MARKET UPDATE
VOLUME 3

African Debt Outlook

A Ray of Optimism

Afreximbank Research

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Introduction

01

01-Introduction

Is Africa's Rising Debt a Ticking Time Bomb or a Stepping Stone to Sustainable Growth?

Global public debt is projected to reach a staggering $ 102 trillion in 2024, marking a $ 5 trillion increase from 2023. The fiscal policies of economic powerhouses like the United States and China primarily drive this surge. According to the IMF's October 2024 World Economic Outlook, the United States alone accounts for 34.6 percent of global government debt, with net interest payments expected to rise to $892 billion in the 2024 fiscal year. While Africa's public debt-to-GDP ratio remains relatively lower compared to other regions, the sustainability of its debt servicing has become a pressing concern, sparking intense policy debates across the continent.

Yet, amidst these challenges, there is a glimmer of hope. Recent initiatives suggest that Africa is making significant strides in stabilizing its debt profile, with a projected decline in debt levels expected by 2027-2028. This positive trajectory is fueled by favorable macroeconomic conditions, improved fiscal management, and enhanced access to capital markets. However, the question remains: **Can Africa sustain this momentum and transform its debt burden into a catalyst for long-term growth?**

This report delves into the complexities of Africa's debt landscape, examining emerging trends, identifying risks, and proposing actionable strategies to maintain this positive trajectory. It highlights the importance of fiscal discipline, structured debt relief initiatives, and diversified economic investments as key pillars for achieving sustainable debt management. Africa can navigate its post-crisis recovery phase by advocating reforms in international financial architecture, fostering greater transparency, and building a resilient economic future.

To secure this optimistic outlook, a multifaceted policy response is essential. Policymakers must prioritize effective expenditure management, revenue mobilization, and active participation in initiatives like the G20 Common Framework. Agriculture, manufacturing, technology, and tourism investments will reduce reliance on volatile commodity markets while advocating for fair creditor-debtor treatment to ensure a more equitable global financial system. The path ahead is challenging, but with the right strategies, Africa's rising debt could become a stepping stone to sustainable growth rather than a ticking time bomb.

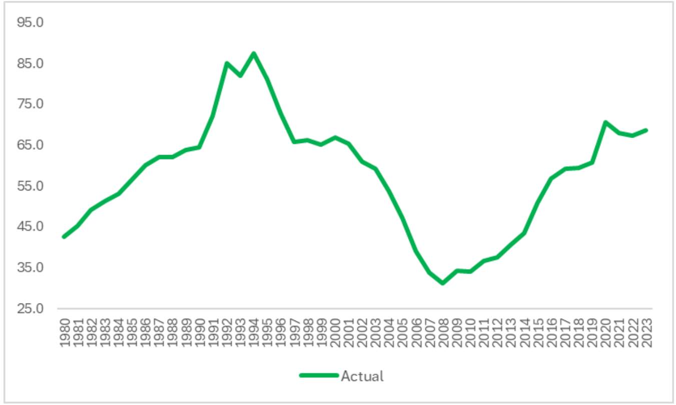
Knowing African Public Debt

02

02-Knowing African Public Debt

A. Legacy from a Series of Shocks

Figure 1: Africa's Central Government Debt in Percent of GDP, 1980-2023.



Source: Afreximbank Research, IMF World Economic Outlook, IMF Global Debt Database.

Many African countries have accumulated significant external debt due to structural, economic, and external factors. Historically, these economies have heavily relied on exports of primary commodities such as oil, minerals, and agricultural products. However, commodity prices' volatility and global economic slowdowns often reduce foreign exchange earnings, making it challenging for these countries to meet their debt obligations and resulting in further borrowing. Additionally, the high costs associated with infrastructure development, healthcare, and education in emerging markets necessitate extensive financing, often obtained through loans and other debt instruments. In previous decades, international initiatives like the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) provided significant debt relief to many African nations, alleviating some of their immediate debt burdens and allowing them to redirect resources to development projects. However, these relief efforts did not fully address the underlying structural challenges that led to recurring borrowings, such as limited export diversification and insufficient local revenue mobilization.

In recent years, various adverse shocks, including the 2008 global financial crisis, the COVID-19 pandemic, and the ongoing conflict in Ukraine, have significantly increased debt levels across Africa.

The COVID-19 pandemic and the Ukraine conflict have had different impacts on resource-exporting and resource-importing African countries. During the pandemic, oil prices fell dramatically, which severely affected oil-exporting nations such as Nigeria and Angola. In contrast, the Ukraine conflict resulted in a spike in oil and gas prices, benefiting exporters but also raising production costs. Many of these countries rely heavily on resource exports, leading to unstable government revenues and complicating fiscal planning.

For example, Zambia, a copper exporter, experienced revenue shortfalls when copper prices dropped during the pandemic. Resource-exporting countries often borrow against future commodity revenues, so when prices decline, servicing debt becomes unsustainable. Zambia defaulted on its Eurobonds in 2020 due to falling copper prices and increasing debt levels.

On the other hand, countries like Kenya and Senegal faced rising costs for essential imports, including fuel and food, during these global shocks. The Ukraine conflict disrupted global wheat and fertilizer supplies, driving up food prices and inflation in net-importing nations. These rising import expenses worsened current account deficits across the continent, depleting foreign reserves and weakening currencies. For instance, Kenya saw a sharp depreciation of its shilling in 2022 due to high energy import costs. The increase in import costs led to inflation, eroding purchasing power, exacerbating poverty, and triggering social unrest, as evident in protests over rising food and fuel prices in several African countries.

These crises have intensified existing fiscal vulnerabilities, constrained the region's growth potential, and worsened fiscal imbalances. Additionally, the urgent need to address infrastructure deficits has prompted several African frontier economies to increasingly tap into international capital markets, as evidenced by a rise in Eurobond issuances. Consequently, the continent's debt burden has grown substantially over the past 15 years.

