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Breaking the Trend: Debt Stabilization in Sub-Saharan Africa

- *Historical experience suggests that stabilizing debt across sub-Saharan Africa is still achievable in most cases, even though debt levels are elevated and vulnerabilities are high.*
- *Countries in the region, over recent decades, have often been able to consolidate (stabilize or reduce) their debt ratios without debt restructuring. Many countries have done so recently, even after the end of the commodity super cycle.*
- *Successful debt stabilization requires measures to strengthen public finances and a sound macroeconomic environment, strong institutions, and pro-growth structural reforms.*

Across sub-Saharan Africa debt consolidations have been **frequent** and **significant**

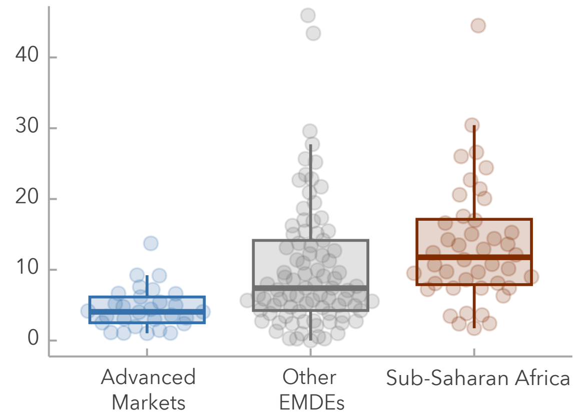
What can we learn from these successes?

An ambitious and uncertain path forward

Public debt ratios in sub-Saharan Africa have broadly stabilized but remain elevated compared to the pre-COVID-19 period. Baseline projections imply continued regional debt stabilization—and even some reduction—but with the assumption that recent efforts to consolidate budgets are maintained and in some cases intensified. Interest payments and overall debt service as a share of revenues are high, both historically and compared with other regions, constraining critical development spending (Figure 1). The median interest-to-revenue ratio climbed to over 12 percent in 2024 (April 2025 *Regional Economic Outlook: Sub-Saharan Africa*) and is expected to remain elevated, partly because of the limited availability of concessional finance and the ensuing shift to more expensive market debt.

Figure 1. Public Interest Payments Projections, 2025–27

(Percent of revenue excluding grants)



Sources: IMF, World Economic Outlook database and IMF staff calculations.

Note: EMDE = emerging market and developing economy.

Meanwhile, vulnerabilities and uncertainty persist. Unforeseen events—such as shocks to global growth, global financial conditions, and official development assistance, as well as instability, conflicts, commodity price shocks, and natural disasters—may increase debt ratios significantly. Furthermore, tight external financing conditions may increase rollover risk, and debt restructuring, which is sometimes essential, is socially costly and dauntingly complex (Bonizzi, Laskaridis, and Toporowski 2019; Horn and others 2022; IMF 2023).

Given these challenges, can sub-Saharan African countries achieve a gradual debt reduction, even without debt restructuring?

Debt stabilization is far from rare, even in sub-Saharan Africa

Headlines about debt developments in sub-Saharan Africa are often somewhat bleak, but the region's history offers many reasons for optimism: countries in the region have often managed to stabilize and reduce their public debt ratios significantly and durably, even outside of debt restructuring episodes. A new data set of all episodes of public debt reduction in sub-Saharan Africa since 2000 highlights *when, how often, to what extent,* and *how* debt stabilization was achieved.[1]

Debt reduction episodes have been relatively frequent. With more than 60 instances over the past 25 years, the probability that a country will experience such an episode in any given year is one in four. Debt reduction episodes have occurred even when the external environment was relatively unfavorable, including after the end of the commodity super cycle and in the wake of the COVID-19 pandemic (Figure 2). The episodes have been more frequent in oil exporters, middle-income countries, and countries that are not classified as fragile or conflict-affected, but low-income countries and fragile states have also experienced some debt reduction episodes.

[1] Episodes of debt reduction are defined as periods of two or more years during which the public debt-to-GDP ratio fell (allowing for temporary, limited increases during longer episodes). All cases of (bilateral or multilateral) debt restructuring are excluded. Data for the analysis are drawn from the October 2024 World Economic Outlook database, and are available for 39 countries in the region over the period 2000–23.

