

## Sub-Saharan Africa (SSA) Eurobonds: Q3'2019 Performance

### A. Background

Africa's appetite for foreign-denominated debt has increased in recent times with the latest issues in 2019 being Ghana, Egypt, Benin and Kenya. The increased affinity for foreign currency-denominated debt continues to be attributed to:

- i. Financing of maturing debt obligations,
- ii. The need to finance heavy infrastructure projects,
- iii. Reduced financial aid to African countries by Western donor nations, and
- iv. Covering for budget deficits

Collectively, 2019 has seen the African continent as a whole raise USD 12.4 bn through the various Eurobond issues as highlighted below.

Africa YTD 2019 Eurobond Issues						
	Amount Issued (USD millions)	coupon	Issue date	Maturity Date	Tenor (Years)	Subscription
Kenya	900	7.0%	22/05/2019	22/05/2027	7.0	4.5X
	1,200	8.0%	23/05/2019	23/05/2032	12.0	
Benin	567	5.75%	26/03/2019	26/03/2026	6.0	2.3X
Ghana	1,250.0	8.13%	26/03/2019	26/03/2032	12.0	7.0X
	750.0	7.88%	26/03/2019	26/03/2027	7.0	
	1,000.0	8.95%	26/03/2019	26/03/2051	31.0	
Egypt	1,500.0	8.70%	26/02/2019	01/03/2049	30.0	5X
	1,750.0	7.60%	26/02/2019	01/03/2029	10.0	
	750.0	6.20%	26/02/2019	01/03/2024	5.0	
	1,020.7	4.75%	11/04/2019	11/04/2025	6.0	4X
	1,701.1	6.38%	11/04/2019	11/04/2031	12.0	
<b>Total</b>	<b>12,388.8</b>					

The Eurobond issues in 2019 have attracted a lot of interest evidenced by the oversubscription rates, with the Ghana issue recording the highest oversubscription of over 7.0x, underlining the sustained investor confidence in the African debt market. This has partly arisen because, by comparison, African sovereign debt offers the highest yields globally. This coupled with the political uncertainties in the US, and the adoption of a looser monetary policy regime in both the Eurozone and the United States has led to a decline in yields in advanced economies. On the other hand, due to the investor interest in Africa's debt market, the increased demand has pushed the prices up and consequently the yield down. In this note, we analyze SSA's Eurobond performance in Q3'2019 with the aim of painting a picture of risk tolerance and investor confidence.

### B. Analysis of Some of the Existing Issues in Sub Saharan Africa

This section analyses the Q3'2019 performance of some of the Eurobonds issued in Sub Saharan Africa

Country	Issue Tenor (yrs)	Issue Date	Coupon	Yield as at the end of H1'2019	Yield as at the end of Q3'2019	Q3'2019 change (% Points)
Ghana	31	5/16/2018	8.6%	8.6%	8.7%	0.1%
Senegal	30	3/13/2018	6.8%	7.3%	7.1%	(0.3%)

Kenya	30	2/28/2018	8.3%	7.9%	8.1%	0.2%
Nigeria	30	11/28/2017	7.6%	7.8%	7.8%	0.0%
Kenya	12	5/22/2019	8.0%	7.4%	7.4%	0.0%
Zambia	12	7/30/2015	9.0%	17.4%	16.1%	(1.3%)
Nigeria	12	2/23/2018	7.1%	7.7%	7.8%	0.0%
Senegal	10	7/30/2014	6.3%	4.7%	4.3%	(0.4%)
Kenya	10	6/24/2014	6.9%	5.5%	5.6%	0.1%
Zambia	10	4/14/2014	8.5%	19.4%	18.2%	(1.2%)
Senegal	10	5/13/2011	8.8%	3.7%	3.4%	(0.3%)
Kenya	10	2/28/2018	7.3%	6.8%	6.7%	(0.1%)
Ghana	10	7/8/2013	7.9%	5.7%	5.3%	(0.4%)
Zambia	10	9/20/2012	5.4%	20.7%	19.4%	(1.3%)
Kenya	7	5/22/2019	7.0%	6.4%	6.4%	0.0%
Ghana	6	9/15/2016	9.3%	4.4%	4.4%	0.0%

From the table above,

- a) Ghana and Kenya were the only countries that recorded a rise in Eurobond yields, with the Kenyan 30-year 2018 issue and the 10-year 2014 issue increasing by 0.2% points and 0.1% points, respectively. Ghana's 31-year bond issued in 2018 increased by 0.1% points. The performance of the Ghana Eurobond can be attributed to the volatile international commodities market following a downturn in global oil and cocoa prices, and the increase in fiscal risks, which can be attributed to the expected slowdown in the pace of fiscal consolidation and the dire condition of the country's energy sector. The rise in inflation was also a contributor to the higher bond yield. Going forward the yields are expected to decline supported by the increased pace of fiscal consolidation efforts to narrow their fiscal deficit. The cedi has also been stabilizing against the dollar and is expected to maintain stability. Ghana maintains a stable outlook and has a credit rating of B+.
- b) The rise in the Kenya Eurobond bond yields for the 30-year and 10-year issues in Kenya was attributable to news that global rating firm Moody's could further lower Kenya's creditworthiness currently at 'B2 stable' following the completion of their periodic review on Kenya, where they raised concern over the country's very low fiscal strength, ballooning debt and rampant corruption.
- c) Zambia's Eurobonds declined during the quarter at a higher rate than the rest of the SSA countries but the yields remained elevated with the 10-Year Eurobond issued in 2012 currently with an effective tenor of 2.9 years closing the quarter at 19.4%. The relatively high yields on the country's debt instruments is attributable to the declining fiscal space and the country's risk of debt distress which has led to investors demanding a premium. Zambia's external debt has risen to USD 10.1 bn at the end of 2018, compared with USD 8.7 bn in 2017, with the debt to GDP ratio estimated at 74.4%, further raising fears of a debt crisis in the country. This has seen the downgrading of the Government of Zambia's long-term issuer ratings to Caa2 from Caa1 and changed the outlook to negative from stable,
- d) Eurobond yields in other Sub-Saharan countries either declined or had no significant change during Q3'2019. The trend has been replicated in other frontier markets, attributable to increased investor demand of the debt instruments due to the attractive returns in comparison to the low interest rates in the US and other advanced economies.

### **C. Summary**

From the analysis, it is discernible that Eurobond yields in Sub Saharan Africa declined in Q3'2019, partly due to increased demand for emerging market fixed-income securities as a result of the adoption of a looser monetary policy regime in both the Eurozone and the United States. The low interest rates in the US and other advanced economies has resulted in investors being attracted to frontier markets thus facilitating the capital raising by African countries as evidenced by the high subscription rates in all the debt issuances in 2019, raising a total of USD 12.4 bn. Going forward, we maintain our expectations of the yields remaining stable with a bias to further declines driven by expectations of accommodative monetary policy in advanced economies, including the U.S and Eurozone, as the Federal Reserve and European Central Bank take a dovish stance.