




NEWSLETTER

for Public Debt Managers in Africa

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Taking advantage of improved sovereign credit rating outlook to prudently manage government debt



The practice of debt management requires **successful coordination** – but mutual separation where the level of financial development permits, between debt management, fiscal/budget and monetary policies under a wide range of macroeconomic and financial market conditions. It further requires **successful integration**, where feasible between the operations of government debt and liquidity/cash management.

International and regional debt capital market developments

According to bonds and rates data in the Wall Street Journal (WSJ), the US Treasury Yield Curve – a pricing benchmark for global debt markets and a gauge for global financing conditions has increased across all maturities (1 month to 30 years) than the same time last year (May 2021). The 3-month and 10-year US Treasury bill and bond rates traded on average at 1.065% and 2.956% respectively in May 2022 (term spread of 189 basis points) against the low levels of 0.015% and 1.639% observed in May 2021 (term spread of 162 basis points). Clearly, while the two key maturity points (3-month and 10-year) have increased as the rest of the curve, the 10-year has increased by more – which implies a steepening of the curve and therefore a corresponding rise in the long-term cost of funding. While the well-researched term premium has been studied from different perspectives, Albagli et al. (2018) studied the impact of U.S. monetary policy shocks on long-term bond yields of both Emerging

Markets (EMs) and Advanced Economies (AEs) and found that the larger effect on the former is through a term premium.

According to IMF Regional Economic Outlook Sub Saharan Africa (April 2022), even before the eruption of the conflict in Eastern Europe, inflationary pressures in major advanced economies proved stronger and persistent than expected. Coupled with rising commodity prices, monetary tightening in advanced economies is proceeding at a faster rate than anticipated a few months ago and is leading to a considerable increase in sovereign yields. It may be important to note that most countries in Sub Saharan Africa entered this period of uncertainty with weaker fundamentals, debt vulnerabilities and some in debt distress. Sovereign spreads have increased by 375 basis points for some countries in the region with distress and 170 basis points for others (World Bank Africa Pulse, April 2022).

Debt issuance

Public debt managers take centre stage in ensuring that governments of their respective countries have approved issuance plans to rollover or raise new funding for capital projects, social and development spending and to refinance maturing debt/loans at cheaper rates both in the local and foreign currency markets/sources. However, improvement in the sovereign yields for Sub-Saharan African countries in 2021 just as the continent was recovering from the effects of COVID-19 pandemic seem short lived as the public debt managers now have to contend with excessive volatility and weakening of exchange rates, rising inflation and interest rates. According to World Bank Africa's Pulse, 2022, this happens as Sub-Saharan African countries in the recent decade shifted from reliance on multilateral debt to accessing international financial markets for debt finance of large

infrastructure projects and in some cases to free up fiscal space (World Bank Africa's Pulse, Apr 2022).

While countries in the African region raised USD14 billion of Eurobonds in 2021 up from USD5.9 billion raised in 2020, Nigeria was the first African country in March 2022 to issue USD1.25 billion 7 year Eurobond at an initial price guidance of 8.75%, which was revised down to 8.50% and later tightened to 8.375%. In April 2022 Angola raised USD1.75 billion 10-year Eurobond at 8.75%. In the same month, South Africa followed and issued USD3 billion split into USD1.4 billion 10-year Eurobond at 5.875% and USD1.6 billion 30-year Eurobond at 7.30%. Both Eurobond issues were 309 basis points and 447 basis points, respectively above the equivalent US Treasury bond maturities.

Sovereign credit rating developments

1. Background

In a non-rating action commentary by Fitch titled 'Sub-Saharan Africa Sovereigns: Growth Returns but Debt Challenges Remain' published in December 2021, Fitch indicated that the sector outlook for sub-Saharan Africa (SSA) sovereigns is neutral, but growth is expected in line with earlier trends amid persistent pandemic risks. Seven of the 19 SSA sovereigns rated by Fitch were still on negative outlook given deterioration in their sovereign balance sheets. However, recent upgrades of Benin, Cote d'Ivoire, Gabon and Seychelles at the time of the report, show that for some countries the impact of the pandemic has been less severe than expected.

In east Africa, the Negative Outlooks on ratings in Kenya, Rwanda and Uganda (all 'B+') reflected concerns about the ability to halt the rise in government debt. In west Africa, growth in Benin (B+/Stable) and Cote d'Ivoire (BB-/Stable) will remain strong and debt is below the regional median. However, Ghana (B/Negative) faces a high interest burden and the recent sharp rise in Eurobond yields may complicate refinancing.

Further, the report notes that in southern Africa, Lesotho (B/Negative), Namibia (BB/Negative) and South Africa (BB-/Stable) are still struggling to stabilise public finances amid low growth and socio-political challenges. Interestingly, Mozambique (CCC) could be boosted in the medium term by large natural gas projects, but some governance challenges pose risks. Ethiopia (CCC) and Zambia (RD) were seeking (at the time) debt restructuring under the G20 Common Framework.

The main oil exporters in the region being Angola (CCC), the Republic of Congo (CCC), Gabon (B-/Stable) and Nigeria (B/

Stable) have already gone through a period of adjustment since the 2014-2015 oil price crash and will benefit from higher prices. It is notable that Cameroon (B/Stable) has handled the pandemic well, with barely a change in government debt, according to the report. Finally, the small tourism-dependent islands of Cabo Verde (B-/Stable) and Seychelles (B+/Stable) were expected to benefit from tourism recovery, despite further delays.

2. Ratings actions and outlooks

This section highlights the rating actions of select African sovereigns subject to availability of such information from January 2022 to May 2022.

