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ANALYSIS OF PUBLIC DEBT POSITION IN ECOWAS

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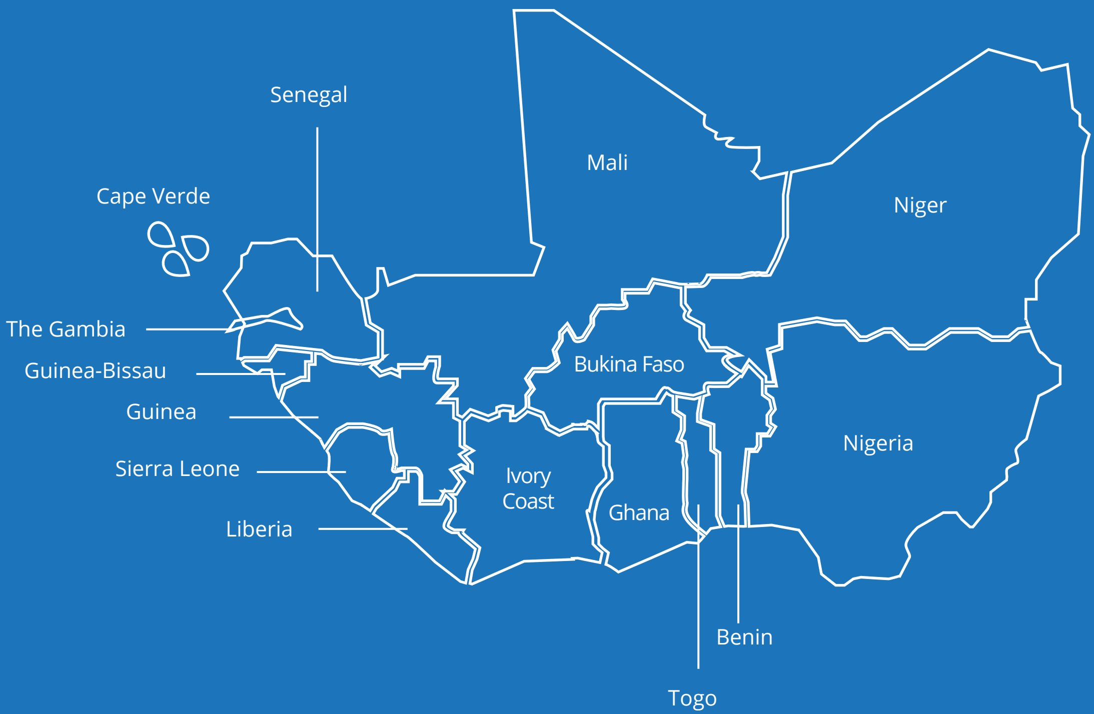

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ANALYSIS OF PUBLIC DEBT POSITION IN ECOWAS

Executive Summary

The COVID-19 pandemic heightened the debt concerns across many ECOWAS countries. It led to declining revenues from taxes and the commodities market while also driving a surge in spending on emergency relief measures. The debt situation in the ECOWAS region is increasingly becoming unsustainable given the pace, size and structure of public debt accumulation in recent years, alongside the ensuing challenges with debt repayment and servicing. This suggests the imminence of debt overhang and potential debt crises with downside implications for macroeconomic stability. While there have been advocates for several measures to stabilise the debt situation in the region, the efficiency of any measure will rest on understanding the status of the public debt in each country. Hence, this policy brief presents a review of public debt data in the ECOWAS region.

The overall fiscal balance in ECOWAS has been in an uninterrupted deficit since 2009, further worsened by the COVID-19 outbreak. Public debt in ECOWAS has increased by more than four folds in the past two decades. It stood at US$58.50 billion in 2005, rising to US$296.76 billion in 2020. Nigeria, Ghana, Côte d'Ivoire and Senegal are the largest borrowers in the region with total debt levels of US$150.53 billion, US$53.37 billion, US$28.07 billion and US$16.09 billion, respectively, in 2020. While the debt structure in the region has markedly changed, external borrowing still dominates for most countries. Total external debt in ECOWAS stood at US$98.92 billion in 2019, of which 41.3% (US$40.86 billion) is in multilateral loans; 19.1% (US$18.89 billion) in bilateral loans; 39.6% (US$39.17 billion) in commercial loans; and 15.2% (US$15.04 billion) to the IMF. Nigeria also has the largest share of the regional external debt at US$27.53 billion in 2019.

