Understanding SADC Public debt sustainability challenges and current debt relief initiative limitations
in the amidst of COVID-19 pandemic recovery efforts

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Theme

IMF Special Drawing Rights a Sustainable Option for Financing the Fight Against Covid-19 Pandemic and Economic Recovery in Africa

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Presentation Outline

- SADC Debt Overview
- International community Covid-19 financial Response packages
- Economic Stimulus Packages in SADC Countries
- Current debt relief initiative limitations
- Debt sustainability fears
- Way Forward

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SADC Debt Overview

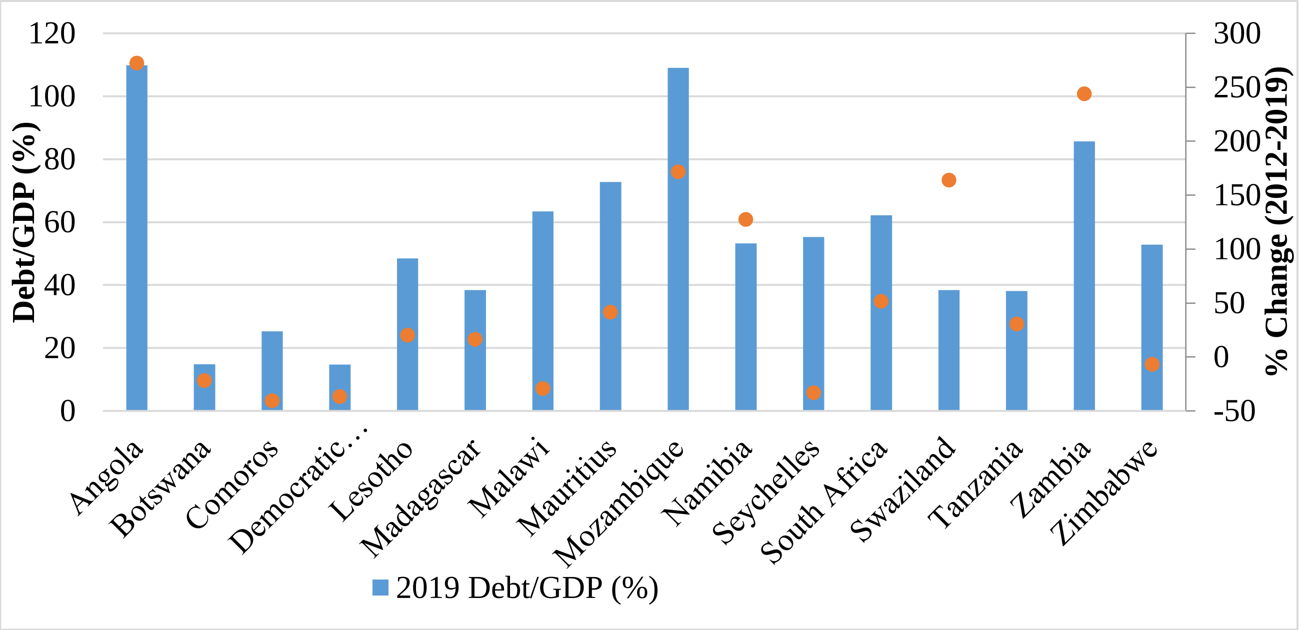
- SADC region – like the rest of the African continent - was already facing heightened debt challenges prior to the outbreak of the COVID-19 pandemic.
- In 2012 -Public debt accumulation in SADC countries has on the rise
- Countries debt distress ratings deteriorating - low to moderate - moderate to high risk - high risk to debt distress.
- COVID-19 economic impacts has worsened the debt sustainability situations of the most SADC countries.
- Covid-19 has affected key macroeconomic variables and global value chains which have significant implications for debt sustainability outlook across the globe.
- The fiscal pressures - COVID-19 health expenditures, economic stimulus packages - putting countries at risk of debt vulnerabilities.

SADC Debt Overview

- The average public debt for SADC increased from 39.2% in 2011 to 55% in 2019 (IMF, 2020).
- The pace of public debt accumulation has been higher for Angola, Mozambique, Zambia, Swaziland, Namibia and South Africa exceeding the regional average of 30%.
- Botswana, the Democratic Republic of Congo, and Zimbabwe experienced a decline in their debt-to-GDP ratios as shown in Figure 1.
- In 2020, 3 countries were in high risk of debt distress, namely Zambia, Angola and Malawi, and 2 countries in debt distress - Zimbabwe and Mozambique.
- SADC market access countries (MAC) - South Africa, Botswana, Namibia, Mauritius, Eswatini, and Seychelles - debts considered sustainable.

SADC Debt Overview

Figure 1: Pace of public debt accumulation in SADC



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SADC Debt Overview

- The main drivers of debt accumulation - new borrowing, budget deficits, exchange rates depreciations, rise in interest rates, debt creating -inflows, commodity price fluctuations and low foreign direct investments.
- Covid-19 has drastically reduced Government revenues while expenditures have increased due to sharp rise in health expenditures, social programs and recovery bailouts to firms.

