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Sovereigns – Africa

Rollover risk increases amid tighter financial conditions and upcoming maturity wall

An upcoming maturity wall and a deterioration in global financial conditions triggered by the Russia-Ukraine conflict will intensify rollover risks for many African sovereigns over the next decade. Less frequent and lower-rated borrowers with low reserve buffers like Ghana (Caa1 stable), Tunisia (Caa1 negative), Kenya (B2 negative) and Egypt (B2 negative) are facing difficulties securing market-based financing and vulnerable to a rise in borrowing costs that could trigger a credit event. Governments have some time to build investor confidence through fiscal consolidation before maturities fall due, but market access to refinancing will rely on market dynamics in coming quarters.

» **A maturity wall is approaching.** Maturities on international bonds issued in the previous decade will peak in 2024 and remain elevated for the next decade. This upcoming maturity wall will increase financing pressures, particularly for lower-rated sovereigns with a limited track record of refinancing international bonds.

» **Financial conditions are deteriorating as governments are still grappling with successive shocks.** Rising borrowing costs has already seen a number of sovereigns postpone or cancel international bond issuance. These more difficult market conditions coincide with increased borrowing requirements as a result of weaker growth and social spending pressures triggered by Russia- Ukraine crisis.

» **Countries at the lower end of the rating scale are most vulnerable to increased rollover risk in a scenario where market remain effectively closed over an extended period of time.** Among the African sovereigns we rate, Ghana, Tunisia, Kenya and Egypt are most vulnerable because of relatively low current reserve coverage of principal repayments due between 2022 and 2026 if they are unable to rollover their maturing bonds. Ghana's maturities do not peak until 2026, but fewer financing alternatives increases its credit risks. Gabon (Caa1 stable) and Namibia (B1 stable) will face financing pressure ahead of bond maturities in 2025.

» **Fiscal consolidation that restores investor confidence and an improvement in global financing conditions could ease financing pressure over the next two years.** There is still time for sovereigns to refinance large upcoming maturities. An improvement in fiscal metrics in particular would engender investor confidence and increase funding options. The anchor provided by IMF financial support conditionality increases the likelihood of sustainable improvements in programme countries.

Debt maturities will build and remain elevated throughout the remainder of the decade

Maturities on international bonds issued in the previous decade will increase for a number of African sovereigns over the next few years. Maturities will peak in 2024 for the region overall, but remain elevated throughout the decade (see Exhibit 1). The peak in 2024 reflects large debt amortizations falling due in Kenya ($2.0 billion), Egypt ($3.3 billion), Morocco (Ba1 negative, $1.1 billion), and Tunisia ($962 million). This upcoming maturity wall will increase financing pressures, particularly for lower-rated sovereigns with a limited track record of repaying international bonds. For example, Zambia (Ca stable) who has $1.0 billion maturing in 2024 is already negotiating a restructuring with creditors, while Ethiopia (Caa2 negative, $1.0 billion) has applied for relief under the G-20 Common Framework for Debt Treatments beyond DSSI (Common Framework).

Exhibit 1

African sovereigns face a period of larger principal maturities beginning in 2024

Principal payments on outstanding eurobonds (US$ billion)

IN $US BILLION: Less than 1 | 1 – 2 | More than 2

Sovereigns	'22	'23	'24	'25	'26	'27	'28	'29	'30	'31	2032
Egypt		1.8	3.3	3.1	2.7	3.1	2.6	1.8	2.8	2.9	2.8
South Africa	1.0	1.0	1.5	2.0	1.8	1.0	2.0	2.0	1.4		1.4
Nigeria	0.3	0.3		1.1		1.5	1.3	1.3	1.3	1.0	1.5
Ghana					1.0	2.0		2.0	1.0		1.3
Morocco	1.5	1.5	1.1		0.6	0.8			0.6	1.1	1.0
Angola				0.9			1.8	1.8			1.8
Cote d'Ivoire			0.1	0.3			0.8		1.0	1.0	2.4
Kenya			2.0			0.9	1.0				1.2
Tunisia			1.0	1.0	0.8	0.2					
Zambia	0.8	0.8	1.0			1.3					
Gabon			0.1	0.7						1.8	
Senegal			0.2								
Ethiopia			1.0								
Benin					0.2						0.8
Cameroon				0.2							0.8
Mozambique										0.9	
Namibia				0.8							
Rwanda										0.6	
Rep. of the Congo								0.2			
Total	3.6	3.0	11.3	10.0	7.1	10.7	10.5	9.0	8.0	9.3	14.9