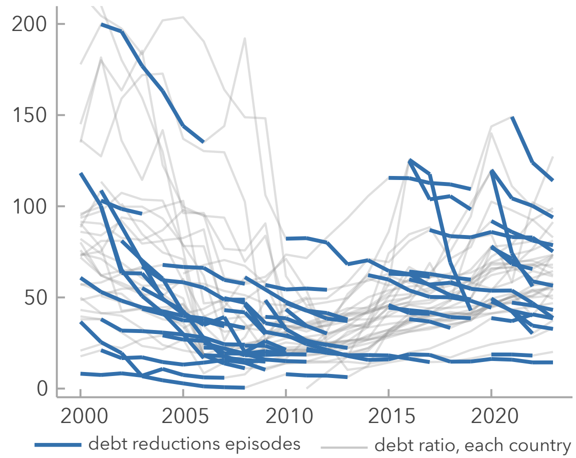
The reduction in many cases proved economically significant and persistent: a majority of episodes involved a decrease of more than 10 percentage points of GDP, and 40 percent of those episodes lasted four or more years.[2] For example, Botswana's sound public finances allowed for a continuous decrease in the debt ratio over 2012–17, and Cabo Verde's debt ratio decreased by more than 30 percentage points of GDP over 2021–23 as the economy grew strongly following the large pandemic shock and public finances improved.[3]

In explaining these episodes, an accounting decomposition of the changes in the debt ratio can help assess the direct contributions of different, proximate driving factors (IMF 2022). Sustained debt reduction typically reflects both budgetary consolidation and real growth (Figure 3). Budgetary consolidation (that is, an increase in primary balances) is itself more likely when growth is rapid (Ando and others 2025). Conversely, the end of debt reduction episodes is typically characterized by negative shocks to growth (a 3½ percentage points decrease on average). During the episodes, the pace at which the primary balance increases rarely exceeds 2 percentage points of GDP per year—consistent with a "speed limit" to the pace of sustainable budgetary consolidation (Comelli and others 2023).

In fragile and conflict-affected states, as well as low-income countries, growth is the predominant driver of many successful debt reductions. This trend highlights these countries' limited ability to raise revenues, significant development needs, often weak fiscal frameworks and, consequently, often larger primary deficits than in the rest of the region.[4] For instance, the debt ratio fell by 15 percentage points in the Democratic Republic of the Congo during 2010–23, 10 percentage points in the Gambia since 2017, and 6 percentage points in Guinea during 2015–19. In all those cases, growth can explain almost the entire reduction. However, budgetary consolidation played an important role in other cases—for example, the 5 percentage points reduction in the debt ratio in Togo during 2016–19.

Figure 2. Public Debt, 2000–23

(Percent of GDP)

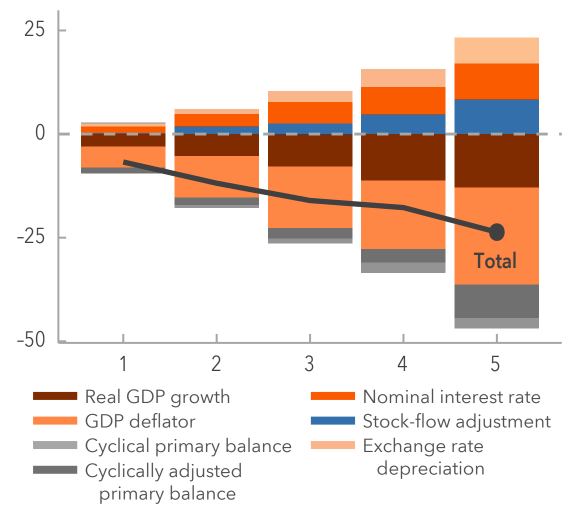


Sources: IMF, World Economic Outlook database and IMF staff calculations.

Note: Debt reduction episodes exclude instances of debt restructuring or forgiveness under the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives.

Figure 3. Contributors to Public Debt Reduction, 2000–23

(Percent of GDP)



Sources: IMF, World Economic Outlook database; World Bank, World Development Indicators database; and IMF staff calculations.

Note: Each bar denotes the contributors to average debt reduction in a specific episode year. Years 1 and 2 include all debt reduction episodes; years 3 to 5 include all episodes that last at least that number of years.

[2] The median duration of an episode was three years and the median decline in the debt ratio was 12 percentage points. Similar to other studies in the literature, there are limitations to the analysis of debt-ratio dynamics, stemming from methodological challenges in addressing sudden and significant changes in measured GDP (such as those caused by temporary shocks or GDP rebasing), as well as revisions in debt data. However, these shortcomings may prove less of a concern when analyzing large, sustained debt reductions.

