

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

A. Background

According to the World Bank's [Global Economic Prospects January 2022](#), the Sub-Saharan Africa economy is projected to expand by 3.5% in 2021, driven by elevated commodity prices, relaxation of COVID-19 containments measures and recovery in global trade. The [IMF](#) on the other hand, projects that the region will recover at a slightly higher rate, with the regional GDP coming in at a 3.7%, up from the revised 1.7% contraction recorded in 2020. Growth will mainly be supported by the increased rollout of vaccines in the region which has seen most countries re-open their economies. The region has also seen recoveries in key sectors such as global trade, tourism and an increase in global commodity prices which has boosted the economic recovery.

In 2021, Africa's appetite for foreign-denominated debt persisted, with the region raising USD 11.3 bn worth of Eurobonds, a significant increase of 117.6% from the USD 5.2 bn issued in 2020. The latest issues in the region were Nigeria and Rwanda which raised a total of USD 6.1 bn in Q3'2021. Cumulatively, the issued Eurobonds recorded an over-subscription of 3.8x as compared to an over-subscription of 4.4x in 2020. The high subscription rates are mainly attributable to the increased investor confidence in the region following the positive outlook in the Sub Saharan Africa (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 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:

- I. Background of Eurobonds in Sub Saharan Africa in 2021,
- II. Eurobond Performance in Sub-Saharan Africa, and,
- III. Outlook on SSA Eurobonds.

Section I. Background of Eurobonds Issued in Sub Saharan Africa

Collectively, 2021 saw six countries in the Sub-Saharan Region raise USD 11.3 bn through Eurobond issues. The new instruments attracted a lot of interest as evidenced by the oversubscription recorded by 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. The countries that issued Eurobonds in 2021 include Benin, Ghana, Ivory Coast, Kenya, Nigeria and Rwanda. The table below summarizes the various Eurobond issued in 2021:

Country	Amount Issued USD millions	Issue Tenor (yrs)	Issue Date	Maturity Date	Coupon	Yield at Issue Date	Subscription Rate	Yield as at 31 st December 2021	Issue date to 31 st December Yield Change(% points)
Benin	849.0	11	1/19/2021	1/19/2032	4.9%	5.4	3.0x	5.2%	(0.0%)
Benin	364.0	31	1/19/2021	1/19/2052	6.9%	7.6%		6.9%	(0.7%)

Benin	590.0	14	7/22/2021	7/22/2035	5.0%	5.3%		5.5%	0.2%
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	12.0%	5.3%
Ghana	1,000.0	7	4/7/2021	4/7/2029	7.8%	7.9%		11.6%	3.7%
Ghana	1,000.0	12	4/7/2021	4/7/2034	8.6%	8.8%		11.7%	3.1%
Ghana	500.0	20	4/7/2021	4/7/2042	8.9%	9.3%		11.4%	2.1%
Kenya	1,000.0	12	6/23/2021	1/23/2034	6.3%	6.2%	5.0x	6.6%	0.4%
Rwanda	620.0	10	8/09/2021	8/09/2031	5.5%	5.0%	2.6x	5.4%	0.4%
Nigeria	1,250.0	7	9/28/2021	9/28/2028	6.1%	6.2%	4.0x	6.8%	0.6%
Nigeria	1,500.0	12	9/28/2021	9/28/2033	7.4%	7.4%		8.0%	0.6%
Nigeria	1,250.0	30	9/28/2021	9/28/2051	8.3%	8.3%		8.9%	0.6%
Total	11,298.0						3.3x		
2020 Issues	5,191.0						4.4x		

Below are the key take outs from the issues:

a) Ghana

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. Key to note, Ghana's oversubscription was the lowest in the region, attributable to reduced investor sentiment in Ghana mainly due to the spiralling public debt, which peaked at 76.1% of GDP in June 2021, as compared to 67.5% in June 2020. Key to note, Ghana's 20-year bond recorded the highest yield at issue, while the 7-year bond recorded the highest yields increase, increasing by 3.7% points to 11.6% in December 2021 from 7.9% at the start of the year. 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 23, 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 country'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 63.9% of GDP as at August 2021. On the flip side, the issue will assist in financing the expected 7.5% 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 upgrading [Cote d'Ivoire's Long-Term Foreign-Currency Issuer Default Rating \(IDR\)](#) to 'BB-' with a Stable Outlook in July 2021. 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 January 2021, before issuing another Euro Denominated Eurobond in July 2021, with both issues raising an equivalent total of USD 1.8 bn. The issue had tenors of 11.0 years, 14.0 years and 31.0 years, with coupon rates of 4.9%, 5.0% 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 favourable revision of [Benin's Long-Term Foreign-Currency Issuer Default Rating \(IDR\)](#) outlook to B+ from B by Fitch ratings, and the affirmation of a stable outlook, in October 2021. Consequently, the positive outlook was reflected in the existing 6-year Benin Eurobond issued in 2019 which declined by 0.9% in 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.