Sources: Moody's Investors Service, Bloomberg

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Financial conditions are deteriorating as governments are still grappling with successive shocks

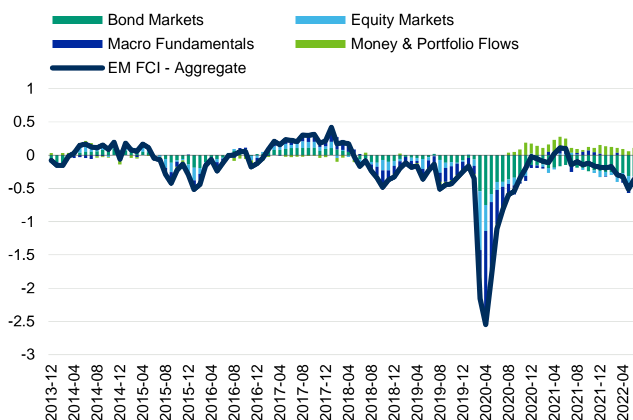
Although the prospect of rate increases by central banks in advanced economies was already contributing to a rise in international borrowing costs, Russia's invasion of Ukraine (Caa3 negative) in February 2022 has accelerated this trend (see Exhibits 2 and 3).

Much tighter global financial conditions has already had an impact on future issuance. In fact, only South Africa (Ba2 stable), Angola (B3 stable) and Nigeria (B2 stable) have been able to issue an international bond in 2022, with no issuance since May . Other countries like Kenya have decided to postpone planned debt issuance in response to rising yields. Similarly, Côte d'Ivoire (Ba3 stable) has delayed its issuance plans and instead relied on the regional bond market to meet its financing needs for this year. Nigeria postponed a subsequent bond issuance in May 2022 due to market conditions.

Some like Kenya and Ghana are currently exploring syndicated loans, which tend to have shorter maturities and often prove relatively expensive given the shorter maturities. That said, borrowing costs were already increasing before Russia's invasion of Ukraine (Caa3 negative), as the markets priced in likely rate increases by central banks in advanced economies.

Exhibit 2

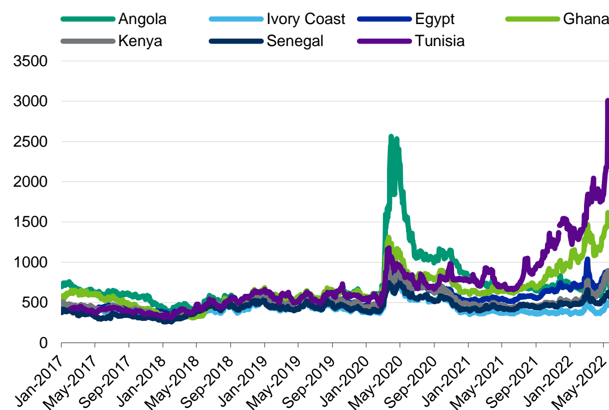
Emerging market financial conditions are already tighter than normal, driven by the bond market component
EM Financial Conditions Index



Source: Moody's Investors Service

Exhibit 3

Sovereigns spreads have widened since the start of 2022, with many African sovereigns facing prohibitively expensive borrowing costs
Sovereign spreads (basis points)



