#07 / JULY 2024

CABRI
CONNECT • SHARE • REFORM

CABRI Secretariat,
Cnr John Vorster & Nellmapius Drive,
Centurion, 0062, South Africa

Email: info@cabri-sbo.org
PFM Knowledge Hub:
www.cabri-sbo.org

@cabri.sbo
@CABRI_SBO
CABRI – Collaborative Africa Budget Reform Initiative

CABRI NEWSLETTER for Public Debt Managers in Africa

Overview of the 7th edition

On the back of some positive developments in the global debt capital markets, few African countries have taken advantage of somewhat favourable pricing conditions to re-enter the international debt capital markets between January and June 2024. You will be able to read more on this in **the first part** of the 7th edition of CABRI's Newsletter for Public Debt Managers in Africa.

The Country Spotlight **in part 2 of this edition** deservedly shines on Moody's upgrade of Zambia's Issuer ratings to Caa2 from Caa3 following a successful debt exchange of the existing Eurobonds in Zambia for new debt instruments.

With increasing debt pressures in our member countries, **in part 3**, we also delve in the main takeaways from CABRI's Policy Dialogue on contingent liability management practices post COVID-19 pandemic held in March 2024.

The return of african sovereign debt issuers in international debt capital markets

Most African sovereign debt issuers have had an almost two-year of reprieve from tapping the international debt markets, due to elevated borrowing rates following a series of Fed and other global central bank policy rate hikes – in the execution of their mandates to control inflation and ensure price and financial stability.

While some emerging market central banks may recently have paused and/or started gradually decreasing policy rates, the Fed may be poised for rate cuts starting sometime later this year, a move so highly anticipated by the global investor and issuer community alike. The European Central Bank (ECB) has already started decreasing policy rates.

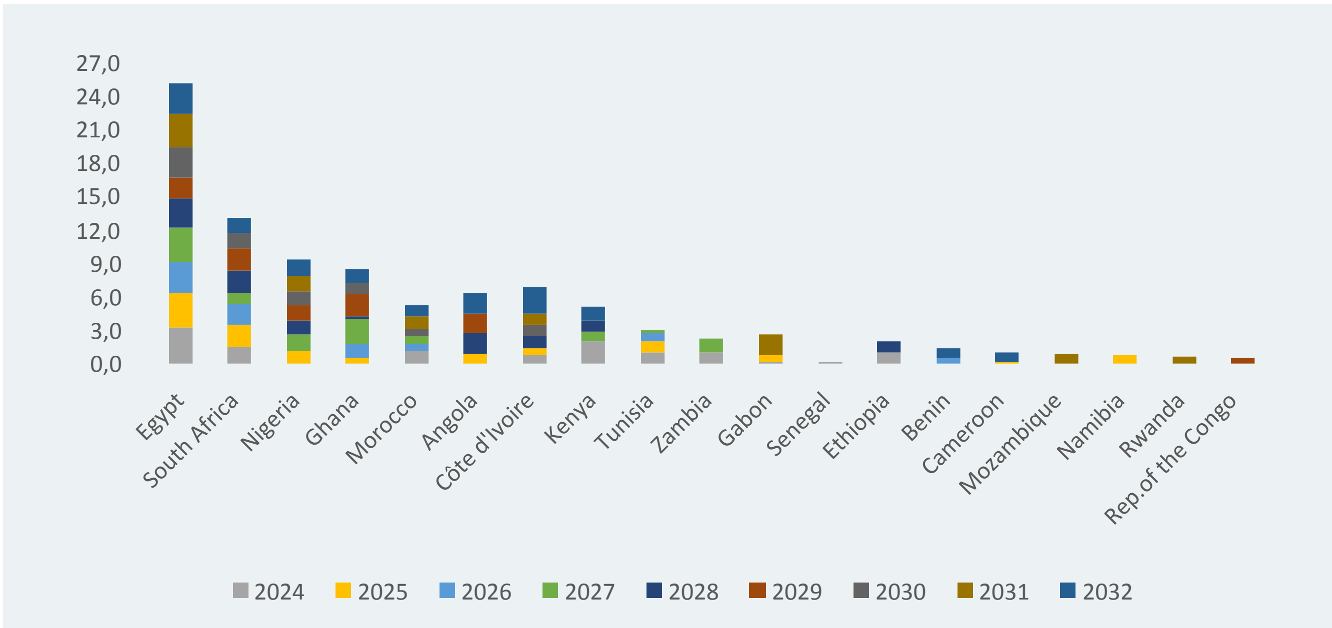
Within this context, governments across Africa are slowly returning to international capital markets amidst strong appetite by international investors: Côte d'Ivoire borrowed $2.6bn at 8.5% and below in January this year, followed promptly by Benin, who borrowed $750m at a similar rate. In a sigh of relief, Kenya followed suit and raised $1.5bn with a 2031 maturing bond at a yield of 10.4%, most of which will be used to kick off near-maturing debt down the road. Last on the markets, Senegal is the fourth African country to issue a US$750 million of debt maturing in 2031, at a coupon rate of 7.75%.

