BIS

BIS Bulletin

No 132

Africa's public debt amid global headwinds: balancing resilience and vulnerabilities

Michael Chui and Leonardo Gambacorta

11 August 2026

BIS Bulletins are written by staff members of the Bank for International Settlements, and from time to time by other economists, and are published by the Bank. The papers are on subjects of topical interest and are technical in character. The views expressed in this publication are those of the authors and do not necessarily reflect the views of the BIS or its member central banks. The authors thank Pablo Hernández de Cos, Jon Frost, Gaston Gelos, Bryan Hardy, Enisse Kharroubi, Benoît Mojon, Dan Rees, Frank Smets, Christian Upper and Philip Wooldridge for helpful comments and suggestions, Alper Yıldırım for excellent statistical assistance and Nicola Faessler for administrative support.

The editors of the BIS Bulletin series are Gaston Gelos and Frank Smets.

This publication is available on the BIS website (www.bis.org).

ISSN: 2708-0420 (online)
ISBN: 978-92-9259-972-0 (online)

Michael Chui
Michael.Chui@bis.org

Leonardo Gambacorta
Leonardo.Gambacorta@bis.org

Africa's public debt amid global headwinds: balancing resilience and vulnerabilities

Key takeaways

- *The conflict in the Middle East has raised energy and fertiliser prices, weakened growth and intensified fiscal pressures across Africa at a time when public debt and debt service burdens remain elevated.*
- *The shift towards domestic currency debt has reduced exchange rate risk for issuers and preserved market access, but higher interest rates and shorter maturities have increased debt service costs and rollover risks.*
- *A heavy reliance on banks and central banks for government financing can reinforce the sovereign-bank nexus, crowd out private credit and threaten financial stability. Developing deeper markets and a more diversified investor base are essential to address these challenges.*

African economies demonstrated remarkable resilience in 2025 despite rising tariffs and geopolitical tensions. GDP growth increased to 4.4% from 3.7% in 2024, driven by broad-based improvements across the continent. However, the region's outlook has been clouded by the conflict in the Middle East. Damage to energy infrastructure in the Gulf states and disruptions to shipping through the Strait of Hormuz have triggered sharp increases in energy and fertiliser prices, which could drive up food costs and threaten food security across Africa.

African governments have taken important policy measures to mitigate the adverse economic effects of the conflict. A key challenge, however, lies in financing fiscal deficits without exacerbating debt vulnerabilities. Fiscal space is already constrained by elevated public debt and rising debt service burdens. These pressures could become even more acute if geopolitical tensions persist, official development assistance declines further and global financial conditions tighten, reducing access to affordable external financing across the region.

This Bulletin assesses the conflict's economic effects and African governments' policy responses. It then examines fiscal and public debt developments, particularly the shift towards domestic currency borrowing and its implications for interest costs and rollover risks. Finally, it considers how increasing reliance on financing from commercial banks and central banks could affect the sovereign-bank nexus, private credit as well as inflation and central bank credibility.

Recent developments

The Middle East conflict has triggered a significant adverse supply shock for Africa.[1] Damage to energy infrastructure and disruptions in the Strait of Hormuz have driven up global oil, gas and fertiliser prices, leaving many African economies particularly vulnerable due to their heavy reliance on imports of these

[1] The conflict also created a moderate adverse demand shock for African economies as the disruptions to shipping through the Strait of Hormuz have curtailed a key route for exports of agricultural and other products to the Gulf states.

