AFRODAD

West Africa

Regional Debt Profile 2017

1. Introduction

Africa's sub-region of West Africa is composed of the following 15 countries: Benin, Burkina Faso, Cape Verde, Cote d' Ivoîre, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Sierra Leone, Senegal and Togo. The region has two major economic organizations; the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU). ECOWAS was set up in 1975 with the ultimate objective of fostering the idea of collective self-sufficiency for its member states and to create a single, large trading bloc through economic cooperation.

West African Economic and Monetary Union (WAEMU) is an economic organization of eight West African countries which was established in 1994 with the main objective of intensifying the competitiveness of the economic and financial activities of member countries as well as developing an open market. Member countries of the union are Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. These countries share the same currency, known as the West African francs (CFA francs), monetary policies and French as an official language.

2. Regional Economic Outlook

Africa registered an impressive economic growth between 2001– 2014, averaging 5%. Since 2015 the growth has been adversely affected by weaknesses in the global economy and price falls of key commodities. In 2016 Africa's economic growth continued to deteriorate, registering a growth of 2.2%, down from 3.3% recorded in 2015. In West Africa, growth slowed down in 2016 to 0.4% from 3.3% in 2015 (Table 1 below), mainly due to weak international commodity prices and Ebola outbreak. The West African region is host to countries that depend on commodity exports such as oil and minerals. Nigeria, the sub-region's economic engine continues to register low growth affecting the whole region. However, the extractive sector, energy sector and agriculture sector continue to drive growth in the region.

Table 1: Macroeconomic developments in Africa, Real GDP growth (%)

	2008-12	2013	2014	2015	2016(e)
North Africa	4.4	1.7	1.5	3.3	3.0
Central Africa	4.9	4.0	6.0	3.6	0.8
East Africa	5.6	7.2	5.9	6.5	5.3
Southern Africa	3.1	3.7	2.8	1.9	1.1
West Africa	6.2	5.7	6.1	3.3	0.4

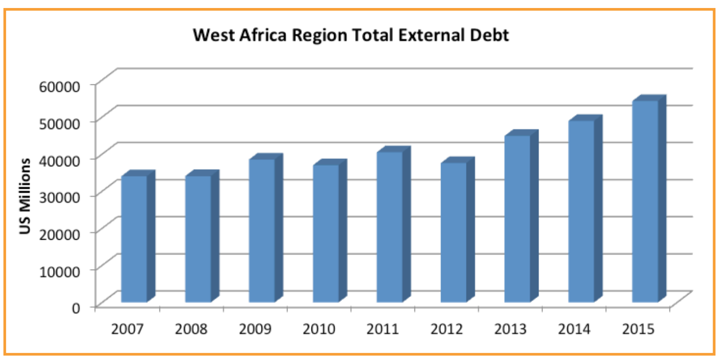
Compilation based on African Development Bank data 2017

West Africa hosts some of Africa`s best performing economies which include Senegal, Sierra Leone, Benin and Togo with Côte d'Ivoîre' leading in 2016. The Ivoirian economy`s economic growth performance has been strong with exceptional GDP growth and a controlled fiscal and external balance. The economy recovered with an average real growth rate reaching 8.5% between 2012 and 2016. This has been one of the highest growth rates in Sub-Saharan Africa. Economic growth has been driven by agriculture, services, industry, increased domestic demand and rising investment. Cape Verde`s real GDP growth has been sluggish over the past years and Liberia' economy has also continued to grapple with lower commodity prices, which have led to a third straight year of near-zero growth in 2016 negatively impacting on the region`s economic growth.

3. Public Debt Trends in West Africa

In recent years the major crisis in West Africa has been an increasing debt stock and debt service payments, which poses a constraint to economic growth and development.

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



Compilation based on World Bank data 2017

Between 2007 and 2012 the regional debt stocks have been increasing at a fairly stable rate since most countries in the region were receiving debt reliefs under the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) of the World Bank, International Monetary Fund, and African Development Bank. However, this whole situation belies disparities among countries. Between 2000 and 2016 Benin, Burkina Faso, Cote d Ivoîre, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Nigeria, Niger, Senegal and Togo had received debt relief under the HIPC initiative and MDRI.

