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NEWSLETTER
for Public Debt Managers in Africa

International and regional debt capital market developments

Global bond market gyrations, especially the selloff in United States (US) Treasury bonds, have resulted in the fluctuation in the 10-year US Treasury yield. The critical driver of US borrowing costs rose briefly as high as 5.071 percent on 23 October 2023 for the first time in 16 years[1], although the 10-year[2] US Treasury bond yield has somewhat retraced below 5 percent (to roughly 4.836 percent) towards the end of October 2023. Since the beginning of 2023 until its highest trading level of just over 5 percent as stated above, the 10-year US Treasury note is estimated to have increased by roughly 1384 basis points (or 1.384 percentage points).

In response to a series of policy rate hikes by the US central bank to tame the rising inflation, the 3-month US Treasury bill, on the other hand, also reached high levels of 5.508 percent in October 2023. This represents year-to-date increase from the levels of 4.385 percent seen at the beginning of 2023. Judging by the negative term spread between the 10-year US Treasury bond yield and the 3-month US Treasury bill rate - where the 10-year US Treasury bond trades below the 3-month US Treasury bill, it is clear that the US Treasury yield curve has inverted, which may have (partial) implications for the medium-term economic outlook, depending on the yield curve theories confirmed by the data.

According to assumptions[3], the 3-month US Treasury bill rate is expected to average 5.3 percent in 2023 and 5.4 percent in 2024, while the 10-year US Treasury bond yield will average 3.8 percent in 2023 and 4.0 percent in 2024. The inversion is likely to persist as policy rates and by extension short-term rates are set to be higher for longer in the quest by global central banks to see near-term inflation expectations receding or anchored within some tolerance or comfortable levels, as persistent high inflation rates arguably - but undoubtedly hit the poor the hardest.

It is crucial to note that 10-year bond yields of other AAA-rated countries such as Germany, Japan, France and Spain were trading way through or deeply below the US 10-year equivalent at -200 basis points, -396 basis points, -138 basis points and-91 basis points, respectively, at the time of sourcing the information. Meanwhile, yield data (52 week range) for emerging markets[4] bonds issued in local currency indicates that yields traded at the latest (yield) level of 8.728 percent and a wider spread of 449 basis points over the same period. In other positive financial market developments of a regional nature, ABSA Bank in collaboration with the Official Monetary and Financial Institution Forum (OMFIF) and sponsorship of the United Nations Economic Commission for Africa (ECA), launched the ABSA Africa Financial Market Index 2023. Now in its seventh year[5], the ABSA Africa Financial Markets Index evaluates countries' financial development based on measures of market accessibility, openness and transparency. The Index has 40 indicators spread across six pillars (see table 1).

1 Wall Street Journal (2023). *Bond Rout Drives 10-Year Treasury to 5%* I Markets I Market Data I Bonds & Rates

2 For any bond market- the 10-year is a critical maturity point in the sense of: liquidity; reasonable borrowing costs which also depends on the shape of the yield curve, level of policy/short-term rates, level of inflation rate/expectations – the policy rate usually respond to. While the situation may have changed recently, swap markets were hardly that liquid past the 10 year or 15 year point (historically) and for most African countries looking to develop their debt capital markets, the 10 year is usually the first and/or common maturity point to start lengthening the yield curve. However, it tends to deliver refinancing (or debt rollover) risk early or in a matter of few years as the average maturity of the portfolio is likely to be less than 10 years, where the longest maturity point is 10 years or lower and/or issuance strategy tends to be heavily front loaded.

3 See IMF World Economic Outlook (October 2023). *Navigating Global Divergences*

4 JP Morgan Government Bond Index for Emerging Markets (GBI-EM Global), which includes select countries such as: China, Brazil, South Africa, Egypt, Poland, India, Columbia, Malaysia, Thailand, Indonesia, Mexico, Turkey.

5 ABSA (2023). Introduction: Unlocking the Potential for Africa. ABSA Financial Markets Index 2023. The ABSA Group Limited and OMFIF Ltd, Supported by United Nations Economic Commission for Africa