Post-2008 GFC, the aggregated debt-to-GDP ratio surged by 39.3 percentage points, reaching 71.7 percent of GDP in 2023 (see Figure 1). Elevated global interest rates have further complicated the current landscape, amplifying debt-servicing challenges, particularly given the significant borrowing from non-traditional creditors, including private sector entities and emerging bilateral partners. This scenario underscores the imperative for robust fiscal management and effective strategies aimed at economic diversification to ensure long-term debt sustainability in Africa.

B. Key Stylized Facts on African Public Debt

Fact 1: Africa owes a significant amount of its debt to external creditors.

In the first half of 2024, ten African nations constituted 69 percent of the continent's total external debt stock, up from 67 percent in 2023. The countries leading this metric are South Africa (14 percent), Egypt (13 percent), Nigeria (8 percent), Morocco (6 percent), Mozambique (6 percent), Angola (5 percent), Kenya (4 percent), Ghana (4 percent), Côte d'Ivoire (3 percent), and Senegal (3 percent) (see Figure 2, Panel B). Africa's external debt levels remain elevated, primarily due to the limited development of domestic financial markets and high interest rates. The growing demand for foreign exchange to finance imports has further exacerbated external indebtedness, fueled by reliance on aid, concessional loans from multilateral institutions, and competitive rates offered by private creditors. Since 2008, the external debt of African countries has escalated significantly, reaching approximately US$ 1.16 trillion and representing 60 percent of the region's total public debt stock as of 2023. Projections indicate a slight increase to US$ 1.17 trillion in 2024, with sustained growth anticipated, potentially reaching US$ 1.29 trillion by 2028 (see Figure 2, Panel A). This trend is driven by the continent's increasing financing requirements, largely due to population growth pressures.

Fact 2: Most of Africa's total debt is long-term.

The continent's increasing need for financing, especially infrastructure development, requires long-term debt. Between 2008 and 2023, long-term debt increased compared to short-term debt (see Figure 2, Panel C). In 2023, long-term debt accounted for 75.0 percent of the continent’s total debt, while short-term and IMF debt comprised 15.9 percent and 8.9 percent, respectively. Projections show that from 2024 to 2028, long-term debt will remain the dominant form of debt, making up 75.7 percent, 75.9 percent, 76.2 percent, 76.4 percent, and 76.4 percent of the total debt, respectively.

Fact 3: Africa's debt owed to private creditors is rising.

Borrowing from private lenders allows for faster access to capital and fewer restrictions on how the funds can be used compared to development aid. Meanwhile, financial constraints in donor countries have led to a decrease in multilateral and bilateral assistance. The rise of new creditors has created more competition, allowing African nations to negotiate more favorable terms (see Figure 2, Panel D).

Private creditors have become increasingly prominent in Africa's debt profile due to several factors:

- *Declining Official Development Assistance (ODA):* Over the past decade, traditional bilateral and multilateral lenders (e.g., World Bank, IMF) have reduced their lending to African countries, pushing governments to seek alternative financing sources.
- *Access to International Capital Markets:* Many African countries have tapped into Eurobond markets since the early 2000s, issuing sovereign bonds to fund infrastructure projects and other development needs. For example, Ghana issued its first Eurobond in 2007, and Zambia followed in 2012. Private investors, including hedge funds and asset managers, often hold these bonds.
- *Higher Returns for Investors:* African sovereign debt often offers higher yields compared to developed markets, attracting private creditors seeking better returns in a low-interest-rate global environment.
- *Limited Concessional Financing:* As countries graduate from low-income to middle-income status (e.g., Ghana, Kenya), they lose access to concessional loans from institutions like the World Bank’s International Development Association (IDA), forcing them to rely more on commercial borrowing.
- *China’s Shift in Lending Practices:* While China has been a major lender to Africa, its lending has slowed in recent years, and it has become more selective, prompting African countries to turn to private creditors.

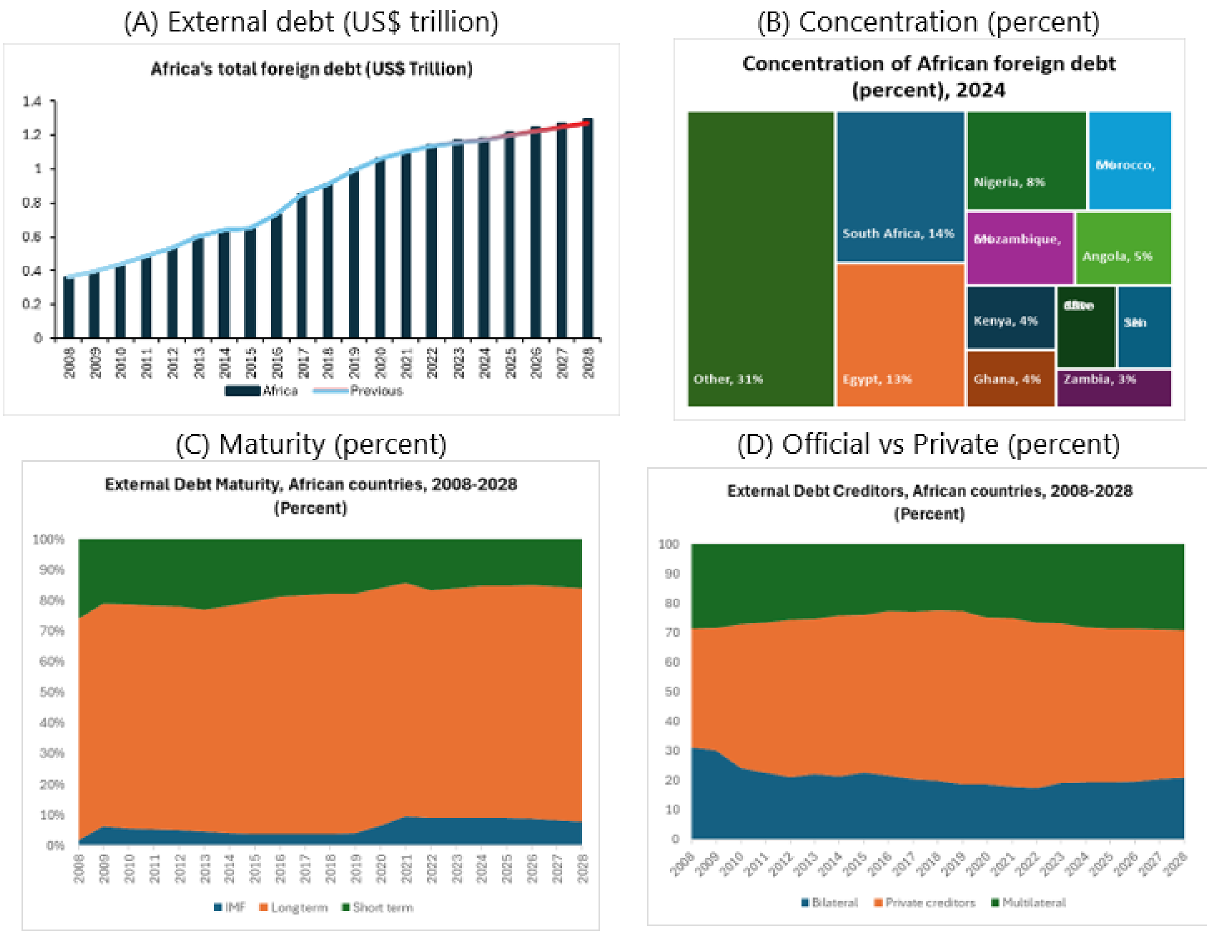
Fact 4: Borrowing costs in African countries have risen significantly in recent years.

