Sub-Saharan Africa (SSA) Eurobonds: H1'2021 Performance

A. Background

According to the World Bank and the International Monetary Fund (IMF), the Sub-Saharan economy is projected to grow at a rate of 2.8% and 3.4% respectively, with the growth being driven by positive spill overs from strengthening global activity, improved global control of the COVID-19 pandemic and strong domestic activity in agricultural commodity exporters. However, the recovery will still be determined by the region's access to vaccines as well as the effectiveness of the distribution and inoculation. The region's potential will be unlocked by creating more fiscal space and enacting radical changes by mobilizing domestic revenue, focusing on debt sustainability, bolstering social protection, fostering digitization, and increasing transparency and governance.

During the first half of 2021, Africa's appetite for foreign-denominated debt continued, with the latest issues being Benin, Ivory Coast, Ghana and Kenya which raised a total of USD 6.1 bn, translating to a 3.8x subscription rate. The high subscription rate is mainly attributable to the increased investor confidence in the region following the positive outlook in the SSA's economic recovery as well as increased appetite for higher yielding investments. The increased affinity for foreign currency-denominated debt by African countries continues to be attributed to:

I. Financing of maturing debt obligations,
II. The need to finance heavy development infrastructure projects,
III. Reduced financial aid to African countries by Western donor nations,
IV. The need to bridge the widening fiscal budget deficits, and,
V. The need to revive the African economies that have been negatively impacted by COVID-19 pandemic.

This note analyses Sub-Saharan Africa's (SSA) Eurobond performance in H1'2021 painting a picture of the investor sentiments, risk tolerance, and an outlook on the yield performance. The analysis will be broken down as follows:

a. Background of Eurobonds in Sub Saharan Africa in H1'2021,
b. Eurobond Performance in Sub-Saharan Africa, and,
c. Outlook on SSA Eurobonds.

Section I. Background of Eurobonds Issued in Sub Saharan Africa

Collectively, H1'2021 saw four countries in the Sub-Saharan Region raise USD 6.1 bn through Eurobond issues. The new instruments attracted a lot of interest as evidenced by the oversubscription in all the issues, with the Kenyan issue recording the highest oversubscription of 5.0x. This underlines the demand by premium investors to hold riskier assets, partly because by comparison, African sovereign debt offers the highest yields to investors globally. Some of the countries that issued Eurobonds in H1'2021 include Benin, Ivory Coast, Ghana and Kenya. The table below summarizes the various Eurobond issued in H1'2021:

Country	Amount Issued USD millions	Issue Tenor (yrs)	Issue Date	Maturity Date	Coupon	Yield at Issue Date	Subscription Rate	Yield as at 30th June 2021	Issue date to 30th June Yield Change(% points)
Benin	849.0	11	1/19/2021	1/19/2032	4.9%	5.2%	3.0x	4.9%	(0.2%)
Benin	364.0	31	1/19/2021	1/19/2052	6.9%	7.0%		6.6%	(0.4%)
Ivory Coast	600.0	11	2/9/2021	2/9/2032	4.8%	4.3%	3.4x	4.9%	0.6%
Ivory Coast	250.0	27	2/9/2021	2/9/2048	6.8%	6.1%		6.2%	0.1%

Ghana	525	4	4/7/2021	4/7/2025	0.0%	6.7%	2.0x	6.3%	(0.3%)
Ghana	1,000.0	7	4/7/2021	4/7/2029	7.8%	7.9%		7.3%	(0.6%)
Ghana	1,000.0	12	4/7/2021	4/7/2034	8.6%	8.8%		8.2%	(0.4%)
Ghana	500	20	4/7/2021	4/7/2042	8.9%	9.3%		8.8%	(0.1%)
Kenya	1,000.0	12	6/23/2021	1/23/2034	6.3%	6.2%	5.0x	6.3%	0.1%
Total	**6,088.0**						**3.8x**		
H1'20 Issues	**4,000.0**						**4.1x**		

Below are the key take outs from the issues:

a) Ghana

Ghana became the first Sub Saharan African country to issue Eurobonds in US Dollars since the onset of the COVID-19 pandemic. The country raised USD 3.0 bn using a four tranche Eurobond issued on April 7, 2021 that comprised of a 4-Year Zero Coupon bond, a 7-year bond, a 12-year bond and a 20-year bond with coupons of 7.8%, 8.6% and 8.9%, respectively. The tranche received offers of USD 6.0 bn translating to an oversubscription of 2.0x, a strong signal of the investors' confidence in the country's plan for debt sustainability, economic recovery and growth. The proceeds from the bond will support the budget deficit by funding growth-oriented expenditures and conduct liability management on both external and domestic bonds.

