# Central Africa

## Regional Debt Profile 2017

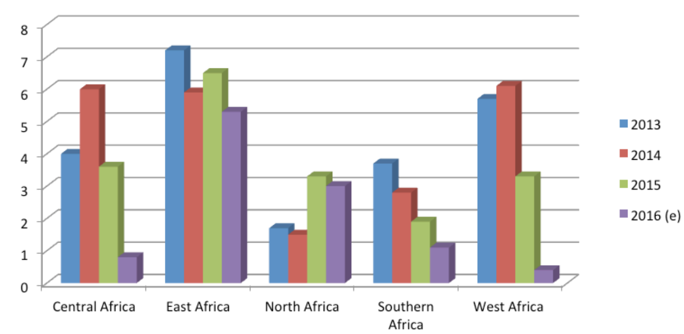
## 1. Introduction

Central Africa is the core region of the African continent. It is made up of the following countries Cameroon, the Central African Republic (CAR), Chad, the Republic of the Congo, Equatorial Guinea, Gabon and Sao Tome & Principe. All the countries in the region except Sao Tome & Principe are part of the Central African Economic and Monetary Community (CEMAC). CEMAC was established in 1999 as an impetus to regional economic cooperation in Central Africa.

## 2. Regional Economic Outlook

According to the African Economic Outlook (2017), the Central African region's real growth rate decelerated to 0.8% in 2016 from 3.7% recorded in 2015.Despite achieving a growth rate of 6% in 2014, growth generally weakened in Central Africa in 2015 and 2016 as shown in Figure 1 below.

**Figure 1: Africa Economic Growth by region as % of GDP (2013 – 2016)**




*Source: Statistics Department, African Development Bank*

Central Africa sub-regional economic growth has mainly been anchored on revenues generated in the oil sector. Economic growth has recently been affected by the sharp decline in oil prices, civil conflicts in some countries and droughts. Cameroon is the economic engine of Central Africa. Due to its modest oil resources and favourable agricultural conditions, Cameroon is one of the best-endowed primary commodity economies in Africa and this has enabled it to enjoy positive growth rates. GDP annual growth rate in Cameroon averaged 4.64 % from 2003 until 2016.

The primary sector dominated economy of the Central African Republic collapsed in 2013 when real growth fell by 36% and the country has been recording low growth rates, negatively impacting on the overall sub regional growth. CAR has continued to experience armed conflict, which hinders economic activity, thereby constraining economic growth. The instability has prevented the country from drawing more benefit from its natural resources of gold, timber, diamonds and uranium. The recurring political crises in CAR are preventing development of the private sector and undermining the foundations of the country's industrialisation and development. This has created a high-risk and unattractive environment for investment. Since most of the economies in central Africa are heavily dependent on oil production they continue to be hit by the worldwide drop in the product price.

## 3. Public Debt Trends in Central Africa

As presented in Table 1 below, the overall external debt burden of Central Africa at the end of 2015 was US$15.5billion equivalent to 20% of the sub-regional GDP. The dominant share of this debt was owed by Cameroon, which accounted for about 34% of total PPG external debt, while Gabon held 29% of the debt.