e) Rwanda

Rwanda issued a USD 620.0 mn bond in August 2021, which partly went towards retiring an outstanding USD 400.0 mn Eurobond issue in a debt sustainability program. The issue was 2.6x oversubscribed, and attracted a coupon rate of 5.5%, which was lower than Rwanda's previous issue in 2013, which attracted a coupon rate of 6.6%. This is set to benefit Rwanda as it will make less payments in form of Annual payments.

Section II: Analysis of Existing Issues

Yields on African Eurobonds recorded mixed performance in 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. The table below highlights the performance of select African Eurobonds in 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 31 st December 2021	2021 change (%Points)
Benin	6	26/03/2019	26/03/2026	5.80%	4.30%	3.40%	(0.9%)
Senegal	10	30/07/2014	30/07/2024	6.30%	3.30%	3.40%	0.1%
Ivory coast	12	30/11/2020	30/01/2032	4.90%	4.60%	4.90%	0.3%
Kenya	10	24/06/2014	24/06/2024	6.90%	3.90%	4.50%	0.6%
Kenya	10	28/02/2018	28/02/2028	7.30%	5.20%	5.80%	0.6%
Kenya	7	22/05/2019	22/05/2027	7.00%	4.90%	5.80%	0.8%
Kenya	12	23/05/2019	23/05/2032	8.00%	5.90%	6.80%	0.9%
Senegal	30	13/03/2018	13/03/2048	4.80%	6.00%	6.90%	0.9%
Gabon	11	06/02/2020	06/02/2031	6.60%	6.20%	7.30%	1.1%
Kenya	30	28/02/2018	28/02/2048	8.30%	7.00%	8.10%	1.1%
Nigeria	12	23/02/2018	23/02/2030	7.10%	5.90%	7.50%	1.6%
Nigeria	30	28/11/2017	28/11/2047	7.60%	7.10%	8.70%	1.6%
Ghana	41	11/02/2020	11/03/2061	8.80%	8.50%	11.10%	2.6%
Ghana	31	16/05/2018	16/06/2049	8.60%	8.40%	11.10%	2.7%
Ghana	31	26/03/2019	26/03/2051	9.00%	8.60%	11.50%	2.9%
Ghana	6	15/09/2016	15/09/2022	9.30%	4.80%	8.50%	3.7%
Ghana	10	08/07/2013	08/07/2023	7.90%	4.10%	7.80%	3.7%

Ghana	15	11/02/2020	11/02/2035	7.90%	7.50%	11.30%	3.8%
Ghana	7	11/02/2020	11/02/2027	6.40%	5.50%	11.30%	5.8%

From the table above,

- Yields on most of the Sub-Saharan Eurobonds increased in 2021 attributable to high demand for regional issues coupled with low supply of issuances,
- Benin was the only sovereign that recorded a decline in its Eurobond yields as a result of the increased investor sentiment in the economic recovery. Yields on the Benin 6 year-2019 Eurobond declined by 0.9% points to 3.4%, from 4.3% recorded at year open, attributable to favourable credit ratings during the year, such as revision of [Benin's Long-Term Foreign-Currency Issuer Default Rating \(IDR\)](#) outlook to B+ from B by Fitch ratings, and the affirmation of a stable outlook in October 2021, and,
- Ghana recorded the highest increase in Eurobond yields signalling reduced investor confidence, with the 2020 7-year and 2020 15-year instruments both increasing by 3.8% and 5.8% points, to 11.3% and 11.3%, from 5.5% and 7.5%, respectively. This was partly attributable to the high risk attached to the country as Public debt levels reached an alarming 76.1% of GDP in June 2021, from 67.5% of GDP in June 2020.

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 2021:

Select Sub Saharan Africa Currency Performance vs USD					
Currency	Dec-19	Dec-20	Dec-21	2020 y/y change (%)	2021 y/y change (%)
Zambian Kwacha	14.1	21.1	16.7	(50.4%)	21.0%
Ugandan Shilling	3,660.0	3,647.0	3,544.3	0.4%	2.8%
Tanzania Shilling	2,293.0	2,314.0	2,297.8	(0.9%)	0.7%
Ghanaian Cedi	5.7	5.8	6.0	(3.2%)	(3.4%)
Kenyan Shilling	101.3	109.2	113.1	(7.7%)	(3.6%)
Malawian Kwacha	729.1	763.2	817.3	(4.7%)	(7.1%)
Nigerian Naira	306.0	380.7	410.9	(24.4%)	(8.0%)
South African Rand	14.0	14.7	15.9	(5.0%)	(8.1%)
Botswana Pula	10.6	10.8	11.7	(2.3%)	(8.7%)
Mauritius Rupee	36.2	39.6	43.3	(9.3%)	(9.3%)