NORTH AFRICA

Morocco (affirmation at 'BB+'; Outlook Stable)

On 13 May 2022 Fitch affirmed Morocco's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB+' with a Stable Outlook.

Morocco's 'BB+' ratings reflect favourable debt composition, including a moderate share of foreign currency (FC) in total general government (GG) debt and official creditor support; reasonably comfortable external liquidity buffers; and a record of macroeconomic stability, reflected in relatively low inflation and GDP volatility pre-pandemic. These strengths are balanced against weak development and governance indicators, high public debt and budget and current account deficits (CAD) larger than peers.

Fitch expects the CG fiscal deficit to remain large at 6.6% of GDP in 2022 and 6% in 2023, exceeding the 'BB' median forecast of 3.8% in 2023. Large fiscal deficits and economic slowdown will drive a rise in CG debt in 2022 to 79% of GDP

and 81.6% in 2023, from 74.2% in 2021. Fitch forecast GG debt, which includes social security and local authority debt, will increase in 2023 to 73% ('BB' median 55% of GDP), from 69.8% in 2020. Fitch project debt will be broadly stable from 2023 onwards. However, fiscal financing flexibility is underpinned by access to a large domestic investor base and strong official creditor support (71.5% of external debt), containing fiscal funding risks. 77% of CG debt was dirham-denominated at end-2021, limiting exchange rate risks.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Public Finances: A persistent upward trend in government debt/GDP beyond our current forecast, reflecting large fiscal deficits or materialisation of contingent liabilities on the sovereign's balance sheet.
- Macro: Weaker growth prospects or more entrenched GDP volatility, alongside a weakening in policy framework. This could lead to the removal of the +1 qualitative overlay notch adjustment on Macro.
- External Finances: A deterioration in external resilience, for example from a sizeable drawdown in international reserves or persistently wide current account deficits leading to steep rise in net external debt/GDP.
- Structural: Adverse security developments or social instability affecting macroeconomic performance or leading to significant fiscal slippages.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Public Finances: A material and sustained fall in general government debt/GDP over the medium term, underpinned by a narrowing of the fiscal deficit.
- External Finances: Sustainable narrowing of the current account deficit that reverses the recent upward trend in net external debt/GDP.
- Macro: Stronger medium-term growth prospects underpinned by economic reforms and economic diversification allowing less volatile rates of GDP growth.

WEST AND CENTRAL AFRICA

Benin (affirmation at 'B+'; Outlook Stable)

On 08 Apr 2022 Fitch affirmed Benin's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B+' with a Stable Outlook.

Benin's 'B+' rating reflects strong trend growth, government debt to GDP that is lower than peers and a recent record of economic reforms and prudent fiscal policies, balanced against low government revenues and a relatively undiversified economy heavily exposed to Nigeria and the cotton sector. The government estimates the fiscal deficit widened from 4.7% of GDP in 2020 to 5.7% in 2021, lower than the 6.5% deficit expected in the supplementary budget. Improved revenue performance (+13.7% in 2021), thanks to continued revenue-raising administrative measures in tax and customs collection, has not fully offset the increase in spending (+13.3%), notably capital spending, which increased by 29%.

The 2022 budget foresees a deficit of 4.5% of GDP. It projects 2% lower spending and 13% higher revenue than 2021 estimates. The West African Economic and Monetary Union's (WAEMU) convergence pact, with a deficit ceiling of 3% of GDP, was suspended in response to the pandemic. A return to the target is expected for 2024–2026 at the regional level. Beninese authorities plan to return the regional deficit ceiling by 2024, but fiscal consolidation could be more gradual given economic uncertainties due to the global spill-overs from the war in Ukraine. For example, the government plans to lift security spending and wages, and to implement temporary subsidies to mitigate the rise in food prices (estimated at 0.8% of GDP) in 2022. Fitch expect the deficit to decline to 4.9% of GDP in 2022 and 4.1% in 2023. However, the tension between the government's ambition to accelerate development and the pressure to maintain fiscal sustainability raises uncertainty for the fiscal trajectory.

Fitch expects Benin to conclude a new IMF programme in 2022, to anchor the development plan and support the government's efforts to increase revenue mobilisation. Benin's low domestic revenue mobilisation constrains government spending and weakens debt sustainability metrics. Gradual fiscal consolidation and continued economic growth will result in debt stabilising at around 49% of GDP. Contingent liability risks are low, with only one sovereign guaranteed loan of 0.1% of GDP, non-guaranteed state-owned enterprise debt of 1.7% of GDP (at end-2020), and no contingent liabilities related to public private partnership outstanding.

Benin's financing flexibility has improved. In 2021, it issued two Eurobonds, including Africa's first Sustainable Development Goal bond (EUR500 million, 4.95%, 2035). Eurobond issuance has allowed Benin to extend and smooth the maturity profile over the coming years. Benin benefits from strong official creditor support. Fiscal financing needs will be around 10% of GDP in 2022. We expect funding from a new IMF programme, official creditor support and domestic issuances will cover Benin's funding needs in the medium term.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Public Finances: Failure to stabilise debt/GDP over the medium term, for example, due to an extended period of fiscal easing driven by higher than projected investment and/or social spending.
- Macroeconomic Performance: A significant slowdown in trend growth, for example, due to insufficient progress in attracting foreign and domestic private investment, or macroeconomic shocks, sufficient to affect macroeconomic stability and/or public and external finances.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Public Finances: Fiscal consolidation that reverses the pandemic-induced rise in debt, combined with progress on fiscal-revenue mobilisation sufficient to address fiscal-sustainability risks related to a narrow revenue base.