The effective interest rates for borrowing in Africa have experienced a notable increase, peaking at 8.2 percent in 2024 (Figure 3, Panel A). This is a significant rise from the stable range of 5.4 percent to 6.3 percent observed from 2008 to 2019. This sharp increase suggests potential economic challenges such as rising inflation, increased risk perception among lenders, or tightening monetary policies. Additionally, interest payments as a percentage of GDP have shown a troubling upward trend, reaching 5 percent in 2024, up from 1.4 percent to 3.4 percent earlier (Figure 3, Panel B). This rise reflects growing debt servicing obligations that may strain national budgets and limit fiscal space for critical infrastructure and social services investments. Furthermore, the ratio of interest payments to government revenue peaked at 27.5 percent in 2024, compared to 6.8 percent to 19 percent observed between 2008 and 2019, indicating that a more significant portion of revenue is allocated to service debt (Figure 3, Panel B). This escalating trend highlights increasing fiscal pressures and suggests an unsustainable debt trajectory, raising concerns about the government's ability to fund essential programs and respond effectively to economic challenges without further incurring debt.

Fact 5: Although debt levels look reasonable compared to other regions, debt stress remains a concern in Africa.

Under the LIC-DSF framework for countries lacking market access, nine nations are identified as facing distressed debt situations (Figure 4): Ghana, Malawi, Mozambique, the Republic of Congo, São Tomé and Príncipe, Somalia, Sudan, Zambia, and Zimbabwe. Furthermore, 19 other countries are classified as having a high risk of debt distress, including Burundi, Cabo Verde, Cameroon, the Central African Republic, Chad, Comoros, Djibouti, Ethiopia, Gambia, Gabon, Guinea-Bissau, Kenya, Liberia, Mauritius, Sierra Leone, South Sudan, Equatorial Guinea, Togo, and Tunisia. Additionally, 14 nations are assessed to be at moderate risk of distress: Benin, Burkina Faso, Côte d'Ivoire, the Democratic Republic of Congo, Guinea, Lesotho, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Tanzania, and Uganda. In contrast, for economies with market access (MAC-DSF), sovereign risks in Egypt and Angola are categorized as high. Conversely, the sovereign debt profiles in Seychelles, Morocco, Namibia, Nigeria, and South Africa pose a moderate risk of debt distress. Lastly, sovereign risk is rated low in Botswana and Eswatini.

Figure 2: Stylized Facts on African Debt, 2008-28 (Percent of GDP)



Source: Afreximbank Research, IMF World Economic Outlook, IMF Global Debt Database, and Economist Intelligence Unit forecasts.

Figure 3: Cost of borrowing on African Debt, 2008-2028 (Percent)