Source: S&P Capital IQ

Key take outs from the table above are;

- The Mauritian Rupee was the worst performer, depreciating by 9.3% against the dollar, attributable to lower dollar inflows from export and tourism sectors as a result of strict lockdown measures to curb spread of the Delta variant of COVID-19.
- The Zambian kwacha registered significant recovery, appreciating by 21.0% compared to the 50.4% depreciation recorded in 2020. The strong performance of the Kwacha is mainly attributable to the strong recovery in global copper prices which led to improved foreign exchange flows from the mining sector.
- The Kenya Shilling depreciated by 3.6% in 2021 to close at Kshs 113.1 against the US Dollar, compared to Kshs 109.2 recorded at the end of 2020, driven by the increased global crude oil

prices that led to increased dollar demand from oil and energy importers who had to increase the amounts they pay for oil imports and hence depleting dollar supply in the market.

Section III: Outlook on SSA Eurobonds

From the analysis, it is evident that most Eurobond yields in the region increased in 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, 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 Rwanda's issue in August 2021. More African countries are expected to return to the Eurobond market in an attempt to seek more funding for both recurrent and development expenditures. As such, Eurobond issuance is therefore expected to continually increase.

There are a few points to note:

- a) **Monetary policy-** The United States Federal Reserve Bank is expected to hike interest rates in 2022, in a bid to tame the rising inflation in the United States which reached 7.0% in December 2021, the highest it has been since 1982. A federal reserve interest rate hike is expected to lead to capital flight especially in the emerging markets, with investors seeking to benefit from the more attractive United States bond markets. Eurobond issues in 2022 are expected to record lower subscriptions, lower bond prices and as a result, higher yields,
- b) **Public debt-** According to [World Bank's Africa's Pulse October 2021](#), SSA's public debt is projected to hit a peak of 71.0% of GDP in 2021, 30.0% points more than that recorded in 2013, pointing to economic growth failing to match the increasing public debt. This has resulted in an elevated risk of debt distress in most of the low and lower middle income SSA economies with the IMF highlighting in their [Regional Economic Outlook](#) that five African countries were in debt distress, a further thirteen in high risk of debt distress, and 17 in moderate risk of debt distress. This is partly attributable to significant shortfalls in revenue collection and depreciating local currencies which in turn undermined their ability to service maturing debt obligations. Governments are also faced with the dilemma of whether to satisfy creditors, 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. As such, we believe that there is need for African countries to 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,
- c) **Debt Sustainability:** The SSA region has faced renewed emphasis and need for public debt sustainability mainly due to the continued uptake and access of foreign commercial markets by African governments. Most African countries have resorted to commercial financing as evidenced by the increased uptake of sovereign bonds as opposed to concessional loans. Despite the participation of 30 of the 37 eligible countries in the Paris club's Debt Service Suspension initiative (DSSI) 2021, savings made from the initiative amounted to only USD 6.2 bn, equivalent to 0.4% of the region's GDP. Its expiry in December 2021 also expected to pile the pressure on the regions debt sustainability frameworks. According to [World Bank's Africa's Pulse October 2021](#), SSA's public debt is projected to hit a peak of 71.0% of GDP in 2021, from 65.0% in 2020. Further, the [IMF](#) states that Africa requires USD 285.0 bn additional financing for an adequate COVID-19 response through 2025, of which USD 135.0 bn is for low-income countries indicating that if there is no debt relief or restructuring, many

countries will fall into debt distress 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 region's risk of debt distress a time when countries are expected to be recovering from the pandemic, and,

- d) **Economic Growth-** According to the World Bank's January 2021 [Global economic prospects](#), the Sub-Saharan Africa economy is projected to expand by 3.5% in 2021, driven by elevated commodity prices, relaxation of COVID-19 containments measures and recovery in global trade. The [IMF](#) on the other hand, projects that the region will recover at a slightly higher rate, with the regional GDP coming in at a 3.7%, up from the 1.7% contraction recorded in 2020. However, the growth in 2021 is still the slowest regional growth in the world, highlighting the region's weak economic prowess. Growth will mainly be supported by the increased rollout of vaccines in the region which has seen most countries re-open their economies. The region has also seen recoveries in key sectors such as global trade, tourism and an increase in global commodity prices which has boosted the economic recovery.