- Macroeconomic Performance and External Finances: Progress on economic diversification that reduces exposure of the economy and the external accounts to fluctuations in border trade with Nigeria and the cotton sector.

Republic of Congo (affirmation at 'CCC')

On 01 Apr 2022, Fitch affirmed the Republic of Congo's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'CCC'. Fitch typically does not assign Outlooks or apply modifiers to sovereigns with a rating of 'CCC' or below.

The 'CCC' rating reflects high government debt, weak governance indicators, high oil dependence and weak management of public finances with a recent history of defaults. It also reflects the possibility that the authorities seek debt re-structuring under the Common Framework with a potential impact on private creditors. The increase in oil prices and the recently agreed IMF programme reduce immediate liquidity pressures and substantially improve fiscal and external metrics.

Fitch expects government debt/GDP will decline from an estimated 88.5% in 2021 to 64.3% by 2023 as high oil prices provide a boost to the denominator and significantly improve fiscal balances, but the weak management of public finances remains a constraint on the rating. Congo has a recent history of two consecutive defaults on its sole Eurobond in 2016 and 2017. The stock of arrears is high, with domestic and external arrears amounting to 14.6% and 9% of GDP, respectively.

Fitch expects an easing of government financing needs and an acceleration in the clearance of arrears in 2022 and 2023. Fitch forecast Congo to reach cash surpluses of 2.5% of GDP in 2022 and 0.6% in 2023, from a surplus of 1.0% of GDP in 2021, on the back of higher oil prices. Fitch's cash balance forecasts assume a clearance of arrears equivalent to 4.1% and 3.2% of GDP this year and next, implying significant fiscal surpluses on a commitment basis. Fitch also expects the government to use higher revenue to boost capex, which we expect to reach 4.7% of GDP in 2023 from 2.6% in 2021. Upcoming amortisations are high, at 8.2% and 7.4% of GDP in 2022 and 2023, respectively.

Congo's financing options have increased with the agreement of a new three-year IMF Extended Credit Facility programme for USD456 million over three years. Congo had not been able to secure budget support from bilateral or multilateral sources during the pandemic, and in contrast to many low-income countries, did not receive pandemic emergency funding from the IMF in 2020, although it obtained debt service relief under the G20/Paris Club Debt Service Suspension Initiative. Fitch estimates that the completion of the quantitative performance criteria of the programme in 2022 will likely be facilitated by the sharp rise in oil revenue. The new programme will also unlock additional multilateral lending on concessional terms. Additional financing needs will be met by issuance in the domestic government bonds market.

Congo is resolving its high stock of arrears. The country rescheduled USD386 million (2.6% of GDP) of external debt service and arrears under the DSSI during 2021 and 2022. It is also currently negotiating the resolution of external arrears owed to Chinese companies and a small portion of arrears to suppliers (combined 1% of GDP). The country reached a restructuring agreement of its debt to Glencore in January 2022.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Increased signs that default is probable, for example if the government decides to pursue a restructuring under G-20/Paris Club Common Framework, including debt to private creditors.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Public Finances: A sharp decline in public debt-to-GDP, accompanied by a durable easing of sovereign financing stress, for example due to sustained higher oil revenue and/or international financing sufficient to raise confidence in Congo's ability to meet its financing needs could lead to an upgrade.
- Public and External Finances: Increased confidence that the country will not seek a debt restructuring under the G-20/Paris Club Common Framework that could have implications for private creditors.

Gabon (affirmation at 'B-'; Outlook Stable)

On 04 Mar 2022, Fitch affirmed Gabon's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B-' with a Stable Outlook.

The 'B-' rating balances Gabon's high GDP per capita and improved near-term fiscal metrics due to higher oil prices against weak public finance management, recurring difficulties to secure expected funding and Gabon's dependence on oil revenues. The 2022 budget forecasts the deficit at 0.7% of GDP, based on a USD60/barrel oil price. It projects stable spending and 18% higher revenue than 2021 budget projections. Fitch expects the deficit will decline to 0.5% of GDP in 2022 and 0.2% in 2023, supported by higher oil revenues, IMF reforms and the economic recovery. Fitch expects capital expenditure to recover, but to a lower level than budgeted. A gradual reduction of tax exemptions, supported by the IMF programme will represent an important structural improvement.

Gabon has faced recurring difficulties in obtaining planned funding from official creditors, highlighting public financial management weaknesses and limited financing flexibility. In 2021, Gabon did not receive budgeted funding from the African Development Bank (USD72 million) and the IMF's disbursement of USD108 million represented half of the amount expected by the authorities. These funds are expected to be disbursed in 2022. During 2021, Gabon failed to clear some arrears on its debt, which represented 0.7% of GDP (USD125 million).

Fiscal financing needs have eased relative to recent years, although they remain important at 7.3% of GDP in 2022, and 4.8% in 2023. In 2021, Gabon issued USD800 million (4.4% of GDP) Eurobonds to buy back Eurobonds amortising between 2022 and 2024 and bonds equivalent to 6% of GDP were issued on the regional market in 2021. We do not anticipate international market issuance in 2022 and 2023. Instead, the authorities plan to rely on domestic financing (about 3.4% of GDP), to make up part of the shortfall not covered by official external financing.