As public debt in ECOWAS is expanding, debt ratios in ECOWAS countries are rising. Some public debt ratios have conveyed a distressing situation in certain countries. Regionally, ECOWAS' debt to GDP ratio at 36.7% in 2020 increased by 5.1 percentage points from 31.6% in 2019, following the outbreak of the COVID-19. Except for Nigeria, all ECOWAS countries recorded debt to GDP ratios above the regional figure. The debt service burden has become relatively high for most ECOWAS countries and has been the primary source of concern for stakeholders in the region. Countries such as The Gambia, Ghana, Guinea Bissau, Niger and Nigeria have debt service to revenue ratios of over 50% between 2017-2020. By implication, countries have barely anything left to finance development after servicing debt. However, refinancing risk, cost of debt and interest rate risks on foreign debt are relatively low for ECOWAS countries; but high on domestic debt.


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1. Introduction

The COVID-19 pandemic began amid heightened debt concerns across many countries. Beyond its public health implications, the outbreak of the Coronavirus disrupted economic activities. This led to a global economic meltdown, with most countries entering into a recession. This, no doubt, translated into declining revenues from taxes and the commodities market, in addition to a surge in spending on emergency relief measures. Hence, many countries engaged extensively in borrowing, further escalating public debt concerns around the world.

The Economic Community of West African States (ECOWAS) has been at the heart of recent debates on the alarming rate of debt accumulation. Following the persistently suppressed global commodity prices and low tax revenue, government revenue among ECOWAS countries has been highly constrained. This, coupled with the endemic weakness in resource governance among countries in the region, means that government spending has maintained an upward trend. Consequently, fiscal balances in the region have been in an uninterrupted deficit for over a decade. The Coronavirus outbreak only aggravated the situation, contributing to countries breaching convergence criteria for the region.

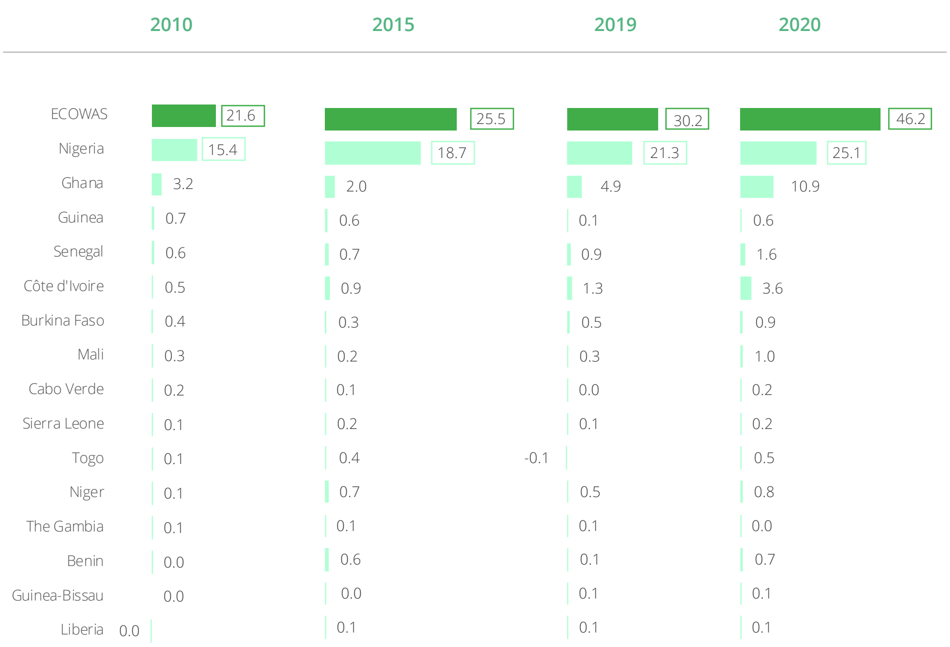
The debt situation in the ECOWAS region is increasingly becoming unsustainable given the pace, size and structure of public debt accumulation in recent years, alongside the ensuing challenges with debt repayment and servicing. This suggests the imminence of debt overhang and potential debt crises considering how countries borrow to service debt or accrue such obligations as more debt. The implication of this on the macroeconomy varies as a debt crisis in the region will have adverse effects on public and private investment, foreign investment inflows, aggregate demand and the economy at large.

