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AFRICA SOVEREIGN CREDIT RATING OUTLOOK

2024 YEAR-END REVIEW

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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 Ratings (S&P) in the second half of 2024 (2024H2). It presents a comparative analysis of the consistency in the 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

The second half of 2024 (2024H2) presented a mixed economic dynamic across African countries. While the majority of countries experienced an economic rebound, driven by improved commodity prices and economic reforms, several others – including Mozambique, the Democratic Republic of Congo, Burkina Faso, Guinea, Mali and Niger – continued to struggle with internal conflicts, political instability and adverse climate conditions. Inflation remained a persistent concern, particularly in countries with significant reliance on imports, such as Egypt, Algeria, Morocco, Nigeria, and to a lesser extent, many sub-Saharan African nations that heavily import food, manufactured goods and energy. These challenges exerted extensive pressure on domestic currency exchange rates, leading to a depreciation of the official exchange rate exceeding 20% in Burundi, Ghana, Malawi, Nigeria, South Sudan and Sierra Leone in 2024.

Countries that have experienced currency depreciation are now finding it more expensive to service external debt, as they require more funds in domestic currency to service the same amount of debt. Despite the rising debt levels, many countries continue to grapple with managing their debt sustainably, as their fiscal funding gaps continue to widen. A third of African countries are spending a significant portion of their revenues on debt servicing. Policymakers[1] and scholars[2] continue to highlight the role of credit rating agencies in the continent's debt burden which is moving closer to the US$ trillion mark, noting that their conservative ratings have driven borrowing costs higher, making it difficult for governments to manage their debt. However, there are positive signs of economic and fiscal improvements in countries that have successfully balanced their economic policies and taken proactive measures to address both internal and external risks.

In 2024h2, the discussions on and efforts towards growing Africa's financial markets have gathered momentum due to the increasing debt burden in developing countries. The establishment of an Africa Credit Rating Agency (AfCRA) being championed by the African Union, and is set to be launched in the second half of 2025, is the hallmark of these efforts. as the agency will be one of the key financial institutions in Africa that would bring a balance to the continent's position in the global financial architecture. African policymakers and the financial service sector captains have agreed to establish the agency as an independent and private sector-driven entity. It is envisaged that AfCRA will contribute to the improvement of rating opinions and accuracy of assessment by offering alternative and additional perspectives based on the

1 https://aprm.au.int/en/news/press-releases/2024-09-25/africa-credit-rating-agency-unga79-agenda
2 https://collections.unu.edu/eserv/UNU:9832/rating_the_globe.pdf

unique challenges and opportunities facing African economies. The Agency's niche will primarily derive from its context-sensitivity which will allow it to generate more comprehensive credit insights, using competent experts based in Africa and its relatively better access to data.

Key declarations on credit ratings were made at major international forums, reflecting both political will and a concerted effort to address the financial challenges faced by developing nations. At the 2024 UN General Assembly held in New York in September 2024, world leaders adopted the 'Pact for the Future', which underscored the necessity of sustainable financing and debt management. One of the goals of the Pact is advocating for reforms in international financial institutions to enhance support for developing countries. The African Union's 6th and 7th Specialised Technical Committee of Ministers of Finance, Monetary Affairs, Economic Planning and Integration held in Kenya and Tunisia, respectively, highlighted biases in credit rating methodologies and called for a more equitable global financial system. Similarly, during the 2024 World Bank-IMF Annual Meetings, African leaders[3] emphasised the need for fairer credit rating practices, pointing out the disproportionate impact of high borrowing costs on their economies. These declarations collectively illustrate a growing consensus on the need for improved transparency, integrity and fairness, and the long overdue reform in the global credit rating system. One that would better reflect the economic realities of African economies / markets and support their socio-economic development goals.

3 https://futures.issafrica.org/blog/2024/Pushing-Africas-reform-agenda-at-the-World-Bank-IMF-Spring-Meetings

2 GENERAL RATING OUTLOOK

The 2024H2 period witnessed an increase in positive rating actions than downgrades and negative outlooks, as was the case in the first half of 2024 (2024H1). There were more positive changes in outlooks and rating upgrades. Eleven countries had their ratings upgraded or experienced a positive change in outlook from 'negative' to 'stable' or from 'stable' to 'positive'. The dominant sentiment towards positive rating actions reflects growing optimism about Africa's political and economic prospects. S&P Global Ratings had the highest number of rating activities in Africa during the period 2024H2, taking rating actions on 13 countries – 4 downgrades, 4 upgrades, 4 negative changes in outlook and 1 positive change in outlook. Among the countries in default in 2024H1, Ethiopia and Ghana were assigned positive rating actions by Moody's following debt restructuring deals with their international bondholders. However, the long-term foreign currency ratings of Ethiopia, Ghana and Zambia remain in 'selective default' according to S&P Global Ratings .

