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AFRICA SOVEREIGN CREDIT RATING REVIEW

2024 MID-YEAR OUTLOOK

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ABOUT THIS REPORT

This report analyses the long-term foreign currency sovereign credit rating actions in Africa with a predominant focus on the three dominant international credit rating agencies (CRAs) – Moody's Investors Service, Fitch Ratings and S&P Global (S&P) in the first half of 2024 (2024H1). It presents a comparative analysis of the consistency in application of methodologies and rating services between Africa and other regions and makes recommendations to CRAs and African governments on how credit ratings can be improved.

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1 INTRODUCTION

Africa's economic outlook is projected at 3.7% GDP growth[1] in 2024, which is slightly more optimistic than the global average of 3.2%[2]. While Africa is still facing high borrowing costs averaging 7.5%, vulnerability to global shocks and significant financing gaps, the economic growth shows resilience and potential for economic growth through fiscal reforms, leveraging critical minerals and attracting investments in productive sectors. Inflation has been nearly halved and public debt ratios are stabilizing between the 60-90% mark. This has been reflected in the ratings of African countries, with overall more positive credit rating actions during the 2024H1. Over this period, four African countries returned to the international financial market issuing a total of US$5.7 billion in sovereign bonds. Nonetheless, the debt burden continues to be a source of concern in a global financial architecture that is no longer fit for purpose.

Changing the global financial continues to feature prominently in discussions in international political and economic platforms, with reform efforts being driven by the urgent need to address rising debt levels, climate change financing and socioeconomic inequalities. At a high-level meeting of the United Nations (UN) General Assembly in April 2024, Secretary-General António Guterres, called for urgent reforms of the global financial system, highlighting the crippling impact of debt on developing economies and criticized the outdated and unjust system that fails to meet their needs[3]. Hence, the UN Summit of the Future, Our Common Agenda, scheduled for September 2024 in New York, United States of America (USA)[4], will be a critical platform for Heads of State and Government to discuss and potentially agree on a new Pact for the Future, including how to tackle the challenges of the current global financing imbalances and new comprehensive reforms.

1 AfDB (2024) African economic outlook 2024, Driving Africa's Transformation-The Reform of the Global Financial Architecture
2 IMF(2024) IMF World Economic Outlook Update, July 2024
3 See https://news.un.org/en/story/2024/04/1148591
4 https://www.un.org/en/summit-of-the-future?gad_source=1&gclid=Cj0KCQjw8MG1BhCoARIsAHxSiQm4nVP8WA1wtNXSQRt9P2Jj1mV471OOP5LOY-SI-VhWIdLP53olpBwaApsDEALw_wcB

President of the African Development Bank (AfDB) Dr. Akinwumi Adesina, in his speech during the 2024 Annual Meeting of the Bank, reiterated the challenge that 'credit rating agencies do not accurately assess African risk, fail to consult stakeholders sufficiently and lack independence and objectivity'. The AU Champion for Institutional Reform, President William Ruto of Kenya has also stressed the need for reforms in the international lending framework continues to disadvantage African nations with high interest rates and stringent loan conditions. As part of the long-term solution, the AU Champion for Institutional Reform concurred with Dr. Adesina on the need to establish an Africa Credit Rating Agency (AfCRA) that would provide alternative and more contextually relevant assessments of African countries' creditworthiness. To this end, the 7th African Union Specialized Technical Committee (STC) of Ministers of Finance, Monetary Affairs, Economic Planning and Integration, urged the APRM and strategic partners to expedite the operationalization of the AfCRA and requested the AfDB and Afreximbank to provide the necessary financial and technical support for this exercise.