Consequently, there have been advocates for several measures to stabilise the debt situation, prominent among which is the call for debt forgiveness and/or cancellation for ECOWAS countries. However, the efficiency of any measure will rely on understanding the public debt realities in each country in the region. Hence this policy brief seeks to present a review of public debt data for the ECOWAS region and provide some insights from the analysis.

2. Profiling Public Debt Portfolio in ECOWAS

The overall fiscal balance in ECOWAS has been in an uninterrupted deficit since 2009, further worsened by the COVID-19 outbreak. Almost all member countries have exceeded ECOWAS's convergence criterion for fiscal deficit. As at 2020, only two countries – The Gambia and Liberia – did not exceed the criterion (see Figure 1). Weak domestic revenue, intensified by dependence on a single source of revenue (exports of primary commodities), and expansionary fiscal policy biased towards recurrent expenditure have been the bane to the ambition to achieve convergence among ECOWAS countries (AfDB, 2019). In addition, the shallow private sector and policy reluctance to implement some tax reforms, perceived to be difficult, have hampered governments' revenue mobilisation strategies. This has propelled the upward trend in public debt in the region.

Figure 1: Nominal Fiscal Deficit in ECOWAS (US$' Billion)



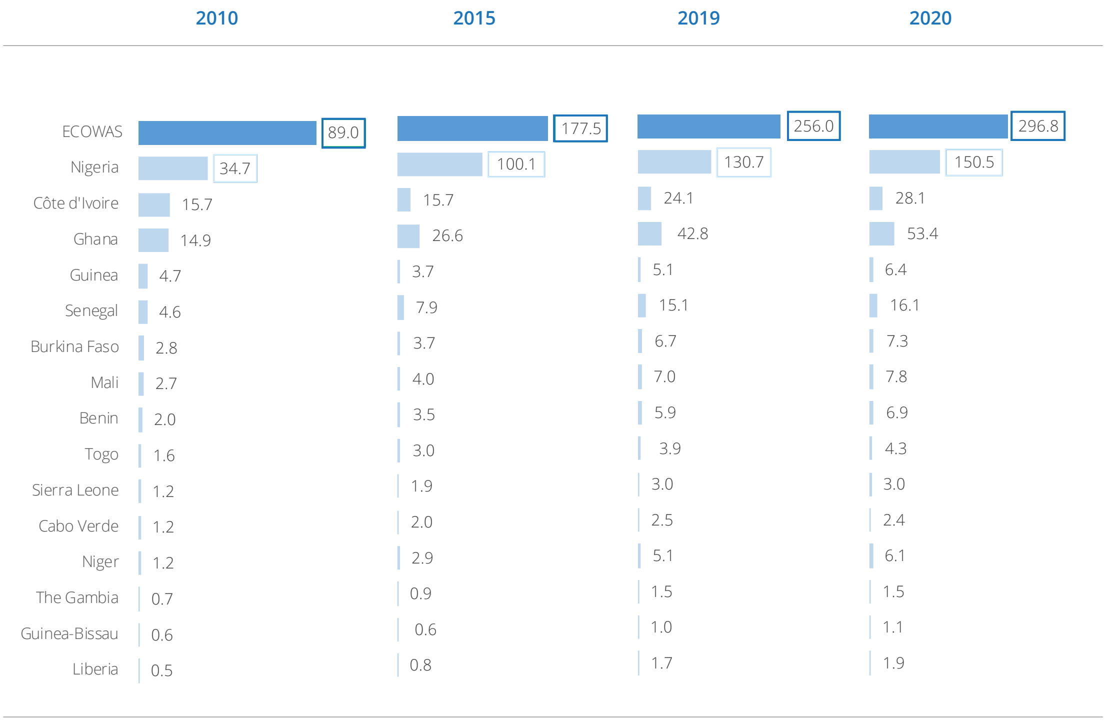
Source: Computations from IMF WEO Data & World Bank Statistical Databases