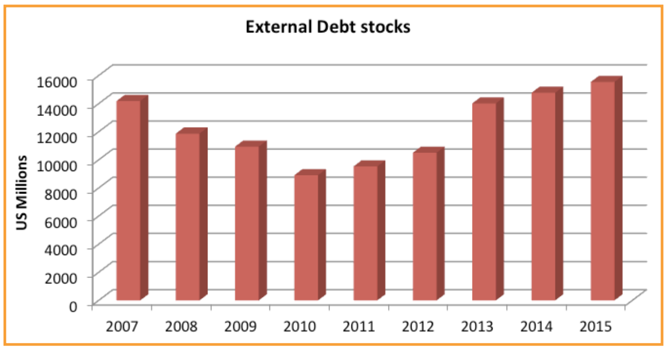
**Table 1: External Debt Stock in the Central African Region (public and publicly guaranteed), 2007-2015 in US$ Millions**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|
| Cameroon | 2159 | 2100 | 2170 | 2160 | 2124 | 2774 | 3811 | 4336 | 5356 |
| Central African Republic | 861 | 827 | 294 | 362 | 271 | 274 | 293 | 381 | 401 |
| Chad | 1752 | 1743 | 1750 | 2049 | 2235 | 2266 | 2832 | 2291 | 1472 |
| Congo, Rep. | 4898 | 5071 | 4610 | 2063 | 2329 | 2492 | 3072 | 3559 | 3650 |
| Gabon | 4366 | 2016 | 1991 | 2128 | 2388 | 2533 | 3824 | 4018 | 4436 |
| Sao Tome and Principe | 143 | 109 | 125 | 145 | 189 | 169 | 183 | 186 | 225 |
| **TOTALS** | **14179** | **11866** | **10940** | **8907** | **9536** | **10508** | **14015** | **14771** | **15540** |

**Equatorial Guinea debt statistics not available*  *Compilation based on World Bank Data 2017*

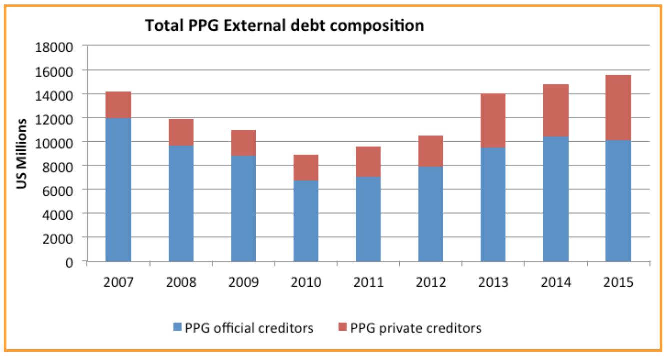
The regional total stock of public and publicly guaranteed external debt shows a decrease from 2007 to 2008 and 2009 to 2010 owing to Heavily Indebted Poor Countries (HIPC) initiative and Multilateral Debt Relief Initiative (MDRI). External regional debt stock has been steadily increasing since 2010. PPG external debt increased by 74% from 2010 to 2015. The rise in external debt in Central Africa has mainly been due to increased borrowing pressures from countries such as Cameroon to finance budget deficits and external shocks on commodity prices suppressing economic growth in the region. Public debt accumulation has also been driven by increase in investment programs financed by external debt. Oil accounts for about 60% of the regions' exports, hence, the collapse in oil prices in 2014 was a huge economic blow that cut government revenues from oil exports in half between 2014 and 2016. The region's current account deficit has consequently widened substantially since 2014 accompanied by a rise in external debt.

**Figure 2: External Debt Stock in the Central African Region (public and publicly guaranteed), 2007-2015 in US$ Millions**




*Compilation based on World Bank Data 2017*

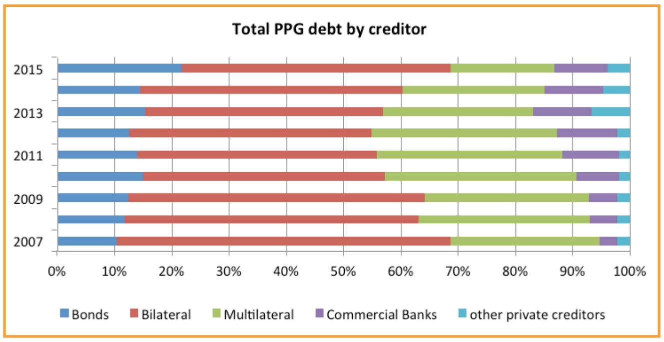
**Figure 3: External Debt Stock composition in the Central African Region (public and publicly guaranteed), 2007-2015 in US$ Millions**




*Compilation based on World Bank Data 2017*

As shown in Figure 3 above over 70% of the regional external debt between 2007 to 2015 was from official creditors rather than private creditors. Over the years there has been a high dependence on multilateral and bilateral official creditors to finance infrastructural projects in the sub-region. However, there has been a steady increase in private creditors since 2012 due to an increase in commercial creditors and issuing of bonds. Private credit carries higher risk and is a more expensive source of debt compared to official creditors. In the event of a debt default debt restructuring and reaching a consensus can be more complex to achieve since private creditors can be made up of multiple creditors with different views.