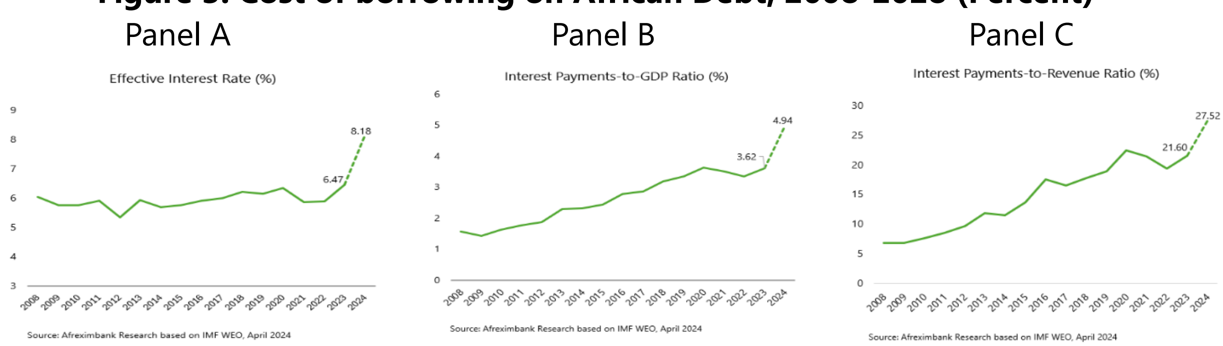
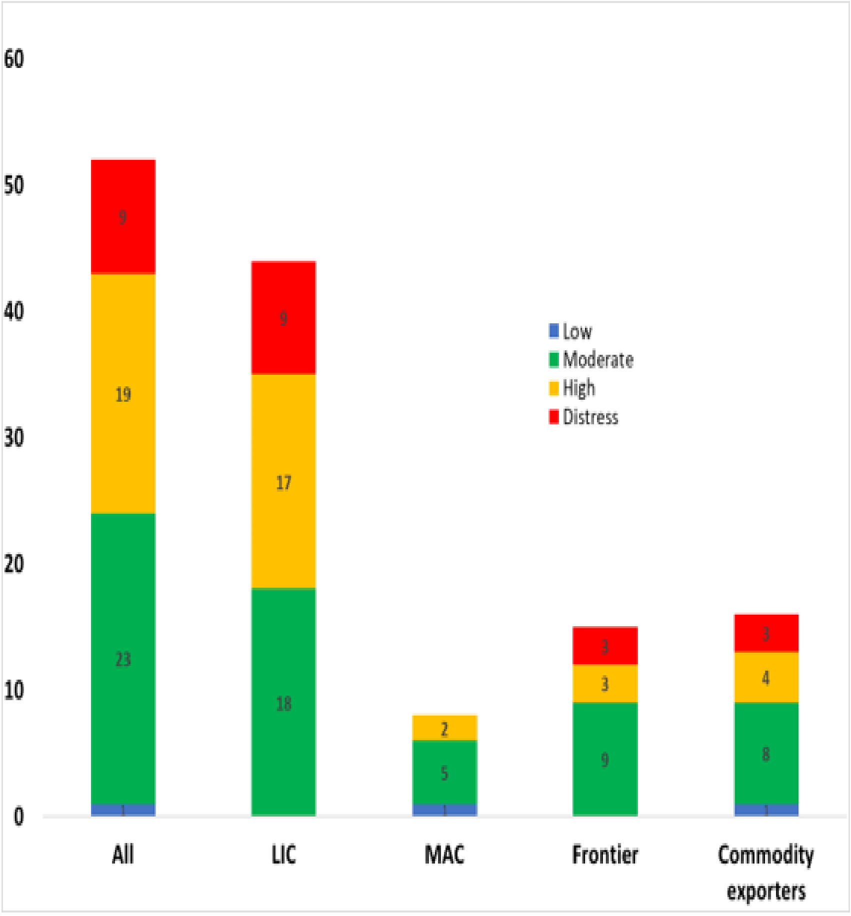


Figure 4: Debt Sustainability Assessment, Overall Risk Rating, African Countries, 2021-23, Latest Available



Source: Afreximbank Research based on LIC-DSA and MAC-DSA by the World Bank and IMF.

Recent Developments: A Dose of Optimism

03

03-Recent Developments: A Dose of Optimism

A. A Dose of Optimism

The economic outlook for Africa indicates favorable conditions for debt management, with a projected decline in the debt trajectory over the medium term. Forecasts for 2027-2028 suggest an average annual reduction of about 1.6 percentage points, signaling a long-term trend toward improved fiscal health. However, an expected increase of 1.8 percentage points is anticipated in 2024-2025 due to rising interest rates.

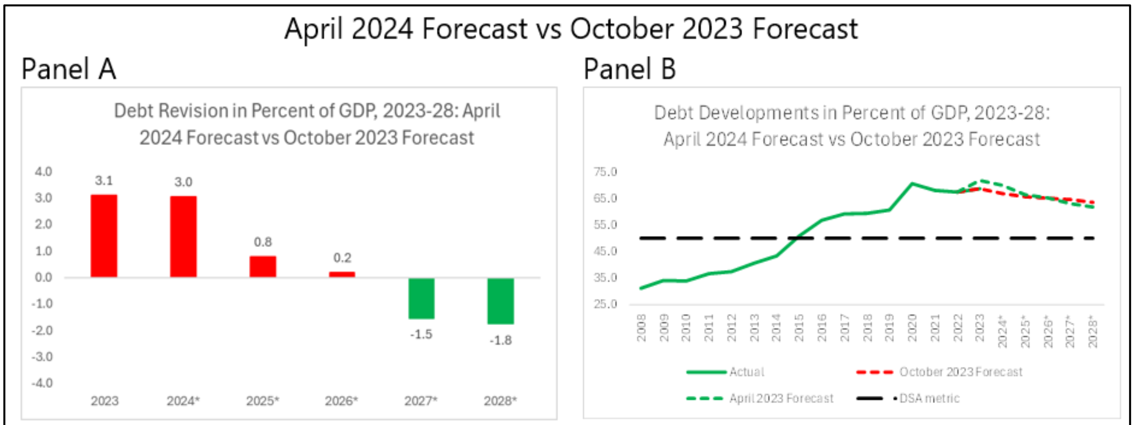
Debt dynamics exhibit varying trends across African sub-regions, with Southern Africa presenting a notable divergence from the overall decline observed elsewhere. In Northern Africa, the decline in the debt-to-GDP ratio is particularly stark, with projections indicating a reduction of 14.7 percentage points, decreasing from 84.2 percent in 2024 to 69.5 percent by 2028. Meanwhile, Central Africa anticipates a decrease of 12 percentage points in total debt, moving from 45.8 percent of GDP in 2024 to 33.8 percent in 2028. Eastern Africa is expected to experience a modest reduction of 5.2 percentage points, with total debt shifting from 51.6 percent in 2024 to 46.4 percent in 2028. Similarly, West Africa's debt levels are projected to decline by 4.3 percentage points, from 51.6 percent to 46.4 percent over the same period. In stark contrast, Southern Africa is forecasted to witness an upward trajectory in total debt, with an increase of 5.8 percentage points, escalating from 71.6 percent of GDP in 2024 to 77.4 percent in 2028. This trend underscores the region's unique fiscal challenges amid broader regional improvements.