b) Kenya

Kenya issued a USD 1.0 bn 12-year Eurobond with a coupon rate of 6.3% on June 17, 2021 which was 5.0x oversubscribed. The issue was the first Eurobond sale in two years and the fourth sovereign debt to be floated by the country since 2014. The Eurobond, listed at the London Stock Exchange, received offers of USD 5.4 bn and a final pricing outcome that was better than the initial market expectations pointing towards strong global investor confidence on the county's economy and medium-term economic prospects. The Eurobond will be repaid in two equal tranches in January 2033 and January 2034 to ease repayment pressures. The Eurobond will add to the public debt which is estimated at 69.6% of GDP as at December 2020. On the flip side, the issue will assist in financing the anticipated 7.7% budget deficit for FY'2021/22 as well as aid in responding to the COVID – 19 crisis.

c) Ivory Coast

Ivory Coast reopened a dual tranche Eurobond on February 9, 2021 comprising of 11.0 year and 27.0 -year instruments, with a 4.8% and 6.8% coupon rates, respectively that raised USD 850.0 mn. The issue received bids worth USD 2.9 bn translating to a 3.4x subscription rate. The bond was earmarked for financing the country's budget. The oversubscription was a reflection of Fitch Rating affirming Cote d'Ivoire's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B+' with a Positive Outlook in December 2020. The affirmation was on the back of strong economic growth prospects, relatively low fiscal and external deficits as well as debt ratios of 41.7% as at the end of 2020 against enduring political risks, low development indicators and comparatively high commodity dependence

d) Benin

Benin became the first African country to issue a Euro denominated Eurobond by issuing a dual-tranche paper in February 2021, raising an equivalent total of USD 1.2 bn. The issue had tenors of 11.0 years and 31.0 years, with coupon rates of 4.9% and 6.9%, respectively. The issue received bids worth USD 3.6 bn translating to a 3.0x subscription rate. This is attributable to the revision of Benin's Long-Term Foreign-Currency Issuer Default Rating (IDR) outlook to Positive from Stable, affirming the Issuer Default Rating at B with a positive outlook, in

February 2021. Consequently, the positive outlook was reflected in the existing Benin Eurobond which declined by 1.0% in H1'2021 pointing towards improved investor sentiment on Benin. The bond will enable the early repayment of 65.0% of the nominal amount of the country's 2026 Eurobond and also assist in financing the 2021 budget on flagship Government Action program Projects.

Section II: Analysis of Existing Issues

Yields on African Eurobonds recorded mixed performance in H1'2021, with most yields readjusting upwards as investors attached a higher risk premium on the regions affected by the new COVID-19 variant which is expected to curtail their economic growth. Yields on the Zambian and the Kenyan Eurobonds declined in H1'2021 by 3.4% and 0.6% points to 16.8% and 3.3%, from 20.2% and 3.9%, respectively, recorded at the end of December 2020. The yields on the Zambia Eurobond however remain relatively high, owing to the high risk attached to the country as it failed to honour its service obligations of a USD 42.5 mn Eurobond coupon in November 2020 and is still struggling with high debt levels which stood at 104.0% of the GDP in 2020. On the other hand, yields on the Senegal Eurobond increased by 0.7% points to 3.9% from 3.2% recorded at the end of December 2020, attributable to the economic decline due to the COVID-19 pandemic with the tourism and transport sectors being some of the hardest hit sectors. The table below highlights the performance of select African Eurobonds in H1'2021:

Yield Changes in Select SSA Eurobonds Issued Before 2021							
Country	Issue Tenor (yrs)	Issue Date	Maturity Date	Coupon	Yield as at Year Open	Yield as at June 2021	H1'2021 change (%Points)
Zambia	10	14/4/2014	14/4/2024	8.5%	19.6%	16.8%	**(2.8%)**
Zambia	12	30/7/2015	30/7/2027	9.0%	12.2%	9.4%	**(2.8%)**
Ghana	6	15/9/2016	15/9/2022	9.3%	3.3%	2.2%	**(1.1%)**
Benin	6	26/03/2019	26/03/2026	5.8%	4.3%	3.4%	**(1.0%)**
Senegal	10	30/7/2014	30/7/2024	6.3%	3.3%	2.5%	**(0.7%)**
Kenya	10	24/6/2014	24/6/2024	6.9%	3.9%	3.3%	**(0.6%)**
Kenya	8	22/5/2019	22/5/2027	7.0%	4.9%	4.8%	**(0.1%)**
Ghana	10	8/7/2013	8/7/2023	7.9%	4.1%	4.2%	**0.1%**
Kenya	10	28/2/2018	28/2/2028	7.3%	5.2%	5.4%	**0.2%**
Nigeria	12	23/2/2018	23/2/2030	7.1%	6.0%	6.3%	**0.3%**
Gabon	11	6/2/2020	6/2/2031	6.6%	6.2%	6.5%	**0.3%**
Kenya	30	28/2/2018	28/2/2048	8.3%	7.0%	7.4%	**0.3%**
Ivory coast	12	30/11/2020	30/1/2032	4.9%	4.6%	4.9%	**0.3%**
Kenya	12	23/05/2019	23/05/2032	8.0%	5.9%	6.3%	**0.4%**
Nigeria	30	28/11/2017	28/11/2047	7.6%	7.2%	7.6%	**0.4%**
Ghana	15	11/2/2020	11/2/2035	7.9%	7.6%	8.1%	**0.5%**
Ghana	31	26/03/2019	26/03/2051	9.0%	8.6%	9.1%	**0.5%**
Ghana	31	16/5/2018	16/6/2049	8.6%	8.4%	9.0%	**0.6%**
Ghana	41	11/2/2020	11/3/2061	8.8%	8.5%	9.1%	**0.6%**
Senegal	30	13/3/2018	13/3/2048	4.8%	6.0%	6.7%	**0.7%**
Ghana	7	11/2/2020	11/2/2027	6.4%	5.5%	6.2%	**0.8%**
Zambia	10	20/9/2012	20/9/2022	5.4%	21.5%	41.8%	**20.3%**

From the table above,

a) Yields on most of the Sub-Saharan Eurobonds increased in H1'2021 attributable to high demand for regional issues coupled with low supply of issuances, and,

b) Zambia recorded the highest decline in Eurobond yields signalling increased investor confidence, with the 2014 10-year and 2015 12-year instruments both declining by 2.8% points, to 16.8% and 9.4%, from 19.6% and 12.2%, respectively. Zambia's 10-year Eurobond was the worst performer, with the yields increasing by 20.3% points to 41.8% from 21.5% following the growing concerns of a widening fiscal deficit and the deteriorating credit worthiness after the country missed a USD 42.5 mn coupon payment on its 2024 note. However, the government's has put more efforts on debt sustainability which has aided in regaining some of the investors' confidence.

Since Eurobonds are denominated in foreign currency, the depreciation of a country's local currency means that they will incur a relatively higher cost to purchase foreign currency used to service outstanding debt obligations. Below is a summary of the performance of the different resident currencies for H1'2021:

Select Sub Saharan Africa Currency Performance vs USD					
Currency	**Jun-20**	**Dec-20**	**Jun-21**	**Last 12 Months change (%)**	**YTD change (%)**
South African Rand	17.3	14.7	14.3	**17.3%**	**2.6%**
Ugandan Shilling	3719.1	3647.0	3556.8	**4.4%**	**2.5%**
Kenyan Shilling	106.5	109.2	107.9	**(1.3%)**	**1.2%**
Ghanaian Cedi	5.7	5.8	5.8	**(1.8%)**	**0.7%**
Botswana Pula	11.9	10.8	10.8	**9.2%**	**0.4%**
Tanzanian Shilling	2313.0	2314.0	2319.0	**(0.3%)**	**(0.2%)**
Malawian Kwacha	728.4	763.2	805.8	**(10.6%)**	**(5.6%)**
Zambian Kwacha	18.1	21.1	22.6	**(24.9%)**	**(6.9%)**
Nigerian Naira	360.0	380.7	410.5	**(14.0%)**	**(7.8%)**
Mauritius Rupee	40.0	39.6	42.7	**(6.8%)**	**(8.0%)**

Source: Reuters

Following a sharp depreciation of currencies in 2020, we have seen most currencies recover, with the South African rand being the highest gainer, appreciating by 2.6%. The Kenyan shilling appreciated by 1.2% to close at Kshs 107.9 partly attributable to dollar inflows from the Eurobond issue in addition to IMF and World Bank loan disbursements in Q2'2021. The Mauritius Rupee was the worst performer, depreciating by 8.0% on a YTD basis, given the low economic activity, increasing domestic borrowing and the structure of its foreign exchange regime which exposed the Rupee to high volatility. The 24.9% depreciation of the Zambian Kwacha over the last 12 months is mainly attributable to rising demand for non-oil imports and the elevated debt obligations. Going forward, the recent increase in commodity prices with mitigate further depreciation of currencies of the commodity driven economies.