Figure 1: Summary of sovereign credit rating actions (Jul – Dec 2024)

Sovereign	Moody's			S&P			Fitch		
	Previous	**Current**	**Direction**	**Previous**	**Current**	**Direction**	**Previous**	**Current**	**Direction**
UPGRADES									
1. Cape Verde				B-/B (positive)	B/B (stable)	↑			
2. Congo							RD	CCC+	↑
3. Côte d'Ivoire				BB- (positive)	BB (stable)	↑			
4. Egypt							B-	B	↑
5. Eswatini	B3 (positive)	B2 (stable)	↑						
6. Ethiopia				CCC (positive)	CCC+ (stable)	↑	CCC-	CCC+	↑
7. Ghana	Caa3 (stable)	Caa2 (positive)	↑	CC	CC+	↑	CCC	CCC+	↑
8. Tunisia							CCC-	CCC+	↑
Total		**2**			**4**			**5**	
DOWNGRADES									
1. Congo				B (negative) B (stable)	C C (negative)	↓	CCC+	RD	↓
2. Gabon							B-	CCC+	↓
3. Kenya	B3 (negative)	Caa1 (negative)	↓	B (negative)	B- (stable)	↓	B (negative)	B- (stable)	↓
4. Mozambique				CCC+ (stable)	CCC (stable)	↓			
5. Senegal	Ba3 (stable)	B1 (negative)	↓						
6. Uganda							B+ (negative)	B (stable)	↓
Total		**2**			**3**			**4**	
POSITIVE CHANGES IN CREDIT RATING OUTLOOKS									
1. Benin				B (stable)	B (positive)	↑			
2. South Africa				B (stable)	B (positive)	↑			
3. Togo	B3 (negative)	B3 (stable)	↑	B (stable)	B (positive)	↑			
Total		**1**			**3**			**0**	
NEGATIVE CHANGES IN CREDIT RATING OUTLOOKS									
1. Angola	B3 (positive)	B3 (stable)	↓						
2. Senegal				B+/B (stable)	B+/B (negative)	↓			
Total		**1**			**1**				

APRM and UNECA, 2024

3 CONTINENTAL KEY RATING DRIVERS

Rating upgrades in 2024H2 were not driven by significant positive changes in fundamentals, but rather by an increase in rating agencies' confidence in African governments' ability to meet their large fiscal financing needs and maintain a stronger external position. In their view, these countries will be able to sustain international reserves at sufficient levels to meet current external payments and debt obligations due to significant net exports combined with lessening external financing needs. Benin, South Africa and Togo were assigned positive outlooks by Moody's and S&P, reflecting the agencies' expectation that these countries have potential for stronger economic growth, debt stabilisation, structural reforms, infrastructure investment and efforts to reduce fiscal pressures and external imbalances.

Downgrades and negative changes in outlooks were based on expectations of widening budget deficits, worsening government debt-to-GDP ratios, weak data quality and underreporting of spending. Specifically, in its July 2024 rating report[4], Fitch raised concerns over the weaknesses in public financial management and uncertainty regarding the ability of the new military administration in Gabon to improve the economy. Kenya was downgraded by all three international credit rating agencies due to heightened socio-political risk, ignited by social protests related to tax hikes in the Finance

4 https://www.fitchratings.com/research/sovereigns/fitch-downgrades-gabon-to-ccc-26-07-2024

Bill 2024. The Bill aimed to raise an additional US$2.7 billion, following a recommendation by the International Monetary Fund (IMF) in its seventh and eighth reviews[5] in Kenya. However, the Bill, a key revenue collection measure, was later withdrawn, significantly complicating the government's fiscal consolidation plans, which were aimed at addressing high debt servicing. Kenya's debt service to revenue ratio was estimated 69.6% in July 2024, higher than the IMF threshold of 30.0%.

5 https://www.imf.org/en/News/Articles/2024/10/30/pr-24398-kenya-imf-concludes-7th-and-8th-rev-under-the-eff-and-ecf-and-rev-under-rsf-arrangement#:~:text=The%20EFF%2FECF%20arrangements%20aim,the%20country's%20medium%2Dterm%20potential.

4 AFRICA SOVEREIGN DEBT MARKET AND OUTLOOK FOR 2024H2

There was an increase in the issuance of Eurobonds by African countries on the international financial market. Unlike in 2023, when no country in Sub-Saharan Africa issued a sovereign bond, 2024 saw 9 countries issue a combined US$13.45 billion – US$5.7 billion in 2024H1 and US$7.75 billion in 2024H2. However, the coupon rates on these current issuances have nearly doubled compared to the rates on similar tenors and amounts issued 5 to 10 years ago. For example, Cameroon issued a US$812.2 million Eurobond at a coupon rate of 5.95% in June 2021, compared to the 10.75% coupon on the August 2024 issuance. This is mainly because investors are becoming more cautious, as proceeds from new Eurobond issuances are either being used to finance recurring fiscal expenditures or refinancing existing bonds.