Fitch baseline assumption of low fiscal deficits and an improving macroeconomic backdrop point to government debt falling to 64.5% by end-2023, below the 2023 'B' median forecast of 67.6%. Fitch projects the Current Account Deficit (CAD) to moderate to 1.2% of GDP in 2022 thanks to oil price and production dynamics, and gradual export diversification. However, as imports recover Fitch projects the CAD will widen to 2.8% of GDP in 2023.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Public Finances: Renewed upward trends in debt/ GDP ratio, for example, as a result of a failure to narrow the fiscal deficit or weaker GDP growth.
- Public and External Finances: Renewed external financing pressures, which may be evident from new external arrears.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Public and External Finances: A sustained narrowing of the fiscal deficit, improvement in building fiscal buffers and clearance of arrears alongside improvements in public finance management sufficient to bolster confidence in Gabon's ability to prevent the accumulation of external arrears and obtain planned external funding. This could lead to the removal of the -1 qualitative overlay notch adjustment on public finances.
- Public Finance: Increase confidence on continued debt reduction as a result of continued fiscal consolidation.
- Macro: Stronger medium-term growth resulting from a pick-up in non-oil activities and further diversification of the economy and fiscal revenues away from oil.

Ghana (downgrade 'B-'; Outlook Negative)

On 21 January 2022, Fitch downgraded Ghana's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'B-' from 'B'. The Outlook is Negative.

The downgrade of Ghana's IDRs and Negative Outlook reflect the sovereign's loss of access to international capital markets in the second half of 2021, following a pandemic-related surge in government debt. This comes in the context of uncertainty about the government's ability to stabilise debt and against a backdrop of tightening global financing conditions. In our view, Ghana's ability to deliver on planned fiscal consolidation efforts could be hindered by the heavier reliance on domestic debt issuance with higher interest costs, in the context of an already exceptionally high interest expenditure to revenue ratio.

Ghana's effective loss of market access to international bond markets increases risks to its ability to meet medium-term financing needs. In our view, Ghana has sufficient liquidity and other available external financing options to cover near-term debt servicing without Eurobond issuance. However, there is a risk that non-resident investors in the local bond market could sell their holdings, particularly if confidence in the government's fiscal consolidation strategy further weakens, placing downward pressure on its reserves. Ghana's international reserve position has become highly reliant on annual Eurobond issuance. Moreover, as of July 2021, non-resident investors held just below 20% (USD5.8 billion) of Ghana's outstanding domestic government debt. While the maturity of these holdings is long-term, an outflow would put additional downward pressure on Ghana's reserves.

We forecast that Ghana will face approximately USD2.7 billion (3.3% of GDP) in sovereign external interest service and amortisation payments in 2022. Fitch is of the view that the government can meet its external debt servicing without market access given its reserves, which they estimate at USD7.9 billion at end-2021 (3.2 months of current external payments). Reserves were bolstered by USD3 billion in Eurobonds in 2Q21, which helped the government to meet its approximately USD3.5 billion (4.7% of GDP) in sovereign external debt servicing costs last year, and by the USD1 billion IMF SDR allocations.

Fitch forecasts the general government fiscal cash deficit to narrow to 9.1% of GDP in 2022 from 15.1% in 2020 and 12.5% in 2021 (including 3% of GDP in domestic arrears clearance and payments related to the state-owned energy sector). The 2022 deficit would still be more than twice the 2022 'B' median of 4.6% and risk to public finances remain high. The government envisages a deficit (including financial and energy sector support) of 7.4% in 2022 and 5.5% in 2023, with a fall to below the legal deficit ceiling of 5% in 2024. The government's fiscal consolidation plans are focused on revenue measures adopted in the 2022 budget, including a new 1.75% e-levy on certain digital transactions and changes to the calculation of certain taxes and import duties. The medium-term fiscal framework envisages that these new revenue measures, together with fading pandemic-related expenditure, will drive an increase in government revenue to 20.0% of GDP in 2022 from an estimated 15.4% in 2021.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- External Finances: A decline in international reserves sufficient to lead to increased financing stress that could arise as a result of a prolonged lack of access to international capital markets or from an outflow of non-resident investors from the domestic debt market.
- Public Finances: Further deterioration in fiscal liquidity conditions or signs of difficulty in meeting debt servicing costs, for example from a failure to source new external financing or from increased pressure on domestic debt markets.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- External Finances: A sustained resumption of the sovereign's access to international capital markets, or a sustained improvement in Ghana's external liquidity, such as an increase in international reserves occurring through non-debt-creating flows.
- Public Finances: Greater confidence in the government's ability to source external financing, and/or place onto a downward path, public debt/GDP, for example, through the sustained implementation of a credible post-pandemic fiscal consolidation strategy.

Nigeria (affirmation at 'B'; Outlook Stable)

On 14 March 2022, Fitch affirmed Nigeria's Long-Term Foreign-Currency Issuer Default Rating (LTFC IDR) at 'B' with a Stable Outlook.

Higher global oil prices will drive an improvement in external liquidity and support near-term economic growth. These improvements are balanced against high hydrocarbon dependence, which leaves Nigeria vulnerable to negative oil price shocks, and structurally low domestic revenue mobilisation. The continuation of fuel subsidies will limit upside from higher oil prices on Nigeria's public finances. Forecasts are based on Fitch's December 2021 oil price assumptions (USD70 per barrel in 2022 and USD60 per barrel in 2023), but Fitch has considered alternate oil price scenarios, including oil prices at current levels. While substantially higher oil prices could lead to a higher outcome of Fitch's Sovereign Rating Model (SRM), Fitch deem such a change temporary and reflective of Nigeria's high exposure to oil prices, which also entail heightened risks of a renewed downcycle.