Public debt in ECOWAS has increased by more than four folds in the past two decades (see Figure 2). During the period of debt relief, as at 2005, the total public debt accruing to the ECOWAS region stood at US$58.50 billion. Despite many ECOWAS countries receiving debt forgiveness during this period, public debt in the region has since been on the rise. In the aftermath of the Global Financial Crisis (GFC), public debt has increased dramatically in the region. It rose by 22.2% to a value of US$71.5 billion in 2010. It more than doubled, rising by 130.6% to US$164.9 billion in 2015. The debt level further increased by 55.3% to reach US$256.04 billion in 2019. In 2020 alone, total public debt in ECOWAS was estimated at US$296.76 billion, a 15.9% increase in public debt which followed the massive borrowing of governments to alleviate the negative effects of COVID-19.

Nigeria, Ghana, Côte d'Ivoire and Senegal were the largest borrowers in the region with total debt levels of US$130.70 billion, US$42.81 billion, US$24.13 billion and US$16.09 billion respectively in 2019. Their 2020 estimates show an increase of 15.2%, 24.7%, 16.3% and 6.6% to US$150.53 billion, US$53.37 billion, US$28.07 billion and US$16.09 billion, respectively. Public debt in Nigeria between 2005 and 2020 has increased by 368.5%; Ghana by 536.9%; Cote d'Ivoire by 104.3%; Senegal by 304.3%, and more than doubled for many other ECOWAS countries over the period. In congruence with her economic size, Nigeria dwarfed other ECOWAS countries to account for 51% of total debt in the region in 2019, while Ghana, Côte d'Ivoire and Senegal accounted for 16.7%, 9.4% and 5.9%, respectively.

The public debt structure in the region has markedly changed; however, still dominated by external borrowing. External debt has consistently been the major source of financing for governments in the ECOWAS region. This is particularly the case with countries in the West African Economic and Monetary Union (WAEMU) bloc, predominantly funded by foreign borrowing. The average contribution of external debt to government borrowings in the bloc stood at 59.9% in 2019 compared with 44.1% among non-WAEMU countries. Despite the external debt dominance, the structure of debt in the region has changed for both blocs when their shares of external public debt are compared with the debt relief period at 78.3% and 60.6% for WAEMU and Non-WAEMU, respectively. This reflects increased domestic borrowing and improvements in the domestic capital market development. The changes in the debt structure in the region have implications for the sufficiency of debt forgiveness for some of the countries in recent debt distress, such as Nigeria, Guinea and Sierra Leone, with a much lower share of external debt.

Figure 2: ECOWAS Total Public Debt Stock (US$ Billion)



Source: Computations from IMF WEO Data & World Bank Statistical Databases

Total external public debt for ECOWAS stood at US$98.92 billion in 2019, of which 41.3% (US$40.86 billion) is in multilateral loans; 19.1% (US$18.89 billion) in bilateral loans; 39.6% (US$39.17 billion) in commercial loans; and 15.2% (US$15.04 billion) to the IMF (see Table 3). Despite the higher dependence on foreign financing among the WAEMU countries, the non-WAEMU countries accounted for the largest share of external debt in ECOWAS, with Nigeria and Ghana having a stock of US$27.53 billion and US$20.49 billion, respectively. Both accounted for 48.5% of the region's external debt in 2019. Nigeria as the biggest debtor in the region had a multilateral debt share of external debt of 45.5% (US$12.53 billion as at 2019, of which US$2.56 billion was owed to the IMF, US$9.97 billion to the World Bank). Nigeria also had 14% (US$3.85 billion) of its external debt in bilateral debt and 40.6% (US$11.18 billion) in external commercial debt.