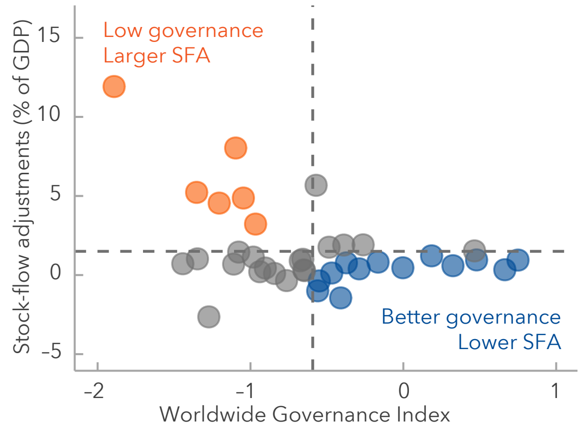
[3] Cabo Verde's debt ratio is estimated to have decreased further in 2024, beyond the sample period.

[4] On average, during debt reduction episodes, low-income countries in sub-Saharan Africa ran a primary deficit of 0.4 percent of GDP, compared to a primary surplus of 3 percent of GDP in middle-income countries of the region.

Conversely, debt reduction is often undermined by "stock-flow adjustments"—a seemingly technical term that in fact captures crucial elements including below-the-line fiscal-financial operations, such as support to struggling state-owned enterprises and the recapitalization of public banks, as well as off-budget activities and clearance of arrears.[5] Stock-flow adjustments reflect many underlying factors, but broadly tend to be smaller and debt consolidation episodes larger in countries with higher institutional quality (Figure 4).

Figure 4. Stock-flow Adjustments and Governance, 2000–23

(Average)



Sources: IMF, World Economic Outlook database; World Bank, World Development Indicators database; and IMF staff calculations.

Note: SFA = stock-flow adjustment.

Although inflation mechanically helps erode the real value of debt, the consequent exchange rate depreciations and higher interest payments offset much of this effect (Eichengreen and Esteves 2022). Depreciations especially affect public debt dynamics in the region, given its large share of foreign currency–denominated debt (more than one-half of total public debt on average). Elevated, entrenched inflation is particularly likely to harm prospects for debt reduction. The impact of inflation on macroeconomic stability and performance is nonlinear. And the longer that inflation persists, the more likely that interest rates and risk premiums will increase—particularly in countries reliant on non-concessional debt. In fact, across all debt reduction episodes, higher inflation is associated with a lower total reduction in debt.[6]

Securing success: which factors matter most?

The domestic and external environments have a significant influence on prospects for debt reduction. IMF staff analysis has investigated the underlying features of debt stabilization episodes. Debt reduction is relatively more likely to occur, be economically significant, or persist if the country has a solid domestic institutional framework and enjoys a supportive domestic business environment, global growth is buoyant, and global financial conditions are favorable, including with low borrowing costs (Figure 5).[7]

Intuitively, a favorable investment climate and solid institutions are more likely to be associated with sustained budgetary consolidation, rapid growth, a stable macroeconomic environment, and limited stock-flow adjustments (that is, fewer fiscal surprises), all of which promote debt reduction.[8] Supportive domestic and external environments are also likely to be associated with less overall slack in the economy; as a result, a budgetary consolidation is less likely to depress economic activity—in other words, fiscal multipliers are likely to be relatively low. For example, in Mauritius, a favorable domestic and external environment, solid growth, and a stable currency led to a reduction in the debt ratio of almost 20 percentage points during 2003–08.

Debt reduction is more likely when an IMF-supported arrangement is present, pointing to the importance of international support. Relatedly, for a budgetary consolidation to translate into debt consolidation, it must be sustained over time. Debt consolidation is facilitated by exchange rate stability but less so in the case of exchange

[5] See the October 2024 *Fiscal Monitor*. Related, the presence of large stock-flow adjustments in some countries suggests that data on the magnitude and timing of debt consolidation needs to be interpreted with caution.

[6] The higher that inflation is, the greater the extent to which its direct negative impact on debt is offset by the positive impact of higher interest payments and greater depreciations.

[7] Other recent work on fiscal consolidation, though not focused on sub-Saharan Africa, comes to broadly similar conclusions (Aligishiev and others 2023; Best and others 2019; Balasundharam and others 2023; April 2023 *World Economic Outlook*, Chapter 3).

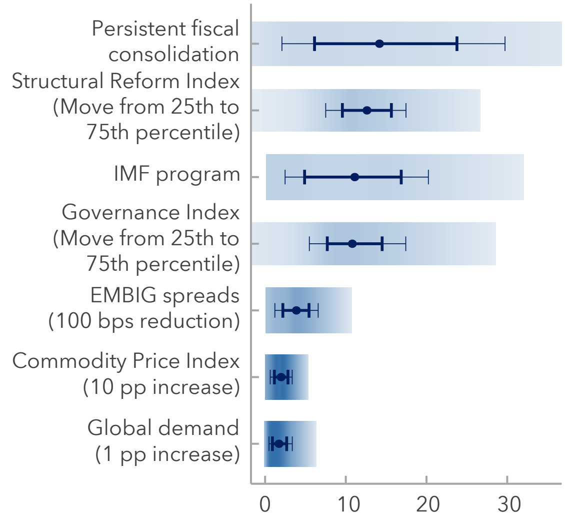
[8] For example, improving the level of institutional quality from the 25th to the 75th regional percentile is associated with a reduction in stock-flow adjustments of 1.2 percentage points of GDP.