Nigeria's gross international reserves have been bolstered by higher oil export receipts, which will continue in 2022. Fitch forecast reserves to increase to USD43 billion in 2022, up from USD40.5 billion at end-2021. They estimate that the combination of oil exports and remittance inflows helped to bring the current account (CA) into balance in 2021 after a deficit of 4.2% of GDP in 2020. Our baseline assumption is for the CA balance to remain broadly unchanged in 2022 but sustained higher oil prices at their present level of USD112 per barrel could widen the 2022 current account surplus to 4% of GDP, with upside to Nigeria's international reserves.

Fitch forecast general government debt, including the Federal Government of Nigeria's (FGN) overdraft with the Central Bank of Nigeria (CBN), to increase to 32% of GDP by end-2022, well below the current 'B' median forecast of 79.1%. Debt affordability metrics related to revenue are helped by an increase in non-oil revenue to an estimated 5.6% of GDP in 2021, from an average of 3.9% in the previous five years. However, debt still stood at 348% of revenue end-2021, above the current 'B' median of 325%. The ratio of FGN debt to FGN government revenue is much higher, at over 755%. If oil prices remain above Fitch's current assumptions, higher nominal GDP and oil revenue will likely lead to some improvement in debt metrics.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- External Finances: Significant intensification of external liquidity pressures, for example, illustrated by a rapid drawdown in reserves or a sustained period of low oil prices.
- Public Finances: Larger fiscal deficits or worsening debt metrics, as could occur through continuing weaknesses in the fiscal policy framework, for example, the fuel price subsidy or the large central bank financing of the sovereign.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- External Finances: Stronger resilience of external finances from a durable recovery in international reserves or from sustained current account surpluses.
- Public Finances: Credible path to stronger mobilisation of domestic non-oil revenue sufficient to significantly lower the particularly high debt- and interest-to-revenue ratios.
- Macroeconomic Performance: A strengthening of trend economic growth supporting a recovery in GDP per capita and a durable moderation in inflation.

Rwanda (Rating Affirmation at B+, Outlook Negative)

On 06 May 2022, Fitch affirmed Rwanda's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B+' with a Negative Outlook.

Rwanda's 'B+' rating reflects its low level of GDP per capita and persistent twin budget and current account deficits, which have led to high and rising public and external indebtedness. These weaknesses are balanced by strong governance relative to peers, a record of stable macro performance, high medium-term growth potential and the highly concessional nature of Rwanda's public sector debt. Fitch forecasts Rwanda's fiscal deficit to narrow to 7.1% and 6.0% of GDP in FY22 (fiscal year ends in June 2022) and FY23, respectively, from an average deficit of 8.6% in FY20 and FY21, but to remain wider than the 4.7% for the 'B' median.

Fitch estimates Rwanda's gross financing needs to amount to 14.4% of GDP in 2022. This includes the fiscal deficit plus amortisations worth 7.3% of GDP. Fitch expect the amortisation of domestic maturities to reach 5.8% of GDP, while the amortisation of external debt will add up to 1.0% of GDP. Fitch also expect the government to amortise state-owned enterprise debt worth 0.5% of GDP. These needs will be met through a combination of external official financing, proceeds from the country's 2021 Eurobond issuance, the use of its 2021 SDR allocation and issuance in the domestic market.

Fitch does not expect the government will face difficulties in financing itself in the domestic market, despite an increase in interest rates, given available liquidity in the banking sector. Rwanda's high share of fixed-rate government external debt and funding from bilateral and multilateral sources helps insulate it from the impact of higher global interest rates and a more challenging external financing environment.

EAST AND SOUTHERN AFRICA

Seychelles (Outlook revised to positive from stable, affirmation of rating at 'B+')

On 13 May 2022, Fitch revised the Outlook on Seychelles' Long-Term Foreign-Currency Issuer Default Rating (IDR) to Positive from Stable and affirmed the IDR at 'B+.

Seychelles' budgetary metrics in 2021 met or exceeded the targets set by the IMF in its last Extended Fund Facility (EFF) review, with the primary deficit outturn of 3.1% of GDP overperforming the target by 3.3pp (and declining by 12.4pp yoy). Stronger than expected economic growth, high inflation and under-execution of capital expenditures all contributed to the improvement, as did improved revenue collection efforts.

In 2022, authorities will implement some fiscal measures (estimated at 0.2pp of projected 2022 GDP) to support low-income households in dealing with the impact of higher than expected inflation. Notwithstanding this, the strong increase in revenues and otherwise subdued expenditure growth will cause the fiscal deficit to decline to 2.8% of GDP in 2022 and 1.5% in 2023 (2020: 15.5%; projected 'B' median: 3.8%).

Public debt/GDP fell to 74.9% of GDP in 2021 (versus Fitch's expectation of 77.3%; 2020: 92.3%), owing to strong nominal GDP growth, and reduced borrowing requirements due to strong budgetary performance. Authorities are seeking to move away from higher-cost domestic funding and benefit from multilateral and bilateral loans, and external grants for financing.

The debt trajectory is set to remain downward, barring a major fiscal or currency shock (49.4% of general government debt was FX-denominated as of end-2021). The successful conclusion of the 32-month EFF Arrangement by the IMF in December 2021 allowed Seychelles to draw down a further USD33.6 million (1.8pp of GDP) in disbursements, which will be supportive of public finances as well as the external reserves position.

