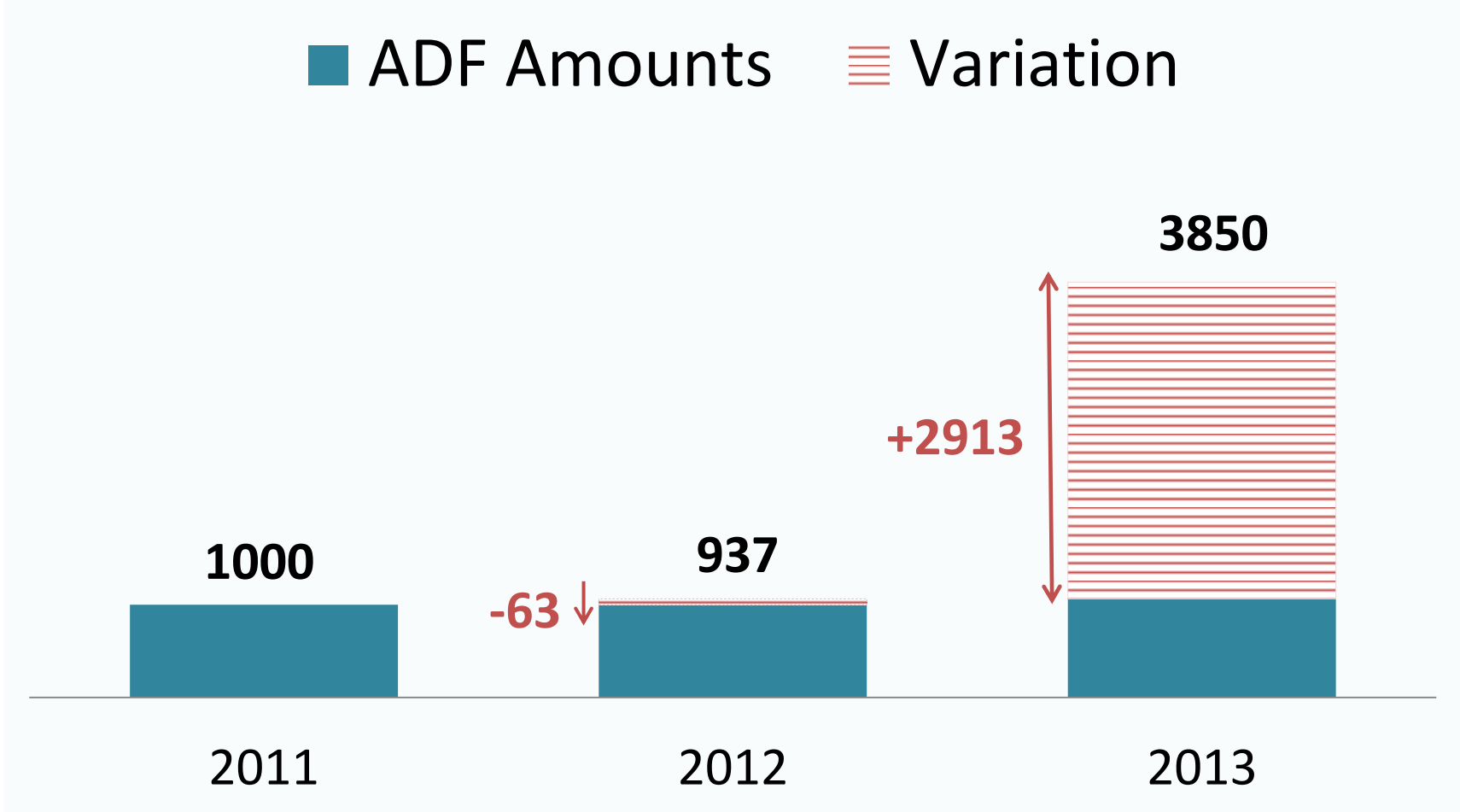


With an average spread of 503 basis points





# ADF Countries accessing financial markets



➔ With an average spread of 650 basis points



# Concluding Remarks

- A crossroad: **Opportunities and Risks**
  - Risks: growing domestic debt in many LICs; countries going to borrow from the capital market (rationale, where to invest, structural deficits)
  - Opportunity for reforms: innovative approaches; accelerated graduation for some countries
- Adequate **responses** needed to ensure **long term financial sustainability**