Table 1: Scores/Performance of African Countries across Six Pillars

Pillar1: Market Depth	Pillar2: Access to Foreign Exchange	Pillar 3: Market Transparency, Tax and Regulatory Environment	Pillar 4: Capacity of Local Investors	Pillar 5: Macroeconomic Environment and Transparency	Pillar 6: Legal Standards and Enforceability	Country Performance	Average Scores (scale of 10-100) 2022	2023
South Africa [100]	South Africa [88]	South Africa [98]	Namibia [100]	Botswana [87]	Mauritius [100]	South Africa	88	89
Morocco [60]	Egypt [87]	Mauritius [94]	South Africa [63]	Uganda [86]	South Africa [100]	Mauritius	77	77
Nigeria [56]	Morocco [76]	Kenya [92]	Mauritius [61]	Tanzania [81]	Nigeria [90]	Nigeria	67	68
Mauritius [56]	Mauritius [75]	Morocco [89]	Eswatini [60]	Nigeria [79]	Ghana [85]	Uganda	63	64
Botswana [54]	Kenya [70]	Nigeria [88]	Botswana [57]	South Africa [78]	Malawi [85]	Namibia	63	63
Tanzania [49]	Botswana [68]	Egypt [87]	Seychelles [57]	Seychelles [77]	Uganda [85]	Botswana	59	58
Ghana [46]	Cabo Verde [68]	Zimbabwe [83]	Morocco [29]	Egypt [76]	Zambia [85]	Kenya	59	60
Uganda [46]	Uganda [67]	Ghana [82]	Nigeria [27]	Namibia [76]	Kenya [55]	Morocco	58	57
Tunisia [45]	Nigeria [60]	Uganda [79]	Lesotho [25]	Kenya [76]	Tanzania [55]	Ghana	58	59
Namibia [43]	Rwanda [59]	Rwanda [79]	Cabo Verde [23]	Eswatini [76]	Namibia [40]	Tanzania	55	55
Kenya [42]	Seychelles [58]	Tanzania [78]	Ghana [22]	DRC [76]	Zimbabwe [40]	Egypt	55	58
Egypt [42]	Madagascar [58]	Botswana [78]	Kenya [18]	Mauritius [76]	Angola [25]	Zambia	55	55
Cabo Verde [36]	Zambia [57]	Zambia [74]	Zimbabwe [18]	Zambia [74]	Cabo Verde [25]	Malawi	49	49
Mozambique [33]	Angola [57]	Tunisia [70]	Cameroon [16]	Rwanda [74]	Cameroon [25]	Eswatini	46	46
Angola [33]	Namibia [56]	Angola [66]	Tanzania [15]	Lesotho [72]	Côte d'Ivoire [25]	Seychelles	46	45
Rwanda [31]	Cameroon [55]	Malawi [62]	Egypt [15]	Côte d'Ivoire [71]	Egypt [25]	Cabo Verde	45	-
Zambia [30]	Tanzania [54]	Eswatini [61]	Uganda [14]	Mozambique [70]	Morocco [25]	Rwanda	44	43
Senegal [30]	Lesotho [54]	Namibia [61]	Rwanda [13]	Morocco [70]	Senegal [25]	Zimbabwe	43	42
Côte d'Ivoire [28]	Côte d'Ivoire [54]	Cabo Verde [58]	Mozambique [13]	Zimbabwe [70]	Tunisia [25]	Tunisia	43	-
Malawi [28]	Senegal [54]	DRC [55]	Malawi [12]	Senegal [67]	Botswana [10]	Angola	43	42
Cameroon [26]	Ghana [51]	Côte d'Ivoire [52]	Angola [12]	Cameroon [66]	DRC [10]	Côte d'Ivoire	40	42
Seychelles [23]	Tunisia [51]	Cameroon [51]	Côte d'Ivoire [11]	Malawi [65]	Eswatini [10]	Cameroon	40	40
Eswatini [23]	Mozambique [49]	Seychelles [50]	Tunisia [11]	Angola [64]	Ethiopia [10]	Senegal	38	40
DRC [18]	Eswatini [49]	Mozambique [47]	Zambia [11]	Ethiopia [63]	Lesotho [10]	Mozambique	37	36
Zimbabwe [17]	Malawi [43]	Senegal [42]	Senegal [11]	Cabo Verde [63]	Madagascar [10]	DRC	35	34
Madagascar [16]	Ethiopia [41]	Ethiopia [40]	Ethiopia [11]	Madagascar [61]	Mozambique [10]	Lesotho	34	34
Lesotho [12]	DRC [40]	Madagascar [32]	Madagascar [10]	Ghana [60]	Rwanda [10]	Madagascar	31	32
Ethiopia [10]	Zimbabwe [33]	Lesotho [31]	DRC [10]	Tunisia [54]	Seychelles [10]	Ethiopia	29	27

At a time when Africa needs to be a destination of a much longer-term capital preferably at a lower cost or, nevertheless, at a cost appropriately reflecting the risk, the increase in the number of African countries covered by the index to 28 due to the latest inclusion of Cabo Verde and Tunisia in 2023, which follows the inclusion last year of the Democratic Republic of Congo, Madagascar and Zimbabwe should enable investors additional tools and methodology to assess the risks over and above the credit risk assessments done by credit rating agencies. Without going into too much detail about the table, the scores illustrate of how much country effort to exert and in which specific pillar(s) to focus to improve the level of capital market development across the six pillars. For example, countries such as South Africa and Mauritius that started to build stronger macroeconomic environments and transparency (pillar 5) as well as legal standards and enforceability (pillar 6) to varying degrees much earlier, have managed to lay a strong foundation to progress onto other pillars much later, even though the macroeconomic environment may have deteriorated to some extent over time.