Seychelles benefits from a stable and largely predictable macroeconomic, fiscal and monetary policy framework. A liability management operation in 2021 successfully extended the maturities of the domestic debt portfolio, reducing short-term vulnerabilities. In Fitch's view, transmission of monetary policy is somewhat constrained by the high levels of dollarisation in the economy. The currency is floating and a trend of appreciation since mid-2021 has helped soften external inflationary pressures. Authorities also reduced contingent liability risks arising from Air Seychelles in 2021.

Seychelles' external finances are a key rating weakness in comparison with peers, driven by chronically large current account deficits (CAD; 2016–20 average: 19.5% of GDP; current 'B' median: 4%). High crude prices and higher imports associated with investments will keep the CAD high, at a forecast average of 20.5% of GDP in 2022–23.

Increased FDI in hotels and resorts are expected in 2022–23, although they will not fully cover the CAD. Furthermore, the country may be reaching the limits of capacity expansion for

large-scale resort projects, which organically reduces the scope for further investment. Net external debt, projected at 73.3% of GDP by end-2023, is 2.5x the peer median. However, the Seychelles' external liquidity position is strong and above peer medians, at over 160% at end-2021, significantly mitigating immediate balance of payments-related risks.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- External Finances: Acute balance-of-payment pressures, for example from a sharp drop in tourism receipts, leading to a sustained fall in FX reserves and higher external debt ratios.
- Public Finances: Failure to place GGGD/GDP on a firm downward path over the medium term, for example due to sharply lower growth prospects or a sharp reversal of fiscal consolidation.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Public Finances: Greater confidence that GGGD/GDP remains on a firm downward trajectory beyond 2022, supported by stable fiscal consolidation.
- External Finances: A reduction in external vulnerabilities, for example, from a narrowing of the current account deficit, net of FDI, driven by resilience in the tourism sector, supporting a higher reserve coverage ratio and reduction in net external indebtedness over the medium term.

Angola (upgrade from 'CCC' to 'B-'; Outlook Stable)

On 21 January 2022, Fitch upgraded Angola from 'CCC' to 'B-' Outlook stable. Angola has demonstrated significant improvement in the country's fiscal and external metrics underpinned by a return to positive economic growth, sound fiscal management and higher oil prices. Angola's heavy dependence on oil, accounting for on average 34% of GDP, 56% of fiscal revenue and grants and 96% external receipts during the five years to 2020, has led to substantial improvements on key credit metrics. Fitch forecast Central Government (CG) debt to decline to 74.8% of GDP in 2022 and 73% in 2023. The lower debt ratios are the result of substantially higher nominal GDP (up 32.4% in 2021, partly reflecting oil prices), a stabilisation of the kwanza (with the earlier depreciation an important driver for rising debt in previous years, given foreign-currency denominated debt makes up 70% of total debt) and continued commitment to fiscal consolidation. Despite the sharp reduction, Angola's debt remains above the current 'B' median (68% of GDP).

Fitch estimate the CG cash surplus at 2.5% of GDP in 2021 and forecast a surplus of 1.1% of GDP in 2022, amid stronger GDP growth and broadly stable oil prices. We expect expenditure to remain broadly stable relative to GDP. Covid-19 will continue to exert some spending pressure and we expect the government will avoid further fiscal consolidation ahead of 2022 elections.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Public Finances: Signs of a change in fiscal policy that reduces confidence in our forecast of continued debt reduction, for example as a consequence of increased social pressure.
- External Finances: A resurgence of liquidity pressures for example as the result of a renewed sharp fall in oil prices.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Public Finances: Continued substantial reduction in debt levels combined with a reduced dependence of public finances on oil revenue.

South Africa (affirmation at 'Ba2/BB'; Outlook Stable/Positive)

On 01 April 2022, Moody's changed the outlook on South African Government from negative to stable and affirmed the South Africa's long-term local currency and foreign currency issuer and senior debt ratings. The key driver behind the decision to change the outlook to stable is the improved fiscal outlook that raises the likelihood of government's debt burden stabilising over the medium term. While risks related weak state owned enterprises (SOEs) and social demands remain, they are consistent with a Ba2 rating.

On 20 May 2022, S&P Global Ratings revised South Africa's credit rating outlook to positive from stable, while affirming the long term foreign and local currency debt ratings at 'BB-' and 'BB', respectively. According to S&P, recent favourable terms of trade in South Africa have improved the external and fiscal trajectory, while the country's reasonably large net external asset position, flexible currency and deep domestic capital markets provide strong buffers against shifts in external financing.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A further erosion in South Africa's economic growth prospects and renewed deterioration of in its fiscal strength would likely lead to a downgrade. Indications that the SOE sector requires fiscal support well beyond Moody's current assumptions, thus inhibiting the government's fiscal consolidation efforts would also exert downward pressure on the ratings.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A rating upgrade would likely follow if South Africa demonstrated significant progress towards alleviating structural constraints on growth, strengthening the prospects of a decline in government debt. Firm signs that the rehabilitation of the energy sector is underway would also be a key marker, pointing to a higher growth and lower contingent liability risks.

Zambia (affirmation at 'LTFC-IDR-RD'/LTLC-IDR-CCC')

05 Apr 2022: Fitch affirmed Zambia's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'RD'. Fitch has also affirmed the Long-Term Local-Currency (LTLC) IDR at 'CCC'.

The 'RD' rating reflects that Zambia has not serviced the bulk of its outstanding external debt since failing to make a Eurobond interest payment in October 2020. Subsequently, the government announced that it would stop servicing all of its external debt, excluding some priority project loans, and applied for debt relief under the G20 Common Framework (CF). In December 2021, the government reached staff-level agreement on an IMF programme, which clears the way for convening of an official bilateral creditor committee to discuss potential debt treatments. The affirmation of Zambia's 'CCC' LTLC IDR reflects that the government continues to service its local-currency debt.