Table 1. Breakdown of ECOWAS Public Debt Portfolio as at 2019

	Domestic Debt Stock (US$' Million)	Breakdown of External Public Debt						
		External Debt (US$' Million)	Multilateral Debt (% of Total External)				Bilateral (% Total)	Commercial (% Total)
			Total Multilateral	IBRD	IDA	IMF & Other		
ECOWAS	157,116	98,924	*41.3*	*0.5*	*25.6*	*15.2*	19.1	39.6
WAEMU Countries								
Côte d'Ivoire	9,031	15,099	*17.2*	*0.2*	*7.8*	*9.2*	22.3	60.6
Senegal	2,258	12,842	*37*	-	*20.7*	*16.3*	22.6	40.5
Mali	2,374	4,636	*76.3*	-	*42.5*	*33.8*	23.7	-
Benin	2,319	3,611	*58.4*	-	*30*	*28.4*	12.2	29.5
Burkina Faso	3,378	3,342	*89.9*	-	*50.1*	*39.8*	9.8	0.4
Niger	1,973	3,167	*77.5*	-	*42.5*	*35*	22.5	-
Togo	2,309	1,561	*41.9*	-	*10.6*	*31.3*	50.7	7.4
Guinea-Bissau	453	507	*51.1*	-	*24.9*	*26.2*	24.1	24.9
Non-WAEMU Countries								
Nigeria	103,169	27,531	*45.5*	*1.5*	*34.7*	*9.3*	14	40.6
Ghana	22,318	20,492	*26.8*	-	*19.5*	*7.3*	15.7	57.5
Guinea	2,903	2,177	*43.7*	-	*21.6*	*22.1*	53.4	2.9
Sierra Leone	1,831	1,831	*67.6*	-	*31.1*	*36.6*	15	17.2
Cabo Verde	672	672	*48.8*	*2.2*	*20.2*	*26.3*	23.2	28
Liberia	787	787	*77.3*	-	*49.8*	*27.5*	22.6	-
The Gambia	843	617	*73.1*	-	*19.1*	*54*	26.9	-

Source: Computations from IMF & World Bank Data

The domestic debt market is increasingly gaining prominence among ECOWAS countries and is substantial for some countries. In Nigeria, Togo and Guinea and Sierra Leone, domestic debt accounted for 78.94%, 59.65%, 66.94% and 62.08% of total public debt, respectively (see Figure 2). The steady shift towards domestic government debt sources is predominantly in government securities, accounting for over 60%. As at 2019, ECOWAS' total domestic debt stood at US$157.12 billion; Nigeria accounted for a 65.7% share at US$103.17 billion. Other countries with a substantial share of domestic public debt in ECOWAS include Ghana and Côte d'Ivoire, with shares of 14.2% (US$22.32 billion) and 5.7% (US$9.03 billion) respectively (see Table 1).

3. Review of Public Debt Ratios

Rising debt ratios have accompanied the recent wave of public debt accumulation in ECOWAS countries. Some public debt ratios have conveyed a distressing situation in certain countries.

Debt to GDP Ratio

Regionally, ECOWAS' debt to GDP ratio stood at 36.7% in 2020, having increased by 5.1 percentage points from 31.6% in 2019 following the outbreak of the COVID-19 pandemic. A similar experience was recorded for the WAEMU region as their debt to GDP ratio increased by 4.6 percentage points in 2020 to 45%. Except for Nigeria, all member countries in ECOWAS recorded debt to GDP ratios above the regional figure (see Table 2). Ghana, Cabo Verde, and Guinea Bissau experienced the highest increase in debt to GDP, expanding by 14.1, 14.0 and 11.2 percentage points, respectively. A similar trend was recorded on external debt. However, the expansion in external debt is alarming for the WAEMU group as it accounted for over 85% of the increase in public debt in the bloc in 2020 (see Table 2).

