Sub-Saharan Africa (SSA) Eurobonds: 2019 Performance

Sub-Saharan Africa (SSA) Eurobonds: 2019 Performance

Africa's appetite for foreign-denominated debt has increased in recent times with the latest issues in 2019 being South Africa, Ghana, Egypt, Benin and Kenya. Collectively, 2019 has seen the African continent as a whole raise USD 17.4 bn through the various Eurobond. The increased affinity for foreign currency-denominated debt continues to be attributed to:

i. Financing of maturing debt obligations,
ii. The need to finance heavy infrastructure projects,
iii. Reduced financial aid to African countries by Western donor nations, and
iv. Covering for budget deficit

This note analyses SSA's Eurobond performance in the year 2019 with the aim of painting a picture of the investor confidence and risk tolerance, and an outlook on yield performance for the year 2020. The analysis will be broken down as follows:

i. Background of Eurobonds in Sub Saharan Africa,
ii. Eurobond Performance in Sub-Saharan Africa,
iii. Debt Sustainability in the Region
iv. Outlook on SSA Eurobonds.

Section I. Background of Eurobonds in Sub Saharan Africa

Collectively, the year 2019 saw the Sub-Saharan Region (excluding South Africa) raise USD 5.7 bn through various Eurobond issues. The new instruments attracted a lot of interest as evidenced by the oversubscription in all the issues, with the Ghana issues recording the highest oversubscription of over 7.0x, underlining the sustained investor confidence in the African debt market. This is partly because, by comparison, African sovereign debt offers the highest yields to investors globally, coupled with the monetary easing policy stance adopted by developed markets to spur economic growth, which has effectively made bonds in emerging markets more attractive as investors moved away from developed markets to seek investments with better returns. The table below summarizes the recent Eurobonds issued in 2019:

Yield Changes for SSA Eurobonds Issued in 2019

Country	Amount Issued (USD millions)	Issue Tenor (Years)	Issue date	Maturity Date	coupon	Yield at Issue Date	Subscription Rate	Yield as at December 2019(% Points)	Issue date to December 31 Yield Change(% points)

I. Analysis of New 2019 Issues

Three countries issued new Eurobonds in Sub Saharan Africa in 2019, with the issuers being:

i. Kenya, with a dual tranche Eurobond in May 2019, raising a total of USD 2.1 bn in 7-year and 12-year instruments of USD 0.9 bn and USD 1.2 bn, respectively; earmarked for financing infrastructural development, general budgetary expenditure and active debt management. The issue raised USD 9.5 bn from investors, thus an oversubscription by 4.5x,
ii. Benin, with a USD 0.6 bn, 6-year tenor bond, which was 2.3x oversubscribed with the proceeds from the issue channeled towards financing priority projects in infrastructure, electricity and digital economy,
iii. Ghana's triple-tranche Eurobond of USD 1.3 bn with a 12-year tenor, USD 0.8 bn with a 7-year tenor and USD 1.0 bn with a 31-year tenor, with total bids received amounting to USD 21.0 bn translating to a 7.0x oversubscription. About USD 2.0 bn of the proceeds was channeled to the country's 2019 budget while the remaining USD 1.0 bn was to be used to refinance the Eurobonds maturing in 2023, 2026 and 2030

Key to note is that most Eurobond issues in 2019 have been motivated by refinancing needs as part of debt-management strategies mooted by the various governments, with part of the bond proceeds being used to meet existing debt obligations of the respective issuers.

II. Analysis of Existing Issues

This section analyses some of the Eurobonds issued in Sub Saharan Africa before 2019.

Yield Changes in SSA Eurobonds Issued Before 2019

Country	Issue Tenor (yrs)	Issue Date	Maturity Date	Coupon	Yield as at Year Open 2019	Yield as at December 2019	Year on Year change (%Points)
Ghana	31	5/16/2018	6/16/2049	8.6%	10.0%	8.7%	(1.3%)
Senegal	30	3/13/2018	3/13/2048	6.8%	8.3%	6.7%	(1.6%)
Kenya	30	2/28/2018	2/28/2048	8.3%	9.9%	7.7%	(2.2%)
Nigeria	30	11/28/2017	11/28/2047	7.6%	9.2%	7.8%	(1.3%)
Kenya	13	5/22/2019	5/22/2032	8.0%	7.9%	6.9%	(1.0%)
Zambia	12	7/30/2015	7/30/2027	9.0%	14.7%	17.0%	2.3%
Nigeria	12	2/23/2018	2/23/2030	7.1%	8.8%	6.9%	(1.9%)
Senegal	10	7/30/2014	7/30/2024	6.3%	6.9%	3.7%	(3.1%)
Kenya	10	6/24/2014	6/24/2024	6.9%	8.3%	4.8%	(3.5%)
Zambia	10	4/14/2014	4/14/2024	8.5%	15.7%	19.6%	3.9%
Senegal	10	5/13/2011	5/13/2021	8.8%	6.0%	2.5%	(3.4%)
Kenya	10	2/28/2018	2/28/2028	7.3%	9.0%	5.9%	(3.1%)
Ghana	10	7/8/2013	7/8/2023	7.9%	8.4%	5.0%	(3.4%)
Zambia	10	9/20/2012	9/20/2022	5.4%	15.7%	21.5%	5.8%
Kenya	8	5/22/2019	5/22/2027	7.0%	7.0%	5.6%	(1.4%)
Ghana	6	9/15/2016	9/15/2022	9.3%	5.2%	3.8%	(1.4%)