The 'CCC' rating reflects that the government has continued to service its local-currency debt and has not announced any plans to restructure domestic debt as part of the CF. Domestic banks and other institutions hold the majority of outstanding domestic debt; although the stock of non-resident investment increased in 2020 and 2021 and is now 28% of the total. A domestic debt restructuring could create additional liabilities to the government, making it counterproductive. However, the domestic debt stock is large at ZMW197 billion (48% of GDP). The size of the necessary overall debt treatment, as well as the size of the necessary fiscal adjustment, mean that sizable risks to domestic debt will persist.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- The LTLC IDR would be downgraded if the government announces clear plans to restructure its kwacha-denominated debt or enters a grace period on its local-currency debt. The LTLC IDR would be downgraded to 'RD' in the event that the government defaults on local-currency debt before any restructuring announcement.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Once Zambia reaches an agreement with bondholders on restructuring its long-term foreign- currency debt and completes that restructuring process (for example, by issuing new bonds to replace the existing stock of bonds), Fitch will assign ratings based on a forward-looking analysis of the sovereign's willingness and capacity to honour its new foreign-currency debt obligations.

Table 1: Credit Ratings of select African Sovereigns by S&P, Moody's and Fitch

Country	S&P	Moody's	Fitch
1. Angola	B-	B3	B-
2. Benin	B+	B1	B+
3. Botswana	BBB+	A3	
4. Burkina Faso	CCC+		
5. Cabo Verde	B-		B-
6. Cameroon	B-	B2	B
7. Congo (DRC)	B-	Caa1(+ve)	
8. Côte d'Ivoire	BB-	Ba3	BB-
9. Egypt	B	B2(-ve)	B+
10. Eswatini		B3	
11. Ethiopia	CCC(-ve)	Caa2(-ve)	CCC
12. Gabon	N/A	Caa1	B-
13. Ghana	B-	Caa1	B(-ve)
14. Kenya	B	B2(-ve)	B+(-ve)
15. Lesotho			B(-ve)
16. Madagascar	B(+ve)		
17. Mali		Caa2(RuR-)	
18. Mauritius		Baa2(-ve)	
19. Morocco	BB+	Ba1(-ve)	BB+
20. Mozambique	CCC+	Caa2(+ve)	CCC
21. Namibia		B1	BB
22. Niger		B3	
23. Nigeria	B-	B2	B
24. Republic of Congo	CCC+	Caa2	CCC
25. Rwanda	B+(-ve)	B2	B+(-ve)
26. Senegal	B+	Ba3	
27. Seychelles			B(+ve)
28. South Africa	BB(+ve)	Ba2	BB-
29. Tanzania		B2	
30. Togo	B	B3	
31. Tunisia	N/A	Caa1(-ve)	CCC
32. Uganda	B	B2	B+(-ve)
33. Zambia	SD	Ca	RD

Source: Trading Economics, Moody's, S&P, Fitch (May 2022)

Domestic resource mobilisation in reducing high debt and debt related costs by governments in Africa

Policies that foster resource mobilisation have become urgent to reduce debt sustainability concerns and mitigate default risk.

Domestic Resource Mobilisation is critical for addressing the socio-economic challenges faced by many countries in Africa, as well as ensuring sustainable development. In many low- and middle-income countries however, domestic revenue sources are scarce and often not sufficient to finance socio-economic expenditure and investment towards the developmental agenda. This often results in cuts to investments on new infrastructure or even the maintenance of existing infrastructure and further puts pressure on sustaining daily operating activities. Furthermore, in 2010 the North-South Institute indicated that tax base of many African countries is eroded by high levels of capital flight, tax evasion and tax avoidance.

When faced with budget pressures, many governments resort to debt markets to fund budget shortfalls. However, this is not always sustainable considering the rising debt levels and debt related costs such as interest payments. As an illustration, following the pandemic shock – public debt climbed to 60% of GDP in 2020, from 57% of GDP the previous year. The median debt-to-GDP ratios remained elevated, with little change at 61% of GDP in 2021. While the debt levels in the Sub-Saharan Africa masks a lot of challenges, it is important to note that the share of countries in high risk of debt distress grew from 52.6% in 2020 to 60.5% in 2021.

Of the USD195 billion external debt owed to private creditors, which is greater than that owed to multilateral creditors as well as official bilateral creditors, respectively – debt service payments on Sub-Saharan Africa's public and publicly guaranteed debt amounted to USD40 billion, and nearly two-thirds (USD26 billion) was paid to private creditors (refer to the World Bank *Africa's Pulse* report, April 2022). Some of the budget shortfalls are self-inflicted as many governments suffer from various forms of leakages, both in the private and public sector, in the form of corruption, Illicit Financial Flows (IFFs) and the broader acts of IFFs.

In January 2015, Business Tech (a South African publication), quoting the Institute of Internal Auditors, stated that South Africa lost R700 billion to corruption between 1994 and 2014. Other African countries are not immune to corruption, which contribute to revenue leakages thereby depriving needy communities of socio-economic services that should be financed to improve their socio-economic status.

IFFs are also contributing to severe development challenges and funding pressures for many African countries particularly through trade mispricing in the export of commodities in the extractives sector as well as profit-shifting used by multinational corporations in tax-free jurisdictions. The 2021 Report of the High-Level Panel on International Financial

Accountability, Transparency and Integrity for Achieving the 2030 Agenda estimates that the cost to countries is around USD500 to USD600 billion. The same report indicates that in September 2020, United Nations Conference on Trade and Development argued that curbing IFFs in Africa could cut by half the continent's annual financing gap of USD200 billion. Doing so over time would mean less reliance on debt markets to fund budget shortfalls. However, this can only happen if there is a coordinated effort to reduce IFFs.