Table 2. Public Debt to GDP Ratios

	2014-2018	2019	2020	2021*	2022*	2014-2018	2019	2020	2021*	2022*
Countries			**Total Debt to GDP**					**External Debt to GDP**		
Cabo Verde	124.7	125	139	137.6	131.3	94	101.9	112.8	109	109
Guinea-Bissau	55.5	66.9	78.1	78.1	76.4	20.9	25	30.2	28	28
Ghana	56.9	63.9	78	81.5	83.2	29.6	30.3	34.5	32	32
The Gambia, The	78.6	80	75.8	73.9	70	41	43.8	47.5	44.9	44.9
Sierra Leone	55.9	71.7	71.9	70.4	69.3	33.2	40	47.1	52.5	52.5
Senegal	51.8	64.8	65.8	66.8	66.6	34.9	47.1	49.2	45.1	45.1
Liberia	30.4	55.4	61.8	57	54.5	20.4	34.2	40.7	45.3	45.3
Togo	54.9	53.6	57.6	60	59.9	19.6	23.5	31.6	29.6	29.6
Côte d'Ivoire	35.8	41.2	45.7	46.3	46.6	22	26.7	32	30.6	30.6
Benin	34	41.2	45.4	47.7	46.3	15.9	24	25.1	24.7	24.7
Burkina Faso	32.5	42.7	44.3	46.8	48.1	21.4	23.5	26.7	24.1	24.1
Niger	31.6	39.8	44.2	44.5	42	20.6	25.4	31.2	31	31
Mali	33.1	40.5	44.1	46.1	46.8	23.1	26.2	28.6	26.6	26.6
Guinea	39.7	36.8	41.4	42.3	43.3	20.9	19.3	29.8	32.8	32.8
Nigeria	22.9	29.2	35.1	31.9	32.5	3.6	6.2	7.9	8.0	8.0
WAEMU	31.4	40.4	45.0	48.4	48.9	23.24	29.0	33.0	31.1	
ECOWAS	**22.5**	**31.6**	**36.7**	**43.0**	**43.5**	**10.66**	**14.4**	**17.3**	**17.1**	

Source. IMF, World Bank IDS, NESG Research; Note: * indicates projections; the IMF threshold for debt to GDP ratio 70% while external debt to GDP is 50%.

Debt Service to Revenue Ratio

The debt service burden has become relatively high for most ECOWAS countries, particularly in the aftermath of COVID-19. The regional average in 2019 stood at 45.4% and is projected to reach 60% in 2021. The debt service to revenue ratio has been a major source of concern for stakeholders on the debt situation in ECOWAS countries. Countries such as The Gambia, Ghana, Guinea Bissau, Niger and Nigeria have debt service to revenue ratios of over 50% between 2017-2020 (see Table 3). This implies that these countries spend over half, and in some cases around 100%, of government revenue in paying interest on debts and barely anything left to finance development. This has been the crux of public debt concern for ECOWAS countries, especially Nigeria, Ghana, and The Gambia, as debt can only be serviced with revenue and not GDP or export. However, the debt service burden in ECOWAS countries is heavy on domestic debt despite the dominance of external debt among most countries. This is due to the rate at which the domestic share of debt service to revenue ratio dwarfed the external share.

Table 3. Public Debt Services to Revenue Ratios

	2014-2018	2019	2020	2021*	2022*	2014-2018	2019	2020	2021*	2022*
Countries	**Total Debt Service to Revenue**					**External Debt Service to Revenue**				
The Gambia, The	151.1	154.7	111.3	120.1	100.9	44.8	41.8	20.7	21.4	15.3
Ghana	100.8	68.4	91.7	106.8	79.4	12.4	12	35	50	36.5
Guinea-Bissau	59	44.4	69.6	117.8	82.6	-	-	-	-	-
Niger	29.9	46.2	60.1	76.7	64.9	-	-	-	-	-
Togo	61.4	62.1	57.3	65	88.7	-	-	-	-	-
Nigeria	61.6	54.3	54.3	82.9	-	-	-	-	-	-
Benin	25.5	52.5	47.8	54.4	59.3	5.4	4.7	7.4	8.2	7.8
Côte d'Ivoire	39.1	32.5	38.1	37	35.1	9	9.5	14.8	12.1	13.5
Burkina Faso	22.6	27.8	31.6	37.3	45	5.7	5.7	6.3	5.6	6.4
Cabo Verde	48.7	53.5	29.7	35.6	39.4	18.1	16.3	14.6	17.8	17.8
Senegal	34.2	42.9	29	35	33.7	-	-	-	-	-
Sierra Leone	-	27.3	23.4	29.4	41.4	2.2	13.1	12.6	14.7	16.3
Guinea	6.1	12.2	20.5	15.4	19.5	4.1	4.2	3.5	3.5	5.9
Mali	111.5	15.4	13	16.4	18.4	-	-	-	-	-
Liberia	-	-	-	-	-	-	5.1	6.2	10.4	5.6

