

Public debt

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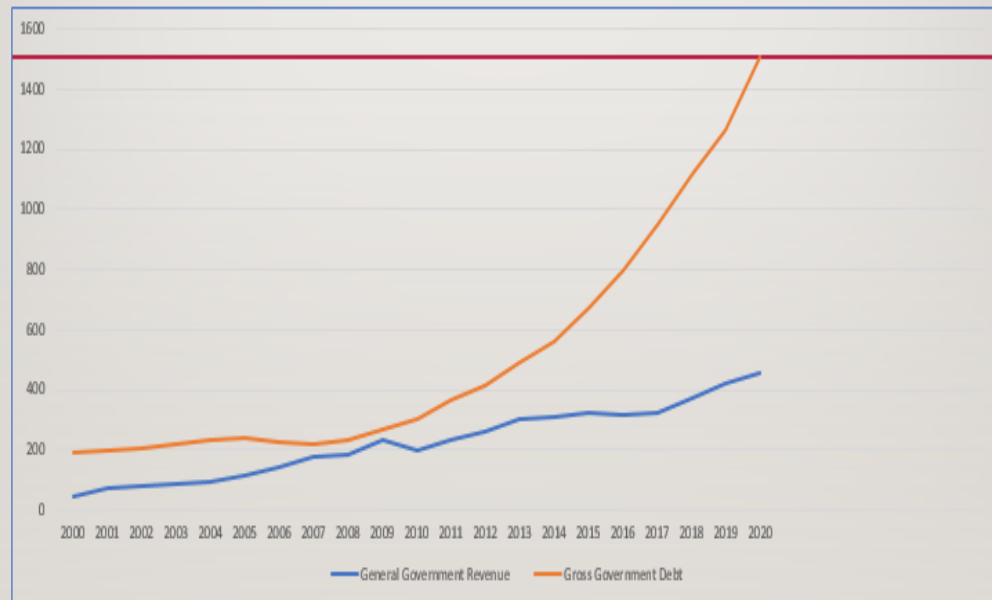
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Public Debt and Causes....

- Budget Deficit – The amount by which government's expenditures exceed its revenues during a particular year
- Any government deficit increases the size of the public debt

DEBT AND REVENUE IN AFRICA

- Yawning gap between revenue and government debt



- Lack of fiscal discipline, such as a cut in tax rates without offsetting reductions in expenditures or a lack of control over increased spending, will contribute to deficits.
- Wars require increased borrowing to finance the war effort
- Recessions result in budget deficits because of the built-in stability of the economy (tax revenues fall and domestic spending rises).