There are various ways in which African governments can effectively mobilise domestic revenue sources to reduce their debt burden, including building the capacity of various institutions like Revenue Administrations/Authorities with a focus on tax compliance and strengthening the powers of Law Enforcement Agencies to address irregularities. Furthermore, there is a need to build strong capabilities of various government agencies to protect revenue mobilisation, effective allocation of public resources and improve efficiencies in public spending.

In building capacity of Revenue Administrations/Authorities, specifically on tax compliance, there is a need to target investment towards technology infrastructure and digitalisation to make it easy for taxpayers to access taxpayer services. This could augment human resource capacity, which would be further equipped to implement various legislations, administering additional or potential taxes and be able to interpret and communicate tax legislations to various taxpayers – therefore expanding the tax base and revenue mobilisation effort through more efficient tax compliance systems. This will be particularly useful in ensuring readiness to raise taxes from traditional and potential new sources like carbon tax and the digital economy. Furthermore, capacity building should explore the intersection between environmental, social and governance taxation.

Revenue protection, effective allocation of public resources and efficiencies in spending of public resources will play a vital role in managing high debt levels and related costs. Governments must ensure that those charged with allocating financial and non-financial resources have the know-how and expertise to do so with the intention of directing public resources for the benefit of citizens. This requires ethical and servant leadership at the top, dedicated officials who administer public funds and oversight structures or bodies that ensure that public funds are used for intended purposes.

These initiatives will play an important role in ensuring that domestic revenue mobilisation is enhanced in a way that contributes to reducing budget deficits of various governments, helps repaying debt obligations and reduce future reliance on debt markets for funding public value creation.

COUNTRY SPOTLIGHT: How public debt initiatives in Kenya help accelerate economic recovery for improved livelihoods

Kenya delivered the budget policy statement for the fiscal year 2022/23 with a theme, 'Accelerating Economic Recovery for Improved Livelihoods'. Simply stated, the government will implement economic policies and undertake structural reforms geared towards improving the welfare of Kenyans. Following the easing of COVID-19 restrictions, reopening of the economy as well as targeted stimulus intervention by government, the economy registered strong recovery of 9.9% in the third quarter of 2021. Overall, the economy is estimated to have expanded by 7.6% in 2021, a much stronger level from the contraction of 0.3% in 2020.

While noting the risks emanating from the domestic and external front to the growth outlook for 2022/23 projected to stabilise at 6.0% – supported by agriculture; industry; and services sectors, the government will continue to safeguard macroeconomic stability. Amongst a number of key considerations, the budget will:

- Enhance the role of the private sector in the economy, including financing infrastructure projects through the Public Private Partnership;
- Promote and strengthen local and foreign resource mobilisation efforts to sustain funding of the identified development projects and programmes.

Through implementing socio-economic policies and structural reforms, Kenya has graduated from a low-income to a lower middle income. At a macroeconomic level, the economy has grown by 155% from the value of Ksh 5.3 trillion in 2013 to Ksh 13.5 trillion in 2022. With regard to infrastructure, the government has constructed 10,500 km of tarmacked roads spread across the 47 counties facilitating the efficient movement of people and goods thereby rapidly stimulating economic activities. With regard to State Corporations Reforms, the government has undertaken a comprehensive assessment of vulnerabilities of State Owned Enterprises and to enhance their operational and financial efficiency as follows:

- A Blue Print on Governance Reforms will be implemented, which will enforce and separate roles and responsibilities among institutions that exercise oversight;
- Implementation of the Government Investment Management Information System (GIMS) to capture among others, all loans advanced to the enterprises will be fast-tracked;

- Extend the coverage of financial evaluation to other State Owned Enterprises to be able to anticipate, quantify, monitor, manage and mitigate fiscal risks from State Corporations.

To deepen capital markets, the Government is undertaking a review of the legal and regulatory frameworks to address emerging issues in the capital market space. Further, government is installing a new Central Securities Depository System at the Central Bank of Kenya to support planned reforms in the secondary market trading of government bond.

In terms of the fiscal framework, one of the objectives of the economic recovery programme is to reduce debt vulnerabilities by pursuing a revenue-driven fiscal consolidation. In strengthening public debt management, Kenya has implemented reforms to strengthen debt transparency and accountability. The depth of coverage and disclosures on debt information has been enhanced in line with best practices. Kenya's debt carrying capacity is rated moderate and the overall public debt is sustainable. Measures to lower the cost and risk in the public debt portfolio have been implemented. These measures include:

- Cancellation of some non-disbursing external loans;
- Re-arrangement of the syndicated external loans;
- Increasing the issuance of Treasury bonds to lengthen the maturity structure, while improving debt sustainability indicators;
- Preferred debt financing of highly concessional loans offered at below market interest rates with long repayment periods;
- Recourse to commercial borrowing will be maintained at minimum levels.

Finally, the budget policy statement notes that the current legal numerical public debt ceiling has constrained public funding of projects while at the same time failing to consider the effects of external shocks on the economy. In this regard, the government proposes to replace the debt ceiling with a debt anchor and set it at 55% debt to GDP in present value terms. Further, a requirement was provided for the Cabinet Secretary National Treasury to report to Parliament whenever the debt levels swing beyond the threshold with time-bound remedial actions.

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