

Effects Of The Foreign Debt Burden On Saving Ratios In The Central African Sub-Region, *Mbanga George N.*

The economic and financial situation of Central Africa deteriorated steadily from the late 1980s, when large external shocks, coupled with poor economic and financial management led to a fall in the economic performance of the zone. Countries suffered from the basic and prolonged imbalance in the demand for and the availability of resources, that is, a resource gap. It was only after the 1994 devaluation of the CFA franc that growth sluggishly picked up in this sub region with positive growth rates recorded during the late 1990s. With growth rates of 5.0% and 4.5% for 1998 and 1999, respectively, the Central African Sub-region was the best performer in Africa during this period, compared with 4.4% and 3.6% for North Africa; 3.6% and 3.3% for west Africa; 2.6% and 4.1% for east Africa and 1.7% and 2.2% for Southern Africa.

The external debt stock of countries of the CEMAC zone has impacted negatively on their saving rates. This is because investment resources for productive pursuits have been consistently used to meet external debt service obligations. Thus, the excessive external debt stock is impairing growth and compromising the socio-economic development of the CEMAC countries, and therefore crowding-out saving. The debt burden has now painted a new vicious circle in the analysis of development problems of the zone. Of the six countries that made up the Sub-region, five have been classified as heavily indebted poor countries (HIPCs). Only Gabon stands out of this classification.

Residents (be they nationals or foreigners) have been scared by the heavy debt burden from saving, as they expect the policymakers could raise taxes or use their savings for debt service payments. On the other hand, a large amount of foreign earning is needed to service foreign debt, thereby diverting foreign exchange earning from investment and reducing potential capital formation, through low savings. Thus, the causality between foreign debt burden and saving can be traced through the impact on investment by the “debt overhang” and “crowding-out” effects, and the increased level of uncertainty in the economy due to a large stock of debt (Ajayi, 2000; Elbadawi et al. 1996; Elbadawi and Mwegu, 2000; Fosu, 1999; and Mbanga and Sikod, 2001).

The case of the CEMAC zone is really surprising because the sub-region is endowed with enormous oil and forest resources, and favourable agricultural conditions, with one of the best-endowed primary commodity economies in Sub-Saharan Africa. Yet, it faces many of the serious development problems facing other developing regions, due to the high debt burden.