* spread data as of June 21, 2022
Sources: Moody's Investors Service, Haver

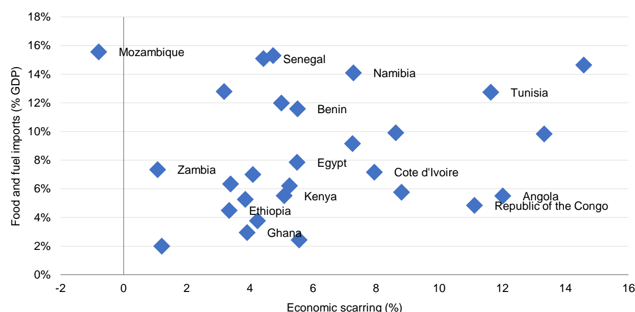
Financial conditions are deteriorating as governments are still grappling with successive shocks. Many African sovereigns still face deep economic scarring from the pandemic, which has led to revenue losses, delays to planned fiscal consolidation and a sharp rise in debt. Rising energy and food prices as a result of the Russia-Ukraine crisis are also weighing on growth and increasing inflationary pressures (see Exhibit 4). Moreover, challenging economic conditions will make it difficult for policymakers to improve fiscal positions through a combination of tax increases and spending cuts without aggravating already high social risks.

However, for some this fiscal deterioration pre-dates the pandemic. Countries like Zambia, Tunisia, Rwanda (B2 negative), Namibia and Ghana have seen they debt-to-GDP ratios rise by more than 25 percentage points since 2016. Kenya, Côte d'Ivoire and Senegal (Ba3 stable) also saw significant increases in debt burdens, rising by more than 20 percentage points of GDP over the same period. In fact, the average debt burden for the African sovereigns we rate with eurobond debt outstanding is now over 70% of GDP and we project will remain above 70% through 2023 (see Exhibit 5).

Interest burdens remain low in many cases owing to still sizeable shares of concessional financing. However, this share has deteriorated since 2016 across the region. Debt affordability, as measured by the interest-to-revenue ratio, is weakest in Ghana, Egypt, and Kenya as these sovereigns tend to rely less on concessional financing and more on commercial financing, both externally and domestically. Although domestic financial markets are more developed and offer an alterative funding source, interest rates on domestic borrowing tend to be higher than the cost of borrowing externally. This is reflected in the larger share of domestic interest payments in interest

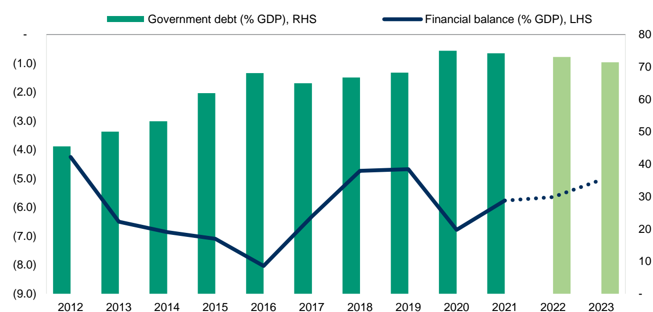
expenditures. For instance, even though debt is split roughly evenly between domestic and external debt in Kenya, more than three-quarters of interest expenditure is spent on domestic debt.

Exhibit 4
The commodity price shock struck as most African sovereigns are still recovering from the pandemic
Food and energy imports (% GDP) and economic scarring (%), only African sovereigns with eurobonds are labeled



*Economic scarring based on the four-year difference between current forecasts for real GDP and pre-pandemic forecasts. A higher number indicates greater scarring.
Sources: Moody's Investors Service, UNCTAD

Exhibit 5
African sovereign debt levels have increased steadily over the last decade
Government financial balance and government debt, % GDP



* Weighted by nominal GDP, African sovereigns with eurobonds outstanding, excluding South Africa and Nigeria
Source: Moody's Investors Service

Countries at the lower end of the rating scale are most vulnerable

Ghana, Tunisia, Kenya and Egypt are most vulnerable in this environment because their reserves only cover a relatively small amount of the principal repayments due between 2022 and 2026 (if they are unable to rollover their maturing bonds). **Ghana's** limited financing alternatives to international debt issuance leave it exposed to a sustained loss of market access that would precipitate a debt restructuring. This is reflected in our Caa1 rating indicating elevated risks as well as reflected in current prices and spreads on Ghana's outstanding bonds, which are at highly distressed levels. However, its next significant eurobond maturity is 2026, which gives the government time to deliver on promised fiscal consolidation, restore investor confidence and regain market access.

