Sovereign Debt News Update No. 166: Africa’s Rising Domestic Debt: Structural Shift, Emerging Risks, and Policy Implications

By:

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Over the past two decades, the structure of public debt in Africa has undergone a profound transformation. While earlier debates on African sovereign debt focused heavily on external liabilities such as Eurobonds, Chinese loans, and multilateral financing, a quieter but equally significant shift has been taking place within domestic financial markets. Governments across the continent are increasingly borrowing from local markets through Treasury bills, bonds, and other domestic instruments. This trend reflects both opportunity and constraint. On the one hand, borrowing in domestic currency can reduce exposure to exchange rate shocks and the historical vulnerability associated with foreign currency debt. On the other hand, the rapid expansion of domestic borrowing has created new fiscal pressures and financial sector risks.

This emerging dynamic has begun to attract growing attention from academics, international financial institutions, and policy bodies. The scale of Africa's domestic debt boom has been documented by academic researchers since October 2025 through the creation of the African Debt Database. Institutions such as the International Monetary Fund (IMF) also published similar work in March 2026. The United Nations Department of Economic and Social Affairs (UN DESA) also provided earlier analyses in 2024, highlighting the implications of this structural shift. Taken together, these developments suggest that domestic debt has become a central feature of Africa's sovereign debt architecture and requires closer scrutiny from policymakers and civil society alike.

The Emergence of the Domestic Debt Boom

The scale of the transformation in Africa's domestic debt markets became particularly visible following the publication of the African Debt Database by a group of economists in October 2025. Developed by researchers from institutions including the Kiel Institute for the World Economy, the Graduate Institute in Geneva, the University of Toronto, and the United Nations Economic Commission for Africa, the database compiles detailed information on more than 50,000 loans, Treasury bills, and bonds issued by 54 African countries between 2000 and 2024. The dataset covers debt instruments amounting to approximately USD 6.3 trillion and provides unprecedented granularity on interest rates, maturities, currency composition, and creditor structures.

The findings reveal a dramatic expansion of domestic borrowing across the continent. Since 2010, the value of domestic debt issued by African governments has tripled, rising from roughly US$150 billion to nearly US$500 billion by 2024. Importantly, the data shows that African governments now raise more than half of their financing on local markets, reversing decades of dependence on external creditors. Researchers describe this shift as a major structural change in the continent's public finance landscape, one that fundamentally alters how governments manage fiscal deficits and refinance existing liabilities

Drivers of the Shift Toward Domestic Borrowing

Several structural factors explain the growing reliance on domestic debt markets across Africa. One key driver has been the tightening of external

financing conditions in recent years. After a decade in which many African governments issued Eurobonds and accessed international capital markets, global financial tightening following the COVID-19 pandemic and rising interest rates significantly reduced access to affordable external borrowing. At the same time, lending from some bilateral partners such as China declined, partly in response to Ghana and Zambia's defaults. Domestic financial markets therefore emerged as a crucial alternative source of funding.

Governments have increasingly issued Treasury bills and bonds to domestic investors such as commercial banks, pension funds, and insurance companies. This shift has also been supported by gradual financial sector development in several countries, allowing governments to build more regular issuance calendars and develop domestic yield curves. In some middle-income economies, domestic bond markets now include longer maturities, extending to ten or even fifteen years. However, the expansion has not been the same across the continent. While countries such as South Africa and Egypt have relatively deep domestic markets, others remain heavily dependent on short term instruments that must be rolled over frequently, increasing fiscal vulnerability.

Cost Structures and the Fiscal Implications of Domestic Debt

Although borrowing in local currency reduces exchange rate risks, domestic debt often comes with significantly higher interest costs than concessional external financing. Multilateral loans typically carry interest rates below 2% and in some cases under 1% for concessional borrowers. In contrast, domestic Treasury bills and bonds in many African countries carry interest rates ranging between 10% and 13%. As a result, domestic borrowing can quickly increase the fiscal burden associated with debt servicing. The reliance on domestic borrowing can therefore generate a fiscal trade off. While it shields governments from currency depreciation shocks, it also exposes budgets to high interest costs and refinancing pressures. As domestic debt stocks grow, governments must increasingly roll over maturing obligations, often by issuing new short-term instruments. This dynamic creates a debt treadmill in which governments repeatedly refinance existing liabilities under potentially worsening market conditions.

Domestic Financial Sector Exposure and Banking System Risks

The expansion of domestic borrowing has also reshaped the relationship between sovereign debt and domestic financial systems. In many African countries, commercial banks are the primary buyers of government securities. As a result, large portions of domestic debt are held by domestic financial institutions. While this arrangement can provide a stable investor base for governments, it also creates potential vulnerabilities. If governments experience fiscal stress or difficulties servicing domestic debt, the balance sheets of domestic banks may be directly affected.