Key to note from the table above:

a. Zambia recorded the highest increases in Eurobond yields, with the 10-year instruments for both the 2012 and 2014 issues increasing by 5.8% and 3.9% points respectively, while the yield on the 12-year bond issued in 2015 increased by 2.3% points. This makes Zambian Eurobonds the worst performing in Sub Saharan Africa, due to concerns of a widening fiscal deficit and deteriorating credit worthiness on the back of high debt levels. Zambia's increasing debt levels estimated at 74.4% of GDP ratio, coupled with the 18.1% depreciation of the Kwacha in 2019, present the risk of rising debt-service costs for the economy, hence necessitating demands for higher premium on sovereign debt issued by the country, and,

b. Yields on the African Eurobonds covered, except Zambia, generally declined in 2019. This was partly attributed to the adoption of a looser monetary policy regime in the Eurozone and the United States, thus leading to a decline in yields in advanced economies. As a result, there was increased investor interest in Africa's debt market which increased demand pushing the prices up and consequently the yield down.

The declining yields have further been supported by appreciation of most of the local currencies of the respective nations as the appreciation of local currencies has the effect of making dollar denominated debt less expensive, hence reducing the danger of rising debt-service costs, therefore making investors demand less compensation for risk. Below is a summary of the performance of the different resident currencies for the year 2019:

Select Sub Saharan Africa Currency Performance vs USD

Currency	Dec-17	Dec-18	Dec-19	2018 y/y change (%)	2019 y/y change (%)
South African Rand	12.4	14.3	14.0	(16.1%)	2.5%
Botswana Pula	9.8	10.7	10.5	(8.9%)	1.8%
Ugandan Shilling	3632.0	3699.3	3660.0	(1.9%)	1.1%
Kenyan Shilling	103.1	101.8	101.3	1.3%	0.5%
Nigerian Naira	306.4	307.0	306.0	(0.2%)	0.3%
Tanzanian Shilling	2235.0	2295.0	2293.0	(2.7%)	0.1%
Malawian Kwacha	713.5	719.8	729.1	(0.9%)	(1.3%)
Mauritius Rupee	33.4	34.2	36.2	(2.2%)	(6.0%)
Ghanaian Cedi	4.5	4.8	5.7	(6.6%)	(17.4%)
Zambian Kwacha	10.0	11.9	14.1	(19.2%)	(18.1%)

Source: Reuters

Section III: Debt Sustainability in the Region

Debt distress is a situation where an entity fails to meet its periodic obligations because a large portion of revenue is used in paying down debt, to a point where periodic debt payments become unsustainable. According to the International Monetary Fund (IMF), the regions public debt to GDP ratio was estimated at 55.0% in 2019 on average across all countries. Public debt vulnerabilities remain elevated in some countries with 7 countries (Eritrea, Gambia, Mozambique, Congo, South Sudan, Zimbabwe and Sao Tome & Principe) among the low-income and developing Sub-Saharan countries being in debt distress, while 9 countries (Burundi, Cameroon, Chad, Ethiopia, Ghana, Sierra Leone, Zambia, Central Africa Republic and Cabo Verde) are at high risk of debt distress, attributable to the composition of public debt with a large portion mainly from commercial sources which exposes sovereign balance sheets to greater rollover and exchange rate risks. In the Sub-Saharan region, Mozambique and Zambia have the highest debt to GDP ratio attributable to delayed fiscal policy response to weaker commodity prices, limited control on state owned enterprises borrowing that resulted in large undisclosed external debt. According to IMF Mozambique's debt to

GDP ratio was estimated at 113.0% at the end of 2019, a hike from 54.0% in 2013, with authorities pursuing strategies to lower public debt to moderate risk levels. Zambia has also seen its debt rising fast with China being a major creditor with the debt to GDP estimated at 74.4% in 2019 from 20.5% in 2011. One of the key elements of debt sustainability in any economy is the ability to service it, and this is usually measured by revenue collection to total outstanding payments required, both in principal and interest payments. Concerns lie around whether most of the countries in debt distress are able to collect enough revenues to meet their debt obligations with a country being able to pay off their debt with revenue collection being the ideal situation. The ballooning public debt in the region has become a major concern and the trend is worrisome as the region is likely to face fiscal challenges in the near future. Going forward the region needs to improve the debt dynamics through;

i. Diversifying economies away from commodity exports, which are prone to fluctuating revenues due to volatility in global prices. This will serve to alleviate pertinent budget deficits hence reducing reliance on debt for budget financing,
ii. Debt should only be taken out for the sole purpose of financing high value infrastructural projects that have an immediate high impact on the economy, and;
iii. Fiscal consolidation is paramount in order to minimize fiscal deficits for countries aiming to improve their external position with regard to foreign funding. Austerity measures should be adopted to reduce government spending, thereby freeing up capital for development expenditure.

Section IV: Outlook on SSA Eurobonds

Debt sustainability continues to be a major concern for countries in the Sub Saharan region with the regions public debt to GDP ratio at 55.0% on average across all countries, Public debt vulnerabilities remain elevated with countries 7 countries in debt distress and 9 countries being at high risk of debt distress, among them Mozambique and Zambia with a debt to GDP level of 113.0% and 74.4%, respectively, in 2019. Eurobond yields in Sub Saharan Africa declined in 2019, partly attributed to the adoption of a looser monetary policy regime in the Eurozone and the United States, thus leading to a decline in yields in advanced economies and going forward, we expect the yields to remain stable with a bias to further declines owing to expectations of loosening of monetary policy in advanced economies including the U.S and Eurozone as the Federal Reserve and European Central Bank take a dovish stance. This coupled with the easing of the China-U.S trade tensions which had increased investor risk perceptions due to expectations of a global slowdown is expected to stabilize yields going forward.