INCREASING GENERAL GOVERNMENT DEBT RATIO

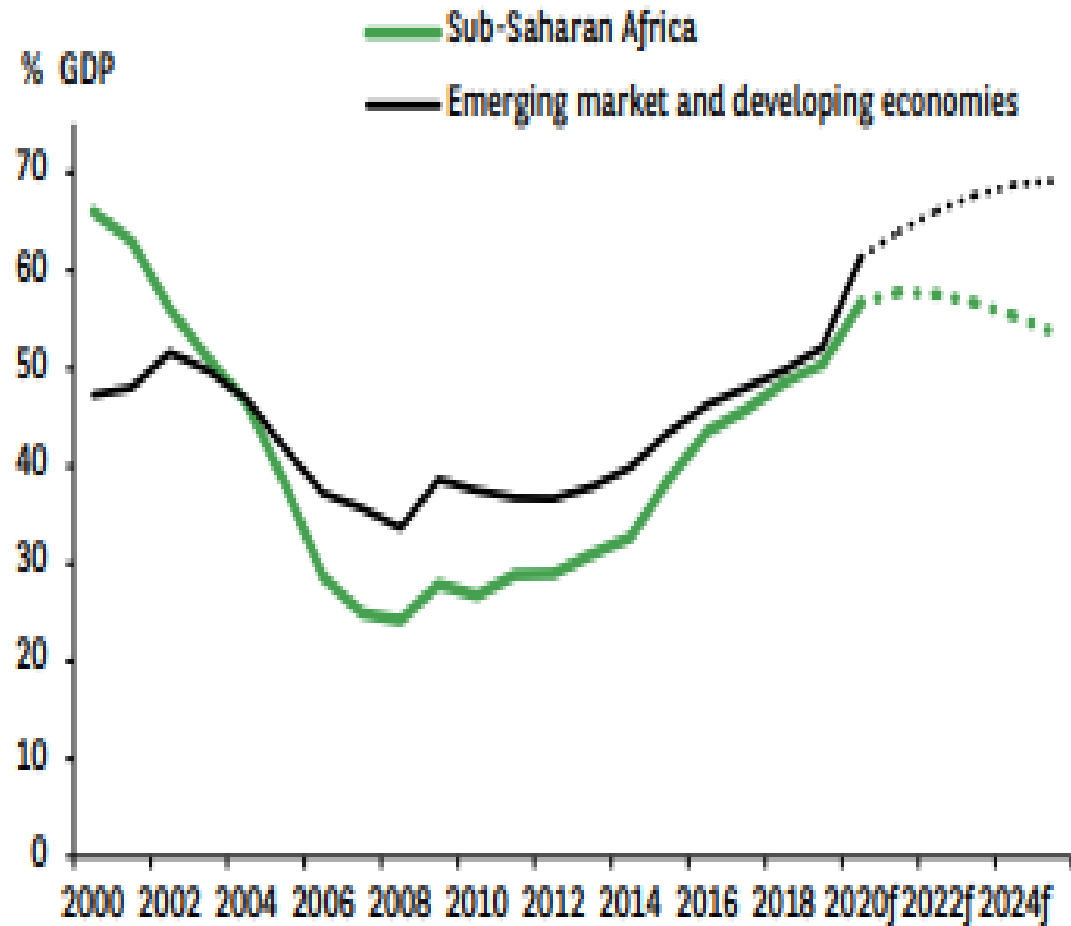
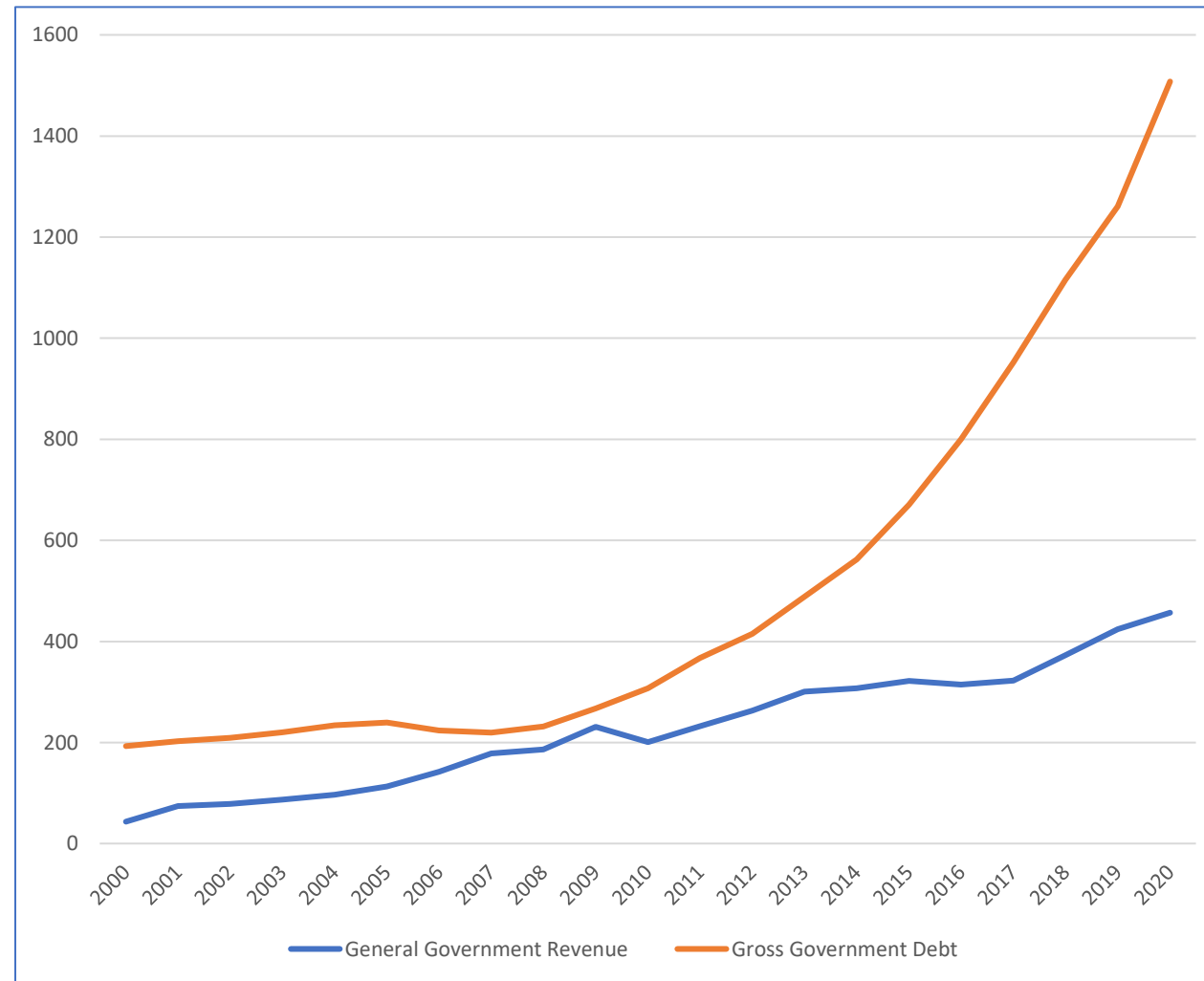


