AFRODAD

SOUTHERN AFRICA

REGIONAL DEBT PROFILE 2019

1. INTRODUCTION

The Southern Africa region is endowed with vast natural resources which can be used to develop industries and trade more with the world. The emphasis and priority in the region is on industrialisation as a way of promoting sustainable development in the region which will uplift citizens from the jaws of poverty. Development in Southern Africa has been hampered by infrastructure bottlenecks, corruption which increases cost of doing business and lack of affordable long-term finance. It is home to about 209 million people with an annual average population growth rate of 2.4%[1]. There are two major regional economic blocks in the region: Southern Africa Customs Union (SACU) and Southern Africa Development Community (SADC).

The majority of SADC members are in Southern Africa such that most of the development in the region is spearheaded by the regional bloc. In 2019, SADC approved Regional Industry Protocol to support the Industrialisation Strategy and Roadmap which was launched in 2015 which aim to improve the policy environment for industrial development. The Southern Africa sub-region is made up of the following member states: Angola, Botswana, Lesotho, Malawi, Mauritius, Madagascar, Mozambique, Namibia, South Africa, Eswatini, Zambia and Zimbabwe. Although most of sub-region member countries belong to the Southern African Development Community (SADC), countries like Tanzania, DRC, Seychelles and Comoros are excluded in this profile. SADC's economic objective is to reduce dependence on other countries, promote regional integration and sustainable development in the region. However, it has political objective of maintaining peace and stability in the region. South Africa is the regional power house in SADC in terms of industrialisation and size of economy (it contributes two thirds to Southern Africa's GDP).

2. REGIONAL ECONOMIC OUTLOOK

The world economy is poised to grow at 3% in 2019[2] which is the lowest growth experienced since the 2008 global financial crisis. A number of factors are driving the low growth: rising trade barriers, low productivity growth and aging population in advanced economies. The African continent faces structural and natural impediments to growth that include infrastructure deficit, natural disasters (cyclones, droughts), disease burden (Ebola, malaria) which affect productivity and private investment. Sub-Saharan Africa is poised to grow by 3.2% in 2019 and 3.6% in 2020.[3]

Figure 1: GDP by Region 2009-2020

Source: AfDB Socio-economic database. 2019 figures are estimates while 2020 figures are projections

The weak growth in SSA is being propelled by challenging external environment, output disruption in oil-producing countries and weaker growth in South Africa. Southern Africa is estimated to