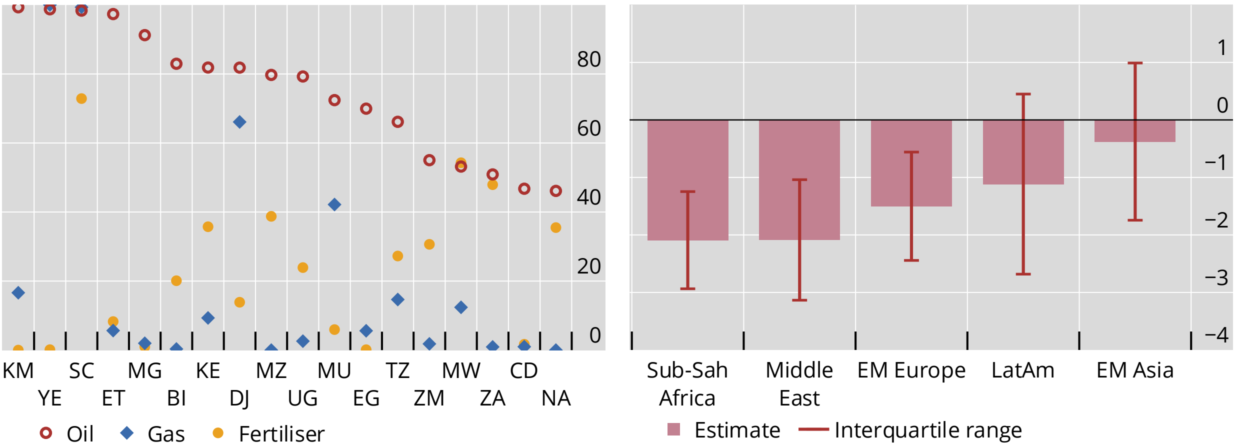
commodities from the Gulf region (Graph 1.A). Rising import costs are increasing household and production costs, weighing on growth and exacerbating food insecurity and poverty. The situation is further aggravated by sharp cuts in official development assistance since 2025.[2] Even commodity-producing economies, including those in North Africa and Nigeria, may face weaker activity. While higher oil and gas prices could boost export revenues, production constraints and disruptions to global supply chains may offset much of these gains.[3] More broadly, reduced maritime traffic through the Strait of Hormuz could lower industrial production, with the effects potentially being particularly pronounced in African economies (Graph 1.B).

Africa is highly exposed because of its strong dependency on Gulf imports

In per cent | Graph 1

A. Share of selected African countries' imports from the Gulf states[1]

B. Strait of Hormuz closure has severe effects for industrial production in Africa[2]



[1] Shares are for 2024 or the latest available. [2] Based on local projection regressions in which one-year growth in regional industrial production is regressed on current regional industrial production and shocks to maritime traffic through the Strait of Hormuz. The Hormuz traffic shock is measured as the deviation in the number of vessels transiting the Strait relative to historical averages, controlling for the vessels' tonnage. Estimates show the response of industrial production to a one standard deviation shock to Hormuz maritime traffic.

Sources: Kharroubi (forthcoming); IMF; UN Comtrade.

The fiscal policy response across the region has been diverse. Some countries (eg Kenya and Namibia) have sought to cushion consumers by reducing fuel levies or introducing temporary fuel subsidies, while others (eg Ethiopia and Egypt) have prioritised fuel supplies to key sectors or scaled back energy-intensive public projects. Meanwhile, several countries have opted to safeguard public finances by increasing regulated fuel prices or adjusting price caps (eg Ghana, Malawi, Mali and Tanzania).[4] In countries with limited fiscal space (eg Somalia and Zimbabwe), fuel prices have risen sharply.

African public debt: resilience and vulnerabilities

African governments are taking important policy measures to mitigate the adverse economic effects of the conflict. A key challenge, however, lies in financing fiscal deficits without exacerbating debt vulnerabilities. This challenge could become even more acute if the conflict persists and global financial

[2] See IMF (2026) for an analysis of how sharp reductions in official development assistance may affect low-income African countries and the policy trade-offs they face in mitigating the resulting economic and social impacts.

[3] For example, Morocco, a major exporter of phosphate fertilisers, relies on sulphur imports from the Gulf states to process raw phosphate rock into fertiliser. As a result, the rising sulphur costs and disruptions triggered by the conflict could affect the broader phosphate fertiliser value chain.