Implying that countries such as Botswana, Uganda, Tanzania and Nigeria which are displaying stronger macroeconomic fundamentals - other things remaining the same, may have a strong potential for stability that investors require, provided other pillars such as legal enforceability of contracts for example, are also given the necessary attention. It may also be argued that with massive Eurobonds issued in the past coming due for redemption or rollover mostly in 2024 and 2025 and subsequently lesser - but still elevated until 2032, access to foreign exchange as is market depth are very important. Therefore, countries showing stronger capacity for local investors such as Namibia, South Africa, Eswatini and Seychelles, may be less vulnerable to foreign exchange and capital flow-related volatility than countries with a lower local asset base.

Sustainable finance and debt issuance

According to data6 from Intercontinental Exchange (ICE), impact bond issuance amounted to US$165 billion during the 3rd quarter ending September 2023, which represents a decrease of 34 percent from 2nd quarter ending in June 2023. This is because of rising global interest rates, increased market volatility and highly uncertain macroeconomic environment. However, due to active issuance in the first half of 2023, the year-to-date issuance of US$650 billion as at September 2023 was similar to 2022.

Europe stands out as the top issuing region for impact bonds, which saw US$305 billion of bonds issued between quarter 1 and quarter 3 of 2023 (and this represents 47 percent of global issuance – but 2 to 4 percentage points lower than global issuance a year ago). Asia Pacific (APAC) entities on the other hand, have issued US$196 billion driven mainly by Japan, Korea and Hong Kong and this is 11 percent more year-on-year. In the same period, Africa and Central Asia were the decreasing and/or lowest issuing regions of impact bonds - respectively, just behind the Middle East.

The report further notes - US$397 billion of green bonds were issued globally between quarter 1 and 3 of 2023, which is relatively steady compared to 2022 - but the top issuing countries such as China, Germany and the United States of America are showing signs of saturation as lesser amounts are issued year-on-year. Although 2 percent lower than a year ago, Europe is also the leading issuing region of green bonds at US$216 billion. Meanwhile issuance of green bonds in APAC was encouragingly 6 percent higher year on year at US$119 billion.

6 Palmer, R and Wong, M. (2023). *Impact Bond Analysis: Issuance Slows Amid Macroeconomic Uncertainty*, Q3 2023. Published by Intercontinental Exchange, October 2023.

Sovereign credit rating developments

(a) Ratings Actions and Outlooks

This section highlights the rating actions of select African sovereigns subject to the availability of such information for the period ending 30 September 2023.

Benin[7] (affirmation at 'B1' - Outlook Stable)

On 18 September 2023 Moody's affirmed Benin's Long-Term Local and Foreign Currency Issuer and Foreign Currency Senior Unsecured ratings of the government of Benin and kept the stable outlook.

The affirmation of Benin's B1 ratings with a stable outlook is driven by Moody's view that the country's robust growth will continue, supported by ongoing structural reforms and increased levels of investment in the economy, which reinforces economic resiliency. While Benin's fiscal metrics have significantly weakened following the pandemic and global inflation shocks, the authorities' ongoing fiscal consolidation efforts will result in the gradual decline of government's debt burden. Moody's also assesses that Benin's liquidity risk will remain moderate thanks to the country's proactive debt management and continued access to concessional lending from the official sector.

Benin's Local Currency (LC) and Foreign Currency (FC) country ceilings remain unchanged at Baa3 and Ba1 respectively. The four notches of the Local Currency country ceiling to the sovereign rating reflect Moody's assessment that non-diversifiable risks are appropriately captured in the Local currency ceiling taking into account the small footprint of government on the economy, the weak, albeit improving institutional framework as well as the mitigating impact of Benin's membership in the West African Economic and Monetary Union (WAEMU) on external imbalances.

The one-notch gap between the LC and FC ceilings reflects Moody's view of limited, albeit non-zero, transfer and convertibility risks, due to the French Treasury guarantee of the peg between the CFA and the Euro. According to Moody's the government in Benin aims to increase government revenue by 0.5 percent of GDP each year between 2021 and 2025 via improving tax collection through efficiency gains, digitalisation and new tax policy measures. Already in 2022, tax revenue increased by 0.5 percent of GDP to reach 12.2 percent of GDP and is poised to reach 12.7 percent of GDP in 2023.