Section III: Outlook on SSA Eurobonds

From the analysis, it is evident that most Eurobond yields in the region increased in H1'2021, attributable to the emergence of subsequent waves of COVID-19, which saw investors attach a higher risk premium on the affected regions due to the anticipation of slower economic recovery and a slow vaccine inoculation rate. Notably, African debt has been on the rise mainly due to the surge in government financing needs as a result of COVID–19 expenditure, cumulative depreciation in exchange rates, rising interest payments, and widened primary deficits. To narrow the fiscal deficit gap, most countries have been forced to re-enter the international fixed income market to raise funds to fund their budget deficits as well as refinance existing debt obligations as seen by Ghana's issue in April 2021 to partly refinance the country's domestic debt. More African countries are expected to return back to the Eurobond market in an attempt to seek more funding. However, Eurobond issuance is expected to remain lower than in previous years partly due to availability of the cheaper concessional and multilateral debt coupled with demand for higher premiums by international market on developing countries' papers.

There are a few points to note:

a) **Public debt**- The COVID-19 pandemic has elevated the debt distress of most economies with the IMF highlighting in their Regional Economic Outlook that seventeen African countries were in debt distress during the pandemic which is one more than before the pre-pandemic times. This is due to significant shortfalls in revenue collection and depreciating local currencies which in turn undermines their ability to service maturing debt obligations. Most governments are now faced with the dilemma of whether to satisfy creditors, spend money on public health or bail out the economy, a situation that may lead to high default levels. Zambia, for instance, became the first African country to default on its debt in the COVID-19 era after missing a USD 42.5 mn coupon payment on its 2024 note. According to World Bank's Africa's Pulse April 2021, SSA's public debt is projected to hit a peak of 69.0% of GDP in 2021, from 65.0% in 2020. As such, the African countries should come up with ways to mitigate debt vulnerabilities, strengthen the process of debt resolutions where necessary, and apply policy measures to improve debt sustainability metrics,

b) **Debt Sustainability**: The increased interest of African governments in accessing foreign financial markets has re-emphasized the need for public debt sustainability on the continent's debt policies. According to World Bank's Africa's Pulse April 2021, SSA's public debt is projected to hit a peak of 69.0% of GDP in 2021, from 65.0% in 2020. Most African countries have resorted to expensive sources of financing as evidenced by the increased uptake of sovereign bonds as opposed to concessional loans, attributable to liquidity problems stemming from the global financial crisis and European debt crisis. Debt sustainability in the region continues to be a major concern given the high debt burden as well as the change in the composition of the region's public debt profile to sovereign bonds. Countries with higher debt service and riskier debt profiles are expected to face debt sustainability issues. The participation of several African countries in the Paris club Debt Service Suspension initiative (DSSI) in the second half of 2020, alarmed some investors following the uncertainty over what the debt relief could translate to in terms of repayments for both private bonds and African sovereigns. For the short term, the debt suspension programme is expected to help countries focus more on economic recovery and containing the COVID-19 pandemic. According to the IMF, Africa requires USD 285.0 bn additional financing needs for an adequate COVID response through 2025, of which USD 135.0 bn is for low-income countries indicating that if there is no debt relief and restructuring, many countries will fall into debt crisis when these risks materialize. However, we believe that the debt suspension will result in debt service pile up in the next couple of years and thus elevate the regions debt distress levels at a time when countries are expected to be recovering from the pandemic, and,

c) **Economic Growth**- In 2020, the Sub-Saharan region experienced its first recession in 27 years, with the IMF projecting that the regional economy contracted by 1.9% in 2020. However, the World Bank projects that the Sub-Saharan Regional GDP growth for 2021 will come in at 2.8%, which is lower than their earlier projections of 2.9%. The region's growth will be driven by positive spill overs from strengthening global activity, improved global control of the COVID-19 pandemic and strong domestic activity in agricultural commodity exporters. There are still risks to these outlooks given the emergence of new variants of the virus, the governments' high debt levels and historical challenges such as political instabilities in some of the countries.