CHART 1

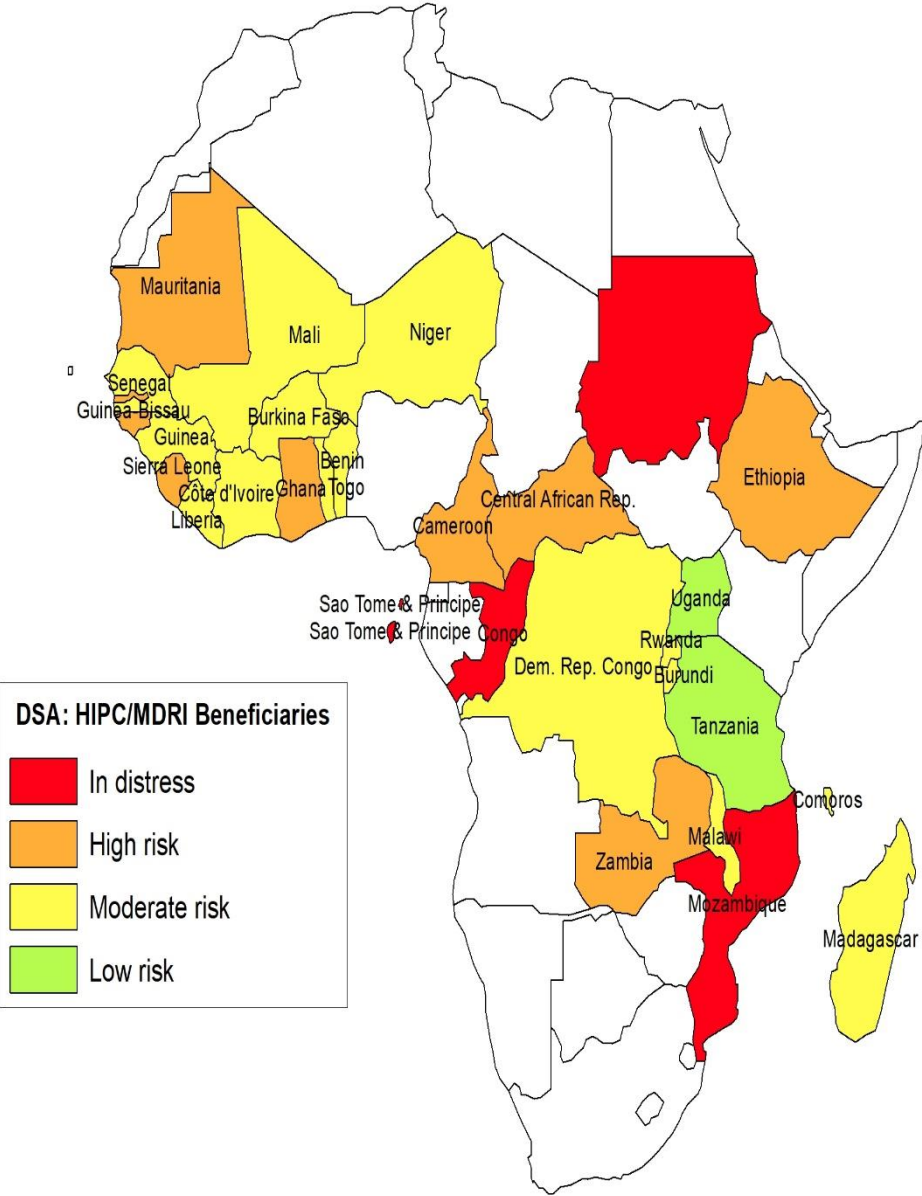
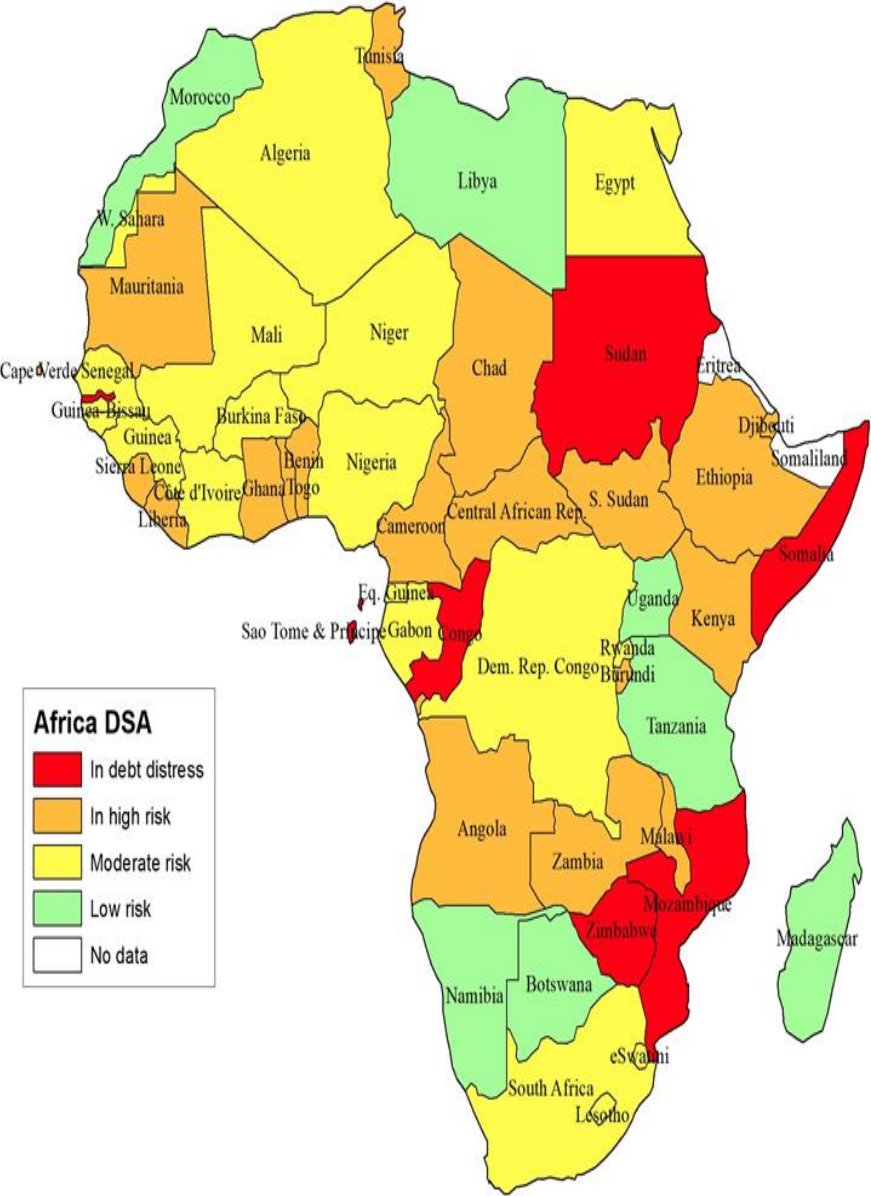
SOURCE: IMF WEO