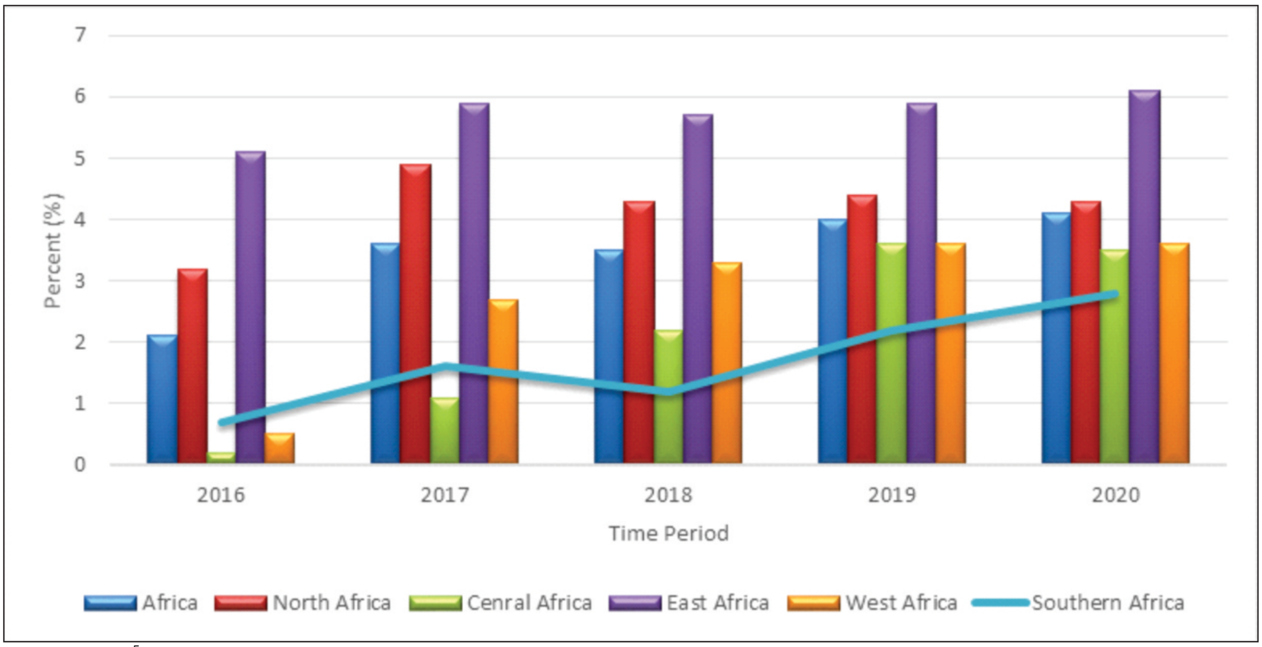
[1] AfDB Socio-Economic database 2020

[2] World Economic outlook , October 2019: https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019

[3] Africa economic Outlook 2019

[4] AFDB (2019). Southern Africa Economic Outlook 2019

Figure 2: Real GDP Growth 2016-2020



AfDB (2019*[5])***

experience GDP growth of 2.2% in 2019 and 2.8% in 2020 (AfDB, 2019). The major drivers of such low growth in the region include high inflation, slow growth in South Africa & Angola, low commodity prices and rising public debt. Southern Africa contributes 25.6% to the continent's GDP which is second from West Africa which contributes 26.3%. The socio-economic activities which occur in South Africa, Angola and Zambia are important to the region since these countries contribute about 90% to the region's GDP while South Africa alone contributes about 68%.

The countries in the region have different features in terms of natural resources, infrastructure and political stability. Countries like Madagascar, Malawi and Mozambique are projected to grow by 5% on average however, they are small economies and they are affected by external shocks such as the low growth experienced in the bigger economies such as South Africa, commodity prices. Southern Africa economic performance was also affected by elections in Mozambique, Namibia and Botswana which tend to affect investment and fiscal balances.

The above graph shows that amongst the sub-regions of the African continent Southern Africa is projected to experience lowest growth rate for both 2019 and 2020 which shows the challenge the region faces in generating employment for the youth that are joining the labour market every year. The region faced weather related shocks in 2019 where cyclone Idai and Kenneth caused damage of more than US$2 billion in Mozambique, Zimbabwe and other countries in the region. Such natural disasters weakened economic activities in the affected countries which added pressure on inflation and fiscal imbalances. The region is faced with problems such as food insecurity, migration, electricity shortages which emanates from weather related shocks as climate change take its toll. There has been significant increases in the number of people food insecure in the region compared to 2018. The worst affected countries include Zambia which recorded an increase in food insecure population by 144% followed by 128% in Zimbabwe while Eswatini and Mozambique recorded 90% and 85%[6] respectively.[7] Youth unemployment is very high in the region which tend to cause a lot of social unrest (xenophobia in South Africa and demonstrations in Zimbabwe) and migration in the region. South Africa and Eswatini have youth unemployment (15-24 years) of over 50% while Botswana, Namibia, Lesotho and Mauritius have rates ranging between 30-45%.

International reserves have been declining in most countries except Mauritius and South Africa which affect the region's resilience to external shocks given

[2] AfDB (2019). Africa Economic Outlook October 2019

[6] SADC (2019) SADC RVAA Synthesis Report 2019

[7] SADC Synthesis Report 2019 on State of Food and nutrition Security and vulnerability in Southern Africa

[8] IMF (2019). World Economic Outlook October 2019

that the frequency of such shocks is high. Zimbabwe and Botswana have the lowest stock of international reserves while South Africa and Angola have higher stock of international reserves.

Macroeconomic Developments in the Region

Inflation in SSA was 8.5% in 2018 and is estimated to average 8.4% in 2019 while projections indicated a further decline to 8.0% in 2020 (IMF, 2019).[8] In Southern Africa inflation has marked effect in countries that have suffered conflict such as Angola and countries that have high fiscal imbalances and affected by draught such as Lesotho, Namibia, Zambia and Zimbabwe.

