One Hundred and Thirteenth Sovereign Debt News Update: African Countries and Eurobonds: An Avalanche of Buybacks in 2024

By:

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In 2024, African countries have returned to the Eurobond markets at a time of high interest rates, compared to the 2020-2021 period. This return to the Eurobond market also comes when many African countries are facing increased debt distress. The resurgence can be seen when one looks at the successful Eurobond issuances this year by Côte d'Ivoire, Kenya and Benin demonstrate. If successful, Nigeria will most likely be the fourth country to issue a Eurobond in 2024. This update explores African countries' recent activities with regard to the issuance of Eurobonds and initiation of buybacks as a means of accessing credit lines outside the traditional international debt markets.

A Eurobond is a bond issued in a currency other than the currency of the country or market in which it is issued. According to Grigorian, countries issue

Eurobonds to balance consumption and investment, accumulate foreign currency reserves, diversify financing sources, and serve as a benchmark for assessing sovereign credit risk. For many issuing countries, access to international capital markets represents a de facto endorsement by investors of a robust local macroeconomic climate as well as a sign of creditworthiness improvement. Success in issuing the debut Eurobonds and paying back maturing debt is therefore critical to ensuring future access to international capital, and is considered by the market as an indication of a country's seriousness and efforts in managing its own debt.

A background highlighting African countries' appetite for Eurobonds over the past decade is important to the understanding of the current context. African countries' appetite for issuing Eurobonds has always been motivated by the fact that these instruments can quickly mobilize resources and provide liquidity for larger fiscal space and investment choices to countries, without any of the intrusive policy conditions attached to multilateral and bilateral borrowing. In 2021 alone, sovereign Eurobonds reaching USD$19.6 billion were issued in Africa. The value increased from a low of around 16 billion U.S. dollars in the previous year. Sovereign bonds issued on the continent increased during the period observed, registering a peak in 2019 when they amounted to 33 billion U.S. dollars in one year. By the end of 2019, the outstanding Eurobonds on the continent were totalling US$115 billion. However, the increase in 2013 Eurobond issuance with 10-year maturities has resulted in a wall of national debt repayments due in 2024 and 2025. This explains the "avalanche" of new Eurobonds taken so far in 2024 to provide liquidity to pay off prior Eurobond issuances.

Their heavy indebtedness and the lack of a comprehensive system for restructuring has prompted African countries to seek fresh borrowing options from international financial markets to avoid default. This largely explains why Eurobonds and buybacks have grown popularity as these governments seek liquidity to meet their maturing Eurobond obligations on which they had only been paying interest. For example, Côte d'Ivoire became the first African nation to re-enter the market post Covid-19, issuing $2.6bn Eurobonds in January 2024 with the aim to repurchasing and refinancing the country's existing Eurobonds. As reported in the One Hundred and Ninth Sovereign Debt News Update, Kenya successfully issued a new $1.5 billion (Sh238 billion) Eurobond in February

2024 to buy back the $2 billion Eurobond due June 2024. On the 7th of March, Benin successfully completed a buyback of its 5.75% 2026 (€176.36M outstanding) & 4.875% 2032 (€700.0M outstanding) maturities.

Nigeria will soon join the trio as the country is reported to have hired investment banks including Citigroup, JPMorgan Chase & Co and Goldman Sachs Group to advise it on the West African nation’s first Eurobond issue since 2022. While the exact magnitude of the Eurobond offering, which is anticipated to be unveiled before June 2024, has not been determined as yet, it is speculated that the nation might aim to accumulate up to $1 billion in international loans throughout 2024. This sudden issuance of Eurobonds and completion of buybacks all in the first quarter of the year 2024 has sparked interest as African countries seem to have found a way to access international capital markets to evade debt default. However, it is imperative to interrogate the extent to which the issuance of Eurobonds for buybacks are the solution to ending the Africa’s debt distress saga.

According to Mecagni, although issuing Eurobonds has advantages (gaining access to long-term funding; increasing the local private sector's access to international finance; lowering debt servicing costs, strengthening macroeconomic discipline and transparency, and advocating for structural reforms), it also poses risks and challenges. The high yields demanded by investors mean high interest cost to governments. Unlike multilateral concessionary loans that come with policy adjustment conditionalities, governments have total discretion in how to use the proceeds and are not required to provide detailed information about the specific use of proceeds nor account for whether the money was used for the purpose it was raised for. Concerns around transparency, accountability and good governance remain valid as Africa’s Eurobonds have come “a blank cheque”. Thus, opting for excessive issuing of Eurobonds could increase the risk of fiscal indiscipline and irresponsible borrowing as a result of lack of good governance and accountability mechanisms. The lack of accountability mechanisms attached to multilateral concessional lending makes Eurobonds attractive to governments.

It is imperative to highlight that not all issuance of Eurobonds is for the financing of developmental needs as “new debt” as a proportion of the proceeds from bond sales are being used increasingly to refinance past debts.

This has been the case in the contexts of Côte d'Ivoire, Kenya, and Benin. In 2021, it was reported that all the Eurobonds issued were spent on non-productive short-term recurring expenditure and repayment of maturing bonds. Issues by Benin, Côte d'Ivoire, Kenya, Morocco, Gabon, Ghana, and Egypt raised funds to support budget deficit and bond refinancing.

While high appetite for Africa's bonds is currently being viewed as a "success story", attention is not being paid to the high yields demanded by investors for purchasing them. These Eurobonds are offered at high interest rates, high coupon payments and shorter debt maturities. While Africa is treading the same ground that Latin American countries have, without major concessions by creditors, these buybacks are heavily tilted in favour of lenders. Bulow and Rogoff argue that for a buyback to make sense for a country, it must receive substantial negotiating concessions from creditors.

The rising concerns about Africa's debt sustainability, especially in relation to the upcoming Eurobonds wall of maturities and the risk of debt default, are valid. The contraction of new debt to settle an old debt and at an even higher rate is not the solution, as this only results in the piling of unsustainable debt. The continent's issuance of Eurobonds has largely been a quick-fix solution and a piecemeal alternative that does not address debt sustainability question. As a long-lasting solution, the AfSDJN makes calls for a new comprehensive, fair and effective sovereign debt restructuring mechanism based in the United Nations that would be binding on all creditors, including commercial creditors.

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