Despite ongoing progress on revenue mobilisation, Benin (overall) government's revenue at 14.3 percent of GDP at the end of 2022 remains small compared to the median of B-rated peers at 25 percent of GDP. Further, Moody's is of the view that government's liquidity risk will remain manageable over the coming years, mainly due to moderate government borrowing requirements expected at around 10 percent of GDP in 2023 and declining thereafter with ongoing fiscal consolidation. Although external debt makes up 66 percent of general government debt, about 60 percent of external debt is concessional at low interest rates, the rest being commercial debt largely composed of Eurobonds.

Moody's also indicates that Benin has been very active in managing the structure of its debt and has issued the first sovereign sustainable bond in Sub-Saharan Africa in 2021 under comparatively favourable terms. The government has increasingly borrowed in Euros since 2018, reducing the exchange rate risk of its external debt given the longstanding and credible peg to the Euro guaranteed by the French Treasury. Benin has further reduced its debt rollover (and liquidity) risk by issuing debt instruments with longer maturities of up to 15 years. The average maturity of external debt was 11.3 years with average cost of 2.3 percent compared to the 5.3 percent average cost of domestic issuance with extended maturity (of domestic debt) to 4.9 years in 2022 compared to 3.6 years back in 2020.

Benin's stable outlook reflects Moody's expectation that the economy will remain resilient to the potential negative impacts of the challenging environment in West Africa and the increased macroeconomic volatility in Nigeria. It also reflects the rating agency's expectation that the weak institutional and governance framework- a long-term constraint of Benin's credit profile – will steadily improve while the government's debt burden will gradually decline from 2023 onwards.

Factors that could lead to an upgrade in the ratings:

- Sustained and substantial reduction in the government debt burden and debt affordability
- Evidence of improved institutions and governance in Benin.

Factors that could lead to a downgrade in the ratings:

- Deterioration in fiscal metrics contrary to expectations.
- Increased borrowing requirements and refinancing risks due to failure in reform efforts.
- Failure to maintain robust growth, especially if policy outcomes weaken.

7 Moody's (2023). *Rating Action – Moody's Affirms Benin's B1 Ratings*, 18 September 2023

Togo[8] (affirmation at 'B3' - Outlook Negative)

On 26 May 2023, Moody's affirmed the Government of Togo's B3 Long-term Local Currency and Foreign Currency Issuer rating and changed the outlook from stable to negative.

The main driver of Moody's rating action was the increasing risk that the government's fiscal policy loosening gradually lead to increasing liquidity stress and put its debt on a less sustainable path, which the country's weak governance cannot stem in the absence of a yet-to-be-secured International Monetory Fund (IMF) programme providing a backstop.

The B3 rating affirmation reflects Togo's weak credit fundamentals stemming from a small, undiversified and low value-added-generating economic base, low institutional capacity, an increasingly high government debt burden amid large fiscal imbalances. Togo's membership to the WAEMU eases but does not fully mitigate the credit constraints.

According to Moody's, Togo's local currency country ceiling remained unchanged at Ba3, maintaining the existing gap (at the time) with the sovereign rating. The three-notch gap reflects Togo's WAEMU membership and support from stronger members of the Union, which mitigates the risks associated with Togo's weak institutions and external imbalances. The foreign currency country ceiling also remained unchanged at B1, one notch below the local currency country ceiling. This reflects limited transferability and convertibility risks, given the French Treasury's guarantee of the CFA franc peg to the Euro as part of the WAEMU membership.

Under Moody's scenario of gradual fiscal consolidation and modestly rising borrowing costs, government debt would stabilise around 65 percent of GDP in the medium term, slightly below the WAEMU's limit of 70 percent of GDP. However, in a more adverse scenario of a slower fiscal consolidation and a steeper rise in interest rates, even in the absence of economic shocks, Togo's debt burden would remain on the rise and reach 80 percent of GDP by the end of the decade.

Factors that could lead to an upgrade in the ratings:

- If liquidity risks proved contained, allowing the government to access funding at manageable cost continuously. This, combined with signs that fiscal consolidation is underway – with low risks of further loosening of fiscal policy would indicate that a stabilisation in the government debt is likely.

Factors that could lead to a downgrade in the ratings:

- In case liquidity pressures on the government built, maintaining the upward debt burden trajectory – two related factors more likely to materialise in the absence of an IMF programme.
- Signals that the government is loosening further its budget stance and/or that accessing funding on the WAEMU market has become more challenging and expensive than currently assumed by Moody's would elevate risks to a point more likely consistent with a lower rating.
- The accumulation of arrears to domestic goods and service providers would indicate mounting liquidity pressure.
- Other factors, such as large-scale economic shocks from climate change or socio-political sources, would likely exert downward pressure on the rating if they were to weaken the sovereign's fiscal or liquidity position.

Cameroon[9] (downgrade to 'Caa1' – Stable Outlook')

On 27 July 2023 Moody's downgraded the Government of Cameroon's Foreign Currency and Local Currency long-term Issuer rating to Caa1 from B2 and kept the outlook stable.

