ACTIONABLE AFRICAN BUSINESS RISK INTELLIGENCE

SPECIAL REPORT:

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MANAGING AFRICA'S GROWING DEBT BURDEN

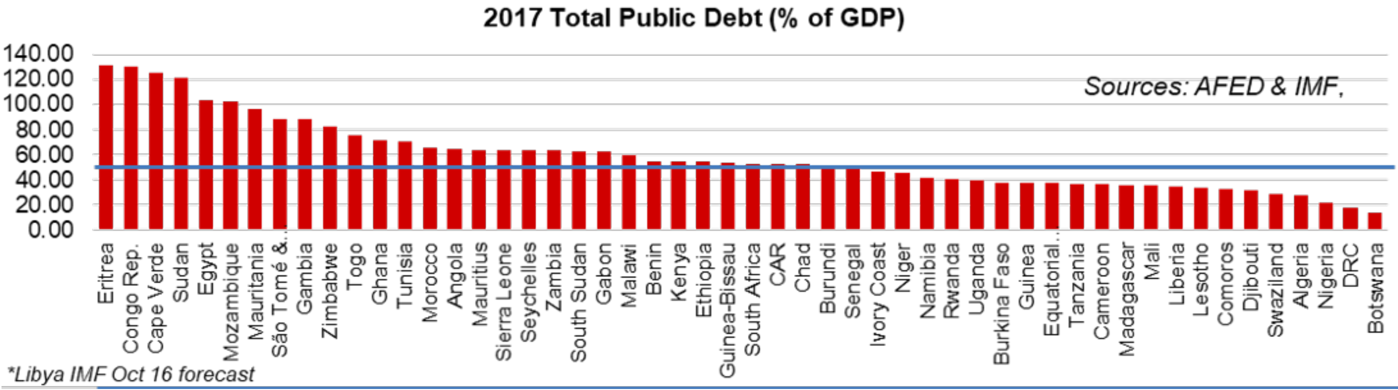
Mounting concerns over Africa's debt sustainability are frustrating key investment decisions and infrastructure financing. In this special report EXX Africa identifies the countries in best and worst position to attract further debt.

Since the 2008 global economic crisis, debt sustainability has deteriorated and risks of debt distress have sharply intensified. According to the latest October 2018 figures of the International Monetary Fund (IMF), public debt rose above 50.0% of GDP in 30 African countries of which 25 are sub-Saharan African countries. Africa's economic recovery is in progress, but at a slower pace than expected. Global trade and industrial activity have lost momentum, as metals and agricultural prices have fallen due to concerns about trade tariffs and weakening demand prospects.

While oil prices are expected to be on an upward trend into 2019, metals prices may remain unresponsive within muted demand, particularly in China. Financial market pressures have intensified in some emerging markets and concern about dollar-denominated debt has risen amid a stronger US dollar. Vulnerability to weaker currencies and rising interest rates associated

with the changing composition of debt may put Africa's public debt sustainability further at risk. The IMF has said that the share of foreign-currency denominated public debt in total public debt increased across sub-Saharan Africa from an average of 23.0% in 2011–13 to 32.0% of GDP in 2017. Total public sector debt has also risen in North African countries with Sudan and Egypt leading the way in 2017 at 121.6% of GDP and 103.0% of GDP, respectively. Mauritania's total public debt reached almost 97.0%, followed by Tunisia with a figure estimated at over 70.0% of GDP in 2017. Mauritania's government is committed to a prudent borrowing strategy, amongst others, to avoid non-concessional loans to ensure debt sustainability – this will back the downward trend in the expected debt figures for 2019 and 2020.

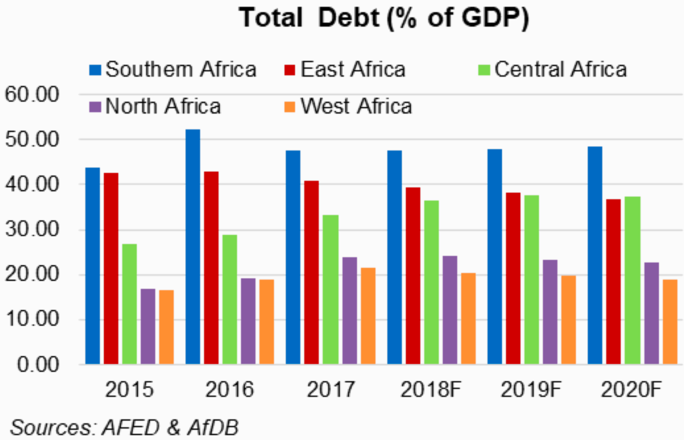
In September, Egypt's Minister of Finance said that no new taxes will be imposed, clarifying that the new stage aims to stabilize fiscal policy. The Egyptian government's aim for 2018/19 is to reduce its debt to 92.0% of GDP and is working on a structural reform program for the economy that aims at reducing public debt to 70.0% within four years, inflation rates to 14.0%, and unemployment to less than 10.0% (See ***SPECIAL REPORT: EGYPT ON THE ROAD TO RECOVERY AND ECONOMIC STABILITY.***)