Table 1: Inflation 2009-2018

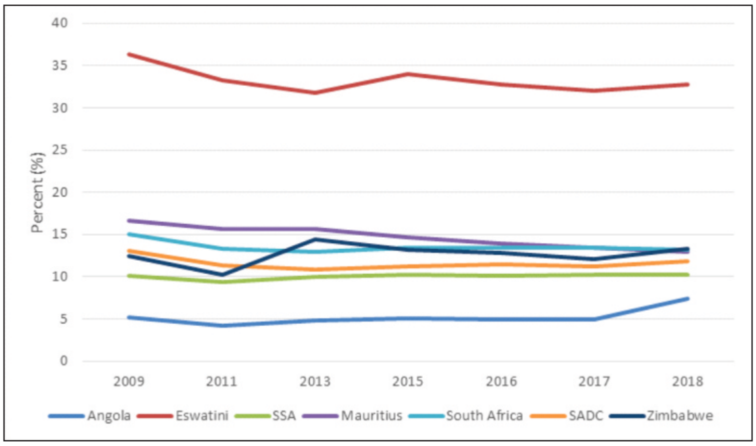
	2009	2011	2013	2015	2016	2017	2018	2019*	2020**
Angola	13.73	13.48	8.78	10.28	32.38	31.69	20.19	16.8	12.6
Botswana	8.03	8.46	5.88	3.06	2.81	3.31	3.24	3.9	3.8
Eswatini	7.44	6.11	5.62	4.95	7.85	6.22	4.81	5.4	5.5
Lesotho	7.38	4.99	4.97	3.17	6.60	5.32	4.01	4.9	5.1
Madagascar	8.95	9.48	5.83	7.40	6.66	8.28	7.29	7.1	6.3
Malawi	8.42	7.62	27.28	21.87	21.71	11.54	12.42	7.7	7.0
Namibia	9.45	5.01	5.60	3.40	6.73	6.14	4.29	5.2	5.3
South Africa	7.26	5.02	5.78	4.51	6.60	5.18	5.50	5.3	5.5
Zambia	13.40	6.43	6.98	10.11	17.87	6.58	7.49	7.9	7.6
Zimbabwe	-7.7	3.48	1.63	-2.41	-1.57	0.91	10.60	-	-

*World Bank database 2019 and WEO, 2019 *(estimate), ** (projection)*

The region enjoys stable environment with single digit inflation in most countries with the exception of Angola, Malawi and Zimbabwe. The SADC convergence threshold is 7% and only a few countries were above the threshold.

Southern Africa has not yet industrialised where manufacturing contributes over 40% of GDP. The figure below shows that the SADC region average contribution to GDP closely trend in the same direction with South Africa. Small economies like Eswatini and Lesotho have higher contribution of manufacturing to GDP, however, they rely on narrow range of products.

Figure 3: Manufacturing as a % of GDP 2009 -2018



SADC and World Bank Database 2019

The regional economic growth rate continue to thrive on extractive, services and agricultural sectors. Services dominate the region's GDP followed by mining and quarrying while manufacturing is still lagging behind yet it is the most important sector that has forward and backward linkages. The hope for employment creation lies in successful industrialisation in the region. Currently, only South Africa and Mauritius export a significant amount of manufactured goods which increases resilience to external shocks. Manufactured exports are constrained by infrastructure bottlenecks, access to affordable long-term finance and shortage of skilled manpower. China further threatens industrialisation in the regions since a lot of cheap manufactured goods from the country have flooded the market. The region need greater structural transformation as outlined in the SADC Industrialisation Strategy and roadmap. This hold the promise of creating quality jobs and realisation of better export value from our natural resources. Government and household consumption dominate aggregate demand for the region against the normal situation where exports and private investment drive GDP growth in most regions. This demand composition limits growth in the medium to long-term since private investment is not driving growth. Politically, the region is peaceful but there are cases of political crisis, democracy and governance deficits and to a limited extent armed conflicts do erupt. The trade dynamics in the region has seen the widening of current account from 2.1 % of GDP in 2017 to 2.9% of GDP in 2018 due to slowdown in economic activities in South Africa and Angola which account for huge proportion of GDP in the region. Botswana and eSwatini are the only countries with positive current account balances. Trade deficits persists in the region due to lack of manufactured exports since their demand is income elastic and they are not affected by external shocks.