Moody's rating action reflects the emergence of cash management and liquidity challenges for the government as evidenced by delays in meeting a series of external debt service payments in late 2022 and into 2023. Moody's considers the delayed payment to Deutsche Bank Spain, in particular to be an incident of default. The missed payments came after a series of liquidity demands on the government, including higher fuel subsidies and increased off-budget spending on growing security needs, in an environment of tightening domestic and global financial conditions and weak governance, in particular very weak cash and debt management capacity.

While the outlook remained stable – the downside risks to the government's fiscal and liquidity profile relate to the volatile oil revenues, ongoing fuel subsidies, increased security spending, poor governance of inefficient state-owned enterprises (SOEs) and cash management. These risks are balanced against upside risks compared to Moody's current assumptions regarding the economic and social returns from investment in much-needed infrastructure, notably in the energy and transportation sectors, and the credit benefits of efforts to improve governance and fiscal management under the International Monetary Fund programme.

Moody's also lowered Cameroon's local currency and foreign currency country ceilings to B1 and B3, respectively from Ba2 and B1. The three-notch gap between the local currency ceiling and the sovereign rating reflects the large role of the government in the economy via its numerous SOEs and weak institutional set against limited external imbalances. The foreign currency ceilings maintain a two-notch gap to the local currency ceiling to reflect some transfer and convertibility risks stemming from the region's external vulnerability to periods of lower oil prices, notwithstanding the French Treasury guarantee of the peg between the CFA franc and the Euro.

8 Moody's (2023). *Rating Action – Moody's Changes Outlook to Negative on Togo's B3 Ratings*, 26 May 2023.

9 Moody's (2023). *Rating Action – Moody's Downgrades Cameroon's Rating to Caa1 from B2, Maintains Stable Outlook*, 27 July 2023.

Factors that could lead to an upgrade of the ratings:

- Significant improvements in its treasury management and payments record.
- Continued fiscal consolidation and broadening of tax base.

Factors that could lead to a downgrade of the ratings:

- Persistent missed external debt payments causing a negative profile to secure future debt financing.
- Continued missed external debt payment obligations with risks of larger losses to investors than consistent with the current rating and increased stock of domestic payment arrears would weigh negatively on the rating.
- Higher fiscal deficits and debt, inability to secure external financing.

Gabon[10] (affirmation at 'Caa1' - Outlook Negative)

On 12 September 2023 Moody's affirmed the Government of Gabon's long-term Issuer and foreign currency senior unsecured debt ratings at Caa1 and changed the outlook to negative.

The decision to change the outlook to negative reflects the heightened political and government liquidity risks stemming from the military coup on 30 August. Moody's expects the suspension of the constitutional order and increased political uncertainty to weigh on the economic outlook and financial support from the international community.

According to Moody's the affirmation of Caa1 ratings balances Gabon's longstanding institutional and governance challenges – including weak public financial management with moderate debt costs and the support provided to the government's liquidity and fiscal position by elevated oil prices. Further, membership of the CFA franc monetary union, which Moody's expects to be preserved, also contributes to macroeconomic stability.

Gabon's local and foreign currency country ceilings remain unchanged at B1 and B3, respectively. The local currency country ceiling is three notches above the sovereign rating to reflect Gabon's membership of the Central African Economic and Monetary Community (CEMAC), which mitigates the risks associated with Gabon's institutional and governance challenges and political risk for locally domiciled entities and transactions.

The foreign currency ceiling maintains a two-notch gap to the local currency ceiling to reflect relatively limited transfer and convertibility risks due to the French Treasury guarantee of the peg between the CFA franc and the Euro, notwithstanding Gabon's weak policy effectiveness. Moody's expects Gabon's debt affordability as measured by the ratio of interest payments to government revenue, to remain moderate at 15.9 percent projected for 2023, notwithstanding a gradual deterioration on the back of tightening regional financing conditions.

Further, Moody's expects Gabon's gross borrowing requirements to be relatively contained in 2023 and 2024 at 6-7 percent of GDP, reflecting some improvements in the country's fiscal situation before the coup – with higher oil prices supporting revenue generation – as well as moderate amortisation payments until the US$605 million Eurobond repayment scheduled for 2025. A debt buyback operation conducted on 8 August 2023 in the context of a debt-for-nature swap allowed the government to buy back a portion of its outstanding Eurobonds maturing in 2025 and 2031 and alleviated refinancing risks posed by the government's medium-term repayment profile, albeit only on a limited extent.

Membership of the CFA franc monetary union, which Moody's expected to be preserved notwithstanding the ongoing political developments, also continues to contribute to macroeconomic stability. Participation in the franc zone, where France supports the peg to the Euro, significantly reduces the risk of a balance-of-payments crisis despite the union's reliance on oil which comprises 60-70 percent of total exports.