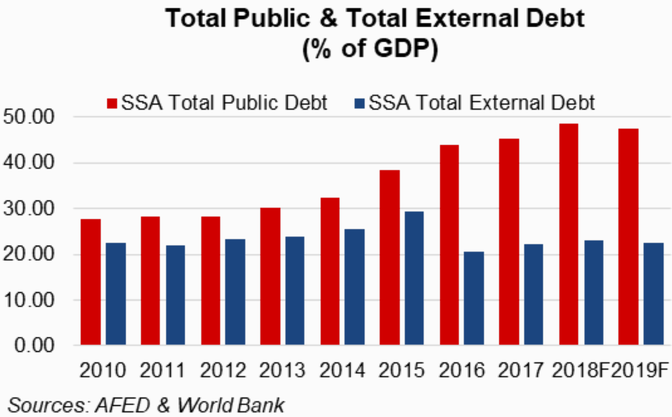


Concessional versus non-concessional lending

The share of concessional financing in SSA has remained unchanged and official creditors continue to represent the largest creditor group, while the share of debt held by private banks and bondholders has increased to about 15.0%. At the same time, borrowing from non-Paris Club countries, especially from China, has been rising.

Non-concessional financing accounted for more than 50.0% of total public debt in six countries (Côte d'Ivoire, Ghana, the Republic of Congo, Sudan, Zambia, and Zimbabwe) and more than 30.0% of total public debt in several other countries (including Chad, Senegal, Mozambique, and Ethiopia).





Debt sustainability

Debt sustainability has deteriorated in several countries in the region. Six countries were classified as in debt distress in August 2018 in the IMF list of Low-Income Countries (LIC) DSAs for PRGT-Eligible Countries. Earlier this year, the IMF ratings for Zambia and Ethiopia were changed from moderate to "high risk of debt distress". Zambia's Eurobonds have lost 10% in August, more than any of the 75 countries in the Bloomberg Barclays emerging markets USD sovereign bond index.

Zambia's creditworthiness has been downgraded twice in the past month. S&P Global Ratings recently cut the foreign-currency rating to B-, six steps into junk territory. Just before that, Moody's Investors Service lowered its assessment of Zambia to Caa1.

The IMF has put Zambia's quest for a support facility on hold due to the country's inability to service its debt obligation. Ethiopia's economy is expected to expand 8.5% in 2018/19 fiscal year, however public sector borrowing, inflation, and external imbalances will remain a source of macroeconomic risk.

Country	Risk of debt distress 1/	Country	Risk of debt distress 1/	Country	Risk of debt distress 1/	Country	Risk of debt distress 1/
Chad	In debt distress	Burundi	High	Benin	Moderate	Kenya	Low
Mozambique	In debt distress	Cameroon[3]	High	Burkina Faso	Moderate	Lesotho	Low
São Tomé & Príncipe	In debt distress	Cabo Verde[3]	High	Comoros	Moderate	Rwanda	Low
South Sudan	In debt distress	Central African Rep.	High	Congo, Dem. Rep.	Moderate	Senegal	Low
Sudan	In debt distress	Djibouti	High	Congo, Republic of[3]	Moderate	Tanzania	Low
Zimbabwe[3]	In debt distress	Ethiopia	High	Côte d'Ivoire	Moderate	Uganda	Low
		Gambia, The	High	Guinea	Moderate	Eritrea	-
		Ghana	High	Guinea-Bissau	Moderate	Somalia	-
		Mauritania	High	Liberia	Moderate		
		Zambia	High	Madagascar	Moderate		
				Malawi	Moderate		
				Niger	Moderate		
				Sierra Leone	Moderate		
				Togo	Moderate		

1/ As of August 01, 2018 and based on the most recently published data, 6 countries are in debt distress
3/ PRGT-eligible IDA-blend countries

The joint World Bank-IMF Debt Sustainability Framework (DSF) was introduced in April 2005 to help guide countries and donors in mobilizing the financing of Low-Income Countries (LICs)' development needs, while reducing the chances of an excessive build-up of debt in the future. The DSF analyses both external and public sector debt and is periodically reviewed.