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International community Covid-19 financial Rescue packages

- IMF did lend close to US$1 trillion to its membership – through the emergency financing facilities.
- SADC member states have accessed these facilities. Comoros borrowed US$12.13 million, Democratic Republic of Congo (DRC) 363.27 million; Madagascar US$165.99million, Malawi US$91million; Mozambique US$309 million, Tanzania US$14.3 million, and Seychelles US$31.2 million.
- The World Bank Group (WBG) have committed US$160 billion over 15 months. This amount includes US$50 billion to International Development Association (IDA).
- Countries that benefited for WBG Countries dedicated COVID-19 Fast-Track Facility include DRC US$47 million, Eswatini US$6 million, Lesotho US$7.5 million and Malawi US$37 million.
- Countries increased spending on health, social protection, food, and water.

Economic Stimulus Packages in SADC Countries

- In response to Covid-19, SADC countries have put in place stimulus packages to promote economic recovery.
- Monetary policy measures - central banks responded by cutting interest rates and providing more liquidity
- The sizes of fiscal support have been low and varies considerably across countries on the upper end being Seychelles at 5% and Namibia at 4.25% of GDP and smallest seems to be Eswatini at 0.14% (IMF Policy Responses to COVID-19 Tracker).
- These levels are far much below the stimulus package of at least 5% of GDP required by most countries and the levels witnessed in advanced economies of around 8-10% of GDP.
- While these funds are small compared to the COVID-19 needs, given the limited fiscal space the stimulus packages are likely to result in increased debt with little impact on growth.
- Countries cant increase fiscal stimulus amounts – due to decline in government revenues, foreign direct investment and remittances economic growth..

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Current debt relief initiative limitations

- The issue of debt relief and restructuring is now firmly on the global agenda as a measure to resuscitate economies and save the much needed domestic resources towards fighting the pandemic and providing social assistance.
- The G20 countries through coordination from the IMF and World Bank have put in place a number of initiatives aimed at offering debt relief to low income economies.
- Debt Service Suspension Initiative _ an initiative aimed at suspending debt repayments for 73 of the World's low income countries till June 2021.
- The DSSI was endorsed by the IMF, AfDB, Paris Club, China and G20 Finance to help poor countries manage the severe impact of the COVID-19 pandemic.
- The main goal of the DSSI is to allow poor countries to concentrate their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the most vulnerable people.
- Majority of SADC countries are beneficiaries – countries saving millions of USD from the initiative

Current debt relief initiative limitations

- The DSSI lacks the participation of private creditors and money freed up may be used to repay private debts and not to fund the response to the Covid-19 crisis.
- **DSSI came with conditionalities** - countries interested have to commit to use freed-up resources to increase social, health, or economic **spending** in response to the crisis, commit to disclose all public sector financial commitments (involving debt and debt-like instruments) and commit to limit their non-concessional borrowing as supported by ceilings under IMF programs and the World Bank's non-concessional borrowing policies.
- The DSSI only covers small percent of debt payments due in 2021 by all developing countries.
- Middle income countries are left out of this initiative when they are fighting the pandemic.

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Current debt relief initiative limitations

- Calls for the extension of the DSSI to 24 months (June 2022) instead of the current 6 month proposal to June 2021.
- The debt service suspension does not address the debt crisis, it just postpones the problem.
- Africa needs a debt resolution mechanism that addresses the legality, legitimacy, and sustainability of debts.

Current debt relief initiative limitations

- In November 2020 the G20 leaders approved a **Common Framework For Restructuring Of Debts** for 73 of the World's low income countries.
- To date, only 3 African countries (**Zambia,** Chad, Ethiopia) have sought debt relief under the initiative
- The mechanism is still short-term and do not address the core faults in the global financial architecture nor the flawed debt financed mega-infrastructure approach to development.

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Debt sustainability fears

- Because the loan contraction and debt management and social protection frameworks in SADC falls short of fostering transparency, accountability and inclusiveness, external and domestic public debt is likely to remain in unsustainable levels.
- It is important to address the above problem to avoid countries sliding into debt crisis which negatively affects sustainable financing for health, especially within the context of COVID-19 health crisis.
- The increased and rapid borrowing during the COVID-19 resulted in suspension of good debt governance standard practices- departure from sound debt management practices.
- SADC governments should ensure that proper good debt governance practices e.g. parliamentary approvals - are followed during the COVID-19 crisis and risks are minimized.
- Parliamentarians at SADC Parliamentary Forum (SADC PF) and national parliaments need to urge African governments to put pressure on the IMF to issue out SDRs

Way Forward

- African parliamentarians need to call the IMF to issue Special Drawing Rights
- The African Union, Finance Ministers, UNECA have all added their voices on the need for the SDRs issuance.
- In the likely event of SDRs issuance, parliament will have to play an important role in the usage, transparency and accountability of the funds.
- SDRs comes with no IMF conditionality attached. It is money that goes directly to country treasury and national budgets. National budgets are approved by parliamentarians. Therefore, they will be need for transparency at national level by the executive and extensive oversight by the legislature.

Thank you