Several key factors underpin this favorable trend, including a supportive macroeconomic environment, a gradual decrease in persistently high interest rates, improved credit ratings, and renewed access to capital markets. Additionally, advancements in debt resolution frameworks and emerging momentum in private-sector financing contribute significantly to these developments. These elements bolster debt sustainability and exemplify a coordinated proactive and strategic debt management approach. Although challenges persist, the overall outlook for these economies is increasingly optimistic as they navigate the recovery from the crisis, signaling a positive trajectory for fiscal sustainability throughout the region.

B. Macroeconomic Tailwinds

The economic outlook for the continent indicates favorable conditions for managing debt. Projections suggest a decrease in debt from 69.9 in 2024 to 61.7 in 2028. Several key factors contribute to this positive trend in the medium term. First, the primary balance has significantly improved, reflecting a shift from the recent pattern of widening deficits caused by economic shocks and rising inflation, as shown in Table 1. This improvement

Figure 5A: General Government Debt, African Countries, 2008-2028 (Percent of GDP)



Source: Afreximbank Research based on IMF Global Debt Database and WEO databases.

Figure 5B: Debt Dynamics by African Regions, 2000-2028

has benefited debtors. Second, stable interest rates are expected to support this trend further. Third, implementing debt restructuring programs by countries such as Ethiopia, Sudan, and Zambia under the G20 common framework and through the Paris and London Clubs has significantly reduced the overall debt burden. These combined factors have improved debt sustainability and demonstrate a commitment to proactive and strategic debt management.

Table 1: Macroeconomic Outlook, African Countries, 2023-28

April 2024 Forecast vs October 2023 Forecast

	2023	2024*	2025*	2026*	2027*	2028*	**Average 2024-2028**
Growth (percent)-April 2024	3.0	3.4	4.0	4.1	4.3	4.3	**3.8**
Growth (percent)-October 2023	3.3	4.0	4.4	4.4	4.6	4.6	**4.2**
Difference (April 2024-October 2023)	*-0.2*	*-0.6*	*-0.4*	*-0.3*	*-0.3*	*-0.2*	***-0.3***
Inflation, GDP deflator (percent)-April 2024	21.1	21.5	15.9	11.0	9.8	8.8	**14.7**
Inflation, GDP deflator (percent)-October 2023	19.8	17.3	11.2	8.7	7.6	7.2	**12.0**
Difference (April 2024-October 2023)	*1.3*	*4.2*	*4.7*	*2.3*	*2.2*	*1.6*	***2.7***
Primary balance (percent of GDP)-April 2024	-0.7	-0.6	0.1	0.6	0.8	0.7	**0.1**
Primary balance (percent of GDP)-October 2023	-1.2	-0.9	-0.4	-0.2	-0.3	0.2	**-0.5**
Difference (April 2024-October 2023)	*0.5*	*0.3*	*0.5*	*0.8*	*1.0*	*0.6*	***0.6***
Interest rate (percent)-April 2024	6.7	8.5	8.4	8.3	7.9	7.9	**7.9**
Interest rate (percent)-October 2023	7.0	8.0	9.0	8.0	8.0	8.0	**8.0**
Difference (April 2024-October 2023)	*-0.3*	*0.5*	*-0.6*	*0.3*	*-0.1*	*-0.1*	***-0.1***

Sources: Afreximbank Research, World Economic Outlook (October 2023 and April 2024), Economist Intelligence Unit 2024.

C. A Global Rate-Cut Cycle.

In most major economies, albeit still high, inflation has trended down, running around central banks' targets. Accordingly, with fragile fundamentals in several major economies, such as a timid labor market, leveraged housing market, and signs of weakening output, most major central banks have embarked on loosening monetary policy rates and easing financial conditions (see Figure 6). In September 2024, the Federal Reserve initiated a monetary easing cycle with a 50-basis point reduction in the federal funds rate, bringing it to the 4.75-5 percent range. This marked the first rate decrease since March 2020. In response, the European Central Bank and the Bank of England implemented similar cuts. The Bank of Canada and the Swiss National Bank adjusted as well. Following these initial adjustments, major central banks collectively pursued additional rate cuts throughout the remainder of 2025. The relaxed financial conditions in African countries are resulting in lower borrowing costs. This decrease in interest rates is expected to reduce these countries' debt-to-GDP ratios. A simple arithmetic simulation suggests that if the Federal Reserve's benchmark rate is lowered to its pre-hike level, nominal interest rates for African countries could decrease significantly, averaging between 5.25 percent and 8 percent.