Source. IMF, World Bank IDS, NESG Research; Note: * indicates projections; the IMF threshold for debt to GDP ratio 70% while external debt to GDP is 50%.

The dominance of external debt exposes many ECOWAS countries to foreign exchange risk. Most ECOWAS countries in the past decade have relied significantly on external borrowing, given the higher interest environment within their countries and an underdeveloped domestic capital market. The IMF, the World Bank and the AfDB have been the major interventionists for ECOWAS countries. Consequently, the regional average of foreign exchange debt to total stood at 60.2% as at 2019 (see Table 4). This is projected to expand to over 75% in 2021, following governments' considerable external debt obligations largely due to the economic disruption that accompanied the COVID-19 pandemic. Among other ECOWAS countries, Nigeria has the lowest foreign debt exposure with 22.5% foreign debt to total debt as at 2019, while countries such as Guinea Bissau, Ghana, and Benin recorded rates lower than the regional average. However, countries such as Cabo Verde, Côte d'Ivoire, Guinea, and Niger have high exposure (over 70%) to foreign exchange debt.

However, refinancing risk, cost of debt, and interest rate risks on foreign debt are relatively low for ECOWAS countries (see Table 4). The average term to maturity on foreign currency dominated debt is 23.6 years for the region as of 2019 compared with 5.7 years on domestic currency dominated debt. Sierra Leone and Liberia, at 29 years, have the highest average term to maturity on foreign debt, while Ghana has the lowest at 15 years. Moreover, the regional average of foreign debt maturing in one year was 4.9% of the total. This gives ECOWAS member countries some respite in short to medium term on repayment of principal. However, the interest payment remains challenging for the region, especially Ghana, Cabo Verde and Togo, with high foreign debt exposure.

Refinancing risk and cost of debt are high on domestic debt for ECOWAS countries which manifests into a high domestic debt service burden. The cost of debt (weighted average interest rate) on domestic debt in ECOWAS countries has been high relative to the foreign debt component. As at 2019, the average cost of domestic debt in ECOWAS was 7.1%, as high as 13.4% in Ghana and 4.7% at the bottom in Niger (see Table 4). The situation is more concerning in short to medium term for ECOWAS countries. The regional average term to maturity stood at 5.1 years as at 2019 and as low as one and three years in Sierra Leone and Niger, respectively.

