**Sub-Saharan Africa (SSA) Eurobonds: Q3'2020 Performance**

## A. Background

According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) Update June 2020, the global economy is projected to contract at a rate of (4.9%) in 2020, 1.9% lower than their initial outlook of (3.0%) in April 2020, highlighting that the COVID-19 pandemic has had a more severe impact on activity during the first quarter of the year than anticipated. During the second quarter of the year, the pandemic worsened in many countries while it leveled off in others necessitating stringent lockdowns and resulting to even larger disruptions to activity than forecasted earlier. Additionally, most economies have had to postpone fiscal consolidation strategies and re-direct funds to fight COVID-19, furthermore, the depreciation of local currencies has made it more expensive for countries to settle their debt obligations, leading to wider fiscal deficits. 2020 has been a year where systems across the globe have been put to the test. These effects have been experienced across the board and the Eurobond space is no exception; no Eurobond was issued in Q3'2020, despite the expected rise in the region's fiscal deficit, as highlighted in the World Bank's Africa Pulse October 2020.

This note analyses SSA's Eurobond performance in Q3'2020 to paint a picture of the investor sentiments risk tolerance, and an outlook on yield performance for the year 2020. The analysis will be broken down as follows:

I. Background of Eurobonds in Sub Saharan Africa in Q3'2020,
II. Eurobond Performance in Sub-Saharan Africa,
III. Outlook on SSA Eurobonds.

**Section I. Background of Eurobonds Issued in Sub Saharan Africa**

Collectively, as at Q3'2020, the Sub-Saharan Region had raised USD 4.0 bn through Eurobond issues, a decline from USD 12.4 bn, in a similar period of review in 2019. Notably, no new Eurobond was issued in Q3'2020, a repetition of what we saw in Q3'2019. The difficulty to access the capital markets in 2020 despite capital flows to Emerging Market and Developing Economies (EMDEs) has been attributable to the high level of existing loans taken up by African countries which raises concerns over the debt sustainability of the economies in the region. Additionally, the pandemic has made it difficult for African economies to focus on fiscal consolidation as governments try to cushion the populous with the much-needed stimulus packages.

The table below summarizes the various Eurobond issues in 2020:

| Sub-Saharan Africa (SSA) Eurobonds Issued in 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Country | Amount Issued USD millions | Issue Tenor (Years) | Issue date | Maturity Date | Coupon | Yield at Issue Date | Subscription Rate | Yield as at 30th Sep 2020 (%Points) | Issue date to 30th Sep Yield Change( % points) |
| Gabon | 1,000 | 11 | 6/2/2020 | 6/2/2031 | 6.6% | 6.4% | 3.5x | 8.7% | 2.4% |
| Ghana | 1,250 | 7 | 11/2/2020 | 11/2/2027 | 6.4% | 6.3% | 4.7x | 10.1% | 2.1% |
| | 1,000 | 15 | 11/2/2020 | 11/2/2035 | 7.9% | 7.9% | | 10.5% | 1.7% |
| | 750 | 41 | 11/3/2020 | 11/2/2061 | 8.8% | 8.7% | | 8.3% | 1.9% |
| **Total** | **4,000** | | | | | | | | |

Key takeout:

i. The issues in Q1'2020 attracted a lot of interest as evidenced by the oversubscription in all the issues, with the Ghana issues recording the highest oversubscription of over 4.7x. 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. It is important to note that this was before the pandemic ravaged the region. Since issuance at the beginning of the year, the yields on the 7 and 15 – year Eurobonds issues in 2020 increased significantly to 10.1% and 10.5%, respectively, from the 6.3% and 7.9% recorded at issue. The yield on the 41 year Eurobond, on the other hand, declined to 8.3% on 30th Sept 2020, from the 8.7% recorded at issue meaning that in the long run, investors are attaching a lower risk premium to the country where the economy will be supported by the production of cocoa, oil and gold,

ii. The unfavorable global financial markets caused by the Coronavirus have kept sovereign bond spreads higher than at the start of the year, prompting many countries to delay their planned return to the market. 2020's Eurobond H1' issues have already recorded an average 2.0% points rise on the yields, as investors attached a higher risk premium in the region with investors demanding for compensation from the extra risks, emanating from the effects brought about by movement and lock-down restrictions put in place to contain the coronavirus. In the recently published Africa Pulse Report by the World Bank, SSA's economic activity is projected to contract by 3.3% in 2020 and expand to 2.1% in 2021. The World Bank notes that recovery in SSA started to rebound in Q3'2020 given the progressive relaxation of the containment measures put in place by most SSA economies. However, recovery was modest and uneven across most countries.