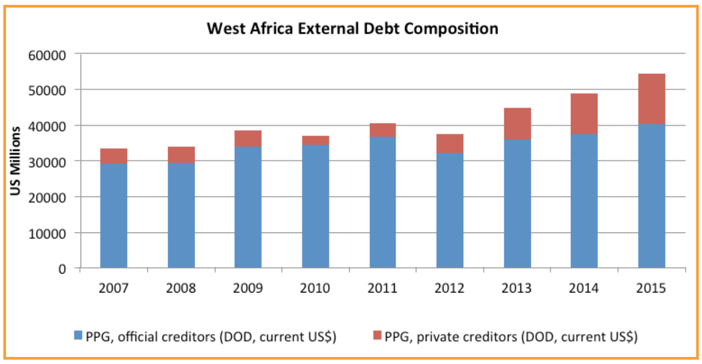
As a result of the HIPC and MDRI, most of the countries of this sub-region had their debt ratios reduced to below the 44.5% threshold. The regional public and publicly guaranteed external debt increased by 60% from $376.0 billion in 2012 to $54.3 billion in 2015, as shown in Table 2 below. Cote d' Ivoîre, Ghana, Nigeria, and Senegal are the countries in the sub-region whose total debt stocks increment and size are huge and hence contributed to the sub-regional total debt stock continuous rise since 2007. The key drivers of public debt accumulation in West Africa have been borrowing to finance infrastructure projects; implementation of economic reforms; increased domestic borrowing; and larger budget deficits and external shocks.

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Benin	747	848	972	1113	1194	1308	1599	1766	1898
Burkina Faso	1258	1506	1716	1931	2057	2218	2261	2261	2344
Cabo Verde	565	611	700	868	1017	1226	1471	1527	1506
Cote d'Ivoire	11648	10629	12716	9403	9886	5010	6241	6422	7150
Gambia, The	664	365	410	429	431	431	446	424	427
Ghana	3556	4076	5016	6085	7366	8882	11753	13908	15837
Guinea	3331	3172	3157	3045	3069	1053	1044	1017	930
Guinea-Bissau	936	942	964	978	219	213	212	203	224
Liberia	1034	865	673	183	188	208	229	295	433
Mali	1806	1984	2002	2263	2499	2780	3080	3107	3331
Niger	760	787	965	1220	1928	2090	2322	2352	2550
Nigeria	3614	3902	4221	4691	5937	6680	8286	9133	10633
Senegal	1988	2372	2954	3150	3614	4198	4517	4953	5320
Sierra Leone	482	545	605	661	741	837	901	910	946
Togo	1641	1469	1482	998	362	443	556	671	801
TOTALS	**34028**	**34073**	**38553**	**37017**	**40507**	**37577**	**44918**	**48951**	**54331**

Compilation based on World Bank data 2017

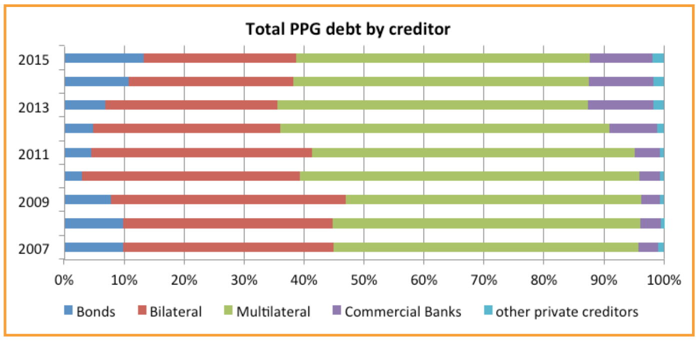
Figure 2: External Debt Stock composition in the North African Region (public and publicly guaranteed), 2007-2015 in US$ Millions



Compilation based on World Bank data 2017

Figure 2 above shows that there has been a considerable increase in private creditors since 2013. Private creditors increased by 165% from 2012 to 2015 to constitute 26% of total PPG debt. Countries in the sub region should however be cautious of private creditors as they pose more risk than official creditors. Lending by official creditors is more stable and less prone to financial contagion and carries a lower probability of incurring a debt crisis than private creditors.

