

THE NEW FACE OF AFRICAN DEBT

Amadou Sy and Athene Laws

Shifts from external to domestic debt come with rewards and risks

A major transformation is underway in sub-Saharan Africa: Governments are increasingly shifting borrowing away from external debt and toward domestic debt. This trend brings fresh opportunities to build resilience and support development—but also introduces new challenges that must be managed carefully.

At the turn of the millennium, sub-Saharan African governments relied heavily on external loans, particularly concessional lending in foreign currencies from bilateral and multilateral institutions (see Chart 1). After the Heavily Indebted Poor Countries Initiative reduced the stock of foreign debt, strong growth in African economies, combined with a global search for yield by international investors, led many countries to issue Eurobonds—loans issued in overseas markets and typically denominated in dollars or euros. While these instruments broadened access to financing, they also increased exposure to currency swings and sudden shifts in foreign investor sentiment. When international interest rates

surged and global financial conditions tightened in 2022, many countries were shut out of global markets.

Over time, countries increasingly pivoted toward borrowing at home, issuing debt in local markets and in their own currency. Some countries did so as a firefighting response to high funding needs and the loss of international market access. Others gradually increased domestic borrowing as part of a broader push to develop financial markets. As a result of this transition in how debt is composed, most of sub-Saharan Africa's public debt is now domestic.

Many benefits

Tapping into domestic debt markets brings a host of advantages. Governments can borrow in their own currencies, sidestepping the risks of exchange rate shocks and the need to dip into foreign reserves for repayments. Local laws govern these debts, making management simpler and more predictable. Crucially, countries are less exposed to swings in international investor senti-



ment or global interest rates. The recent freeze in Eurobond issuance for the region—no countries in sub-Saharan Africa issued between spring 2022 and January 2024—underscores the danger of relying too heavily on a single source of financing.

The benefits go beyond government balance sheets. Flourishing domestic debt markets can also support broader macroeconomic growth and provide buffers against economic shocks. Regular issuance of domestic debt enhances central banks' tool kits for monetary policy operations, making it easier to steer the economy and keep inflation in check. In addition, as governments issue more debt at different maturities, they generate a “yield curve”—a vital tool for pricing risk and fostering financial market development. This lays the foundation for a thriving private sector, which is essential for job creation and economic growth. In a region where access to financing is often a major hurdle for business growth, building robust capital markets is more important than ever.

New risks

Alongside the benefits, domestic debt markets bring a swath of new risks that need to be carefully managed. Domestic debt is typically issued for much shorter periods than external loans, sometimes just days or months, rather than years or decades (Chart 2). Some countries, like Mauritius and Tanzania, have managed to lengthen these maturities, generating positive benefits for monetary policy and capital markets. Others, with less developed debt frameworks, shallow markets, or high macroeconomic vulnerabilities, are forced to rely on short-term borrowing. Since its 2023 domestic debt restructuring, Ghana has issued only T-Bills maturing in under a year, with an average outstanding maturity of less than three months as of November 30, 2025. Shorter maturities expose countries to rollover risk—the danger that, when old debt comes due, governments may have to pay higher interest rates or struggle to find new buyers. Building trust through transparent and credible debt management is essential in

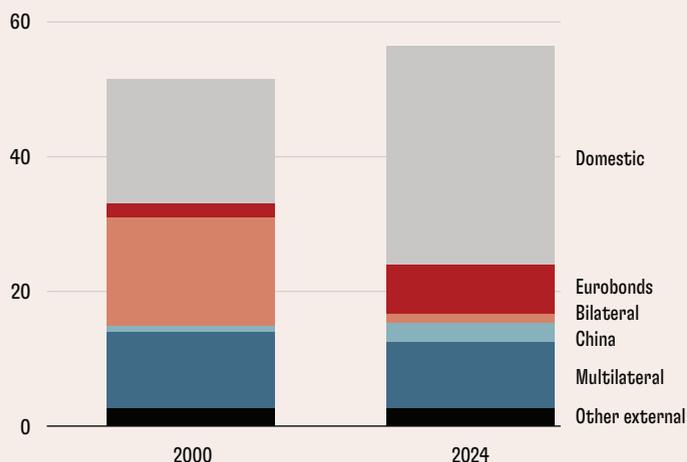
Traders arrive at the Nairobi Stock Exchange.

