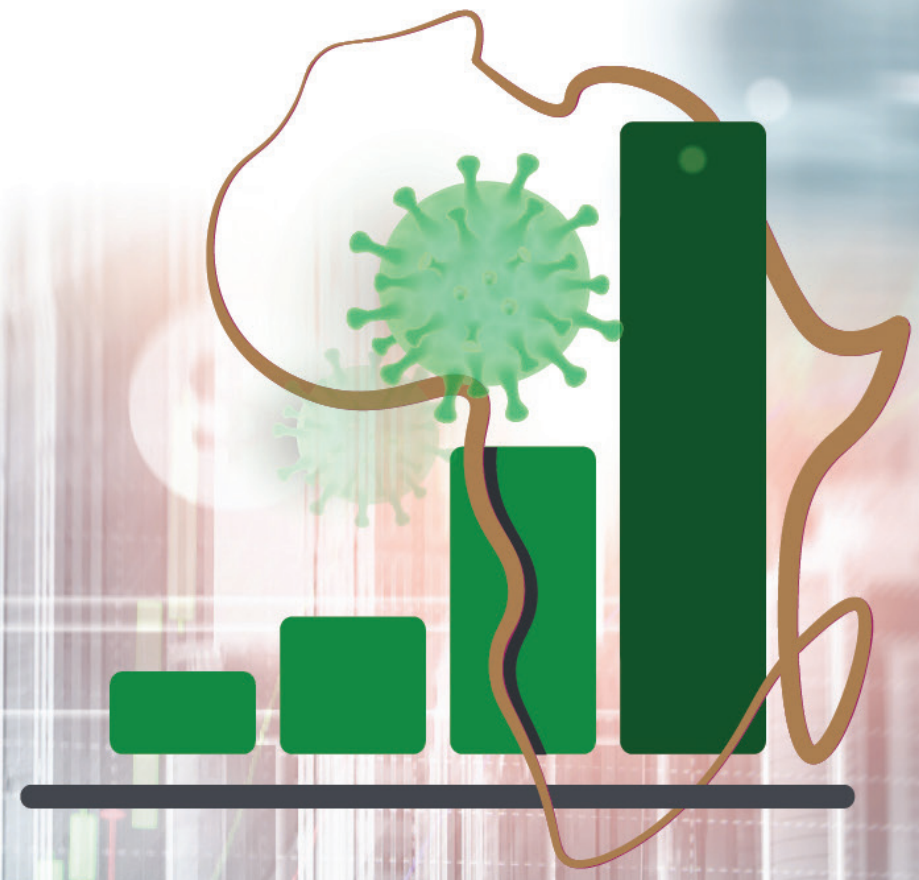
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AFRICAN PEER REVIEW MECHANISM
APRM

AFRICA SOVEREIGN CREDIT RATING REVIEW



2021 MID-YEAR OUTLOOK

3RD EDITION

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PUBLICATION OF AFRICAN PEER REVIEW MECHANISM

Research, Methodology & Coordination Division

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APRM BI-ANNUALREPORT

This is the 3rd edition of the African Union - African Peer Review Mechanism (APRM) authored bi-annual report on Africa credit ratings review. The report reviews long-term foreign currency sovereign credit rating actions in Africa by three dominant international rating agencies – Moody's, Fitch and S&P Global – during the first half of 2021 (2021H1) and makes recommendations to African countries on ways to minimise future negative rating actions.

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FOREWORD

The record number of sovereign rating downgrades of African countries since the outbreak of Covid-19 has indeed justified the rationale behind the African Union Assembly Decision for the APRM to provide support to countries in the area of credit ratings. The impact of these rating downgrades has been far-reaching and continues to threaten the sustainability of public debt due to high borrowing costs. On the other hand, a number of African countries have missed the opportunity to restructuring their debt through multilateral debt relief programs mainly because rating agencies would classify them as defaulters. These developments have magnified the impact of the Covid-19 pandemic, which continues to extend severe strain on fiscal position of countries. The direct consequence of the rating downgrades is the constrained capacity for governments to invest in health care services, vaccines and social protection programs when it is sorely needed. This is worsening the suffering and general welfare of citizens. I am optimistic with the work of the APRM through various interventions to support African countries in their engagements with international credit rating agencies.