Figure 3: Share of public and publicly guaranteed external debt, 2007-2015 in percentage



Compilation based on World Bank data 2017

As shown above in Figure 3, the regional external debt has mainly been concentrated in form of multilateral credit since 2007. However, several countries in West Africa have established ambitious development programs aiming for strong and sustained growth financed through low-concessional funds. Countries have increasingly been moving towards low-concessional funds, such as securities issued on the international financial markets. Such changes in the debt structure needs to be closely monitored as it easily evokes excessive debt and risk of debt deterioration.

3.1 Ebola crisis and debt sustainability in West Africa

The Ebola virus crisis that hit West Africa countries of Guinea, Liberia and Sierra Leone in 2014 significantly affected their growth and exports outlook and greatly contributed to deteriorated debt sustainability. More than 6,000 people were killed. The health crisis affected Guinea, Liberia and Sierra Leone debt servicing abilities, resulting in the IMF granting debt relief.

IMF through the Post-Catastrophe Debt Relief Trust, cancelled $100 million of Liberia, Sierra Leone and Guinea's debt of $464 million to the IMF in 2014. The IMF did set up the Post-Catastrophe Debt Relief Trust, after the Haitian earthquake of 2010. It allows for debt relief in low income countries if a disaster affects more than one-third of the population of the country, and destroys more than one-quarter of a country's productive capacity, or causes damage exceeding 100 per cent of GDP. Upon meeting these criteria, a country has all debt payments due over the followingtwo years cancelled.IMF and international organizations provided additional resources to help countries deal with the crisis by providing essential supplies and drugs and ease negative impacts on trade, investment and employment.

Guinea, Liberia and Sierra Leone have also received debt cancellations in the past as part of the Heavily Indebted Poor Countries initiative and the Multilateral Debt Relief Initiative. In 2006, Sierra Leone qualified for $1.7billion of debt cancellation, pushing the government's debt payments down from 8% of gross domestic product to 2% (IMF). But borrowing since then has pushed this ratio back up and by 2014 the country's debt payments to GDP level reached around 8 % (IMF).

The economic impact of Ebola in West Africa was estimated between $3billion and $4billion by the World Bank in 2014. Although by 2016, the Ebola epidemic had been contained the cost to affected countries to rebuild their economies is huge.

4 Selected countries with rising debt indicators

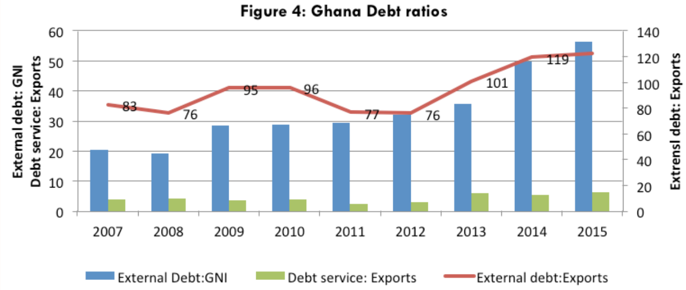
In selecting countries for further debt analysis we used debt ratios which indicate potential debt related risks. Debt ratios are considered in conjunction with key economic and financial variables such as expected growth and interest rates, which determine their trend in medium-term scenarios. For the 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 signaling 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.

Most of the countries in West Africa had external debt to export ratios of below 150% and external debt to GNI ratios below 50% at the end of 2015, with only Capo Verde going above the thresholds. Although Ghana has not yet breached the above thresholds its external debt has been rapidly increasing and its debt ratios have been worsening. The overall West African sub-regional debt sustainability scenario exhibits a moderate risk of debt distress.