Table 4. Risk Assessment of ECOWAS Countries

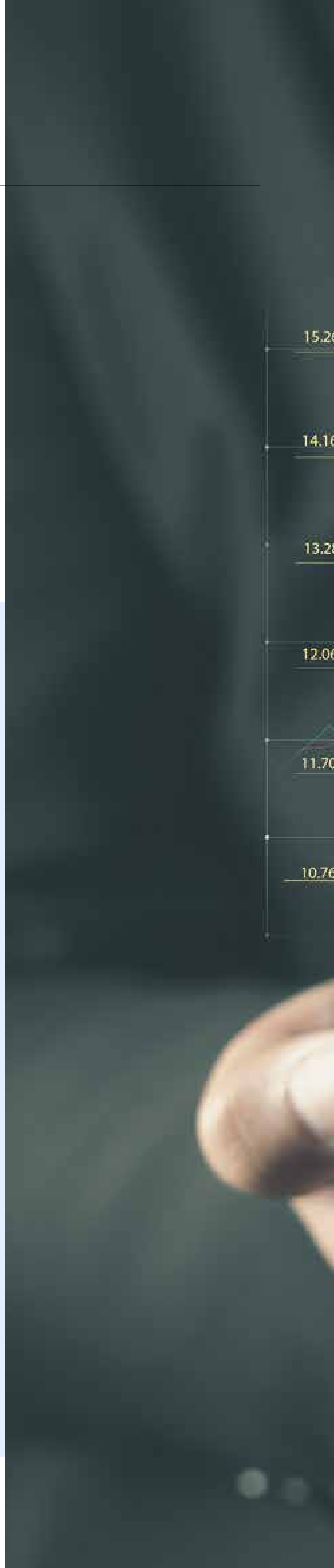
Countries	FX Risk	Cost of Debt		Refinancing Risk		
	FX Debt (% of total)	Weighted Average Interest Rate		Average Term to Maturity		Foreign debt Maturing in 1yr (% of total)
		Dom.	Ext.	Dom.	Ext.	
Benin	55.3	7.0	*2.1*	*4*	*18*	*0.54*
Burkina Faso	60.3	6.8	*1.2*	*5*	*24*	*0*
Cabo Verde	81.2	4.7	*1.2*	*6*	*22*	*0*
Côte d'Ivoire	70.0	5.5	*3.9*	*4*	*18*	*4.6*
The Gambia, The	62.7	-	-	-	-	*3.3*
Ghana	44.2	13.4	*4.1*	*5*	*15*	*17.2*
Guinea	72.0	6.5	*1.6*	-	-	*7.1*
Guinea-Bissau	38.7	-	-	-	-	*9.3*
Liberia	65.9	9.1	*1.7*	*20*	*29*	*0*
Mali	64.9	5.7	*0.9*	*4*	*28*	*2.1*
Niger	70.6	4.7	*1.8*	*3*	*27*	*2.6*
Nigeria	22.5	9.1	*3.4*	-	-	*0*
Senegal	74.8	-	-	-	-	*0*
Sierra Leone	65.5	9.9	*0.7*	*1*	*29*	*10.3*
Togo	54.9	5.1	*1.5*	*5*	*26*	*16.3*

Source. IMF, World Bank IDS, NESG Research

5. Key Takeaways and Conclusions

The data on public debt in ECOWAS has emphasised the concerns of stakeholders on the sustainability of public debt in the region. Between the period of debt relief and now (2015 -2020), the public debt portfolio of ECOWAS has increased by more than four folds. This is accompanied by changing structure with increasing uptake of domestic debt. Nevertheless, external borrowing still forms a large chunk of the public debt portfolio in the region. The recent wave of public debt accumulation has been accompanied by surges in the debt ratios of ECOWAS countries as the rate of growth in public debt surpasses the growth rate of the economy, export and revenue together.

However, the weak revenue component constitutes the major burden to ECOWAS governments as debt is serviced with revenue and not GDP or export. With the fallout of the COVID-19 pandemic, the debt service burden became relatively high in most ECOWAS countries which are heavy on domestic debt despite the dominance of external debt among most countries. The external debt burdens are relatively low for WEAMU countries compared with Anglophone West African countries. The dominance of external debt exposes many ECOWAS countries to foreign exchange risk. Refinancing risk, cost of debt and interest rate risks on foreign debt, on the other hand, are relatively low for ECOWAS countries. At the same time, they are high on domestic debt for ECOWAS countries which manifests into a high domestic debt service burden.



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ABOUT THE DMR

The Debt Management Roundtable (DMR) on debt restructuring and social financing was instituted in March 2021 by the Nigerian Economic Summit Group (NESG) with the support of the Open Society Initiative form West Africa (OSIWA). The Roundtable is expected to provide insights, evidence and recommendations on debt management and sustainability, with a view to engaging policymakers on debt restructuring and social financing in the West African region, using Nigeria as a case study. Public debts in ECOWAS have spiralled upwards more than four folds since the debt relief period (2005-2006).

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