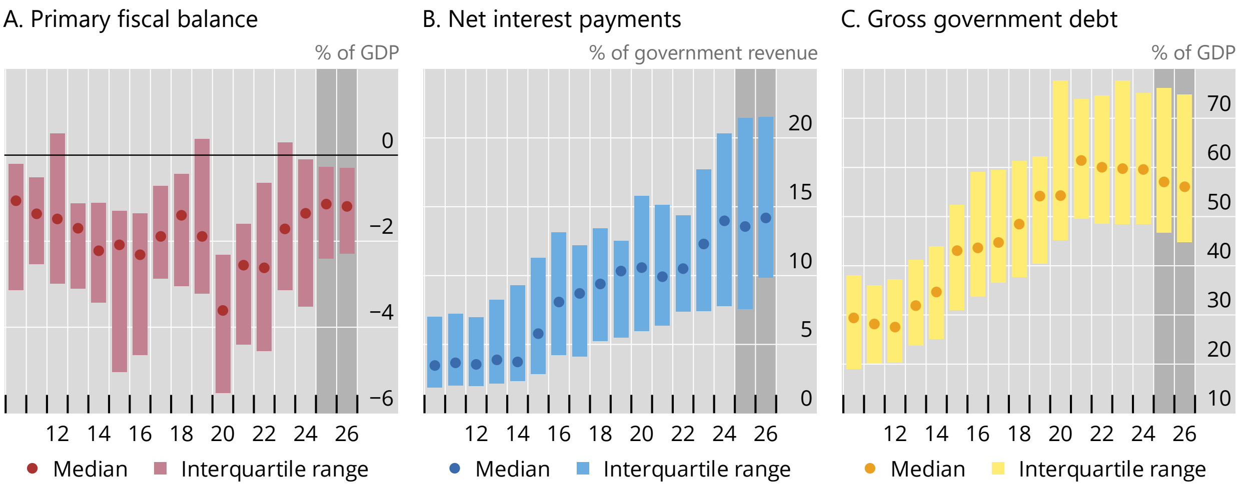
[4] In Ghana, for example, average petrol prices rose by 40%, increasing from 11 cedis per litre at the end of February to 15.4 cedis per litre in early June. Similarly, in Tanzania, capped retail petrol prices increased by about 46% over the same period.

conditions tighten further, thereby reducing access to affordable external financing for economies across the region.

Fiscal positions in Africa have improved in recent years, driven by prudent fiscal management following Covid-19. The median primary fiscal deficit decreased from 1.4% of GDP in 2024 to 1.1% in 2025 (Graph 2.A), reflecting governments' efforts to better align primary expenditures with revenues and place public finances on a more sustainable path.[5] However, these gains have been partly offset by higher net interest payments, stemming in part from greater reliance on domestic currency debt since the pandemic. While this shift has strengthened resilience to exchange rate fluctuations, domestic borrowing typically entails higher interest rates, especially compared with multilateral concessional loans, which have been the main alternative during periods of stress (see below).[6] In addition, domestic debt is often dominated by shorter-maturity instruments, increasing rollover risks. Net interest payments now account for 14% of government revenue in the median jurisdiction (Graph 2.B).

Despite improving fiscal balances, high government debt levels and limited fiscal space remain pressing concerns. In 2025, median government debt was around 57% of GDP, about 10 percentage points above pre-pandemic levels (Graph 2.C).[7] Elevated debt burdens and rising debt service costs could pose several challenges, including delays or cancellations in social and infrastructure spending, increased reliance on scarce concessional financing and, in extreme cases, heightened risks of debt monetisation.

Fiscal balances continue to improve, but government debt remains high[1] Graph 2



[1] The shaded areas indicate forecasts.

Source: IMF, *World Economic Outlook*.

Facing more challenging external financing conditions and recent sharp cuts in official development assistance, many African governments have increasingly turned to domestic debt (defined here as local currency debt issued in domestic markets) and concessional loans from multinational organisations to

[5] For example, Fitch upgraded South Africa's long-term credit rating from "BB–" to "BB" in June 2026, citing the country's record of prudent fiscal management and progress on fiscal consolidation.

[6] Although foreign currency debt often comes with lower interest rates, currency depreciations can significantly raise debt service costs when converted into local currency.