3. REGIONAL PUBLIC DEBT TRENDS

The region has an enormous appetite for financing to close the infrastructure gap and successfully industrialise. Africa continent's debt has been on the rise and external buffers are low which tend to increase vulnerabilities to external shocks and continue to limit policy space. Generally, Southern Africa region has witnessed huge increase in public debt since 2009 as shown in Table 2 below. Between 2009 and 2018 public debt grew by a whopping 209% and Southern Africa contributes about 26% to SSA total public debt. The major countries that contribute more to the region's debt are South Africa, Angola, Mozambique, Zambia and Zimbabwe.

Table 2: External Debt Stock in the Southern African Region (Public and Publicly Guaranteed), 2009-2018 in US$ Millions

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Angola	13635	15466	17525	19203	23349	27826	27304	34815	35599	38208
Botswana	1395	1358	1900	1933	1814	1910	1761	1653	1528	1418
Lesotho	689	709	729	762	772	769	774	775	828	820
Madagascar	1895	2039	2151	2249	2330	2404	2509	2465	2735	2888
Malawi	846	729	929	1027	1250	1372	1454	1510	1811	1929
Mauritius	740	1007	1171	1368	1735	1812	1718	1628	1547	1430
Mozambique	3422	3611	4730	5619	8389	9614	9940	10131	10924	11058
Namibia	376	421	899	1141	1121	1150	1175	5822	7005	8338
South Africa	22315	36274	41551	56502	54586	57137	57788	62195	81592	77029
Eswatini	428	316	370	350	315	293	286	359	398	418
Zambia	1200	1290	1884	3109	3474	4893	6583	7154	8880	9987
Zimbabwe	3899	3827	4012	4129	4180	4027	4193	4161	4232	3970
Southern Africa	50840	67047	77851	97392	103340	113116	115485	132668	157097	157493
Debt Growth in Southern Africa	-	31.8%	16.1%	25%	6.1%	9.5%	2%	14.9%	18.4	0.3%

*Source: World Bank database 2019. *Namibia external debt statistics are from SADC 2019*

Public debt levels in the region as measured by the debt-to-GDP ratio continue to deteriorate. The SADC debt-to-GDP threshold is 60%, however Mozambique (107.6%), Mauritius (71%) and Zambia (73.7%) exceeded the threshold which puts the countries at risk given that the GDP growth rate is low in these countries. Stylised facts on public debt indicates that countries that have debt-to GDP ratios above 50% are likely to fall into debt crisis. The AFRODAD Borrowing Charter (2018) states that public debt should not exceed 50% for sustainability to be achieved. In the region the following countries had debt-to-GDP ratios above 50% but below 60%: Angola (54%), Namibia (57.7%) and South Africa (50.6%). According to the World Bank and IMF debt sustainability framework in Southern Africa, Mozambique and Zimbabwe are already in debt distress while Malawi and Zambia stand s at a high risk of falling into debt distress.

PPG debt service for Southern Africa grew at an average rate of 17.6% from 2009-2018 with a peak of 85% in 2018 and a minimum of -23% in 2014. There is too much variation in debt service which is a clear sign of instability. Between 2009 and 2018 the debt service increased by 200% which is a huge increase for region dependent on commodity exports. The ability of a country to repay its public debt is essential for sustainable debt management. Debt service to exports measures the ability of country to meet its external debt obligations. In 2018 the countries experienced an increase in the Debt service to export ratio: Mauritius from 17% in 2017 to 23% in 2018; South Africa from 13% in 2017 to 20%; and Zambia from 9% in 2017 to 15%. Other countries with relatively high ratios include Angola (22%), Mozambique (13%) and Zimbabwe (12%). Most of the countries in Southern Africa rely on export of commodities; this puts the countries at risk of failing to pay external commitments in the event of shocks affecting price of commodities.