EXX Africa: Countries at highest risk of debt distress in two-year outlook

1) Burundi: The shortage of aid and foreign funding, on which the economy heavily relies, will continue to hurt the budget balance. Growth is forecast at under 1.0% for this year and domestic tax collection and modest revenues from coffee and tea exports are not enough to boost the economy, despite steady growth in export sectors.

2) Congo Republic: The country's fiscal strength is very low, with large fiscal deficits. Output has contracted and low revenues from low oil prices have put debt servicing under pressure. Corruption is a major constraint with public debt to GDP ratio forecasted at over 100% for 2018. Growth is forecasted at under 2.0% for this year and the fiscal deficit is set to widen further over the next two years.

3) Mauritania: A drop in commodity prices has led to a high fiscal deficit. The government has used external borrowing to finance its budget deficit. Growth is forecasted to decrease this year and the upcoming 2019 elections can also increase public spending and undermine growth.

4) Sierra Leone: The IMF has frozen its loan facility of over $230 million due to government mismanagement and corruption. The new government is looking at measures to generate revenue and diversify the economy as growth forecast for this year remains at the same level of 2017. Public debt is forecasted to increase for the next three consecutive years.

5) Zambia: Estimated 2018 Q1 figures showed that growth deteriorated to 2.6% from 3.3% in 2017 Q1. Non-concessional debt is more than 50% and foreign exchange earnings are insufficient for debt service obligations. How to tackle the debt crisis will be reflected in the budget for 2019. There are serious concerns over Zambia's lack of disclosure of PPG debt.

EXX Africa: Top Five Countries in a Stable Debt Position

1) Nigeria: The country has made progress in liberalizing its currency and several large funds see opportunities to invest in Nigeria's local markets. Growth is still fragile, and the economy remains heavily dependent on oil, but the Nigerian government is trying to diversify its revenue away from oil.

2) Ghana: The fiscal deficit was reduced substantially, and oil revenues are expected are increasing on the back of new hydrocarbon oil and gas – the growth outlook is positive. Yet there remain concerns over growth sustainability.

3) Cote d'Ivoire: Public debt as % of GDP is expected to reach about 49.0% of GDP in 2018, but is still sustainable. The country is supported by strong growth with a declining fiscal deficit in the short term. Strong investment is expected in the energy and transport infrastructure under governments' National Development Plan.

4) Rwanda: Growth is expected to accelerate in 2018, mainly due to expansions in the services and agricultural sectors. Increased investment by government in key infrastructure projects will focus on energy and transportation shortcomings which will benefit the construction sector and improve the country's business environment.

5) Tanzania: The country has one of the lowest debt levels in East Africa. Growth is forecast to remain robust and emphasis is on governments' ongoing infrastructure development which forms part of the development plan. However, there are serious concerns over nationalist economic policies, mounting political risk, and the reliability of economic reporting.

Risk implications:

Political uncertainty and concurrent weakening of economic reforms will continue to weigh on the economic outlook in many countries in the region. Managing currency risks becomes an important part of the policy agenda amid rising foreign currency-denominated debt. The IMF has said that countries need to improve debt management frameworks to better manage currency and interest rate risks. This entails strengthening capacity to undertake cost-risk analysis of borrowing options and manage repayments on commercial borrowing (Kenya, Uganda).

Cost-risk analysis has helped increase awareness of debt portfolio risks and of the importance of developing the government securities markets in the medium term. Some countries such as Cabo Verde, Ghana, Kenya, and Tanzania are updating their medium-term debt strategy to address contingent liability risks. Furthermore, deepening domestic sovereign debt markets, including Ghana, Kenya, Namibia, Nigeria, and Tanzania could provide ways to lower currency and interest rate risks.

The average level of the continents' total public debt is expected to be slightly higher this year at about 60.0% versus an estimate 58.0% of GDP last year. IMF concerns about most countries include borrowing from local banks which could undermine the domestic financial sector and fuel inflation. There is wide diversity across countries and in some highly indebted countries such as the Republic of Congo and Gambia, improved revenue performance and higher GDP growth are expected to yield significant improvements in debt servicing capacity.