Table 1: Eurobond issuance Jul – Dec 2024

Country	Issue date	Amount (US$B)	Purpose	Tenor	Coupon	Subscription
Cameroon	23/07/2024	0.55	Support fiscal budget and infrastructure reconstruction	7-year	10.75%	2x
Angola	27/12/2024	1.2	To refinance existing bonds	5-year	10.95%	-
Nigeria	03/12/2024	0.7 1.5	Support fiscal budget	6.5-year 10-year	9.625% 10.375%	4.5x
South Africa	13/11/2024	2 1.5	refinance existing debt and budget support	12-year 30-year	7.1% 7.95%	3x
Senegal	30/10/2024	0.3	Support fiscal budget	7-year	6.33%	-

APRM and UNECA, 2024

Another notable activity in the Eurobond market during 2024H2 was Gabon's bond buyback, in which the country repurchased US$290 million of its US$605 million bond that is maturing in June 2025. This strategy was aimed at proactively and efficiently managing its external liabilities. This was a significant move, particularly in light of the country's downgrade by Fitch Ratings due to uncertainties surrounding the ability of the military government to grow the economy. While the success of the US$7.75 billion worth of bonds issued in 2024H2 signals innovative strategies to address fiscal deficits, refinance existing debt and fund critical infrastructure projects, the high interest rates on these Eurobonds remain unsustainable. Although the global financial markets have been characterised by improved investor confidence towards African debt instruments, the high coupon rates on all issuances reflect the perceived high risk associated with lending to African economies.

Looking ahead, the ability of African countries to manage their debt sustainably and maintain investor confidence is critical. Countries will need fiscal discipline and a favourable investment climate to access international capital markets on favourable terms. There are two major contributors to high interest rates on bond issuances in Africa. One is the bond-issuing syndicates, which structure the deals in a way that favours oversubscriptions and maximises profits at the expense of the issuing government. And the other is that the issuers rarely use the oversubscription opportunity to renegotiate the interest bond.

Nigeria's 2.2 billion Eurobond oversubscribed 9 times

On 03 December 2024, the Federal Government of Nigeria issued US$2.2 billion Eurobond in 2 tranches – US$0.7 billion maturing in 2031 (6.5-year) and US$1.5 billion maturing in 2034 (10-year) at a coupon rate of 9.625% and 10.375%, respectively. The size of the orderbook over US$9 billion, a 4.18x oversubscription from Fund Managers, Insurance and Pension Funds, Hedge Funds, Banks and other Financial Institutions. The Eurobonds are listed on the London Stock Exchange, the FMDQ Securities Exchange Limited and the Nigerian Exchange Limited. Nigeria hired Chapel Hill Denham, Citigroup, Goldman Sachs, J.P. Morgan and Standard Chartered Bank as Joint Bookrunners. FSDH Merchant Bank Limited acted as Financial Adviser on the issuance.

Source: Federal Government of Nigeria - Ministry of Finance, Debt Management Office, 02 December 2024

5 CHALLENGES WITH RATING AGENCIES

Our analysis of rating actions and commentaries assigned by international CRAs on African countries, point to the following areas as requiring redress:

i. Rating actions anchored on confidence in political administrations: By definition[6], credit ratings are forward-looking opinions on the relative ability of an issuer to meet their financial commitments in full when they fall due. This raises the 'chicken and egg' conundrum between credit ratings and risk metrics, where it is unclear which event is the cause, and which is the effect. Scientific studies[78] have found a one-way causality running from average credit rating changes to economic growth. Furthermore, credit rating changes impact political rights and can potentially trigger certain cycles. Studies[9] show that rating downgrades have contributed to countless cycles of deterioration in socio-political stability coupled with increased financial and economic constraints that drive further downgrades and macroeconomic hardship. Policymakers have concluded that rating actions are more anchored in analysts' confidence in a political administration rather than in actual economic fundamentals. If an analyst has little or no confidence in a government, they will at best maintain the rating even when all other fundamentals are positive. In the inverse circumstances, analysts will take a negative rating action based on an 'expectation' of a lack of confidence in the government. However, often in cases outside Africa, if analysts have confidence in the government, they will either upgrade or maintain the sovereign rating even when the fundamentals deteriorate significantly.

ii. Premature rating actions: Moody's downgraded Kenya on 08 July 2024, citing a diminished capacity to implement a fiscal consolidation strategy to contain its debt burden due to the withdrawal of the planned tax hikes in response to protests. In contrast, S&P decided to take a wait-and-see approach until the rating agency's scheduled review date on 23 August 2024. In its commentary, S&P noted that 'it was more appropriate to wait for August review data' – the appropriation bill, the spending allocations, the