Factors that could lead to a change in the outlook to stable:

- The military intervention does not look likely to materially impact Gabon's economic and fiscal strength and capacity to ensure government debt payments. This would be more likely in the context of a durable stabilisation of the political situation accompanied by progress on an orderly transition.

Factors that could lead to a downgrade in the rating:

- Moody's would likely downgrade Gabon's rating if the current political situation were to worsen durably to a level that would significantly dampen growth and weaken fiscal strength or increase risks of missed government debt payments due to private creditors.
- A downgrade would also likely take place in the event of the imposition of any financial sanctions that significantly impeded government debt repayments and access to capital markets.

Rwanda[11] (Affirmation at 'B2', Outlook Stable)

On 08 September 2023, Moody's affirmed Rwanda's Long-Term Local and Foreign Currency Issuer ratings and foreign currency senior unsecured debt ratings at B2 and changed the outlook to stable from negative.

10 Moody's (2023). *Rating Action – Moody's changes outlook on Gabon to Negative, Affirms Caa1 rating,* 12 September 2023.

11 Moody's (2023). *Rating Action – Moody's Changes Outlook on Rwanda to Stable from Negative, Affirms B2 ratings,* 08 September 2023.

The change in the outlook to stable from negative is underpinned by Moody's assessment that effective institutions and credible policies have preserved and will continue to anchor the government's credit profile in response to shocks. Moody's expects the government's commitment to fiscal consolidation and revenue enhancement to keep its debt burden on a stable to declining path.

Economic growth is also expected to remain strong and support debt sustainability, driven by large infrastructure investments and robust activity in the tourism sector. These factors help mitigate downside risks, including climate shocks that weigh on the country's agriculture output and are, in part, driving high inflation and contributing to a wider current account deficit.

The rating affirmation at B2 reflects Rwanda's small and low-income economy that limits its shock absorption capacity. The government's still high debt burden for the size of the economy and its income levels, and challenging regional geopolitics that can threaten longer-term development. THESE credit challenges are balanced against the economy's high growth potential, the country's relatively solid institutions, the governance compared to peers, and continued and strong development partner support that maintains Rwanda's access to external concessional financing.

Rwanda's local and foreign currency ceilings remain unchanged at Ba2 and B1, respectively. The three-notch gap between the local currency ceiling and the sovereign rating balances relatively predictable and reliable institutions with a proven record of policy execution, against the government's large footprint in the domestic economy, the persistent regional geopolitical challenges it faces, and the country's structural external vulnerability in the form of large current account deficits. The two-notch gap between the foreign currency ceiling and the local currency ceiling considers Rwanda's reliance on external debt financing, albeit from stable sources, and the limited currency flexibility that raises the risk of transfer and convertibility restrictions being imposed.

As further indicated by Moody's, Rwanda has established a track record of policy execution consistent with Moody's assessment of relatively solid institutions and governance in the country compared to similarly rated peers. Rwanda's governance strength is reflected in its rankings in the Worldwide Governance Indicators, which remain on a gradually rising trend over the past few years, as well as its World Bank Country Policy and Institutional Assessment score, which is highest in Africa. The government also demonstrates effective debt management, as evidenced by the early refinancing of its Eurobond in August 2021 well ahead of the maturity in May 2023, with a lower coupon rate.

Factors that could lead to an upgrade of the ratings:

- If implementation of government's fiscal reforms including its medium-term revenue strategy raises prospects that its debt burden would materially decline, thereby increasing its fiscal space to counter shocks.
- A significant and durable strengthening of Rwanda's external position that reduces the country's reliance on external debt financing and exposure to exogenous shocks may also prompt a rating upgrade.
- A sustained reduction in geopolitical risks that expands regional trade and increases Rwanda's potential as a regional hub would also put upward pressure on the rating.

Factors that could lead to a downgrade of the ratings:

- If prospects of fiscal consolidation were to weaken, resulting in a persistent increase in Rwanda's debt burden over the medium term and further narrowing of the government's fiscal space.
- A deterioration in the external position – potentially stemming from weaknesses in the services sectors – that significantly weakens Rwanda's foreign exchange reserve adequacy would also likely prompt a downgrade of the rating.
- In addition, any notable reduction in financial support from international development partners over the medium term that is not accompanied by stronger standalone economic resiliency and access to private financing would exert downward pressure on the rating.

To conclude the sovereign rating developments, table 2 below illustrates the ratings now split into long-term (LT) foreign currency (FC) and long-term (LT) local currency (LC) across three main international credit rating agencies- (S&P, Moody's and Fitch) for ease of comparison. The unique numeric scale rating by Trading Economics, which ranges from a lower scale of 5, consistent with a junk rating of C and an upper scale of 100, which is consistent with prime rating of AAA, is also included.

