Feedback from Budget Information Centre, Cameroon  
(Translated from French)  

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New Idea

Harmonization of the Debt Strategy and Instruments of Debt

After the HIPC and MDRI initiatives, African countries, such as Cameroon, had zero debt in 2006. Eight years after forgiveness, the level of indebtedness of sub-Saharan countries has begun to grow—with debt reaching 30% of GDP for Cameroon. At this level, one cannot yet talk about the risk because the debt is still sustainable. But if one does a projection of the medium term with an annual growth projection of 3.7%, we will see a level of indebtedness at 50% of GDP. Spread through the time horizon to 2035 for Cameroon, we again arrive at a level over over-indebtedness, and the cycle of the heavily indebted poor countries restarts.

The example of Cameroun can be applied to other African countries who also benefitted from the debt reduction initiatives. With the debt relief:

1- The former borrowing countries began to finance development with cyclical rates, but not without consequences;
2- New borrowing partners have appeared in capital markets;

At the same time, the States have developed new financial instruments such as sovereign bonds.

To add to this, private debt issued by commercial banks can be resold without notification and the maturity for payment is the same as those contracts signed with the initial shareholders of the debt.

Stemming from the above, we think that to open a debate at the international level on the “Harmonization of the Debt Strategy and Instruments of Debt” would put a check on countries that are on the road to indebtedness and over-indebtedness, who would benefit from a global environment of secure debt and the prevention of exogenous shocks and sovereign debt crises. At the same time, it would allow for readability of the debt over the long term.

As the Managing Director of the IMF noted, sovereign bonds risk to overload African economies with too much debt and derail observed economic recovery.

Our fear is in particular reference to the fiscal costs of an economy overburdened by the weight of uncontrollable debt issues, with diverse lenders utilizing each of these instruments.

A shock to the indebtedness of African countries could not be absorbed by the economy, inducing a fiscal inflation, which in turn would lead to a recession.

The debate on the “Harmonization of the Debt Strategy and Instruments of Debt” allows for a solid framework to be built through dialogue, aiming to monitor and prevent any risk stemming from a loan, whether it be public or private.