Prof. Eddy Maloka
CEO, APRM Continental Secretariat





1. INTRODUCTION

The first half of 2021 (2021H1) was characterised predominantly by negative rating actions owing the continued economic challenges faced by countries as they deal with Covid-19 infection phases and waves, and at the same time, investing in recovering from the pandemic. In a typical procyclical trend, these low credit ratings are weighing on countries' economic recovery efforts to reverse the widened fiscal deficits, high debt levels and weaker debt affordability. A total of 7 countries – Botswana, Cape Verde, Ethiopia, Mauritius, Morocco, Kenya and Tunisia – were downgraded in the 2021H1, whilst 1 country – Zambia – had its credit rating outlook changed from stable to negative. Morocco, one of the three African countries that were still rated above 'junk' status, lost its investment grade by S&P, after Fitch had already downgraded it to 'junk' in the second half of 2020 (2020H2). Only 2 countries – Botswana and Mauritius are the remaining 'investment grade' countries on the continent. The negative outlook on Mauritius, however, is a strong signal that it is still at risk of being downgraded into junk status if its tourism sector fails to kick-start the economy and to curb the growing budget deficit in the post Covid-19 recovery period as expected by rating agencies.

Two countries –Benin and Mali had positive rating actions in 2021H1. Benin is the only African country to be upgraded during this period due to overall improvement in its public finance management as fiscal authorities made significant progress in implementing fiscal consolidation. Benin has successfully implemented structural reforms in both government revenues and expenditures, supported by the International Monetary Fund (IMF) through an extended Credit Facility (ECF) program. In Mali, before the military coup in May 2021 that disposed the transitional government, the country had its rating outlook changed from 'negative' to 'stable' due to stability of its political situation as the transitional government which had been established in September 2020 had been endorsed by regional partners and the international community.

Table 1: Summary of sovereign credit rating actions (Jan – June 2021)

Country	Moody's		S&P		Fitch	
	Previous	Current	Previous	Current	Previous	Current
Benin	B2 (Pos)	B1 (Stable)			B (Stable)	B (Pos)
Botswana	A2 (Neg)	A3 (Stable)				
Cape Verde			B (Neg)	B- (Stable)		
Ethiopia	B2 (Neg)	Caa1 (UR)	B (Neg)	B- (Neg Watch)	B (Neg)	CCC (n/a)
Kenya			B+ (Neg)	B (Stable)		
Mali	Caa1 (Neg)	Caa1 (Stable)				
Mauritius	Baa1 (Neg)	Baa2 (Neg)				
Morocco	Ba1 (Stable)	Ba1 (Neg)	BBB- (Neg)	BB+ (Stable)		
Tunisia	B2 (Neg)	B3 (Neg)				
Zambia			B (Stable)	B (Neg)		

Source: Tradingeconomics, 2021

2. CONTINENTAL RATING DRIVERS

Within the context of the impact of the Covid-19 pandemic, the following are the key rating drivers in 2021H1;

i. The upgrade in Benin was driven by the rising economic resilience, improved structure of debt, strong public finance management and robust economic growth prospects that is supported by ongoing structural reforms under the International Monetary Fund (IMF) Extended Credit Facility (ECF) program.

ii. The deterioration in fiscal strength as a result of shock from the Covid-19 pandemic led to the downgrade of Botswana and Mauritius as their capacity to absorb future shocks was significantly reduced due to erosion of governments' fiscal reserves.

iii. The tourism driven economy of Cape Verde was downgraded because it was severely affected by the Covid-19 pandemic. Another contributing key risk factor was the widening fiscal deficit, which has driven the country's gross general government debt to 154% of GDP by the end of 2020.

iv. Ethiopia was downgraded because of the rising risk to private creditors due to the government's commitment to participate in the Group of 20 (G20) Common Framework, signing a Memorandum of Understanding that requires it to engage with private creditors. The ongoing political conflict and ethnical tension, which rating agencies cite as undermining foreign direct investment critical for fiscal support in the near and medium term, also contributed to the negative rating action.