**Figure 4: Share of public and publicly guaranteed external debt, 2007-2015 in percentage**




*Compilation based on World Bank Data 2017*

From Figure 4 above, it can be noted that the issuance of bonds have been increasing since 2007, slightly reducing the use of bilateral and multilateral credit. Bilateral partners which formed the majority of external debt at the end of 2015 was provided by countries such as China and Spain.

## 3.1 Debt Relief

The HIPC initiative has been comprehensive in reducing the debt burden of countries in Central Africa. Countries graduating from the HIPC Initiative process also benefit from full cancellation of eligible debt from the World Bank's International Development Association (IDA), the IMF, the African Development Fund and the Inter-American Development Fund under the MDRI, another debt-relief program launched in 2006. The MDRI was also designed to ensure the progress of countries towards the UN's Millennium Development Goals.

Following debt relief under HIPC and MDRI in 2000 Cameroon`s debt related indicators fell below indicative thresholds. By 2006 the debt to GDP ratio had declined to 15.8% from 51.5 in 2000.Upon reaching HIPC completion Chad secured $756 million in debt relief in 2015 which includes MRDI relief from International Development Association, AfDB, debt forgiveness from the IMF AND 100% cancellation from the Paris Club. Congo also benefited from debt relief under HIPC and MDRI in 2010.Sao Tome and Principe also benefited from debt relief in 2007 which resulted in substantial debt service savings. Debt relief from the Paris Club has also improved the country`s debt profile.

## 3.2 Selected Countries with Rising Debt Indicators

In selecting countries for further debt analysis debt ratios which indicate potential debt related risks were used. Debt ratios are considered in conjunction with key economic and financial variables such as expected growth and interest rates, which determine their trend in medium-term scenarios. For the purposes of this debt profile 3 debt ratio, i.e. debt-to-exports, debt service-to-exports and debt-to-Gross National Income (GNI) ratio are considered.

The debt-to-exports ratio is the ratio of total outstanding debt at the end of the year to the economy's exports of goods and services. Debt to exports has the advantage that exports provide the basis for debt repayments. Debt to exports is less volatile than other ratios hence allows a more meaningful inference of the trend. This ratio is adopted as a measure of sustainability because an increasing debt-to-exports ratio over time, for a given interest rate, implies that total debt is growing faster than the economy's basic source of external income, signalling that the country may have problems meeting its debt obligations in the future. A growing ratio when the level of debt is already high indicates a greater burden of servicing the debt and may suggest that a country is on an unsustainable path.

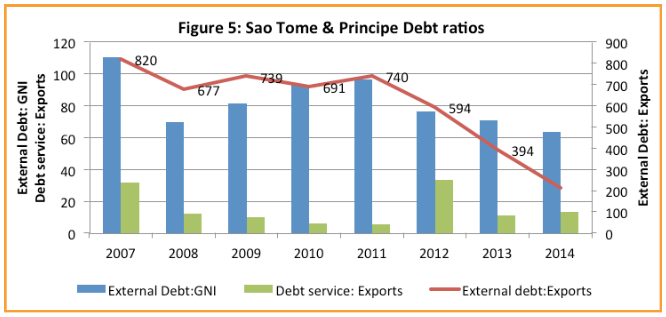
The debt service to exports ratio is used as an indicator of debt sustainability because it indicates how much of a country's export revenue will be used up in servicing its debt and how vulnerable the payment of debt-service obligations is to an unexpected fall in export proceeds. The higher the share of short-term credit in the overall debt, the larger and more vulnerable the annual flow of debt service obligations. Debt service ratios may rise due to a fall in exports; fall in commodity prices, increased borrowing and higher interest rates.