2 GENERAL RATING OUTLOOK

There was a notable shift in the sovereign credit rating landscape in Africa during the 2024H1 period, marked by more positive changes in outlooks and rating upgrades. A total of 8 countries had their rating outlook upgraded from 'negative' to 'stable' or from 'stable' to 'positive'. A rating outlook generally indicates the likely direction of an issuer's rating over the medium term, that generally encompasses a horizon not exceeding two years. This reflects growing optimism in Africa's economic prospects, governments' fiscal metrics and limited options for managing debt maturities not withstanding. In 2024H1, Moody's had the highest rating activities on the continent, being the only rating agency to assign rating downgrades - downgrading three countries - citing economic vulnerabilities, high debt burden, and other global financial market challenges. Notably, as projected in the 2023H1, Cote d'Ivoire, one of the five African countries amongst the world's 10 fastest-growing economies in 2023/24, was upgraded due to a significant improvement in the fiscal and debt metrics.

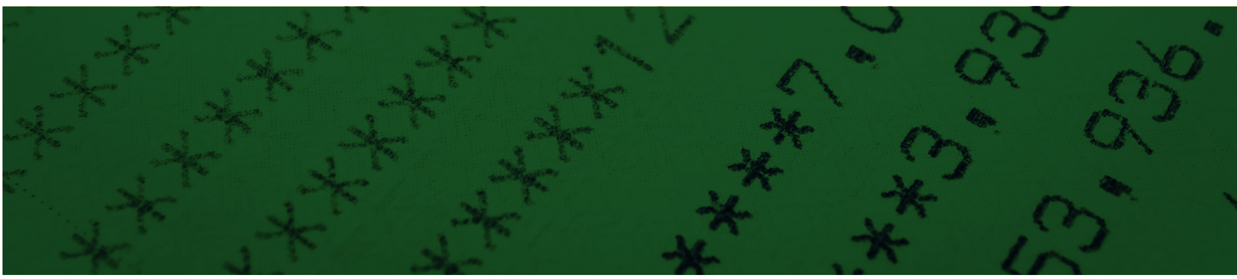
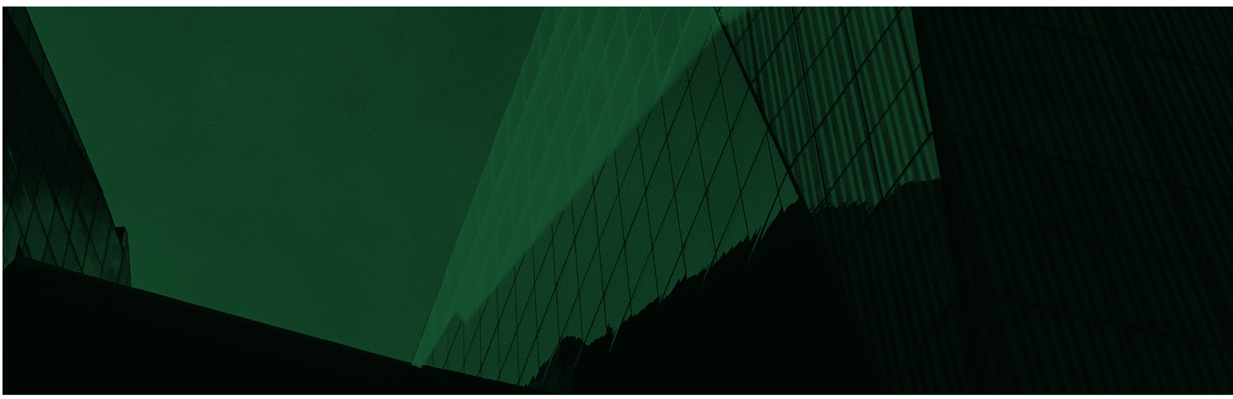


Figure 1: Summary of sovereign credit rating actions (Jan – Jun 2024)