v. The downgrade of Kenya and Morocco was driven by the growing fiscal deficit and weak economic growth. Kenya's deficit, which is expected to reach 9% of GDP in the fiscal year ending June 2021, is due to poor revenue collection, averaging 15.5% of GDP, that has raised fears of the possibility of a debt distress, causing it to be downgraded in spite of reaching an IMF Staff-level Agreement of approximately US$2.4 billion financing package to mitigate credit pressures, boost international reserves and support the government's fiscal consolidation efforts.

vi. The upgrade of Mali before the second coup was based on the stability of the country's political situation, its post-pandemic economic recovery and the government's commitment to fiscal consolidation

vii. Tunisia was downgraded due to weakening governance and rising social constraints that is inhibiting the government's flexibility to implement fiscal adjustment and public sector reforms. This is making it challenging for the country to stabilize and consolidate the rising debt burden.



3. AFRICAN SOVEREIGN DEBT MARKET

Ethiopia's US$1billion 10-year sovereign bond maturing in December 2024 was the worst affected by the rating downgrades in 2021H1. The country's Eurobond suffered its biggest daily loss of 7.4% and its highest yield levels of 9.34% in more than a one year, following the rating downgrade. The downgrade of Ethiopia based on high risk of default from the G20 Common Framework caused panic on investors holding the country's sovereign bond.

Figure 1: Ethiopia's Eurobond Yield



Source: Cbonds, June 2021

On sovereign bond issuances, Benin became the first African country to borrow through the Eurobond market in 2021H1 by issuing €1billion in 11-year and 31-year bonds in January. In February, Côte d'Ivoire followed suit and issued its 10-year and 20-year bonds at the lowest ever rate since the country first issued a Eurobond. Egypt also issued a 40-year bond – one of the longest tenor African bonds. Notably, all the sovereign bond issuances in 2021H1 were oversubscribed by at least double the available issues, indicating the resilient high appetite for investment in Africa, despite all the challenges posed by the Covid-19 pandemic.

Table 2: Eurobond issuance Jan – Jun 2021

Country	Issue date	Amount (US$B)	Purpose	Tenor	Coupon	Subscription
Benin	15/01/2021	0.855 0.365	Budget support & bond refinance	11-year 31-year	4.875% 6.875%	3x
Côte d'Ivoire	9/2/2021	0.727 0.303	Budget support	10-year 20-year	4.30% 5.75%	3.4x
Egypt	8/2/2021	0.75 1.5 1.5	Budget support	5-year 10-year 40-year	3.875% 5.875% 7.5%	4x
Ghana	30/03/2021	0.525 1 1 0.5	Budget support	4-year 7-year 12-year 20-year	0% 7.75% 8.625% 8.875%	2x
Kenya	18/06/2021	1	Budget support	12-year	6.3%	5x

Source: World Government Bonds, June 2021

Box 1: Ghana is the first Africa country to borrow through a Zero-Coupon Eurobond

The Government of Ghana issued a 4-year Zero-Coupon Eurobond worth US$525 million, the first time an African country has issued such a bond on the international capital market, which was two times oversubscribed. Ghana's issuance became the second by a Sub-Saharan African country since Covid-19 outbreak in March 2020 after Côte d'Ivoire, defying the concerns raised by international rating agencies on the country's Debt-to-GDP ratio that has increased to 76.1%, which according to rating agencies, is significantly higher than the generally acceptable emerging markets Debt Sustainability Ratio of 60%. Ghana's Zero-Coupon Bond means the country will not be liable to pay any interest over the 4-year bond tenor, allowing the government to borrow without having to worry about interest payments during the duration of the bond, which is crucially beneficial for the government to focus on implementation. Zero-Coupon Bonds are an innovative market oriented solution to address post Covid-19 challenges and improve the cash flow required for debt servicing, as the only debt obligation that the government will have to honour will be the face value of $525 million on maturity. Ghana's successful issuance of a Zero-Coupon Bond was supported by favourable market conditions, strong growth prospects, fiscal consolidation efforts and unavailability of other high-yield bond issuances.



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