Yawning gap between revenue and government debt



Afrodad from WEO data

Debt sustainability



Source: Afrodad drawing on IMF data

Debt Service Suspension Initiative (DSSI)

- Suspending debt service payments from the poorest countries
- Participating creditors: ParisClub, China, SaudiArabia, Turkey and all official bilateral creditors
- use the created fiscal space to increase social, health or economic spending in response to the crisis. A monitoring system is expected to be put in place by the IFIs ;
- •to disclose all public sector financial commitments (debt), respecting commercially sensitive information. Technical Assistance is expected to be provided by the IFIs as appropriate to achieve this;
- to contract no new non-concessional debt during the suspension period, other than agreements under this initiative or in compliance with limits agreed under the IMF Debt Limit Policy (DLP) or WBG policy on non-concessional borrowing.
- 32 countries benefited from DSSI in 2020 and 2021 with collective savings of **USD 10,950,000,000**

G20 Common Framework for Debt Treatments beyond the DSSI - coordinate and cooperate on debt treatments

When debt is unsustainable, restructuring is urgently needed.

What are SDRs? <https://www.youtube.com/watch?v=Y-wxIXRLfOk>

What to look for at the country level?

- Prudent fiscal policy + DRM
- Domestic arrears
- Management of PPPs, management of SOEs
- A transparent process to issue state guarantees - oversight
- Diagnostic tools: DemPA, PIMA, PEFA, DSA,
- The opportunity provided by budget support: macro analysis, risk management framework and dialogue

Debt thresholds are only necessary...

Likely debt stress at low levels of public debt

- Most indebted are wealthiest
- Low cost interest rates on high economies
- Debt to formal sector in LICs and LMICs is high
- Debt to assets is high. Lack of asset reconciliation.
- Institutional debt holders – easy to restructure
- High trade vulnerabilities in long term could also be minimal due high export and import volumes
- interest rate to growth differential –positive in LICs and LMICs
- Debt productivity low in LICs and LMICs

Public debt threshold..

Economies, 1946-2009
Gross Central Government Debt

