Macro Notes – Sub-Saharan Africa's Eurobond Risks

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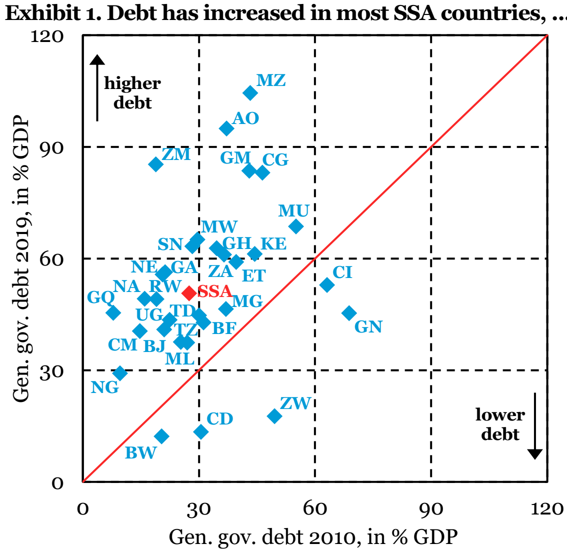
- Government debt in Sub-Saharan Africa has risen markedly in recent years.
- This is partly due to issuance of Eurobonds in a low interest rate environment.
- Debt amortization will peak in 2024-25, while financing needs remain high.
- As a result, these countries will need to attract significant non-resident capital.
- Tightening of global financial conditions could increase debt costs substantially.

A number of countries in Sub-Saharan Africa will face substantial debt amortization payments in coming years. Partly, this is the result of large issuance of Eurobonds over the most recent period when interest rates were relatively low. At the same time, both domestic as well as other external financing needs are expected to remain high, making it critical for these countries to attract non-resident capital. The need to refinance some of the amortizing Eurobonds in the medium term also means that an end to the current low interest rate environment would have important consequences for debt sustainability. For this reason, debt transparency is critical, in particular in light of an increasingly diversified creditor base and rising importance of Chinese lending to SSA countries.

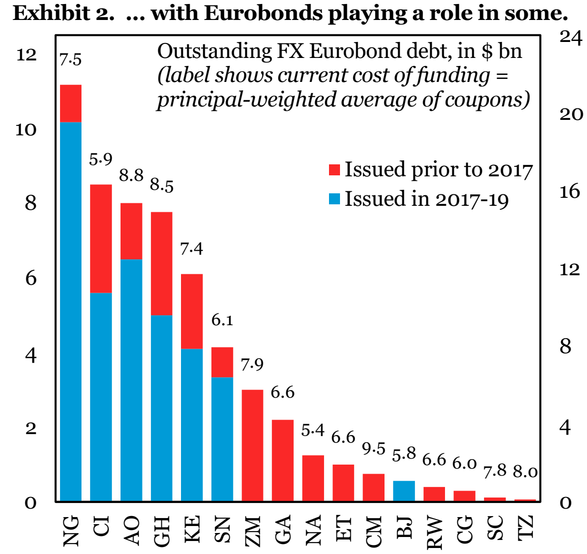
Over the last ten years, government debt in Sub-Saharan Africa as a share of GDP has increased markedly as shown in the IIF's Global Debt Monitor, with only a few countries bucking the trend (Exhibit 1). The region as a whole experienced a 23pp increase in the debt-to-GDP ratio, with Zambia, Mozambique, and Angola registering the largest increases. Partly, this rising indebtedness is a result of high Eurobond issuance in the last ten years, and particularly in the most recent period of relatively low interest rates (Exhibit 2). Nigeria, the Ivory Coast, Angola, Ghana, Kenya, and Senegal stand out in terms of issuance in 2017-18. For these countries, such recently issued debt makes up more than 75% of all outstanding Eurobonds.

Exhibit 1. Debt has increased in most SSA countries, ...



Source: IIF Global Debt Monitor, Haver, IIF

Exhibit 2. ... with Eurobonds playing a role in some.

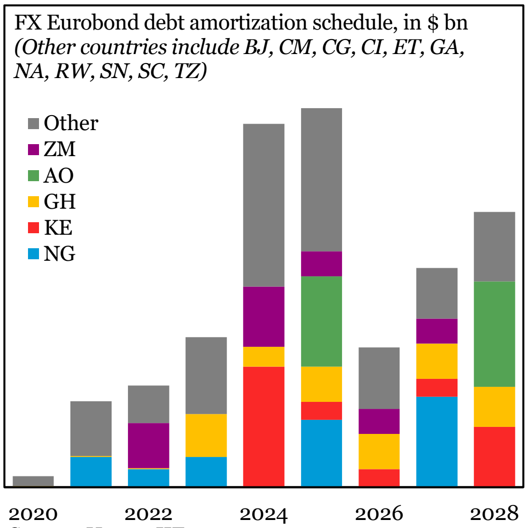


Source: Bloomberg, IIF

As a result of this dynamic, debt amortization—which reached approximately $6bn over the last five years together—will increase substantially going forward (Exhibit 3). The medium-term peak will be reached in 2024-25, with $6.6 bn and $7.4 bn in repayments, respectively. In terms of individual countries, Nigeria, Kenya, Ghana, Angola, and Zambia will feel the highest burden. As a whole, our country sample—which excludes South Africa—faces outstanding Eurobond debt of around $75 bn, two-thirds of which will require repayment over the next ten years.