rate overvaluation, because overvaluation can lower growth, increase future inflation, and hamper overall macroeconomic stability. For example, in Nigeria elevated inflation in 2020–22 did not help with debt reduction but instead led to a real exchange rate overvaluation, eventually triggering a large currency depreciation in 2023, more inflation, higher borrowing costs, and rising public debt ratios.

Quantitatively, the evidence suggests that enhancements to the domestic environment (for example, improving the business climate and institutional quality from the lower regional quartile to the upper) could offset even a large deterioration in the external environment (say, a 1 percentage point reduction in global growth and a 200 basis points increase in regional bond spreads).

Figure 5. Drivers of Debt Reduction Episodes

(Percent increase in probability of observing a debt reduction episode)



Sources: IMF, World Economic Outlook database; World Bank, World Development Indicators database; and IMF staff calculations.

Note: Results are from a regression of episode likelihood on each variable, within a Bayesian multi-level framework with country effects. The blue shading reflects the probability density of different parameter values, and the lines represent the range of most likely values, with credible intervals at the 50th and 75th percentile. "Persistent fiscal consolidation" denotes a budgetary consolidation in both the current year, and at least one of the previous three years. "IMF program" denotes the presence of an IMF financing arrangement. "EMBIG spreads" denote the difference between the yield on emerging market bonds, as measured by the J.P. Morgan Emerging Markets Bond Index Global, and on US Treasury bonds. "Global demand" is proxied by the GDP growth rate of the G7 economies and China. bps = basis points; EMBIG = J.P. Morgan Emerging Markets Bond; pp = percentage point.

The road ahead

The analysis yields a key message for policymakers: fiscal adjustment is likely to result in stronger, more durable reductions in debt when complemented by pro-growth structural reforms and by measures to strengthen institutional frameworks. Such measures, including well-designed fiscal rules, should ensure that below-the-line and off-budget fiscal operations do not undermine debt reduction, and that countries build fiscal buffers and reduce debt during good times to allow for more gradual adjustment if shocks occur (April 2023 *World Economic Outlook*, Chapter 3). Reforms that enhance fiscal transparency and debt disclosure, and are backed by international support in strengthening accountability mechanisms, are critical here. Improved debt liability management can also help reduce the cost of debt servicing (Jonasson and Papaioannou 2018). Adjustment efforts should also be accompanied by well-designed public consultation and communication strategies centered on consistent delivery on commitments, all aimed at building broad-based acceptance and ownership of fiscal strategies (Arslanalp, Eichengreen, and Henry 2024).

Efforts to reduce debt are also more likely to prove successful in a context of macroeconomic stability. Although favorable global conditions help, 48 percent of debt reduction episodes started when global demand was below average. In this context, macroeconomic stability includes maintaining low and stable inflation: the scope for inflating away debt is limited by the region's large reliance on foreign currency–denominated and short-term debt. Similarly, financial repression (encompassing measures such as interest rate ceilings and formal or informal portfolio restrictions favoring government debt) is not a viable strategy for debt reduction, because limited financial development and low access to credit remain key constraints to the growth of enterprises across the region.[9] Attempting to maintain an overvalued exchange rate is likely to hamper growth and therefore debt reduction. Instead, the priority should be to establish a sound macroeconomic environment.

[9] The share of firms that are credit-constrained is higher in sub-Saharan Africa (at almost one-half) than in any other region (Islam and Meza 2023).

Countries aiming at sustainable debt reductions should seize the opportunity to improve the efficiency of taxation and spending. The focus should be on strengthening balances in a growth-friendly manner by broadening the tax base, removing inefficient tax exemptions, and improving expenditure quality (October 2024 *Fiscal Monitor*).

Support from the international community, including through concessional financing, is critical to helping the region succeed in reducing debt levels while mitigating adverse social effects. Most countries—especially fragile states and low-income countries—face difficult trade-offs between short-term macroeconomic stabilization, longer-term development needs, and ensuring the social acceptability of reforms. The challenge is to ensure that rapid fiscal consolidation does not jeopardize progress on securing growth and meeting critical development needs, and does not unsettle the social and political equilibrium. External support can make these difficult trade-offs less daunting—for example, allowing for more gradual fiscal adjustments, which are more likely to prove economically and socially sustainable.

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