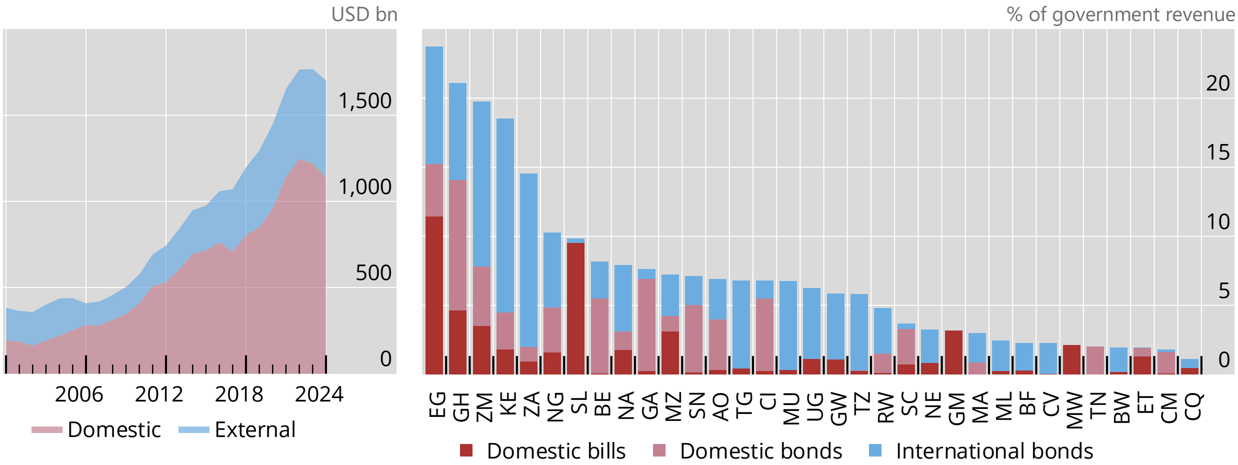
[7] Over the past 40 years, primary fiscal balances have become less responsive to rising public debt levels (BIS (2026)). This weakening in fiscal adjustment partly reflects the asymmetric conduct of fiscal policy over the business cycle: fiscal policy tends to respond forcefully during economic downturns to support activity and close negative output gaps, but it often fails to tighten by a comparable degree during economic expansions.

fund fiscal deficits and refinance maturing liabilities.[8] Over the past decade, governments across the region have made greater use of treasury bills, government bonds and other domestic debt instruments (Graph 3.A).[9] While this trend partly reflects the deepening of local currency debt markets, improved governance and greater monetary policy credibility since the mid-2010s, it has also been reinforced by tighter external financing conditions since the pandemic. In particular, the development of institutional infrastructure and a stronger local investor base have enabled governments in low-income countries to steadily grow their share of local currency debt issuance from almost negligible levels in the early 2010s to about 67% of total debt by 2024. In this context, domestic debt has increasingly acted as a contingent financing channel, helping governments to preserve market access and facilitate more gradual fiscal adjustment during periods of economic stress.

Domestic debt supports financing but raises debt servicing costs — Graph 3

A. Outstanding amounts of African general government debt

B. African governments' interest payments[1]



[1] Averaged over 2020–24.

Sources: IMF, *World Economic Outlook*; World Bank, *International Debt Statistics*; African Debt Database.

Apart from providing African countries with a contingency financing option, borrowing in domestic currencies reduces risks from currency mismatches associated with foreign currency debt (see online annex). Such mismatches expose governments to currency depreciation, which can sharply increase the local currency cost of servicing external debt, even if it carries "low" interest rates. Historical examples, such as emerging market crises in the 1980s and 1990s, and recent African cases show how large depreciations can undermine debt sustainability and even lead to sovereign defaults.

However, domestic borrowing comes with fiscal trade-offs, including higher interest costs and greater rollover risks. While multilateral loans typically carry concessional interest rates below 2% (and sometimes below 1% for low-income countries), domestic treasury bills and government bonds in many African economies bear rates of 10–13%. Consequently, domestic debt, despite its smaller volume, often accounts for a substantial share of total debt service costs (Graph 3.B).[10] Moreover, the shorter maturities of local currency debt increase rollover risks, requiring more frequent refinancing and adding to fiscal pressures.

[8] This trend is not unique to Africa. Many emerging market economies have expanded domestic currency sovereign debt markets over the past two decades, enabling them to rely on local funding during periods of external financial stress (IMF (2025b)).