Sovereign	Moody's			S&P			Fitch		
	Previous	Current	Direction	Previous	Current	Direction	Previous	Current	Direction
UPGRADES									
1. Benin				B+ (Pos)	BB- (Stable)	↑			
2. Cameroon				CCC+ (Stable)	B- (Stable)	↑			
3.Cabo Verde							B- (Stable)	B (Stable)	↑
4. Côte d'Ivoire	Ba3 (Pos)	Ba2 (Stable)	↑						
5. Tanzania	B2 (Pos)	B1 (Stable)	↑						
6. Zambia	Ca (Stable)	Caa2 (Stable)	↑						
Total		3			2			1	
DOWNGRADES									
1. Niger	Caa2 (Neg)	Caa3 (Stable)	↓						
2. Gabon	Caa1 (Neg)	Caa2 (Stable)	↓						
3. Uganda	B2 (Neg)	B3 (Stable)	↓						
Total		3							
POSITIVE CHANGES IN CREDIT RATING OUTLOOKS									
1. Côte d'Ivoire			↑	BB- (Stable)	BB- (Pos)	↑			
2. Egypt	Caa1 (Neg)	Caa1 (Pos)	↑	B- (Stable)	B- (Pos)	↑	B- (Stable)	B- (Pos)	↑
3. Gabon							B- (Neg)	B- (Stable)	↑
4. Morocco				BB+ (Stable)	BB+ (Pos)	↑			
5. Namibia	B1 (Stable)	B1 (Pos)	↑						
6. Seychelles							BB- (Stable)	BB- (Pos)	↑
7. Tunisia	Caa2 (Neg)	Caa2 (Stable)	↑						
8. Nigeria							B- (Stable)	B- (Pos)	↑
Total		3			3			4	
NEGATIVE CHANGES IN CREDIT RATING OUTLOOKS									
1. Egypt	Caa1 (Stable)	Caa1 (Neg)	↓	B-(Pos)	B- (Stable)	↓			
Total		1			1				

Source: Authors' compilation using data from primary sources, 2024

Ethiopia, Ghana and Zambia remain in 'selective default', but is likely to change positively following Ghana and Zambia debt restructuring deals with its international bondholders. Moody's has already upgraded Zambia's long-term foreign-currency issuer rating to Caa2 from Ca in 2024H1.



3 CONTINENTAL KEY RATING DRIVERS

Tanzania and Cote d'Ivoire were upgraded by Moody's which cited their economies' resilience and increasing private sector investments as key factors. In Cape Verde, the robust economic growth outlook and strong fiscal performance that is supporting fiscal consolidation and a declining government debt trajectory contributed to the positive rating. Cameroon was upgraded by S&P Global due to the improved government liquidity position and payment discipline, however, Moody's and Fitch Ratings maintained their ratings of Caa1 and B on Cameroon, respectively, citing weaknesses in debt management capacity.

The positive changes in outlooks in 10 African countries during the 2024H1 were driven by the rising commodities exports that could result in a more significant decline in external and fiscal imbalances. This could be supported by high economic growth, economic reforms, monetary and political stability. In Morocco, notably, it was the economic resilience and the government's commitment to socioeconomic and budgetary reforms were crucial. For Seychelles, budgetary performance in 2023 substantially outperformed targets and revenue growth is projected to remain positive in the short to medium term due to improved tax administration. Egypt's outlook was changed shortly after it finalised deal was reached with the IMF to increase the initial loan package from US$3 billion to US$8 billion, an agreement aimed at addressing the country's foreign currency shortages.

The rating downgrade of Niger was mainly caused by the impact of the sanctions imposed by Economic Community of West African States (ECOWAS) which exacerbated an accumulation of debt service payment arrears. The sanctions have however been lifted on humanitarian grounds, allaying the concern of more significant losses for private sector creditors. Gabon was downgraded due to significant deterioration in fiscal strength and increased liquidity risks stemming from a weaker fiscal position and an expansionary fiscal policy. In Uganda it was the diminished debt affordability and increasingly constrained financing options amid greater reliance on comparatively costly domestic and non-concessional sources of external financing were identified as challenges.

Relatively similar factors led to the negative changes in outlooks in 5 African countries. For example, in January, Moody's revised the outlook of Egypt downwards on the assumption that the country's credit profile would continue to deteriorate amid difficult macroeconomic and exchange rate rebalancing.