4.1 Ghana

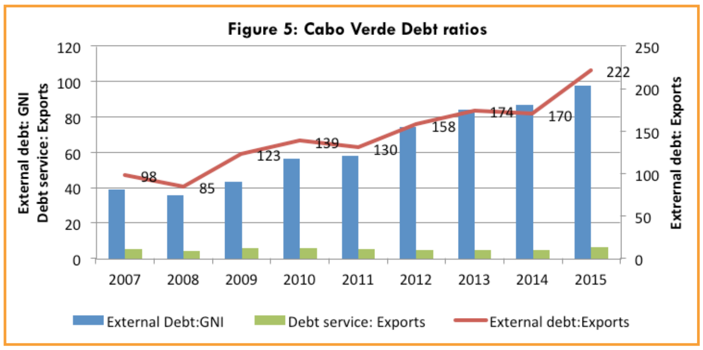
Figure 4: Ghana Debt ratios



Compilation based on World Bank data 2017

Ghana`s public debt has been soaring since 2007. After debt relief, Ghana's external debt fell and was at a low of $3.556billion in 2007. However, between 2007 and 2015 Ghana borrowed $20 billion externally, issuing Eurobonds worth $3,5billion between 2007-2015. When commodity prices fell (gold and oil) in 2013 and 2014, the country went into serious economic crisis. In 2013 its currency Cedi depreciated and the GDP fell from $41.9 billion in 2012 to $36 billion in 2015. These causes increased the relative size of the dollar-denominated debt and debt payments. The external debt increased from 76.1% of exports in 2013 to 122.4% in 2015. In April 2015 the IMF bailed out Ghana; and gave the country a loan to meet its ballooning debt payments. In return Ghana had to cut government fiscal spending on wage bill and other primary expenditures whilst safeguarding social spending.

4.2 Cabo Verde



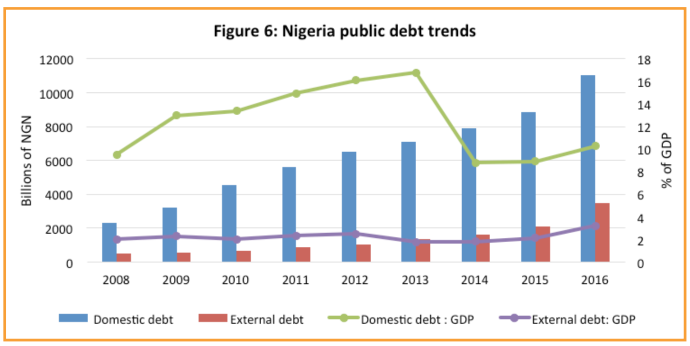
Compilation based on World Bank data 2017

In Cape Verde external debt has been increasing since 2007 when it was $565million and had more than doubled by 2012, to$1.226 billion. High investment spending in the country caused the external debt level to increase drastically between 2010 and 2014from $868 million to $1.527billion respectively. Huge fiscal deficits have also contributed to the rising public debt. External debt to exports increased from 123.1% in 2010 and by the end of 2015 had reached 221.5%.The slight declines in the external debt to exports ratio was as a result of an improvement in GDP growth. The high debt levels have subsequently caused the debt to GNI ratio to rise from 56.1% in 2010 to a high of 97.7% by the end of 2015.

5. Domestic Debt

Although extensive use of domestic borrowing can have severe repercussions on the economy, countries like Nigeria, Burkina Faso, Cape Verde, Cote d'ivoîre, Gambia, Guinea Bissau and Ghana have been making use of domestic debt finance with a greater percentage of their public debt portfolios being accounted for by domestic debt. Benin, Mali and Senegal have had low levels of domestic debt due to high concessional financing.

Nigeria's domestic debt is one of the fastest growing in the region since mid-2000s. It surpassed external debt in 2006, reaching more than N2billion in 2008. Nigeria`s public debt has been largely dominated by domestic debt since 2008, although the dominance has slowly been falling over the years (Figure 6). Between 2010 and 2016 domestic debt grew by 143% from N4.551billion to N11.058 billion by the end of 2016. In 2010 domestic debt represented about 86% of total debt and by 2014 the ratio stood at 69.47% and 63.7% in 2016. The growth in Nigeria`s domestic debt which was mainly acquired through Government bonds has been driven by the need to cover budget deficits and refinancing of matured securities. Although domestic debt has been increasing in absolute terms in Nigeria, it is quite sustainable representing only 9% of GDP on average between 2008-2016.



Source: Compilation based on Nigeria Debt Management Office statistics

Ghana's domestic debt is also one of the fastest growing in the sub-region as ratio of total debt since 2008. By 2013 domestic debt was at par with external debt, reaching more than Cedi25billion. By 2014it had registered well above 25% of GDP as shown in Figure 7 below. Domestic debt has constituted a considerable proportion of Ghana`s total public debt representing an average of 46% of total domestic debt between 2012-2016.This is attributed to the switch towards domestic debt financing and a decline in domestic revenue which created huge budget deficits.