Some reports[1] indicate that difference in the yields or risk premium for African countries to the U.S. risk free curve has somehow shrunk to about four percentage points – an encouraging sight for those entering the markets in the coming months. Yet, the recent sovereign bond issuances paint a picture of elevated borrowing costs compared to a decade ago. Clearly, macro, fiscal and market conditions are different this time, which will likely put further squeeze on governments already constrained fiscal spaces.

Figure 1 gives a picture of the other top four African sovereign issuers to keep an eye on as they have massive Eurobonds to refinance or rollovers in the next 8 years (Egypt, South Africa, Nigeria and Ghana). South Africa and Egypt appear to have smooth or roughly evenly spread redemptions, although Egypt's rollovers are slightly front loaded – whereas Nigeria and Ghana refinancings or rollovers are more backloaded or happening in the latter periods of the 8-year period.

1 Economist (2024). African Governments return to international bond markets.

Figure 1: Redemptions of African Countries' Eurobonds 2024-2032



Source: World Bank, Moody's

The return of an overwhelmingly oversubscribed African Sovereign Issuer in the international bond markets, after a two-year absence, signifies a gradual return with a robust demand from international investors amidst elevated borrowing costs. Like other sovereign issuers in Europe, the African sovereign issuers have braved volatility in asset pricing and locked in coupon rates of below double digits before the yield curve tilts back to normal from the current inversion as the momentum for rate cut expectations in the U.S. starts building up.

While the motive to re-enter the international bond market by most African sovereign issuers is clearly to refinance or rollover maturing Eurobonds, for others such as Benin and Senegal, with no pressing maturities in the near term, the decision appears to be somewhat strategic and indicative of an active debt management approach and adaptation to new market conditions. These are also likely to drive African bond issuers to look into alternative sources of funding in the near term.

Country spotlight – Moody's ratings upgrades[2] Zambia's foreign and local currency ratings and maintains a stable outlook

Following the announcement by the Government of Zambia that it has completed the mandatory exchange of existing Eurobonds for which it has defaulted since 2020 for new debt instruments, Moody's upgraded Zambia's Issuer ratings as a reflection of the incremental improvement in the still very weak credit profile post-bond restructuring. The successful debt exchange gave the government some financial relief as liquidity pressures eased, debt affordability improved and the debt burden reduced slightly.

According to Moody's, the Caa2 ratings indicate a still elevated risk of redefault over the next few years given that government debt remains high, debt affordability remains strained and access to funding remains constrained. The stable outlook balances risks at the Caa2 rating level, reflecting anticipated access to concessional financing from international financial institutions that eases liquidity pressures and supports debt sustainability, notwithstanding slowing growth and rising financing requirements in the near term. Moody's further indicates that the government's strong performance to-date under its International Monetary Fund (IMF) programme anchors Moody's expectation of continuing gradual institutional improvement. Meanwhile, availability of IMF funding mitigates near-term liquidity risks related to the latest drought. The local and foreign-currency ceilings are raised by one notch to B2 and B3 from B3 and Caa1, respectively. The local-currency ceiling of three notches above the sovereign rating reflects the government's small role in the economy and moderate domestic and geopolitical risk relative to peers.

Going forward, Moody's would likely upgrade the ratings if additional financing sources were identified to reliably meet increasing government borrowing needs and ease liquidity risks. Higher sustained economic growth that allows the government to materially reduce its debt burden and increase external buffers would also support higher ratings. Conversely, Moody's would likely downgrade the ratings if the probability of redefault and additional debt restructuring resulting in sizable investor losses were to increase. This could come as a result of continued drought conditions beyond current expectations that severely limited economic growth and exports and weighed on government liquidity, or if the government were to lose the support of international financial institutions and access to concessional financing.