Table 2. Global Central Banks Policy Rates

Country	Rate	Central Bank Rate (Today)	CPI YoY	Real Central Bank Rate	YoY CPI Trend vs. Prior Reading	Last Move in CB rate	Last Move Month
Japan	Policy Rate Ba	0.00%	2.5%	-2.4%	Unchanged	Cut	Jan-25
Switzerland	Target Rate	0.00%	0.6%	-0.6%	Lower	Cut	Dec-24
Taiwan	Discount Rate	0.00%	1.7%	-1.7%	Unchanged	Hold	Oct-24
Thailand	Policy Rate	0.00%	0.8%	-0.8%	Lower	Cut	Oct-24
Malaysia	Policy Rate	0.00%	1.8%	-1.8%	Unchanged	Hold	Nov-24
Denmark	Deposit Rate	0.00%	1.6%	-1.6%	Lower	Cut	Dec-24
China	Loan Prime Ra	0.00%	0.3%	-0.3%	Unchanged	Hold	Jan-25
South Korea	Repo Rate	0.00%	1.2%	-1.2%	Lower	Cut	Jan-25
Sweden	Repo Rate	0.00%	1.6%	-1.6%	Lower	Cut	Dec-24
Eurozone	Deposit Rate	0.00%	2.1%	-2.1%	Unchanged	Cut	Dec-24
Australia	Cash Rate	0.00%	2.8%	-2.7%	Unchanged	Hold	Oct-24
Norway	Deposit Rate	0.00%	2.6%	-2.5%	Unchanged	Hold	Oct-24
Canada	Overnight	0.00%	1.6%	-1.6%	Lower	Cut	Dec-24
Czech Republi	Repo Rate	0.00%	2.8%	-2.7%	Lower	Hold	Nov-24
UK	Bank Rate	0.00%	1.7%	-1.7%	Lower	Hold	Oct-24
New Zealand	Cash Rate	0.00%	2.2%	-2.2%	Lower	Hold	Oct-24
US	Fed Funds	0.00%	2.6%	-2.5%	Lower	Hold	Oct-24
Peru	Policy Rate	0.00%	2.0%	-2.0%	Lower	Hold	Nov-24
Chile	Base Rate	0.00%	4.7%	-4.5%	Lower	Hold	Oct-24
Poland	Repo Rate	0.00%	5.0%	-4.8%	Unchanged	Hold	Oct-24
Hong Kong	Base Rate	0.00%	2.5%	-2.4%	Lower	Cut	Dec-24
Saudi Arabia	Repo Rate	0.00%	1.9%	-1.9%	Lower	Hold	Oct-24
Indonesia	Repo Rate	0.00%	1.7%	-1.7%	Unchanged	Cut	Jan-25
Philippines	Key Policy Rat	0.00%	2.3%	-2.2%	Lower	Cut	Dec-24
India	Repo Rate	0.00%	6.2%	-5.8%	Unchanged	Cut	Dec-24
South Africa	Repo Rate	0.00%	3.8%	-3.7%	Unchanged	Hold	Oct-24
Brazil	Target Rate	0.00%	4.8%	-4.5%	Higher	Hike	Dec-24
Colombia	Repo Rate	0.00%	4.1%	-3.9%	Unchanged	Cut	Dec-24
Mexico	Overnight Rat	0.00%	4.8%	-4.5%	Unchanged	Cut	Dec-24
Russia	Key Policy Rat	0.00%	8.5%	-7.8%	Higher	Hike	Oct-24
Argentina	Overnight Rep	0.00%	193.0%	-65.9%	Lower	Cut	Jan-25
Turkey	Repo Rate	0.00%	48.6%	-32.7%	Unchanged	Cut	Jan-25

Source: Afreximbank Research, Trading Economics.

D. Improvement in Credit Ratings.

Improvements in credit ratings significantly affect the outlook for debt dynamics. In the first half of 2024, several African countries experienced credit rating upgrades from agencies like S&P, Moody's, and Fitch. Six countries, including Benin, Cameroon, Cabo Verde, Cote d'Ivoire, Tanzania, and Zambia, received upgrades, while eight others had positive outlook revisions. However, Niger and Uganda faced downgrades due to fiscal issues. Despite higher risk premiums, interest rate cuts and credit rating improvements allowed nations to re-enter the Eurobond market. As of December 2024, African countries have issued 13.6 billion in Eurobonds (Figure 7). In early 2024, Côte d'Ivoire raised US$2.6 billion, followed by Benin with US$750 million and Kenya with US$1.5 billion. In June, Senegal issued a US$750 million Eurobond, and Cameroon raised US$550 million in July. Overall, African nations issued US$6.15 billion in Eurobonds in the first half of the year. In December, Nigeria issued a US$2.2 billion Eurobond. As central banks continue to lower rates, further issuances are expected, easing immediate fiscal concerns even though macroeconomic stability remains fragile, with risks such as currency depreciation and low foreign reserves. However, the likelihood of default remains low, supported by improved debt sustainability and positive GDP growth expectations.

E. Increasing Geo-Fragmentation of the Global Economy.

Escalating geopolitical tensions—such as rising trade conflicts, the ongoing Russia-Ukraine war, various Middle Eastern conflicts, and the US-China rivalry—inject uncertainty into global markets, disrupting supply chains and decoupling industries. This environment can hinder economic growth and exacerbate inflation. Such tensions recalibrate key macroeconomic indicators, influencing fiscal deficits and market confidence while affecting national debt and international financial stability. In response to persistent inflation, central banks, including the Federal Reserve, may tighten monetary policy through increased interest rates, raising borrowing costs for African nations reliant on external financing. This tighter financial landscape could worsen fiscal vulnerabilities by elevating risk premiums and restricting access to affordable credit. As fiscal flexibility contracts, many African governments may struggle to meet financial obligations, leading to potential downgrades in sovereign credit ratings and increased regional fiscal distress.

Table 3. Latest Credit Ratings, African Countries, December 2024.