For further information on the H1'2020 issues, see our H1'2020 SSA Eurobond Performance Note

## I. Analysis of Existing Issues

The adverse effects of the pandemic have seen countries like Zambia face unprecedented liquidity crunch that hinders the economies to repay their debt on time. For instance, Q3 saw Zambia request for a suspension of debt service payments from its bondholders on its three outstanding Eurobonds. The country asked the bondholders totalling USD 3.0 bn to defer interest payments of almost USD 120.0 mn until April 2021. Countries like Nigeria, which had plans of issuing a new Eurobond worth USD 3.3 bn for budgetary purposes and to refinance loans have had to postpone their issue due to the high yields in the market which would increase borrowing costs especially given that the country is highly reliant on oil exports whose prices have been subdued. Additionally, Nigeria recorded high debt service to revenues ratio of 99.0% in Q1'2020. With depressed government revenues, Nigeria will rely heavily on external debt to fund its operations.

Yields on select African Eurobonds as indicated in the table below, recorded mixed performance in Q3'2020 after a sharp increase in H1'2020. The SSA region has experienced a high degree of risk aversion, higher debt levels and wider fiscal deficits, which have kept sovereign bond spreads at levels higher than those witnessed at the beginning of the year, with investors attaching a higher risk premium on the affected regions due to the anticipation of slower economic growth.

| Yield Changes in Select SSA Eurobonds Issued Before Q3'2020 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Country** | **Issue Tenor (yrs)** | **Issue Date** | **Maturity Date** | **Coupon** | **Yield as at 30th June 2020** | **Yield as at 30th Sep 2020** | **Q3'2020 change (% Points)** |
| Ghana | 6 | 15/9/2016 | 15/9/2022 | 9.3% | 9.1% | 7.6% | **(1.5%)** |
| Ghana | 10 | 8/7/2013 | 8/7/2023 | 7.9% | 6.2% | 5.5% | **(0.7%)** |
| Benin | 6 | 26/03/2019 | 26/03/2026 | 5.8% | 7.7% | 7.2% | **(0.5%)** |
| Senegal | 10 | 13/5/2011 | 13/5/2021 | 8.8% | 5.0% | 4.6% | **(0.4%)** |
| Nigeria | 12 | 23/2/2018 | 23/2/2030 | 7.1% | 8.2% | 8.0% | **(0.2%)** |
| Kenya | 10 | 24/6/2014 | 24/6/2024 | 6.9% | 6.5% | 6.4% | **(0.1%)** |
| Nigeria | 30 | 28/11/2017 | 28/11/2047 | 7.6% | 8.7% | 8.6% | **(0.1%)** |
| Kenya | 10 | 28/2/2018 | 28/2/2028 | 7.3% | 7.5% | 7.5% | **(0.0%)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Kenya | 12 | 23/05/2019 | 23/05/2032 | 8.0% | 8.2% | 8.2% | **0.0%** |
| Kenya | 8 | 22/5/2019 | 22/5/2027 | 7.0% | 7.3% | 7.4% | **0.1%** |
| Senegal | 30 | 13/3/2018 | 13/3/2048 | 4.8% | 7.0% | 7.2% | **0.2%** |
| Kenya | 30 | 28/2/2018 | 28/2/2048 | 8.3% | 8.4% | 8.7% | **0.3%** |
| Senegal | 10 | 30/7/2014 | 30/7/2024 | 6.3% | 5.0% | 5.5% | **0.5%** |
| Ghana | 31 | 26/03/2019 | 26/03/2051 | 9.0% | 9.8% | 10.5% | **0.6%** |
| Ghana | 31 | 16/5/2018 | 16/6/2049 | 8.6% | 9.6% | 10.4% | **0.8%** |
| Zambia | 12 | 30/7/2015 | 30/7/2027 | 9.0% | 24.5% | 27.4% | **2.9%** |
| Zambia | 10 | 14/4/2014 | 14/4/2024 | 8.5% | 30.0% | 34.6% | **4.6%** |
| Zambia | 10 | 20/9/2012 | 20/9/2022 | 5.4% | 38.7% | 47.7% | **9.0%** |

From the table above,

a) Yields on most of the Sub-Saharan Eurobonds rose in Q3’2020 attributable to the ongoing Coronavirus pandemic and the uncertainties involving the impact that it will have on the economy, with investors attaching a higher risk premium on developing countries,
b) Yields on the Ghana Eurobonds declined in Q3’2020 attributable to improved investor sentiments in the economy as the county recorded moderate improvements in the private sector with the PMI index rising to 51.2% in August, from 49.7% recorded in July 2019,
c) Zambia recorded the highest increases in Eurobond yields, with the 10-year instruments for both the 2012 and 2014 issues increasing by 9.0% and 4.6% points respectively, while the yield on the 12-year bond issued in 2015 increased by 2.9% points. This makes Zambian Eurobonds the worst performing in Sub Saharan Africa, due to concerns of a widening fiscal deficit and deteriorating credit worthiness on the back of high debt levels. Zambia’s increasing debt levels estimated at 74.4% of GDP ratio, coupled with the 42.2% depreciation of the Kwacha YTD presents the risk of rising debt-service costs for the economy, hence necessitating demands for a higher premium on sovereign debt issued by the country.