Reinforcing some of Moody's statement – an interesting research or opinion piece[3] penned before Moody's recent rating action (June 2024), suggests that while low-and lower-middle income countries have regained access to financial markets, liquidity pressures have mounted. According to the authors, while debt rollovers should be cheaper, immediate debt relief is the best way to stabilise developing economies and enable them to pursue climate-related investments. This could be an opportune time for Multilateral Development Banks (MDBs) to play a supportive role in facilitating green transition. However, to ensure that funds from MDBs are used to finance climate action, rather than to service existing debts, all creditors must share the burden and refrain from reducing their exposures too soon. The reduction in China's lending must be managed more smoothly and sovereign bonds should be gradually replaced as an asset class by green bonds.

The successful debt restructuring of Zambia's past defaulted Eurobonds should be hailed as a milestone as it eased the government's liquidity pressures. But it will be interesting to observe whether MDBs will be heeding the call to increase their support for the financing of green projects and other climate-related financing so desperately needed by lower and lower-middle income countries.

2 Moody's (2024). Rating Action, 14 June 2024

3 Project Syndicate (2024). Developing Countries' Liquidity Crisis is not Over

Table 2[3]: Select Debt Indicators and Sovereign Credit Ratings – June 2024

Country	2024 Forecast (Debt/ GDP) %	2023 Actual (Debt/ GDP) %	2024 Forecast (Budget Balance/ GDP) %	2023 Actual (Buget Balance/ GDP) %	S&P LT FC	S&P LT LC	Moody's LT FC	Moody's LT LC	Fitch LT FC	Fitch LT LC
Algeria	55,0	55,1	-5	-3,0						
Angola	63,0	60,5	0,1	-0,1	B-(STB)	B-	B3(+ve)	B3	B3(+ve)	B3(STB)
Benin	52,6	52,8	-4,5	-6,0			B1(STB)		B+(STB)	B+
Botswana	26,5	26,3	-2,8	-3,0	BBB+ (STB)	BBB+	A3(STB)	A3		
Burkina Faso	54,3	58,0	15,91	8,62	CCC+	CCC+				
Burundi	14,5	16,0								
Cabo Verde	118,0	122,6	-4,5	-4,4	B-(STB)	B-			B-(STB)	B-
Cameroon	40,0	43,2	-0,7	-1,3	B-(STB)	CCC+	Caa1 (STB)		B(-ve)	B
Central African Republic	50,7	49,0	8,21	4,21						
Chad	50,4	44,0								
Comoros	31,6	33,5								
Côte d'Ivoire	61,0	58,5	-4,1	-5,4	BB-(+ve)	BB-	Ba2(STB)		BB-(STB)	BB-
Democratic Republic of Congo (DRC)	10,0	13,3	-2,3	-2,6	B-(STB)	B-	B3(STB)	B3		
Djibouti	47	48,0								
Egypt	95,0	95,8	-5,4	-7,1	B-(STB)	B-	Caa1 (+ve)	Caa1	B-(+ve)	B
Eswatini	19,1	44,0					B3(+ve)			
Equitorial Guinea	27,1	26,0		7,03						
Eritrea	135,0	149,4	-1,3	-1,8						
Ethiopia	35,0	33,8	-2,5	-3,4	SD		Caa3(STB)	Caa2	CCC-	CCC-
Gabon	55,1	60,0					Caa1 (-ve)		B-(STB)	B-
Gambia	80,8	75,0	9,39	15,18					CCC(STB)	CCC
Ghana	93,0	84,9	0,5	-5,7	SD	CCC+	Ca(STB)	Caa3	RD	RD
Guinea	35,5	33,0		6,39						
Guinea Bissau	39,0	40,1	-3,4	-4,5						
Haiti										
Kenya	67,5	70,1	-3,9	-5,3	B(-ve)	B	B3(-ve)		B(-ve)	B
Lesotho	52,1	54,0	32,39	2,41					B(STB)	B

4 Please note as with the previous edition of the debt newsletter- that while best efforts were taken to align the contents of the table (mainly from country economy and trading economics) with information sourced from the credit rating agencies websites/reports or IMF publications/website, there could be slight differences.