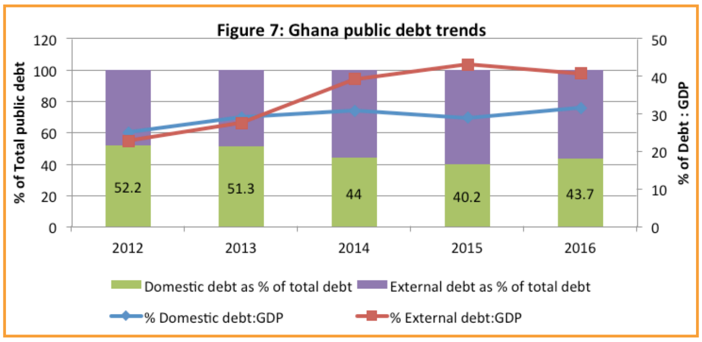


Figure 7: Ghana public debt trends

Sovereign Bond Issuance in West Africa

The following countries of West Africa have issued Eurobonds; Gabon, Ghana, Côte d'Ivoîre, Senegal, and Nigeria. Sovereign bonds are increasingly contributing to rising private debts. Over the years, these countries have accumulated over $11 080billion worth of Eurobonds (see table 3).

Table 3: Eurobond issuances by West African countries (million USD)

Country	2007	2010	2013	2014	2015	TOTAL
Nigeria	-	-	1000	-	-	1000
Gabon	1000	-	1500	-	-	2500
Cote d'Ivoire	-	2330	-	750	1000	4080
Ghana	750	-	750	1000	1000	3500
					TOTAL	**11080**

Source: Calculations based on Bloomberg, Financial Times

All the countries have issued the bonds in United States Dollars with maturities mostly around 10 years and most are listed at the London Stock Exchange. International debt issues incur high repayment costs when currency depreciates

Sovereign bond issues are contributing to economic development. Development impact of the use of funds raised through sovereign bond issues is mixed. In Nigeria funds were used for infrastructure development, in Ghana funds were being used for refinancing debt and public expenditures. In Gabon bond proceeds were used for debt refinancing and management whilst in Cote d Ivoîre they were used in health and education investments.

7. Regional Outlook for Debt Sustainability

According to the WB/IMF 2015/2016 debt sustainability analysis using country specific, policy-dependant thresholds for debt stock and debt service burden Benin, Nigeria and Senegal where found to be at low risk of debt distress. Most of the countries in the region exhibited moderate risk while Ghana, Capo Verde and Gambia were classified as high risk. AFRODAD`s analysis yielded almost similar results with Cabo Verde being a high risk debt distress country and Ghana having rapidly increasing debt and deteriorating debt ratios. Overall, despite increasing debt accumulation by some countries debt has remained sustainable in the sub-region.

Figure 8: Debt sustainability analysis in West Africa – Assessing risks of debt distress

Low Risk	Moderate Risk	High Risk
Benin	Burkina Faso	Ghana
Nigeria	Cote d Ivoire	Cabo Verde
Senegal	Guinea	Gambia
	Guinea Bissau	
	Liberia	
	Mali	
	Niger	
	Sierra Leone	
	Togo	

Recommendations

Fiscal policy, Public debt in most Wet African economies is still sustainable; however, Governments need to continuously maintain sound fiscal policies to ensure continued sustainability of public debt. Countries with rising public debt/large fiscal deficits such as Ghana and Cabo Verde need to undertake fiscal adjustment to control the rising public debt. Ghana has suffered from repeated fiscal slippages due to the government`s inability to tame widening fiscal deficits and weak public finance management institutions resulting in unsustainable public debt.

Capacity building, Given that the sub region`s borrowing has been leaning towards non-concessional financing caution should be exercised when approaching commercial debt markets given the borrowing cost and possibility of shifting sentiments of investors. There is need to strengthen Governments capacities to manage debt sustainably, limit fungibility and enhance accountability and transparency in the uses of bond proceeds. Countries in the sub-region should emulate Nigeria by having well-functioning debt management offices for improved macroeconomic management and debt sustainability measurement. This will go a long in ensuring long term debt sustainability for sub-region countries.

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