The increasing yields have further been affected by investors’ concerns with regards to public debt in African countries and their repayment which has been elevated further by the depreciation of most of the local currencies of the respective nations. Since Eurobonds are denominated in foreign currency, the depreciation of a country’s currency means that they will incur a relatively higher cost to purchase foreign currency used to settle outstanding debt obligations. Below is a summary of the performance of the different resident currencies for H1’2020:

| Select Sub Saharan Africa Currency Performance vs USD | | | | | |
|---|---|---|---|---|---|
| **Currency** | **Sep-19** | **Dec-19** | **Sep-20** | **Last 12 Months change (%)** | **YTD change (%)** |
| Tanzanian Shilling | 2293.0 | 2293.0 | 2315.0 | **(1.0%)** | **(1.0%)** |
| Ghanaian Cedi | 5.4 | 5.7 | 5.7 | **(5.8%)** | **(1.3%)** |
| Ugandan Shilling | 3678.0 | 3660.0 | 3712.0 | **(0.9%)** | **(1.4%)** |
| Malawian Kwacha | 727.5 | 729.1 | 743.9 | **(2.3%)** | **(2.0%)** |
| Kenyan Shilling | 103.8 | 101.3 | 108.4 | **(4.5%)** | **(7.1%)** |
| Mauritius Rupee | 36.1 | 36.2 | 39.7 | **(10.0%)** | **(9.7%)** |
| Botswana Pula | 11.1 | 10.5 | 11.7 | **(5.0%)** | **(11.0%)** |
| South African Rand | 15.1 | 14.0 | 16.7 | **(10.6%)** | **(19.6%)** |

| | | | | | |
|---|---|---|---|---|---|
| Nigerian Naira | 306.0 | 306.0 | 380.6 | **(24.4%)** | **(24.4%)** |
| Zambian Kwacha | 13.1 | 14.1 | 20.0 | **(53.0%)** | **(42.2%)** |

All select currencies depreciated against the US Dollar in Q3'2020 with the Zambian Kwacha being the worst performer, depreciating by 42.2% against the dollar YTD. The depreciation recorded by the currencies is partly attributable to the ongoing COVID-19 pandemic, which has seen a fast-falling demand for export commodities given the lockdown measures put in place. The performance of the Zambian Kwacha can be attributable to the low economic productivity given the fall of copper prices as well as high demand for hard currency from the government as it seeks to meet its debt repayment obligations. The Kenya Shilling depreciated by 7.1% in Q3'2020 to close at Kshs 108.4 against the US Dollar.

**Section III: Outlook on SSA Eurobonds**

From the analysis, it is evident that most of the Eurobond yields in Sub Saharan Africa rose in Q3'2020, attributable to the COVID-19 health crisis, with investors attaching a higher risk premium on the affected regions due to the anticipation of slower economic growth. Notably, African debt has been on the rise mainly due to a slowdown in commodity prices, which has affected revenue generation as most African countries are commodity-driven. To plug in the budget deficit most countries have been forced to dip in the international fixed income market to raise funds to fund their budget deficits as well as refinance existing debt obligations. The Eurobond window for Sub-Saharan Africa is effectively closed for now given the strong drop in commodity prices that has led to the region underperforming emerging market peers, and also because investors have a current preference for safe havens. There are a few points to note:

a) **Public debt**- The COVID-19 pandemic has elevated the debt distress of most economies such as Zambia, with most governments now facing the decision on whether to satisfy creditors or spend money on hospitals and on bailing out the economy, a situation that may lead to debt defaults. The pandemic has led to macroeconomic vulnerabilities in the region with most regions recording declines in export revenues, a reduction in diaspora remittances, depreciation of the currency thus elevating the regions debt challenges. As such, as the pandemic continues to have a grip on the region's economic growth, most governments have been necessitated to borrow further to plug in fiscal deficits,
b) **Debt Sustainability**: According to the World Bank, SSA's public debt is projected to increase to 63.1% of the GDP in 2020, from 58.5% of GDP recorded in 2019, rising further to 67.4% of GDP in 2021. Most African countries have resulted to expensive sources of financing as evidenced by the increased uptake of sovereign bonds as opposed to concessional loans, attributable to liquidity problems stemming from the global financial crisis and European debt crisis. Debt sustainability in the region continues to be a major concern in the region given the high debt burden as well as the change in the composition of the regions public debt profile to sovereign bonds. Countries with higher debt service and risker debt profiles are expected to face debt sustainability issues. As the pandemic continues to affect the region's economic growth, we project further deterioration of the SSA's debt sustainability, and,
c) **Subdued Economic Growth**- Sub-Saharan Africa is set for its first recession in 25 years, with the World Bank projecting economic activity in the region to contract by 3.3% with growth expected to rebound back to 2.1% by 2021 assuming the effects of the pandemic begin fading off in the second half of 2020. The World Bank expects the region to be heavily affected given the region's weak healthcare systems. Measures to curb the spread of the virus such as social distancing and self-isolation are difficult to be implemented in the region given that a majority of individuals work in the informal sector and depend fully on their daily income for survival. Most Sub Saharan economies do not have much wriggle in deploying fiscal policy to cushion economies, fiscal positions are likely to deteriorate even further.