6 https://www.spglobal.com/ratings/en/about/understanding-credit-ratings#:~:text=Credit%20ratings%20are%20forward%2Dlooking,on%20time%20and%20in%20full.
7 https://www.sciencedirect.com/science/article/pii/S0313592613500166
8 https://www.sciencedirect.com/science/article/abs/pii/S037842661500300313500166
9 https://www.sciencedirect.com/science/article/abs/pii/S0378426615003003

final budget, the finance bill and a new cabinet, before taking a rating action. This suggests that Moody's took a premature rating action based on missing or incomplete information, although its B3 rating for Kenya was already one notch below the S&P equivalent rating of B prior to the downgrade.

iii. Weaknesses in policies and procedures: The U.S. Securities and Exchange Commission (SEC) charged[10] six rating agencies for failing to maintain and preserve electronic communications, violating record-keeping provisions of the federal securities laws. Among the six were Moody's, S&P[11] and Fitch, who agreed to pay a combined US$48 million in civil penalties. . The failure of leading global rating agencies to comply with established laws and obligations in advanced economies, provides sufficient proof of enormous weaknesses in their policies and procedures. These weaknesses would be compounded in developing economies were the regulatory frameworks are a lot more underdeveloped. This is especially true in maintaining and preserving minimum records, where the use of messages on personal phones, social media platforms and other off-channel messaging compromises the fairness and accuracy of ratings to investors.

10 https://www.sec.gov/newsroom/press-releases/2024-114?utm_source=securitiesdocket.beehiiv.com&utm_medium=newsletter&utm_campaign=sec-charges-moody-s-s-p-and-other-credit-rating-agencies-with-off-channel-communications&_bhlid=9dea8f19fdc8e9f496b23d68e49ce7fba6d8903c
11 https://investor.spglobal.com/news-releases/news-details/2024/SP-Global-Ratings-Reaches-Settlement-With-SEC/default.aspx

6 DOMESTIC CREDIT RATINGS MARKET

There was limited activity in the domestic credit ratings market during the 2024H2. Moody's Corporation announced the expansion of its ownership in Global Rating Company Limited (GCR) from an initial 51 % stake to a full acquisition. GCR is a leading domestic credit rating agency in Africa. This followed Moody's acquisition of a majority stake in GCR in 2022, with the corporation on the basis that GCR would be crucial in providing insights, clarity and deepening its presence in Africa's fast-growing domestic credit markets.

In October 2024, the Financial Regulatory Authority (FRA) of Egypt announced that it granted Beltone Capital the necessary approvals to obtain a credit rating license. Beltone is the second local rating agency in Egypt, following the Middle East Rating and Investors Service (MERIS), which is a joint venture between Moody's and Finance and Banking Consultants International (FinBi).

7 RECOMMENDATIONS

The following recommendations are made to address some of the challenges being faced:

i. Rating actions should be anchored on a comprehensive assessment including key fundamental risk factors: Rather than basing rating actions on an analyst's confidence in a political administration, ratings should be driven by actual economic and financial fundamentals. An individual analyst's doubt of a political administration should be backed by a comprehensive assessment. It should not influence nor be integrated their pessimistic perception into their subjective 'expectations'. This undermines and diminishes the credibility of ratings.

ii. Ratings should be factual: Speculative ratings are unnecessarily costing African governments. Rating agencies are influential globally and every announcement they issue – whether competent or not - will trigger spikes in bond interest rates and sustains the 'high-risk sentiment' on African instruments. Therefore, it is critical for rating agencies to wait for the complete term review data before taking rating actions, rather than making premature decisions based on incomplete or missing information.

iii. Enhance policies and procedures for maintaining and preserving electronic communications: Even in countries without established legislation, rating agencies should institute policies and procedures to maintain and preserve minimum records as a best practice. In today's technology-driven era, where messages are often communicated via personal phones, social media platforms and other off-channel platforms, this should not be done at the expense of providing fair and accurate ratings to investors. Rating agencies should monitor all business-related communications to address potential misconduct.

iv. Leverage on bond oversubscriptions to bargain for favourable terms - the oversubscription of African bonds is interpreted by policymakers as a success. On the contrary, with the current high debt servicing costs, oversubscriptions should be met with caution rather than celebration. African governments should leverage bond oversubscription to bargain for lower interest rates and longer bond tenors. This can be done by coordinating with bond-issuing syndicates to negotiate a decrease in interest rates to levels comparable with those of other countries with similar credit ratings. Following the oversubscription, the relevant ministry should engage investment bankers responsible for arranging the bond deal to negotiate for lower interest rates.

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