Country	2024 Forecast (Debt/ GDP) %	2023 Actual (Debt/ GDP) %	2024 Forecast (Budget Balance/ GDP) %	2023 Actual (Buget Balance/ GDP) %	S&P LT FC	S&P LT LC	Moody's LT FC	Moody's LT LC	Fitch LT FC	Fitch LT LC
Liberia	51,3	52,0								
Libya	90,0	87,6	8,2	5,7					B(STB)	B
Madagascar	57	53,0	10,24	5,41	B-					
Malawi	66,0	66,4	-7,6	-2,8						
Mali			14,16	7,56			Caa2(STB)			
Mauritania	41,9	43,0		9,46						
Mauritius	86	82,0	18,28		BBB- (STB)	BBB-	Baa3(STB)	Baa3		
Morocco	71,0	69,7	-4,0	-4,7	BB+(STB)	BB+	Ba1(STB)	Ba1	BB+(STB)	BB+
Mozambique	95,0	98,0	-10,4	-7,1	CCC+ (STB)	CCC+	Caa2(STB)	Caa2	CCC+	CCC+
Namibia	68,9	68,5	27,97	14,28			B1(+ve)	B1	BB-(STB)	BB-
Niger	51,2	52,5					Caa3(STB)			
Nigeria	39,4	38,8	-3,9	-6,1	B-(STB)	B-	Caa1(+ve)		B-(+ve)	B-
Republic of the Congo	99,57	96,0	9,11	8,57	B-(STB)	B-	Caa2(STB)	Caa2	CCC+	CCC+
Rwanda	71,0	67,7	-7,0	-7,3	B+(STB)	B+	B2(STB)		B+(STB)	B+
Sao Tome and Principe	88,0	82,0								
Senegal	69,0	72,0	-4,0	-5,05	B+(STB)	B+	Ba3(STB)	Ba3		
Seychelles	65,0	63,0	32,48	6,66					BB-(STB)	BB-
Sierra Leone	98,8	76,0								
Somalia										
South Africa	74,0	72,2	-4,5	-4,9	BB-(STB)	BB	Ba2(STB)	Ba2	BB-(STB)	BB-
South Sudan										
Sudan	145,0	256,0	-5,0	-4,0						
Tanzania	36,0	37,2	-3,5	4,2			B1(STB)		B+(STB)	
Togo	55,9	66,0	13,58	11,5			B3(-ve)			
Tunisia	77,0	78,2	-6,6	-7,1			Caa2(STB)	Caa2	CCC+	CCC+
Uganda	48,0	48,3	-3,5	-4,4	B-(STB)	B-	B2(STB)		B+(-ve)	B+
Zambia	80,0	68,1	-4,8	-6,3	SD	CCC+	Ca(STB)	Caa3	RD	CC
Zimbabwe	100	96,3	-1,5	-1,2						

Source: Trading Economics, Country Economy, Moody's, S&P, Fitch (Oct 2023-May-June 2024)

Managing increasing risks of contingent liabilities post-COVID-19

Despite progress made with reform to strengthen capacity in the management and monitoring of contingent liabilities across Africa, the risks they pose to the budget have increased since COVID-19, which saw governments across the world grant significant State Guarantees, particularly to State-owned enterprises (SOEs) in distress.

Since 2016, CABRI has been bringing together debt officials to discuss the challenges they are confronted with in managing the risks posed by contingent liabilities. In October 2023, CABRI held a network engagement of public debt managers in Africa to discuss the challenges posed by hidden liabilities and in March 2024, we held a Policy Dialogue on contingent liability management practices post COVID-19 , based on key lessons from case studies in Rwanda and Kenya. Below are some key takeaways.

Countries have established strong legal frameworks around the issuance of government loan guarantees and other contingent liabilities. Both Kenya and Rwanda have well-developed legal frameworks based on the Constitutions of the countries which have a bearing in the way that guarantees are issued and contingent liabilities managed as well as with regards to the implementation of Public Private Partnership (PPP) infrastructure projects, as is the case for Rwanda.

Nonetheless, the risks posed by contingent liabilities have increased since COVID-19. Nation-wide, lockdowns have hindered the profitability of businesses, and increased financing requirements to SOEs. Similar to other countries, SOEs requiring bailouts are the primary source of contingent liability risk in Kenya. Rwanda's source of fiscal risk remains SOEs, pension liabilities, natural disasters, the financial sector and local government.

