

# IMPROVING DEBT MANAGEMENT FOLLOWING HIPC DEBT RELIEF

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# Introduction

According to AfDB

- There are 42 HIPCs worldwide including 33 in Africa. Of the 33 HIPCs in Africa, 25 have reached the decision point and are receiving debt relief.
- Their debt ratios have been reduced by about 67%.
- Poverty reducing expenditures of the 30 post decision point HIPCs have increased from 6.7% of GDP in 1999 to 10.2% in 2006.

# Introduction

- In spite of the progress, sound and prudent debt management is necessary to prevent unwarranted commercial and non-concessional borrowings, which could cause un-sustainable debt burden for the HIPC in the long-term.
- These entails commitments and initiatives from HIPC/MDRI countries, and multilateral and bilateral creditors.

## Role of HIPC/MDRI Countries in the DSF

- Have the primary responsibility for avoiding debt re-accumulation
- Improved debt burden ratios in HIPC/MDRI countries have created a potential for new borrowing from willing commercial and non-commercial creditors who are taking advantage of this without paying for it.
- Design a mechanism to discourage this type of non-concessional borrowing which could lead to unsustainable debt ratios once again.

## Possible Mechanisms

- Donors support for debt management in HIPC/MDRI countries which addresses the following aspects;
  - Prudent risk management
  - Coordination with monetary and fiscal policies
  - Transparency and accountability
  - Institutional framework
  - Technical framework to base the management of external debt

# Possible Mechanisms

- The Debt Sustainability Framework (DSF) that aims at setting a ceiling for indebtedness and regulating HIPC/MDRI re- indebtedness process.
- Issues
  - of co-ordination between donors and adherence of HIPC/MDRI countries in the Implementation of this framework.
  - Country policy formulation that takes into account identified debt-related vulnerabilities by the DSF

# Possible Way Forward for HIPC/MDRI countries

- Formulation of integrated debt strategies.
- These should take into account the DSF and have overriding objectives of
  - Ensuring medium and long-term external debt sustainability that balances developmental needs with risks of debt distress
  - Consistency between level of external financing and wider macro-economic objectives of stability, growth and poverty reduction.
  - Achieving the desired and appropriate level of external financing at minimum cost to Governments.

# Cushioning volatility arising from external shocks.

- **Pursuance of Prudent Macroeconomic Policies**
  - Flexibility in the monetary and fiscal policy, and pricing of goods and assets to reflect changing international circumstances
- **Prudent Management of Official Reserves.**
  - The rising international commodity prices
  - Increased reserve build up on account of HIPC/MDRI receipts.
- **Other options such as the IMF-CFF, ESF *etc***

## Cushioning volatility arising from external shocks- Avoidance of the *Original Sin*.

- Small countries, which cannot borrow in own currency suffer from global financial market imperfections or currency mismatches.
- Exchange and interest rates movements subjects such countries to difficulty in servicing foreign-currency denominated debts.
- These developments tend to be of a pro-cyclical nature.

## Cushioning volatility arising from external shocks- Avoidance of the *Original Sin*.

- Focus on creating conditions for borrowing in own currencies from international capital markets, subject to the DSF, such as;
  - Improving the functioning of domestic financial markets;
  - Continued pursuance of policies that deliver macroeconomic stability;
  - As a starting point, IFI could consider raising private sector LT financing in this manner.



Thank you