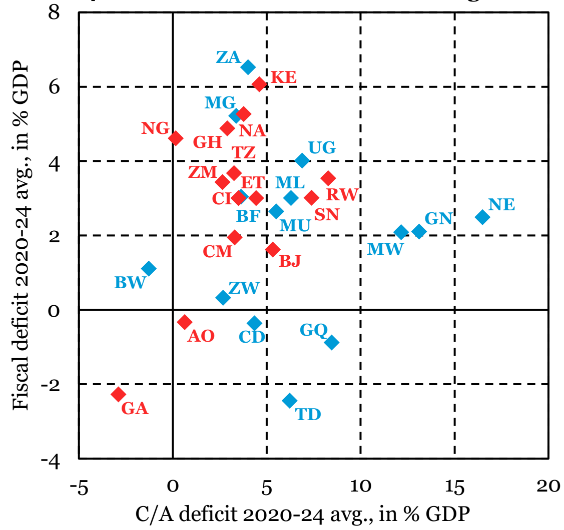
Furthermore, most of these countries are expected to see persistently large twin deficits (Exhibit 4). While fiscal deficits mean that debt will have to be refinanced with new issuance rather than being repaid from budget surpluses, large current account deficits will make it necessary to attract even more non-resident capital than required for the debt roll-over. Otherwise, currencies might come under significant depreciation pressure. Consequentially, monetary policy will have to consider such developments and may end up weighing on growth.

Exhibit 3. Amortization is set to peak in 2024-25, ...



Source: Haver, IIF

Exhibit 4. ... while deficits increase financing needs.



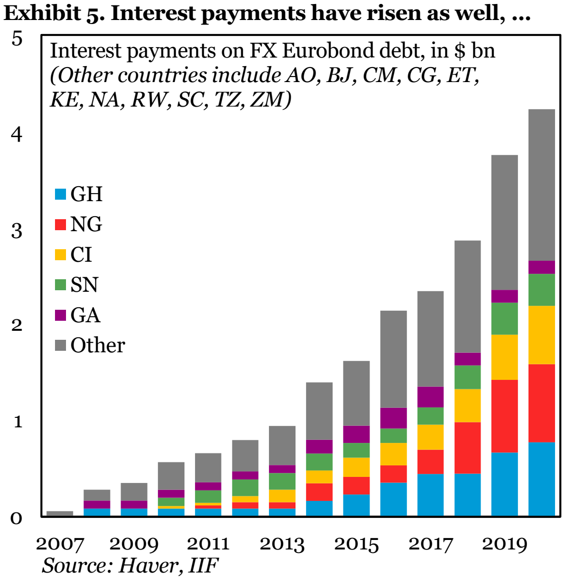
Source: Haver, IIF

Following the issuance of substantial amounts of Eurobond debt in recent years, [debt costs] have already risen markedly (Exhibit 5). The sixteen countries in our sample will need to pay around $4.3 bn in interest this year, compared to $1.6 bn five years ago and only $300 mn ten years ago. Ghana, Nigeria, and the Ivory Coast alone are responsible for more than half of the 2020 total.

The fact that more than $30 bn of Eurobond debt will need to be refinanced over the next decade means that these countries could be susceptible to tightening global financial conditions. We demonstrate this dynamic by comparing the cumulative interest payments under current modalities with three alternative scenarios, which assume that coupons across the board increase by 100, 300, or 500bps (Exhibit 6). Total interest payments would rise by around $6 bn, $18 bn, and $30 bn, respectively.

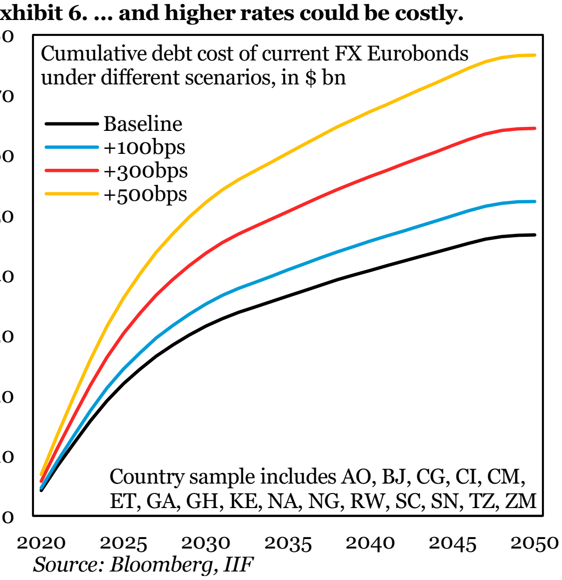
Another important element is the exchange rate risk that countries are carrying when they issue debt in hard currency. Both interest and principal payments could become an even higher burden if currencies depreciated in a meaningful way. Some Sub-Saharan African countries have, at times, been successful in attracting non-resident flows into domestically-issued debt, e.g. Ghana in 2016-17 with inflows of around $4.5 bn. [Nigeria] has, since 2017, generated inflows into central bank (CBN) bills to finance growing budget deficits. However, this kind of financing is short term and relatively expensive.

Exhibit 5. Interest payments have risen as well, ...



Source: Haver, IIF

Exhibit 6. ... and higher rates could be costly.



Source: Bloomberg, IIF

* AO – Angola, BJ – Benin, CG – Republic of Congo, CI – Ivory Coast, CM – Cameroon, ET – Ethiopia, GA – Gabon, GH – Ghana, KE – Kenya, NA – Namibia, NG – Nigeria, RW – Rwanda, SC – Seychelles, SN – Senegal, TX – Tanzania, ZM – Zambia