CHART 1

Toward domestic debt

Sub-Saharan African governments have pivoted away from external loans in favor of domestic borrowing.

(percent of GDP)



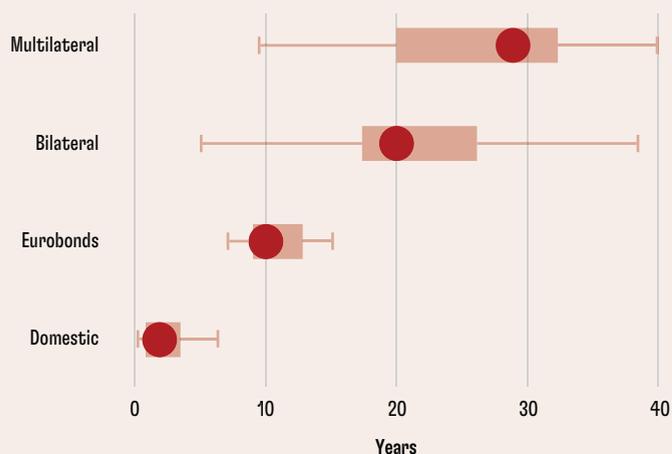
SOURCES: World Bank, International Debt Statistics; and IMF, World Economic Outlook Database. NOTE: Excludes Equatorial Guinea, Namibia, Seychelles, and South Sudan due to data availability.

CHART 2

Shorter maturities

Domestic debt is often issued for brief durations—sometimes only days or months—unlike external loans.

(distribution of debt maturity by instrument, 2015–24)



SOURCES: African Debt Database; and IMF staff calculations. NOTE: Maturities are calculated as the weighted average maturity at issuance, by country and instrument.

order to gradually extend maturities and reduce these risks.

Another hurdle is cost, at a time when governments are already facing expensive debt servicing. Domestic debt often carries interest rates higher than the concessional loans available from international partners, and sometimes higher than market rate Eurobonds. The median country in sub-Saharan Africa issued domestic debt at an average of 8.8 percent interest in 2024. For many countries, this makes borrowing at home more expensive. However, because inflation is also higher in much of the region, the real cost of debt (after adjusting for inflation) can vary widely—and in some cases may even be negative. Ultimately, the price governments pay reflects how much confidence investors have in their management of the economy. A strong track record of sound fiscal policies and transparent debt practices helps keep borrowing costs in check.

There’s also a risk of overwhelming small local financial systems. In many countries, banks hold large amounts of government debt, which can push up interest rates and make it harder for businesses to get loans. Without access to loans, firms—and therefore the economy—struggle to grow. It presents a chicken-and-egg problem: Banks often buy government debt because there are not enough opportunities to lend to the private sector, but their large holdings of such debt then limit credit for businesses. If governments pressure banks—directly or indirectly—to buy even more debt, it can make the problem even worse.

A related concern is the growing sovereign-bank nexus. As banks hold more government debt, their fortunes become intertwined and can create a vicious feedback loop. A loss in a government’s creditworthiness can wipe out bank assets and trigger a banking crisis. A banking crisis in turn can lead to bank bailouts, reduced private credit and growth, capital outflows, and a deeper fiscal crisis. Sub-Saharan Africa is seeing this nexus grow faster than anywhere else in the world, and the growth is driven primarily by low-income countries (Chart 3). Expanding the pool of investors beyond banks and strengthening financial oversight are key steps to reducing these risks.

One way to expand the pool of investors is to allow foreign investors to purchase domestic debt. Evidence shows that higher nonresident ownership of domestic debt is associated with lower yields and greater liquidity, which reduces debt-servicing costs (Alter and others 2025). However, greater foreign ownership introduces new risks. Nonresident flows can be more volatile, responding more strongly to investment condi-

tions and causing large swings in yields and sales: These are known as “hot money” problems. In general, the more indebted a country is, the greater the challenges. While smart regulation can help mitigate the risks, a lack of data on ownership can complicate policymaking.