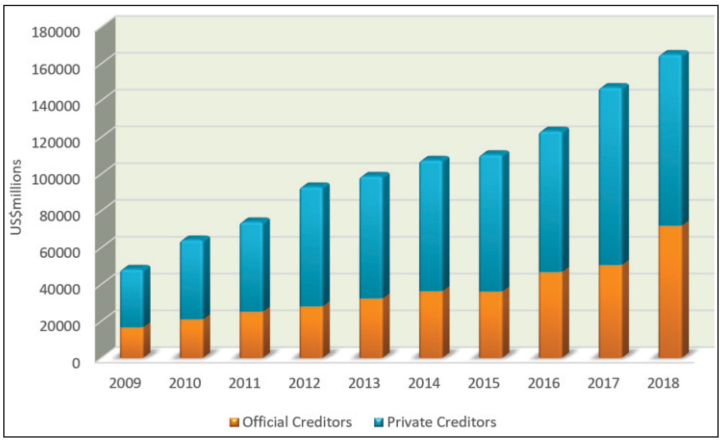
For the region the debt service seem to be within sustainable levels. However, when primary income is added to exports the ratio decline. For Southern Africa the ratio averaged 5.2% per annum between 2009-2018 with a peak of 10.2% in 2018 and a minimum of 2.9% in 2009. Countries like Malawi, Zambia and Zimbabwe have a lot of citizens who sent remittances back home; this stabilises foreign currency supply and debt sustainability indicators. Countries like South Africa and Mauritius generate a lot of investment outflows which then bring in dividends and rent. The ratio tend to go down to sustainable levels when primary income is taken into account.

Table 3: Comparison of Debt Service to Exports and Debt Service to Exports (Goods and Services) and Primary Income

	Debt Service to Exports (Goods & Services)		Debt Service To Exports (Goods & Services Plus Primary Income	
	2017	**2018**	**2017**	**2018**
Angola	-	22%	14.6%	17.6%
Mauritius	17%	23%	1.6%	1.3%
Mozambique	-	13%	7.6%	8.4%
South Africa	13%	20%	4%	10%
Zambia	9%	15%	5.5%	7.4%
Zimbabwe	3899	12%	2.7%	-
Southern Africa	-	11%	15.7%	10.2%

Source: World Bank Database 2019

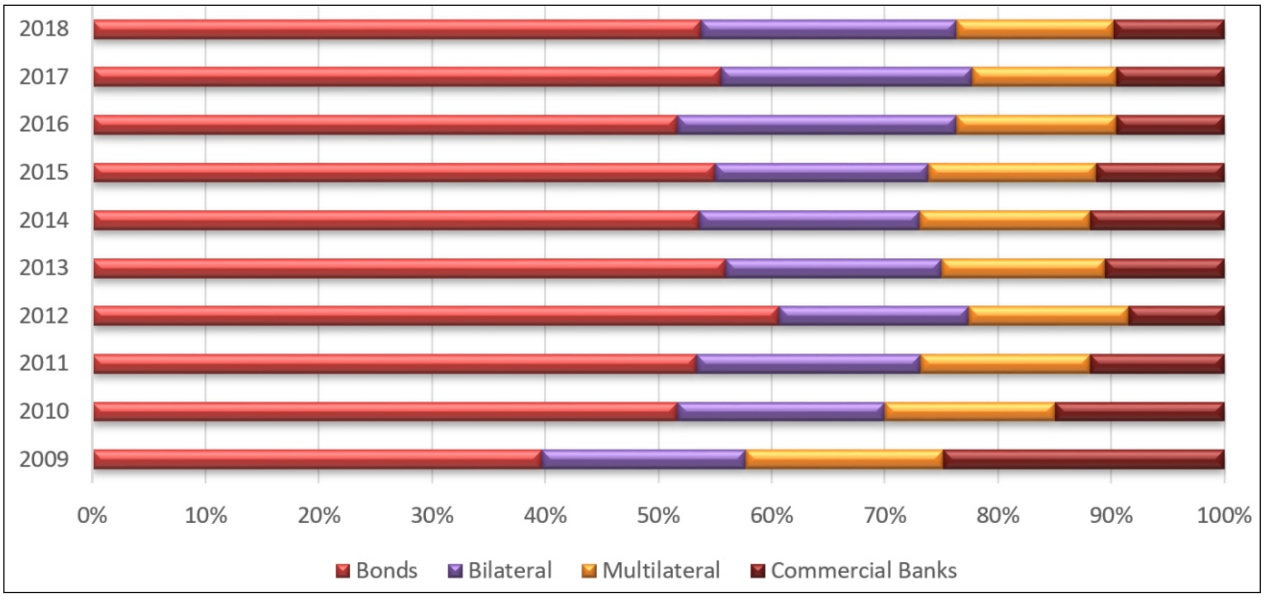
Figure 4: External Debt Stock composition in the Southern African Region (public and publicly guaranteed), 2009-2018