The external debt to GNI indicator measures the liabilities of the public sector for external debt of a country in relation to its total income (GNI). Although external borrowing is a method of supplementing savings and financing the investment gap in a country, an unsustainable debt burden will ultimately hinder development.

For individual country analysis, the analysis was based on countries whose debt ratios are signalling that debt service difficulties are likely to occur. These are countries whose external debt: to exports is above 150% or external debt to GNI is above 50%.In most cases countries with high external debt to exports ratio and high external debt to GNI ratios have a rising debt service ratio which can be regarded as a sign of an imminent debt crisis.

The results of AFRODAD`s debt sustainability analysis revealed that most of the Central African countries carry a moderate risk of possible debt distress. Sao Tome and Principe had high external debt ratios above the minimum threshold and exhibited high risk of debt distress. Countries such as Cameroon have been experiencing an increasing trend in external debt and rising external debt ratios which has negative implications on debt sustainability and there is need to address the situation in avoidance of a possible future debt explosion.

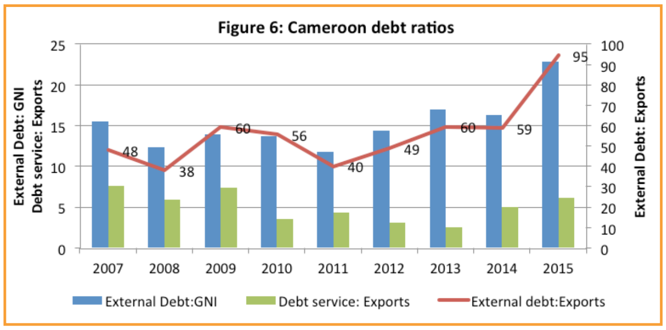
### 3.2.1 Sao Tome and Principe




*Compilation based on World Bank Data 2017*

Sao Tome and Principe benefited from debt relief under the HIPC initiative and MDRI in 2007 which reduced its external PPG debt stock from $143 million to $109 million in 2008. Although external debt has been increasing the country exhibits an improvement in the debt ratios since 2012 due to the significant upward revision of exports that the country has been experiencing. External debt to exports as at 2014 end was at 213% compared to the 819.7% in 2007. The debt to GNI ratio has been gradually falling over the years since 2007 when it was 110.6% to 63.7% at the end of 2014. Efforts to improve Sao Tome and Principe`s high risk debt sustainability position has been limited by the country`s weak fiscal consolidation measures and the undiversified economy and exports which are primarily based on cocoa constituting over 90% of total exports.

### 3.2.2 Cameroon




*Compilation based on World Bank Data 2017*

Despite being a beneficiary of the HIPC initiative and MDRI resulting in part debt cancellation in 2007 and 2010 external debt has been on an increasing path in Cameroon. Between 2011 and 2015 external debt increased by 152% from $2.124 billion in 2011 to $5.356 billion in 2015. External debt to exports ratio increased by 60% from 59% in 2014 to 94.8% in 2015 due to the drop in commodity prices for the country`s principal exports . Cameroon has borrowed on non-concessional terms from new donors such as China and issued $750million Eurobond in 2015. Chinese sovereign financing has become very prominent over the last recent years and largely explains Cameroon`s debt trajectory. Cameroon has also been receiving support from major international donors such as World Bank for infrastructural projects. The difficulties in 2015, with lower oil prices and rising security spending in connection with terrorist attacks led to higher budget deficits and negatively affected the country`s debt sustainability. Although Cameroon has been experiencing high economic growth, the country is highly dependent on oil exports hence its external debt remains highly vulnerable to exogenous shocks.