Tunisia's large gross financing needs and limited access to multilateral financing without an IMF financial programme in place elevate its liquidity risks. Tunisia's reserves remain adequate to meet upcoming maturities in 2022, but they have been falling since December 2020 and will continue to decline ahead of the government's 2023 and 2024 maturities without renewed private sector or official sector inflows. Moreover, weakening governance makes its less certain that the government will implement fiscal and economic reform or be able to secure the backstop of IMF financial assistance.

Larger domestic debt markets reduce risks for **Egypt** and **Kenya**, but even if domestic financing met upcoming external maturities, the drain on reserves and larger domestic issuance would increase their already high borrowing costs. In Egypt, we have already seen significant pressure on the government's reserves in response to nonresident outflows, informing the change in outlook to negative in May 2022. Increased imports arising from higher commodity prices are likely to exert further pressures.

In Kenya, limited market access, a political cycle which may lead to a period of policy paralysis and a large $2.0 billion bullet maturity in 2024 heighten liquidity risks. The prospect of further delays to planned fiscal consolidation, particularly if this leads to delays in disbursements of IMF funding, would put significant strain on Kenya's international reserves.

In the absence of market access, **Namibia's** large 2025 eurobond maturity poses some risks given its relatively thin reserve buffer. The sinking fund the government set up has been significantly drawn down to meet part of its 2021 eurobond maturity, and it is unlikely to have funds to cover the 2025 maturity in total. Like it did in 2021, we expect the government would resort to selling long-term domestic debt sale to the Government Institutions Pension Fund (GPIF) if required.

The large share of international bonds in the debt structure of countries like Benin (B1 stable), Côte d'Ivoire, Gabon and Senegal increases the risk of financing stress if credit quality were to weaken. Currency depreciation poses less of a challenge because their currencies are pegged to the euro. For Benin and Côte d'Ivoire, their lower absolute debt burdens (at or around 50% of GDP) and

favorable maturity profile mean there is low risk of a liquidity event given investor confidence in debt sustainability. A larger revenue pool also means interest only accounts for 10% of revenue in Senegal and 13% in Côte d'Ivoire.

Exhibit 6

Countries at the lower end of the rating scale and high debt burdens are most vulnerable to increased rollover risk

Rating	Country	Government debt/ GDP (2022)	Eurobonds/ GDP	Eurobond debt/total debt	FC-denominated debt/ total debt	Eurobonds (% FC-denominated debt)	Eurobond maturities (2022-2026) to reserves	Eurobonds/ reserves	Interest/ revenue	Eurobond interest/ total interest payments
Ba1	Morocco	76%	6%	9%	24%	37%	10%	28%	10%	8%
Ba2	South Africa	76%	5%	7%	17%	40%	13%	50%	18%	6%
Ba3	Senegal	69%	15%	22%	72%	31%	1%	35%	10%	38%
Ba3	Cote d'Ivoire	52%	12%	23%	48%	48%	3%	72%	13%	37%
B1	Benin	49%	10%	21%	66%	31%	2%	15%	15%	24%
B1	Namibia	71%	6%	8%	25%	33%	34%	34%	16%	7%
B2	Cameroon	44%	2%	4%	72%	6%	2%	14%	6%	14%
B2	Egypt	94%	9%	10%	32%	31%	37%	124%	47%	7%
B2	Kenya	71%	6%	9%	51%	18%	22%	78%	29%	9%
B2	Nigeria	32%	3%	10%	31%	32%	4%	37%	29%	10%
B2	Rwanda	79%	6%	8%	69%	11%	4%	41%	7%	19%
B3	Angola	49%	7%	13%	83%	16%	5%	48%	20%	16%
Caa1	Gabon	58%	13%	22%	49%	45%	11%	37%	14%	31%
Caa1	Ghana	81%	14%	18%	51%	36%	14%	141%	55%	14%
Caa1	Tunisia	86%	7%	9%	65%	14%	46%	48%	12%	15%
Caa2	Ethiopia	37%	1%	2%	65%	4%	35%	35%	4%	11%
Caa2	Mozambique	85%	5%	6%	83%	8%	0%	23%	15%	6%
Caa2	Republic of the Congo	83%	2%	2%	64%	4%	0%	3%	8%	5%
Ca	Zambia	104%	9%	8%	58%	14%	88%	150%	20%	17%