Compilation based on World Bank data 2019

The Figure 3 above shows that PPG external credit in Southern Africa has largely been in the form of private creditors rather than official creditors. Between 2009 and 2018 official credit grew by an average of 13% per annum with a peak of 26% in 2010 and 2016. The countries which receive more official credit in the region are Angola (44%), Mozambique (16%), South Africa (9%), Zambia (8%) and Zimbabwe (8%). External debt from private creditors grew by 201% between 2009 and 2018. In the region the countries which constitute most of the debt provided by private creditors are: South Africa (78%), Angola (15%), Zambia (5%) and Mozambique (2%). The bulk of private sector external debt was acquired through bonds. There is shift from traditional, concessional, sources of debt to commercial, domestic and non-traditional sources of debt which has increased exposure to market risk in Southern Africa and this has resulted in deterioration of debt sustainability in SSA as debt restructuring is more complex due to the different bondholders who might have diverging interests and jurisdictions.

Figure 5: Share of public and publicly guaranteed external debt in southern Africa, 2009-2018



Compilation based on World Bank data 2019

Figure 4 shows that external debt has mainly been from bonds, comprising more than 50% of external debt in southern Africa region since 2010. External debt in bonds grew by 334% between 2009 and 2018 mainly driven by South Africa which accounts for about 90% of bonds in the region followed by Angola and Zambia with 6% and 4% respectively. During the period 2009-2018 debt in bonds grew by 21% on average per annum with a peak of 75% in 2010 and lowest growth of -2% in 2013. International sovereign bonds may be more difficult to restructure than bank loans since they are open to investors and investment banks there is a much larger number of creditors involved that must coordinate in the event of default and the introduction of collective action clauses may be required. The share of commercial bank loans has been decreasing with the lowest growth of -21% in 2009 and a peak of 60% in 2014. Angola account for about 60% of the commercial credit in the region while South Africa and Mozambique accounts for 15% and 8% respectively. In recent years bilateral loans to southern Africa have increased; between 2009 and 2018 it grew by 300%. On average bilateral debt grow by 16% per annum with a peak of 42% in 2016. Most of the bilateral credit goes to Angola (65%), Mozambique (14%) while Zambia and Zimbabwe account for 8% and 7% respectively. Most of the bilateral loans are coming from china where in Angola mostly the loans are for mining equipment. Although multilateral credit has been widely viewed as effective and having a large impact on the economy there has been declining in Southern Africa. For the period 2009 to 2018 multilateral debt grew by 10% on average per annum with a peak of 39% in 2014 and lowest of -7% in 2015. Countries that contributed more include South Africa (21%, Mozambique (19%) with Madagascar and Angola constituting 11%. Most countries failed to qualify for multilateral finance because the eligibility criteria and conditions are strict.

3.1 Drivers of Public Debt

Debt distress causes are country specific and vary across the region. However, most of the countries in debt distress in the region are those vulnerable to major export commodity price shocks. Some of the factors which have led to the increase in external debt stock in Southern Africa includes amongst others external shocks, below the line operations, persistent larger budget deficits, currency depreciation, infrastructure development and availability of new borrowing opportunities with less pre-condition.

Commodity prices volatility still remain obstacle of most countries growth and reveal countries' vulnerability to adverse shocks. Countries usually finance fiscal deficits through borrowing, either from external or domestic sources. Southern Africa countries have not made significant progress in diversifying their economies, which are still dependent on primary commodities, e.g. copper in Zambia, tobacco in Malawi, oil in Angola, and mining in Mozambique. The prices of commodities have been low in the recent past. These have led to higher deficits which might constrain debt servicing in future.

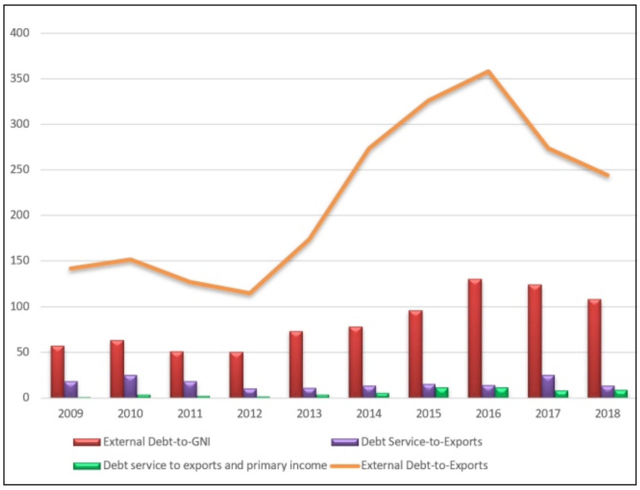
Selected country with rising debt indicators

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 we shall consider 3 debt ratios, i.e. debt-to-exports, debt service-to-exports and debt-to-Gross National Income (GNI) ratio. 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. Mozambique have already surpassed the external debt ratio thresholds above and have been in the debt discussion circles in recent years.