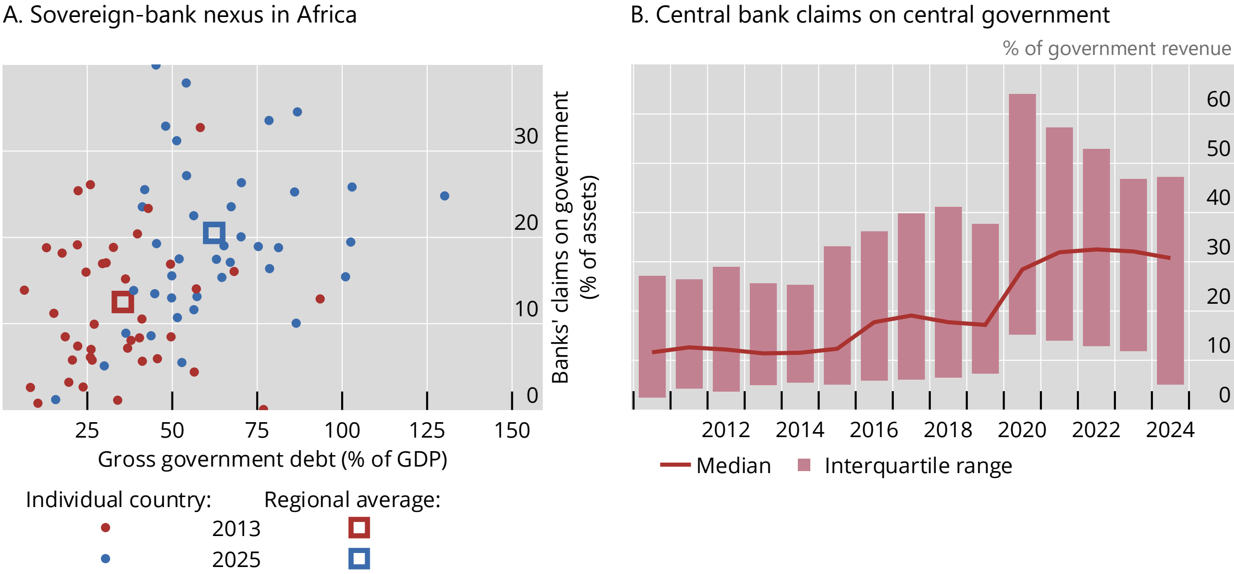
[9] For a discussion of the shift towards domestic financing in Africa, see Alter et al (2025) and Manger et al (2025).

[10] The recently published African Debt Database offers detailed insights into the dynamics of African debt. For an in-depth discussion, see Manger et al (2025) and Chui et al (forthcoming).

The risks of domestic borrowing also depend on the investor base. In the absence of large institutional investors, commercial banks often dominate government debt holdings. Over the past decade, African banks' claims on governments have nearly doubled and now average around 20% of their total assets, with those in several countries exceeding 30% (Graph 4.A).[11] This strengthened sovereign-bank nexus amplifies fiscal vulnerabilities, as large sovereign exposures can create adverse feedback loops that weaken bank balance sheets, threaten solvency and undermine macro-financial stability. Moreover, higher sovereign debt holdings by banks can crowd out private sector lending, further constraining economic growth.[12]

High central bank claims on governments and the strengthened sovereign-bank nexus are key vulnerabilities

Graph 4



Source: IMF.

Similar to external debt, a further risk arises when governments face difficulties placing debt with private investors, increasing pressure on central banks to provide financing. Excessive reliance on central bank lending can have severe macroeconomic consequences. It can seriously undermine central bank credibility, as persistent financing of government deficits increases the money supply, potentially fuelling inflation and weakening exchange rates. Historically, episodes of high inflation and hyperinflation in sub-Saharan Africa have often been associated with such practices (Hooley et al (2024)). Moreover, prolonged central bank lending for fiscal purposes can undermine central bank independence, reduce policy credibility and limit the ability to maintain price stability.