IMF analysts warn that this interconnectedness can generate negative feedback loops between sovereign debt distress and financial sector instability. Concerns about such risks have increasingly been highlighted by international institutions. In particular, the International Monetary Fund has noted that the concentration of government securities in domestic banking systems could crowd out private sector lending and undermine financial sector resilience if fiscal conditions deteriorate. The growing size of domestic debt therefore raises important questions about financial stability and the appropriate regulatory frameworks needed to manage sovereign bank linkages.

UN DESA and IMF Warnings of Domestic Debt Risks

Concerns about domestic debt in Africa are not entirely new. The United Nations Department of Economic and Social Affairs had already highlighted emerging risks in a policy brief published in April 2024. Titled "*Debt Sustainability Challenges in Africa: The Role of Domestic Debt*", the analysis emphasized that while domestic borrowing can strengthen local financial markets and reduce currency mismatches, excessive reliance on domestic debt can generate fiscal and financial sector vulnerabilities. UN DESA noted that domestic debt instruments often carry shorter maturities and higher interest rates compared to concessional external loans.

These characteristics can increase rollover risks and amplify the sensitivity of public finances to changes in domestic interest rates. The policy brief further observed that domestic borrowing may crowd out private investment if banks prefer to hold relatively safe government securities rather than lend to businesses. Such dynamics could undermine long-term economic growth if not

carefully managed. UNDESA therefore called for stronger debt management strategies, improved transparency in domestic borrowing practices, and the development of deeper and more diversified domestic capital markets.

By March 2026, the International Monetary Fund had also begun to emphasize the implications of Africa's growing domestic debt burden. In its analysis titled "The New Face of African Debt", the IMF highlighted the increasing reliance on domestic markets as a response to limited access to external financing. The Fund acknowledged that borrowing in domestic currency can reduce exposure to exchange rate depreciation and external shocks. However, it warned that the rapid accumulation of domestic debt could place pressure on domestic financial systems and create refinancing challenges.

IMF economists pointed to the concentration of sovereign debt holdings in domestic banks as a particular concern, noting that such exposure could destabilize banking systems in the event of sovereign distress. The institution therefore called for stronger debt management frameworks, improved transparency, and prudent fiscal policies to ensure that domestic debt remains sustainable. These warnings signal that international financial institutions are increasingly recognizing the domestic dimension of Africa's debt challenges, which historically focused primarily on external liabilities.

Country Examples Illustrating the Domestic Borrowing Trend

Several country level developments illustrate how domestic debt markets are shaping fiscal strategies across Africa. Senegal, for example, raised 364 billion CFA francs, approximately US$644 million, through a domestic bond issuance in July 2025 that was oversubscribed by more than 21%. The issuance was managed through the regional financial market and demonstrated strong demand from investors despite rising concerns about the country's debt levels. Senegal's growing reliance on regional markets reflects tightening global credit conditions and reduced access to international capital markets following revelations of previously undisclosed liabilities.

Similarly, Angola's 2026 draft budget shows a significant shift toward domestic borrowing, with the government planning to raise 7.1 trillion kwanzas from local markets compared with 1.7 trillion from external sources. Debt servicing in Angola is projected to absorb nearly 46% of total government spending,

highlighting the fiscal pressures associated with rising debt obligations. In Gabon, domestic debt has also grown rapidly, reaching 4.4 trillion CFA francs (US$7.74 billion) by October 2025 and accounting for more than half of the country's public debt stock. These examples demonstrate that domestic borrowing is increasingly central to fiscal policy across diverse African economies.

In essence, the publication of the African Debt Database in October 2025 has triggered increasing discussion among academics, policymakers, and financial institutions. Researchers involved in the project argue that the new dataset provides a critical tool for understanding how African governments borrow and manage public debt. They emphasize that domestic debt has historically been poorly documented, leading to an incomplete picture of sovereign debt vulnerabilities on the continent. By providing instrument level information on maturities, interest rates, and creditor composition, the database allows analysts to identify emerging risks and cross-country differences in borrowing patterns. Economists involved in the project note that domestic debt markets are developing rapidly but remain highly uneven across countries. Some governments have succeeded in lengthening maturities and creating stable domestic bond markets, while others remain trapped in cycles of short-term borrowing. These findings have prompted renewed calls for improved transparency in debt reporting and stronger institutional frameworks to manage domestic borrowing

Conclusion

Africa's domestic debt boom represents one of the most significant yet underappreciated transformations in the continent's public finance landscape. The shift toward domestic borrowing has been driven by changing global financial conditions, declining access to external finance, and the gradual development of domestic capital markets. While borrowing in local currency can reduce exchange rate vulnerabilities and strengthen domestic financial systems, the rapid expansion of domestic debt also introduces new fiscal and financial risks. High interest rates, short maturities, and the concentration of government securities within domestic banking systems create potential vulnerabilities that must be carefully managed. Available research on domestic debt trends underscores the need for stronger debt management frameworks, greater transparency in domestic borrowing practices, and deeper domestic

financial markets. As African governments continue to navigate complex financing challenges, the management of domestic debt will likely become an increasingly central issue in debates on fiscal sustainability, economic development, and global financial governance.

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