Mozambique

Mozambique just like Zambia, Malawi and Angola also received debt relief under HIPC and MDRI initiatives. Despite debt relief granted to Mozambique in 1999, external debt stock has been on the rise rapidly since 2011. The period starting from 2011 is characterized by a drastic increase in the eternal debt of Mozambique. As shown in Figure 6 above, the external debt to exports ratio has been rising sharply since 2012 reaching a high of 276.3% in 2016. PPG external debt increased by more than 200% between 2008 and 2016. This is way above pre-HIPC levels when its PPG external debt was $5.983 billion in 1998. The increase in external debt between 2011 and 2016 is associated with hidden debts.

Figure 6: Debt ratios for Mozambique



Compilation based on World Bank data 2019

Between 2006-2010 public debt was stable and in 2010 the country become eligible to borrow concessionary credit. The level of debt took an explosive path with the contraction of the commercial loans between 2013 and 2016 making Mozambique one of the countries in Africa with the highest debt ratios. The onerous terms of the loans and the pace of currency depreciation has created severe liquidity constraints compromising Mozambique's capacity to meet debt service obligations. This has been exacerbated by weaker commodity prices and lower demand amongst trading partners that the country has been facing. After the government disclosed hidden debts in 2016, the debt shows signs of improvement in the medium term. Other factors that influence growth of debt in Mozambique include:

- Poor investments (including real estate investing);
- Excessive investments to support the extractive industry;
- High dependence on imports, low commodity prices on the international market and imported inflation;
- Debt self-reproduction (debts to pay debts).
- Lack of strong fiscal transparency and accountability mechanisms.

Mozambique is a country vulnerable to exogenous macroeconomic shocks (cyclical fluctuations in demand, and changes in international commodity prices, interest rates, credit availability, and exchange rates), natural disasters (droughts, cyclones, floods, etc.), and is also prone to occasional social manifestations which further worsen debt sustainability. Hidden debt constitute 15% of total debt yet their service account for more than 60% of PPG debt service which shows that hidden debts are draining public resources yet citizens did not benefit from such debts. The rising debts has caused the following in the economy:

- Loss of confidence of cooperation partners with the country;
- Suspension of direct budget support and other lines of support and assistance to the country;
- Deterioration of the main economic and social indicators;
- Reduction of Internal and External Investment;
- Exchange Rate Depreciation (from around 34 in 2014 to 64 in 2019);
- Imported Inflation Rush (increased up to 19.2% in 2016)

Mozambique intend to use resources from gas exploration to stabilise its debt situation.

4. RECOMMENDATIONS

- Fiscal deficits and current account deficits play a major role in driving the debt in the region. There is need for prudent fiscal policy to rein in public debt and countries should not exceed the macroeconomic thresholds that were set by SADC.
- African countries' government's needs to enact responsible borrowing for the loans to be used productively. Therefore, debt must be deployed in productive sectors that yield income streams for self-financing and grow the economies which will allow to build capacity weaning the countries from foreign debt and distress.
- There has been a significant rise in domestic debt in most of the Southern African countries and domestic debt now constitutes a large share of total debt. Domestic debt is much more expensive than external debt as it consumes a large percentage of government revenue given that domestic interest rates are higher than foreign ones. This has significant negative implications for private investment, fiscal sustainability, economic growth and poverty reduction. Governments need to formulate and implement prudent domestic debt management strategies to mitigate the effects of the rising debt on the economy.
- Agriculture is still generating income for the majority of citizens in the region. However due to climate change rain-fed agriculture is no longer reliable. Government should invest in water harvesting and irrigation facilities to reduce weather related shocks which eventually affect debt.
- Most countries in the region such as Malawi, Mozambique, Madagascar, Lesotho, Eswatini, and Zimbabwe receive remittances which are above 2% of GDP. There is need for the government to reduce fees charged when sending remittances so that more of the money comes through the formal channels. Remittances help to stabilise debt service.

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