Source: Moody's Investors Service

However, it is worth flagging that not all credit events are triggered by missed principal payments. For example, recent defaults in Africa by Zambia and elsewhere in Suriname, Ecuador, Belize and Sri Lanka highlight that financing stress can build long before principal maturities begin falling due. We have highlighted in previous research that other factors like chronic economic stagnation as well as institutional and political factors that prevent reforms to address economic vulnerabilities can be a key trigger of default. Similarly, external shocks like the pandemic can significantly weaken economic activity and government and export revenues. For commodity producers, even a temporary shock to commodity prices that reduces foreign-currency earnings can precipitate a default.

Fiscal consolidation that restores investor confidence and improvement in global financing conditions could ease financing pressure over the next two years

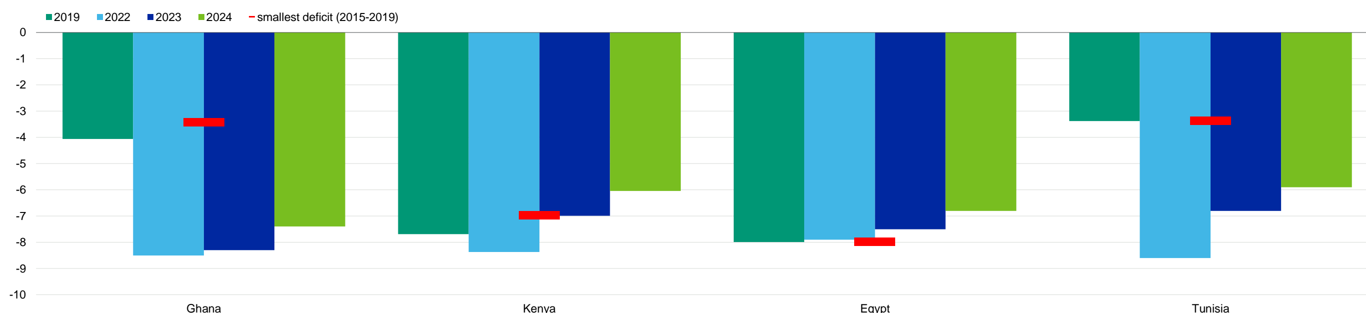
While market conditions today may mean borrowing is prohibitively expensive, some countries like Kenya still intend to access bond markets later this year. Moreover, there is still time for sovereigns with large maturities in 2024 to refinance these near-term maturities. High inflation and social pressures will make fiscal prudence delivery very challenging, and global financial conditions in the second half of this year will be very telling regarding market access to refinancing.

An improvement in fiscal metrics in particular would engender investor confidence and increase funding options. IMF programmes will provide crucial fiscal policy anchors in this regard, particularly in Kenya and Gabon. Egypt, Tunisia, Ghana and Kenya all plan to deliver fiscal consolidation over the next few years. Delivering on fiscal consolidation objectives will be more important for Kenya and Ghana, where fiscal-slippage risks increasing borrowing costs and aggravate already very weak debt-affordability metrics. Ghana's interest-to-revenue ratio is one of the highest among all rated sovereigns, while Kenya's debt interest burden has grown steadily since 2015.

Exhibit 7

Fiscal consolidation plans would narrow deficits by more than one percentage point of GDP in Ghana and Egypt, and by more than two percentage points of GDP in Kenya and Tunisia

Financial balance, % of GDP



Source: Moody's Investors Service

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