Various reforms are underway to improve in the quality of budgetary and financial management and limit the exposure on government's budgets. Authorities in Kenya are working on expanding the reporting requirement of SOEs to cover all 260 of their entities. Extending key PFM reforms to SOEs, such as Medium-Term Expenditure Frameworks, should also contribute to better oversee and manage associated risks. In Rwanda, some public corporations such as RwandAir, are cited as some examples of entities undertaking good efforts to reduce their fiscal risk exposures on Government budget.

Challenges remain in managing loan guarantee exposures and credit risk pricing of loan guarantees. Some of the key weaknesses identified are the inadequate financial risk models to price government guarantees as well as inadequate information systems necessary to capture these guarantees and perform rigorous debt sustainability analysis. Staff capacity challenges are also largely common. Some countries such as Rwanda, undertake sectoral credit risk analysis targeting mainly transport and infrastructure sectors. While there are well-developed internal structures for the pricing of loan guarantees in countries such as Rwanda – increasing fiscal risk exposure emanates from foreign currency risks but strong linkages to the macroeconomic risks are also a critical source of fiscal risk.

A more coordinated approach may be needed to assess and monitor fiscal risks, even beyond the debt/risk departments. With regards to Kenya – there are three Departments, each playing a distinct role: (i) the Resource Mobilisation Department; (ii) the Debt Policy, Strategy and Risk Management, and (iii) the Debt Recording and Settlement Department. In Rwanda, the Debt Management Directorate in the Ministry of Finance is responsible for analysing major risks associated with Rwanda's public debt portfolio including Debt Sustainability Analysis Risk, Refinancing Risk, Interest Rate Risk and Foreign Currency Risks. Participants also highlighted that beyond these, it may be important to coordinate with broader directorates within the Ministry of Finance and Planning, given that new government policies can sometimes give rise to new fiscal risks – at times in unexpected ways.

"Traditional" contingent liability management practices are still largely relevant, even after the COVID-19 pandemic, but need to be commensurate with adequate capability to execute them. While developing human capability in the analysis of fiscal risks should be one of the key priorities, establishing procedure manuals and frameworks is another means to entrench processes even when debt management teams change. Risk management capabilities should also permeate all parts of the public sector and should be the first line of defence to build internal capability to manage risks.

CABRI's Building Public Finance Capabilities Programme in Africa welcomes Côte d'Ivoire and Kenya to tackle pressing debt management priorities

This year, two country-teams from the Ministry of Finance in Côte d'Ivoire and the National Treasury in Kenya, respectively, joined the 2024 Building Public Finance Capability (BPFC) in Africa Programme to tackle locally-nominated debt problems.

The country-team from Côte d'Ivoire is focusing on understanding the weaknesses in their tax revenues and the relatively high burden of debt servicing, both of which are reducing the fiscal space needed for critical social and infrastructure spending. While the debt level of Côte d'Ivoire is considered sustainable, the country-team anticipates that the growing burden of debt servicing could create a negative spiral, potentially leading the Government to reduce spending in key areas crucial for growth and sustainable development. The aim is to investigate how to break this vicious cycle. Over the next months, the country-team will focus on exploring how they can strengthen tax revenues, particularly in terms of current tax exemptions given to enterprises and the subsequent low compliance after the exemption period ends. On the other end, the country-team will also look at strengthening the efficiency and effectiveness of public procurement procedures.

The country-team from the National Treasury of Kenya joined the 12-month programme with concerns about high debt levels and service costs, amidst rising fiscal pressures. At the end of the last fiscal year, debt servicing requirements were approximately 60% of Kenya's annual revenue collection, straining public expenditure towards critical social sectors. Domestic debt, specifically costly treasury bills, was identified as a key driver of public expenditure on debt repayments. Over the next months, the country-team will be working in a practical manner to identify how to improve cash management systems in Kenya and optimise the costs of borrowing. It is to be noted that Kenya is at its first participation in the BPFC in Africa programme.

The problems identified by the country-teams echo the increasing debt pressures faced by the continent in the post-COVID world. In the midst of ongoing fiscal pressures, elections and increasing social demands for service delivery and accountability, taking a pragmatical approach, which takes into account complex political economy constraints, will be necessary to sustainably address these problems.

Using the problem-driven iterative adaptation (PDIA) approach, CABRI's BPFC programme provides a space for local PFM practitioners to consider these constraints and adopt a localised approach to tackle these challenges.

BPFC 2024: Country-team Kenya with their coach Giselle Hadley of CABRI

BPFC 2024: Country-team Côte d'Ivoire