### 3.3 Domestic Debt

Domestic debt in Central Africa has been prevalent in recent years with some sub regional countries experiencing increases in their domestic debt levels. Cameroon has had a rise in domestic debt and by 2014 the share of domestic debt to public debt was 33.1%. Another country which have generally held high levels of domestic debt is the Central African Republic. In the Central African Republic domestic debt has significantly increased since 2010. By end of 2015 domestic debt was 70% of the total public debt. In 2010 domestic debt in Chad grew as a result of drawing on central bank statutory advances and stood at 7.5% of GDP and 16.2% in 2012. Congo and Equatorial Guinea have had relatively low levels of domestic debt with the lowest records of 5.4 % of GDP in 2014 and 1% of GDP in 2012 respectively. According to the 2016 IMF Report Sao Tome and Principe has not issued any domestic debt.

## 4. SOVEREIGN BOND ISSUANCE IN CENTRAL AFRICA

Gabon and Cameroon are the only Central African countries that have issued Eurobonds to date. Sovereign bonds are increasingly contributing to rising private debts. Over the years, these countries have accumulated over $3, 750billion worth of Eurobonds (see table 2). In Gabon the bonds have been used for infrastructure investment, debt refinancing and management, while in Cameroon they are used for infrastructure development.

**Table 2: Eurobond issuances by Central African countries (million USD)**

| Country | 2007 | 2010 | 2013 | 2014 | 2015 | TOTAL |
|---|---|---|---|---|---|---|
| Cameroon | - | - | - | - | 750 | 750 |
| Gabon | 1000 | - | 1500 | - | 500 | 3000 |
| | | | | | **TOTAL** | **3750** |

*Source: Calculations based on Bloomberg, Financial Times*

Both Cameroon and Gabon have issued the bonds in United States Dollars with maturities mostly around 10 years and most are listed at the London Stock Exchange.

## 5. REGIONAL OUTLOOK FOR DEBT SUSTAINABILITY

According to the 2015/2016 debt sustainability assessments done jointly by World Bank and IMF for countries in Central Africa, Equatorial Guinea and Congo were found to be in moderate risk of debt distress. The high risk countries in the region are Cameroon, Central African Republic, Chad and Sao Tome & Principe. Despite most countries in Central Africa exhibiting high risk of debt distress, the IMF CEMAC report of 2016 classifies the general regional risk of debt distress to be moderate. AFRODAD`s debt sustainability analysis classified Sao Tome and Principe as a high risk debt distress economy. Although other countries such as Cameroon have been experiencing a rise in their external debt, AFRODAD classified the overall sub-region as having moderate risk of debt distress.

**Figure 7: Debt sustainability analysis in Central Africa– Assessing risks of debt distress**

| Moderate Risk | High Risk |
|---|---|
| Congo<br>Equatorial Guinea | Cameroon<br>Central African Republic<br>Chad<br>Sao Tome & Principe |

*Source: Joint World Bank-IMF Low Income Countries Debt Sustainability Analysis*

## 6. RECOMMENDATIONS

Domestic resource mobilisation: Given that the majority of Central African countries are oil exporters, there is need for improved domestic revenue mobilization, especially where revenue from non-oil activities is low. This offers substantial potential to close the financing gap due to the decline in oil fiscal revenue. Governments should implement policies to boost growth and non-oil exports for countries such as Cameroon and Chad. There is need to improve the business environment and promote economic diversification away from the overreliance on oil.

**Parliamentary oversight:** There is need for a closer scrutiny of debt developments, especially for externally-financed projects and creating certainty that loan issues are utilised for productive purposes not for general budgetary purposes or military support. In 2015, Gabon bond proceeds were used for debt refinancing and management.

**Setting clear priorities in loan contraction:** There has been a growing increase in use of bonds in Central Africa, since international bonds can prove to be more costly in the face of currency depreciation and given that only a few Central African countries are at low risk of debt distress there is need for a shift in the composition of new borrowing towards concessional loans by the majority of Central African countries.

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