The levels of lending by African central banks to their respective governments have risen since the pandemic, raising concerns about fiscal dominance. The median ratio of central bank claims on central government debt to government revenue surged from 20% to 30% during the pandemic and has remained elevated (Graph 4.B).[13] This increase reflected pandemic-related spending pressures. Recently,

11 The bank-sovereign nexus has grown modestly in advanced economies recently, but the rise of non-bank financial institutions (NBFIs) as major sovereign debt holders has created a new nexus. Leveraged and funding-dependent NBFIs amplify liquidity risks, making sovereign bond markets more vulnerable to sudden shocks and indirectly affecting banks (see BIS (2026)).

12 See Attout et al (2022), IMF (2025a) and Wezel et al (2026).

13 This measure may somewhat overstate the extent of fiscal financing, as central bank claims on the government include holdings of government securities acquired for monetary policy purposes, such as open market operations. However, this is likely to be

some governments have reduced their reliance on central bank financing as access to domestic debt markets improved and external financing conditions stabilised relative to during the pandemic period.

In the event of restructuring, domestic debt may offer legal advantages but can pose significant economic challenges. On the one hand, governments generally have greater control over domestic debt, as it is typically issued under domestic law and can therefore be restructured more easily than external debt. On the other hand, the economic costs of restructuring are borne primarily by domestic stakeholders, including households, banks and other financial institutions. Losses imposed on these creditors can weaken their balance sheets, undermine confidence and disrupt credit supply, potentially triggering broader financial sector stress. Domestic debt restructuring is also politically sensitive, as creditors are often residents, voters and taxpayers, making governments more reluctant to impose losses on them.

In summary, Africa's increasing reliance on domestic debt rather than foreign currency borrowing presents benefits and challenges. Domestic borrowing has reduced vulnerability to adverse exchange rate movements and global financial shocks, and it has helped governments maintain market access and absorb external financing shocks. However, this shift has led to higher debt service costs and increased rollover risks. To balance these trade-offs, it is important to invest in financial infrastructure, improve governance and strengthen monetary policy frameworks. In addition, developing stable and deep local financial markets that efficiently allocate capital requires diversifying the investor base by fostering local institutional investors such as pension funds and insurance companies, thereby reducing over-reliance on central banks and commercial banks as the main creditors to governments.

References

Alter, A, K Khandelwal, T Lemaire, H Mighri, C Sever and L Tucker (2025): "Navigating the evolving landscape of external financing in sub-Saharan Africa," *IMF Working Papers*, no 25/139.

Attout, A, A Baldini, V de O Schmidt and S Zwart (2022): "Is crowding out of private sector credit inhibiting Africa's growth?", *Economics: Regional Studies*, European Investment Bank.

Bank for International Settlements (BIS) (2026): "High public debt and shifting financial markets: challenges for central banks", *Annual Economic Report 2026*, chapter II.

Chui, M, L Gambacorta, U Panizza, N Rescia and K L Wong (forthcoming): "Africa's domestic debt: balancing resilience and vulnerability", *BIS Paper*.

Hooley, J, L Nguyen, M Saito and S Towfighian (2024): "Fiscal dominance and inflation: evidence from sub-Saharan Africa", *Public Sector Economics*, vol 48, no 3.

International Monetary Fund (IMF) (2025a): *Regional Economic Outlook: Sub-Saharan Africa,* October 2025.

——— (2025b): *Global Financial Stability Report: Shifting ground beneath the calm*, October 2025.

——— (2026): *Regional Economic Outlook: Sub-Saharan Africa*.

Kharroubi, E (forthcoming): "Real and financial implications of disruptions to global chokepoints' maritime traffic: the case of the Strait of Hormuz", *BIS Working Papers*.

Manger, M, D Mihalyi, U Panizza, N Rescia, C Trebesch, and K L Wong (2025): "Africa's domestic debt boom: evidence from the African Debt Database", *CEPR Discussion Papers*, no 20747.

Wezel, T, Z Barrail and S Dehmej (2026): "The sovereign-bank nexus in emerging markets and developing economies: trends, determinants, and macrofinancial implications", *IMF Working Papers*, no 26/113.

a limited source of bias in many African economies, where central banks generally hold relatively small amounts of government securities for monetary policy implementation.