Since the ratings assigned are usually an expression of (qualitative) opinions informed by application of (quantitative) methodology and other policy considerations – table 2 has been expanded to include select/few indicators such as Debt as percentage of GDP, Interest Payment as percentage of Revenue, Tax Revenue as percentage of GDP and total foreign currency reserves as percentage of External Debt. Hopefully, this makes the comparison more meaningful, although it should be qualified – these indicators are not necessarily fully representative of what credit rating agencies look at holistically.

Table 2[12]: Sovereign Credit Ratings in Africa & Select Liquidity/Solvency Indicators – September 2023

Sovereign Credit Ratings & Select Solvency/Liquidity Indicators in Africa September 2023

Country	2021/2022 Gen Govt Debt/GDP (%)	2023 Forecast Gen Govt Debt/ GDP(%)	Gen Govt Rev/GDP (%)	Interest PMT/ Revenue (%)	Total Foreign Currency Reserves/ Total External Debt (%)	S&P LT FC	S&P LT LC	Moody's LT FC	Moody's LT LC	Fitch LT FC	Fitch LT LC	Trading Economics
Angola	66,7	84,9	10,1	24,8	21,5	B-	B-	B3(+ve)	B3	B3(+ve)	B3	25
Benin	52,8	53,0	12,2			NR	NR	Ba1	Baa3	B+	B+	33
Botswana	26,1	27,0	22,3	1,7	242,0	BBB+	BBB+	A3	A3			67
Burkina Faso	54,3	58,0	15,9	8,6		CCC+	CCC+					20
Cabo Verde	127	120,0	17,8	8,0		B-	B-			B-	B-	25
Cameroon	46,4	42,0	10,9	6,3	31,6	CCC+	CCC+	Caa1	B2	B	B	25
Congo (DRC)	14,6	12,0	8,8	1,3		B-	B-	B3				22
Côte d'Ivoire	56,0	62,0	12,6	14,8		BB-	BB-	Ba3(+ve)		BB-	BB-	40
Egypt	88,5	92,7	12,5	50,0		B-	B-	Caa1	B1	B(-ve)	B	28
Ethiopia	31,4	33,0		4,5	10,0	CCC(-ve)		Caa3		CCC-	CCC-	16
Gabon	55,1	60,0		15,9	19,1	NR	NR	Caa1(-ve)		B-	B-	25
Ghana	88,8	99,0	11,3	44,6	27,4	SD	CCC+	Ca		RD	RD	11
Kenya	67,3	69,0	13,3	22,2	23,0	B(-ve)	B	B3(-ve)		B	B	28
Lesotho	52,1	54,0	32,4	2,4	48,9					B	B	30
Madagascar	57	53,0	10,2	5,4	43,7	B-						25
Mali			14,2	7,6				Caa2				15
Mauritius	86	82,0	18,3		61,5	BBB-	BBB-	Baa3	Baa3			55
Morocco	71,6	71,3	19,6	8,7	54,5	BB+	BB+	Ba1	Ba1	BB+	BB+	50
Mozambique	101	93,0	23,3	9,3	6,0	CCC+	CCC+	Caa2	Caa2	CCC+	CCC+	18
Namibia	68,9	68,5	28,0	14,3				B1	B1	BB-	BB-	40
Niger	51,2	52,5						Caa2	B2			25
Nigeria	38	39,0			53,1	B-	B-	Caa1		B-	B-	23
Republic of the Congo	99,6	96,0	9,1	8,6		B-	B-	Caa2	B2	CCC+	CCC+	18
Rwanda	61,1	63,3	22,8	5,5	21,1	B+	B+	B2		B+	B+	33
Senegal	75	74,0	17,5	9,5		B+	B+	Ba3	Ba3			37
Seychelles	65	63,0	32,5	6,7						BB-	BB-	35
South Africa	71,1	73,7	25,9	15,1	33,9	BB-	BB	Ba2	Ba2	BB-(-ve)	BB-	41
Swaziland (Eswatini)	19,1	44,0			50,6			B3				30
Tanzania	38,3	37,0	11,7	10,4	22,6			B2(+ve)				30
Togo	55,9	66,0	13,6	11,5				B3(-ve)				27
Tunisia	80	89,0			21,3	NR	NR	Caa2(-ve)	Caa2	CCC+	CCC+	21
Uganda	48,6	48,2	12,5		27,3	B-	B-	B2(-ve)		B+	B+	31
Zambia	56,2	65,0	16,7	27,4	11,5	SD	CCC+	Ca		RD	CC	30
Source: Country Economy, Trading Economics, Moody's, S&P, Fitch												
Average	61,6	63,9	16,9	13,3	41,5							30
Median	56,6	63,2	14,2	9,0	27,3							28
Max	127,0	120,0	32,5	50,0	242,0							67
Min	14,6	12,0	8,8	1,3	6,0							11

12 Please note that while best efforts were taken to align the contents of the table (mainly from country economy and trading economics) with information sourced from the credit rating agencies websites/reports or IMF publications/website, there could be slight differences.