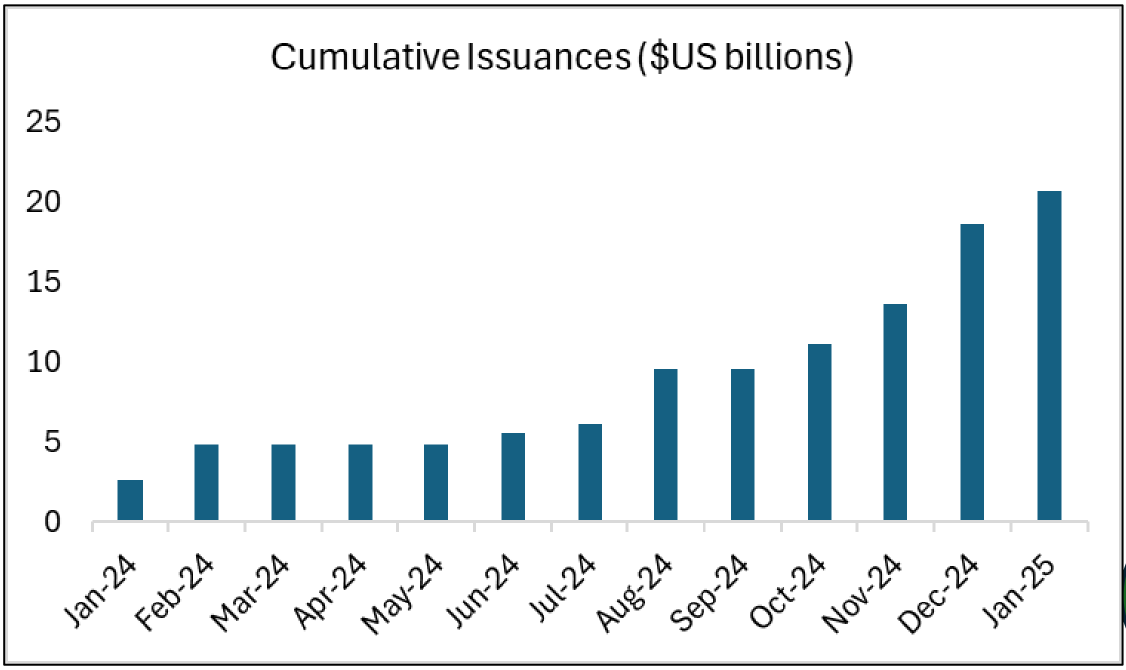
Sovereign	Moody's			S&P			Fitch		
	Previous	*Current*	*Direction*	*Previous*	*Current*	*Direction*	*Previous*	*Current*	*Direction*
UPGRADES									
Benin				BB- (stable)	BB- (pos)	↑			
Carneroon				B- (stable)	B- (pos)	↑			
Cabo Verde							B- (Stable)	B (stable)	↑
Cote d'Ivoire				BB- (stable)	BB- (pos)	↑			
Tanzania	B2 (pos)	B1 (stable)	↑						
Zambia	Ca (stable)	Caa2 (stable)	↑						
Total		**2**			**3**			**1**	
DOWNGRADES									
Niger	Caa2 (Neg)	Caa3 (stable)	↓						
Gabon	Caa1 (Neg)	Caa2 (stable)	↓						
Uganda	B2 (Neg)	B3 (stable)	↓						
Total		**3**							
POSITIVE CHANGES IN CREDIT RATING OUTLOOKS									
Cote d'Ivoire				BB- (stable)	B- (pos)	↑			
Egypt	Caa1 (Neg)	Caa1 (pos)	↑	B- (stable)	B- (pos)	↑	B- (Stable)	B- (pos)	↑
Gabon							B- (Neg)	B- (Stable)	↑
Morocco				BB+ (stable)	BB+ (pos)	↑			
Namibia	B1 (stable)	B1 (pos)	↑						
Seychelles							BB- (stable)	BB- (pos)	↑
Tunisia	Caa2 (Neg)	Caa2 (stable)	↑						
Nigeria							B- (Stable)	B- (pos)	↑
Total		3			3			4	

Source: Afreximbank Research.

Table 4. Eurobond Issuance, January 2024 to Date.

Eurobonds Issuance, Africa					
	Issuances (US$ billion)	Rates (Percent)	Maturity (Years)	Date	Rating
	1.1	7.875	9	Jan-24	Moody's: Ba3, + outlook
Côte d'Ivoire	1.5	8.5	13	Jan-24	Moody's: Ba3, + outlook
Benin	0.75	8.375	14	Feb-24	Moody's: B1, stable outlook
Kenya	1.5	10.375	7	Feb-24	Moody's: B3, - outlook
Senegal	0.75	7. 75	7	Jun-24	Moody's: B1, stable outlook
Cameroon	0.55	10.75	7	Jul-24	Fitch: B, - outlook S&P: B-, stable outlook
Senegal	0.3	7. 75	7	Nov-12	Moody's: B1, stable outlook
Nigeria	2.2	7. 75	7		Fitch: B-, + outlook
South Africa	3.5	7.1-7.9	45843	Nov-13	S&P: BB-, + outlook
Angola	1.5	9.5	1	Dec-24	S&P: B-, stable outlook
Egypt	2	8.6-9.45	2	Jan-25	S&P:B- + Outlook

Figure 6. Cumulative Issuance of Eurobonds ($US Billions)



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Navigating the Challenging Outlook

04

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04-Navigating the Challenging Outlook

Africa is navigating a complex debt environment, but the tide can be turned through targeted, actionable policies. Policymakers must prioritize robust fiscal measures, engage strategically with debt relief initiatives, promote long-term growth, and advocate for reforms to the global financial architecture. Below, we outline specific, stakeholder-tailored recommendations, ranked by urgency and impact, and supported by successful examples from countries like Rwanda, Ethiopia, and Kenya.

A. Fiscal Discipline.

Governments:

- Enhance Tax Revenue: strengthen value-added tax (VAT) and leverage digital tax collection mechanisms to increase tax revenue.
- Optimize Expenditure: Reassess and redirect public expenditures towards high-impact sectors, including healthcare, education, and infrastructure development. Adoption of performance-based budgeting will be critical to ensure that resources are allocated efficiently and yield measurable outcomes.
- Strengthen Debt Management Offices (DMOs): Establish well-resourced DMOs tasked with continuously monitoring debt sustainability and enhancing risk assessment capabilities.

Multilateral Agencies:

- Provide Technical Assistance: Support governments in implementing tax reforms and modernizing public financial management systems, focusing on enhancing operational efficiency and compliance.
- Conditional Financing: Design and offer concessional loans predicated on the execution of fiscal reforms, particularly targeting the reduction of non-productive expenditures and the fortification of revenue collection processes.

Private Sector:

- Public-private partnerships (PPPs): Collaborate with government entities to co-finance infrastructure projects, thereby minimizing reliance on sovereign debt.

B. Leveraging Debt Relief Frameworks.

Governments:

- Engage with the G20 Common Framework: Actively participate in debt restructuring negotiations under the G20 Common Framework, as Zambia successfully did in 2023. Advocate for equitable treatment of private and bilateral creditors.