The bottom line

After weathering years of successive shocks, overall government debt in sub-Saharan Africa has stabilized, albeit at a high level. Yet the cost of servicing this debt has continued to climb, squeezing government budgets and leaving less room for vital investments in health, education, and infrastructure. Today, a typical government in the region spends about one-seventh of its revenue on interest payments alone. It is in this context that domestic debt is assuming a greater role.

Countries that approach domestic debt market development as part of a broader economic strategy are best positioned to harness its benefits and manage its risks. When domestic borrowing is a deliberate, well-planned component of a country’s financial tool kit, it can support resilience and sustainable growth. In contrast, countries that turn to domestic debt mainly as a crisis response—after losing access to external markets—often find themselves in a more vulnerable position.

Good debt-management practices remain the bedrock of continued market access and contained borrowing costs—whether borrowing at home or abroad. Transparency is essential: Issuing timely, accurate, and comprehensive debt statistics, and communicating effectively with investors and the public, helps build trust. Strong legal and regulatory frameworks, prudent debt portfolio management, and a clear debt sustainability strategy are equally fundamental. Addressing weaknesses in public financial management—through empowered auditors, robust governance, careful oversight of state-owned enterprises, and sound cash management—further strengthens the foundation. And last, public investment management must be efficient and effective to ensure that public resources (including debt) are directed toward growth-enhancing investments.

Crucially, debt market development must go hand in hand with broader financial and private sector reforms. Expanding the domestic investor base to include pension funds, insurance companies, and other long-term private capital providers can help diversify demand for government debt and reduce risks. Strengthening banks and nonbank financial institutions through smart regulation and supervision is vital. Ultimately, a thriving financial sector both supports and depends on a dynamic private sector. Unlocking barriers to business growth and economic diversification—through reforms in the business environment, education, skill development, and infrastructure—completes the bigger picture.

Stable macroeconomic conditions are an essential precondition for success. No amount of innovation in domestic debt markets can compensate for poor fiscal management, high inflation, or unsustainable debt burdens. In fact, these weaknesses can reinforce each other, amplifying risks. Used wisely, domestic debt can be a powerful tool for resilience and sustainable development—but only as part of a comprehensive, well-managed economic strategy. **F&D**

AMADOU SY is an assistant director, and **ATHENE LAWS** is an economist, both in the IMF’s African Department.

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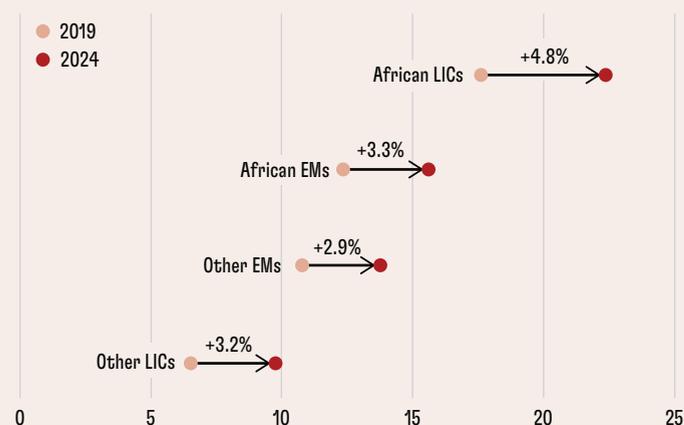
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CHART 3

Sovereign-bank nexus

Banks in sub-Saharan Africa’s low-income countries with high exposure to government debt are especially susceptible to damaging feedback loops between sovereigns and banks.

(government debt as percent of bank assets)



SOURCES: Barrail, Dehmej, and Wezel, forthcoming; and IMF staff calculations. **NOTE:** EMs = emerging market economies; LICs = low-income countries.