4 AFRICA SOVEREIGN DEBT MARKET AND OUTLOOK FOR 2024H1

The African sovereign debt market witnessed significant activity with four countries issuing sovereign bonds during this period as investors gained confidence following the default by Zambia, Ghana, and Ethiopia. Unlike in 2023 when no country in Sub-Saharan Africa issued a sovereign bond, 2024H1 saw 4 countries issue a combined US$5.7 billion in Eurobonds. However, yields on the African sovereign debt market remained elevated between 7% and 10% during this period, rendering borrowing costs for the majority of African countries prohibitively high. One of the major drivers of the rising yield curves of African debt is the concern that governments channel borrowed funds into social and recurring expenditures that do not yield any returns. Investors are generally pessimistic with statistics revealing that more half of borrowed funds, including funds from new Eurobonds issuances, are being used to repay debt. Hence, every new issuance has a higher coupon than the previous issuance of the same tenor. For example, the new issuance in 2024H1 by Côte d'Ivoire was at a coupon of 7.625% on a 9-year bond and 8.25% on a 13-year bond compared to 5.375% on a 10-year bond issued in 2014.

Contrary to the sentiments in 2023 that, when African governments return to the bond market, they would shift away from issuing short-tenured Eurobonds to longer-term bonds that provide borrowers greater budgetary flexibility and reducing default risks was not the case. All the 4borne out by facts. Indeed, all four countries issued relatively short -tenured bonds.

Table 1: Eurobond issuance Jan – Jun 2024

Country	Issue date	Amount (US$B)	Purpose	Tenor	Coupon	Subscription
Côte d'Ivoire	23/01/2024	1.1 1.6	Refinance existing debt and finance investments	9-year 13-year	7,875% 8.25%	3x
Benin	06/02/2024	0.75	Finance budget and capital projects	14-year	8.375%	6.7x
Kenya	12/02/2024	1.5	Financing buyback of maturing bonds	7-year	10.375%	3.3x
Senegal	04/06/2024	0.5 0.25	Finance budget and support economic reforms	7-year	7.75%	2x

Source: Authors' compilation using data from primary sources, 2024

5 CHALLENGES WITH RATING AGENCIES

In our routine analyses of rating actions and commentaries assigned by international CRAs on African countries, we observed several areas that need to be addressed:

i. **A perceived harsh stance against expansionary policies:** rating agencies are generally known to be inclined towards traditional austerity-based policies and discourage expansionary policies. For example, Gabon was downgraded by Moody's' largely on account of its expansionary fiscal policy. Also, in affirming Cameroon's rating, Moody's sees as credit negative the government's decision to grant a 5% salary increase to civil servants and other public sector workers. It also saw the suspension on additional application of personal income tax as a negative development for the country's credit profile. This is despite Cameroon's moderate fiscal metrics and its fiscal budget being considered by markets as modest compared to its peers with a similar population profile. The country also has several available financing options after receiving a €200 million from a low-interest Africa Export-Import (Afrexim) bank loan. The hardliner stance against expansionary policies impacts investor confidence and current holders of government bonds immediately adjusted their yield expectations upwards.

ii. **Commentaries that amount to political Interference:** Fitch Ratings published a commentary[5] on the election outcomes in South Africa in which it states that, from its various permutations, it believes that '*a coalition between the Democratic Alliance (DA) and the African National Congress (ANC) would likely result in policy continuity, the least significant changes to key credit metrics over the medium term and enhanced fiscal tightening. Whilst South Africa's debt trajectory would face additional risks if the former ruling party - the enters into arrangements that rely on support from populist parties with radical agendas such as the uMkhonto weSizwe (MK) or the Economic Freedom Fighters (EFF), which would pose challenges to macroeconomic stability leading to a broad weakening of investor confidence and eroded governance*'.