- Seek Temporary Moratoriums: Request debt service suspensions to redirect resources toward critical sectors like healthcare and education, as Ethiopia did during the COVID-19 pandemic under the G20 Debt Service Suspension Initiative (DSSI).

Multilateral Agencies:

- Streamline Debt Restructuring Processes: Simplify and expedite the G20 Common Framework to reduce delays in debt treatments. Provide technical and financial support to countries undergoing restructuring.
- Advocate for Debt Cancellation: Push for targeted debt cancellations for heavily indebted poor countries (HIPCs), particularly those facing unsustainable debt burdens.

Private Sector:

- Participate in Debt Swaps: Engage in debt-for-development swaps, where debt is exchanged for investments in social or environmental projects. Seychelles' debt-for-nature swap in 2015 is a successful precedent.

C. Promoting Long-term Growth and Diversification

Governments:

- Diversify Economies: Invest in value-added sectors like agro-processing, manufacturing, and renewable energy to reduce reliance on commodities. Ethiopia's focus on infrastructure-driven growth, such as the Grand Ethiopian Renaissance Dam (GERD), highlights the potential of strategic investments.
- Enhance Regional Trade: Reduce trade barriers and improve cross-border infrastructure to boost intra-African trade under the African Continental Free Trade Area (AfCFTA). Rwanda's trade facilitation reforms, which reduced border clearance times, offer a replicable model.
- Invest in Human Capital: Allocate resources to education and skills development to build a workforce capable of driving industrialization and innovation.

Multilateral Agencies:

- Support Industrialization: Provide funding and technical assistance for industrial policies and value chain development. The African Development Bank's (AfDB) "High 5" strategy, which prioritizes industrialization, is a relevant framework.
- Facilitate Knowledge Transfer: Promote South-South cooperation to share best practices in economic diversification and industrialization.

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Private Sector:

- Invest in High-Potential Sectors: Channel investments into technology, renewable energy, and agribusiness to support diversification efforts. Kenya's success in attracting private investment for its geothermal energy sector under the Geothermal Development Company (GDC) is a case in point.

D. Reforming the International Financial Architecture.

Governments:

- Advocate for Multilateral Debt Workout Mechanisms: Push for the establishment of a global debt restructuring mechanism to ensure fair and timely resolutions. This would reduce the complexity and duration of negotiations, as seen in the prolonged restructuring processes in countries like Zambia.

- Promote Trade Reforms: Lobby for improved market access for African exports in global markets, particularly in value-added sectors.

Multilateral Agencies:

- Reform Global Financial Systems: Advocate for reforms that ensure equitable treatment of African countries in debt negotiations. The IMF's Special Drawing Rights (SDR) reallocation to Africa in 2021 is a step in the right direction but needs scaling up.

- Enhance Concessional Financing: Expand access to concessional loans for low- and middle-income countries, particularly for climate-resilient infrastructure and social development.

Private Sector:

- Support Sustainable Financing: Invest in green bonds and other sustainable financing instruments to align with global climate goals. Nigeria's issuance of a $29 million green bond in 2017 demonstrates the potential of such instruments.

E. Tailored Recommendations:

- Resource-dependent countries should prioritize economic diversification to reduce vulnerability to commodity price shocks. For example, Nigeria should invest in agriculture and manufacturing, while Angola should develop its renewable energy sector.

- Countries should adopt sustainable borrowing practices, avoiding excessive reliance on commercial debt. They should also strengthen debt management institutions to improve transparency and accountability.

- Governments should establish robust social safety nets to protect vulnerable populations during external shocks. For instance, Kenya's cash transfer programs during the pandemic helped mitigate the impact of rising food prices.

Conclusion

05

04-CONCLUSION

African debt exhibits signs of stabilization in the medium term, driven by macroeconomic tailwinds, reduced interest rates, and improved access to capital markets. While challenges remain, the region displays positive fiscal sustainability indicators as it navigates the post-crisis recovery landscape. To sustain this momentum, African economies must systematically reduce fiscal deficits, prioritize efficient public expenditures, enhance tax revenue collection, and bolster transparency in debt management practices. Utilizing frameworks such as the G20's Common Framework will be crucial for negotiating debt restructurings and advocating for temporary moratoriums on servicing to reallocate resources towards essential sectors. Long-term growth trajectories necessitate diversifying investments across critical sectors, focusing on infrastructure development and significant investments in education and healthcare to cultivate a skilled workforce. Furthermore, a more equitable international financial system is essential to facilitate multilateral engagement in debt restructuring processes and develop mechanisms that streamline negotiations.

Nevertheless, the noted optimism and significant risks lie ahead. The geopolitical landscape presents substantial challenges for Africa, exacerbated by recent events such as the Russia-Ukraine conflict, escalating US-China tensions, and the upward trajectory of global interest rates. Since 2022, interest rates have risen significantly due to central bank interventions aimed at curbing inflation, particularly in the US and Europe. The Federal Reserve's rate hikes from near zero in 2021 to above 5% in 2023 have notably escalated borrowing costs for African nations issuing Eurobonds. For instance, Ghana’s Eurobond yields surged past 30% in 2022, creating substantial barriers to accessing international capital markets. Oil-importing countries are grappling with escalating energy prices and ensuing fiscal stress, while oil-exporting nations are facing unpredictable revenue streams. The geopolitical friction between the US and China further complicates debt restructuring negotiations, especially given China's pivotal role as a major creditor across the continent. The complexity of US-China relations hampers coordinated debt relief efforts. This was evident during Zambia's debt restructuring under the G20 Common Framework, where divergent positions among Chinese and Western creditors resulted in significant delays. China's reluctance to agree to haircuts—instead favoring extended loan maturities—highlights the challenges in harmonizing approaches to debt management. To navigate these intricate dynamics, African policymakers must implement proactive strategies, including diversifying energy portfolios, enhancing debt management frameworks, and advocating for reforms in the global financial architecture. By adopting these measures, African nations can better position themselves to manage the repercussions of geopolitical shifts and pursue sustainable economic development.

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