Key takeaways from network engagement of public debt managers in africa

7th Network Engagement of Public Debt Managers in Africa held on 13 April 2023

The 7th Network Engagement of Public Debt Managers in Africa convened on 13 April 2023, facilitated by CABRI in collaboration with African Peer Review Mechanism (APRM) and United Nations Economic Commission for Africa (UNECA), bringing together representatives from 14 African countries. The meeting yielded several key insights:

Challenges in Managing Rising Debt:

- African countries face difficulties in managing escalating debt levels amid exogenous shocks, weak fiscal management, rising debt costs and depleted foreign exchange reserves.
- Managing the composition of debt, including the proportion of variable versus fixed-rate debt, domestic versus foreign currency-denominated debt and short-term versus long-term debt, possess challenges.

Deepening Understanding of Financing Sources:

- There is a recognised need to enhance the comprehension of various financing sources to navigate complex debt scenarios effectively.

Changing Landscape for Local Currency Debt:

- The assumption of an inherent appetite for local currency debt is diminishing.
- Extending the yield curve should be approached cautiously, considering demand dynamics.

Debt Exchanges as Management Tools:

- Debt exchanges, involving the swap of soon-to redeem bonds for longer-dated ones, have emerged as effective debt management tools.
- Caution is advised to prevent the misuse of debt exchanges to mask debt default risks.

Upcoming Eurobond Redemptions:

- Moody's predicts a surge in Eurobond redemptions, especially in 2024 and 2025, with elevated levels until 2030 to 2032.
- The African Development Bank (AfDB) notes that a significant portion of African debt matures within 10 years, incurring interest rates ranging between 5 and 16 percent.

Importance of Debt Refinancing Risk Indicators:

- While indicators of debt refinancing risk are crucial, there is an emphasis in establishing proper procedures for their effective utilisation.

Communication with Credit Rating Agencies:

- Continuous communication between debt managers and investors/market participants is essential to prevent Credit Rating Agencies from classifying debt exchanges as events of default.

Emphasis on Voluntary Components:

- Prioritising the voluntary aspect of debt transactions aligns with objectives to institute local debt capital market reforms.

First Things First for African Countries:

- A call to prioritise debt capital market reforms, build benchmark bonds and extend the domestic yield curve beyond 10 year maturities.

Benin's overall risk mitigation strategy:

- Benin's innovative liability management operations focused on effective public finance management, creditworthiness improvement and proactive public debt management.
- Fiscal consolidation before the COVID-19 pandemic positioned Benin in building resilience and preparing the economy to withstand exogenous shocks during the pandemic.
- Two-tranche Eurobond issues, combined with combined with liability management, allowed Benin to smoothen debt amortisation while reducing principal redemptions.
- Debt reprofiling operations enhanced average term to maturity and reduced interest rates, showcasing successful risk mitigation.

Sierra Leone's Debt Buy-Back Strategies:

- Sierra Leone strategically conducted 3 debt buy-backs: external commercial debt buy-back (1996, 2009);domestic debt buy-back (1996, 2002), and domestic debt buy-back (2017) employing different methods and discount rates.
- While the first external debt buy-back reached an all-time high of US$29.431 million, the second external debt buy-back initiated in 2009 under the Debt Relief Facility was for a small amount US$ 950 000
- The 2017 domestic debt buy-back aimed at clearing arears but percent did not achieve full acceptance.
- Sierra Leone significantly reduced its debt burden with external debt to GDP dropping from 220% in 2003 to about 43% in 2007.
- Recommendations include mobilising grants, diversifying the export base, revenue mobilisation, careful implementation of arrears clearance, exploring non-debt creating financing like Public-Private Partnerships (PPPs) and improving debt transparency and accountability.

Conclusion

The examination of international debt capital market developments covered in this newsletter underscores a critical interplay between short-term money market rates and the prolonged cost of borrowing. The trajectory and duration of policy rates carry significant implications for long-term investors, including pension funds, insurers and asset managers. Notably, the prevailing conditions, marked by heightened rates may challenge issuers, especially when fiscal flexibility is constrained. Exploring alternatives becomes paramount in such a scenario. Are there avenues for sovereigns to secure more affordable funding without overlooking the associated cost-risk dynamics? While Europe has taken the lead in issuing green and impact bonds, the question arises: could more African nations leverage similar avenues for their benefit? The evolving landscape prompts a nuanced consideration of financial strategies, risk mitigation, and the pursuit of sustainable funding sources in the dynamic realm of international debt markets.