The commentary by Fitch Ratings was an example of direct political interference in the internal politics of South Africa given the fact that it was made during the coalition negotiations on the formation of a government. Such action could be interpreted as an attempt by the rating agency to possibly influence the political negotiations towards its preferred outcomes and in favour of certain political parties. A key Global Financial Institution ought to be independent and non-political. Warnings against a pact with MK party and/or EFF by alluding to additional risks to South Africa's debt trajectory, and low investor confidence, even without evidence, was unwarranted.

iii. **Political manipulation of credit ratings:** The rating agencies have been viewed as executors of politically motivated punitive

5 https://www.fitchratings.com/research/sovereigns/election-outcome-raises-new-risks-for-south-africas-credit-profile-04-06-2024

measures against certain states that do not align with the preferences of powerful Western countries. In the 2024H1, the rating agencies took a 'politically motivated' position that countries holding Russian sovereign bonds will not be considered as defaulting if they fail to make payments due to Russia if such failure is in tandem with decisions to confiscate such payment in line with the[6] US National Security Package Authorizing the Seizure of Russian Assets. This confirms the undue influence of Western countries on the three international credit rating agencies, posing a huge risk of manipulation of key global financial market players that should operate independently.

iv. **Lack of objectivity on assessing defaulters:** CRAs complied with Western countries' directives to consider as 'non-defaulting' countries holding Russian sovereign bonds that fail to make payments due to Russia because Western governments decided to freeze such payments. In sharp contrast to that, in June 2022, CRAs declared Russia 'in default' on its bond obligations after Western sanctions prevented the repayment of investors. To justify the inconsistency, the rating agencies argued[7] that their ratings do not typically reflect holder-specific considerations hence they would not treat the default scenarios differently.

6 DOMESTIC CREDIT RATINGS MARKET

Domestic credit ratings in Africa are expanding, drawing considerable interest from international investors seeking for alternative sources of credible information on African financial instruments. The Securities and Exchange Commission (SEC) of Zambia licensed ICRA Rating Agency Limited to offer rating services in Zambia. ICRA Rating Agency Limited has also been licensed in Tanzania to support the country's financial markets. With approval from the Securities and Exchange Commission in December 2023, Agusto & Co. Limited has launched its operations in Accra, Ghana. The company, headquartered in Nigeria has licenses in Kenya and Rwanda, with ratings covering various sectors including banking, insurance, asset management, agriculture and telecommunications. The development of the domestic rating agencies is critical to providing a solid basis for assessing African financial instruments and supporting the development of domestic financial markets.

6 https://www.congress.gov/bill/118th-congress/house-bill/815/text?s=2&r=1&q=%7B%22search%22%3A%22hr815%22%7D

7 https://www.reuters.com/world/europe/no-default-risk-event-russian-asset-confiscation-moodys-sp-say-2024-01-17/

7 RECOMMENDATIONS

Although addressing some of Africa's challenges need effective regulation and eliminating overreliance on credit rating opinions, there are short-term measures that can be implemented.

The following are our recommendations:

i. **Invest borrowed funds in productive sectors** – One of the major drivers of the high yield curves of African debt is the concern that governments are channelling borrowed funds to non-productive recurring expenditures of the economy that do not yield any returns. It is therefore recommended for proceeds from sovereign borrowing to be invested in productive sectors such as infrastructure, social development, health and education.

ii. **Negotiate favourable bond terms** – As the trend of the oversubscription of sovereign bonds continues, borrowing African countries have the opportunity to negotiate longer terms and lower coupons. This allows governments to invest in long-term projects and lessen the pressure from redeeming maturing bonds.

iii. **Carefully manage the return to international capital markets, using debt for value-generating investments** – The renewed demand for African paper must not result in a rush to issue debt, which could spark a new debt crisis. As a result, public finance management must be improved, and debt should be directed toward value-generating investments and projects.

iv. **Improve regional coordination on regulation** – African regulators need to work towards establishing a common regulatory framework to ensure consistency in the oversight of CRAs. This can help mitigate discrepancies and promote a level playing field for all rating agencies operating within the continent.

v. **Establish communication frameworks to avoid impromptu commentaries** – Africa has a busy election calendar in 2024, with 19 countries holding either presidential or general elections. It is therefore prudent for rating agencies to observe their rating calendars and/or make rating announcements that are factual and informed rather than speculative.

vi. **CRAs should operate impartially and independently** – Rating agencies should act with integrity, impartiality and independence, free from political influence or manipulation to ensure the quality of the rating process.

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