

AM BEST

African Perspective on Debt

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Agenda

Recap – The Last Five Years

- Inflation and its impact on interest rates
- Debt metrics – Then and now
- Experiences from sovereign defaults
- The importance of exchange rates and managing external liabilities

Africa in the Global Economy

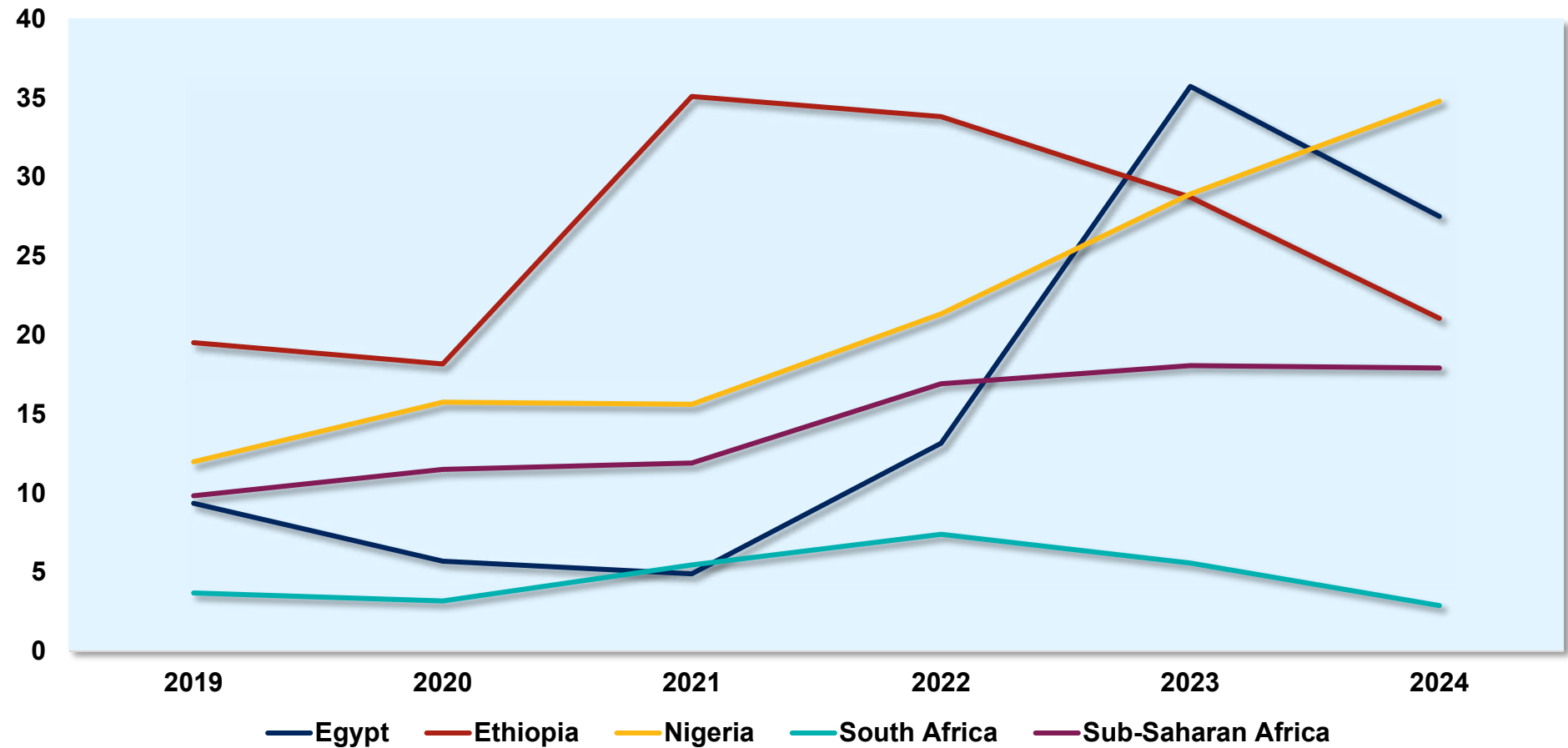
- The interdependence between national income, trade, and foreign liabilities
- Africa's demographic dividend
- Dangers and opportunities from deglobalisation

Africa's Way Forward

- The need to balance opportunities for capital inflows with the risk of destabilising outflows
- The opportunity for Intra-Africa trade

Inflation Rate Across Africa Remains Elevated vs. Pre-Pandemic Levels

Annual Inflation (%), End of Period



Inflation remains highly variable across Africa, ranging from almost 700% in Zimbabwe to slight deflation in Benin in 2024

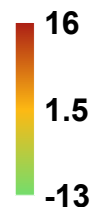
Central Bank Rates Followed Inflation Higher and have yet to Come Down

Change in Base Rate from 2020 (%)

Mean: 2.2 Percentage Points

Median: 1.0 Percentage Point

Change in Base Rate from 2020 (%)



Direction of Last Rate Move

Up: 26 countries

Down: 20 countries

■ Up
■ Down

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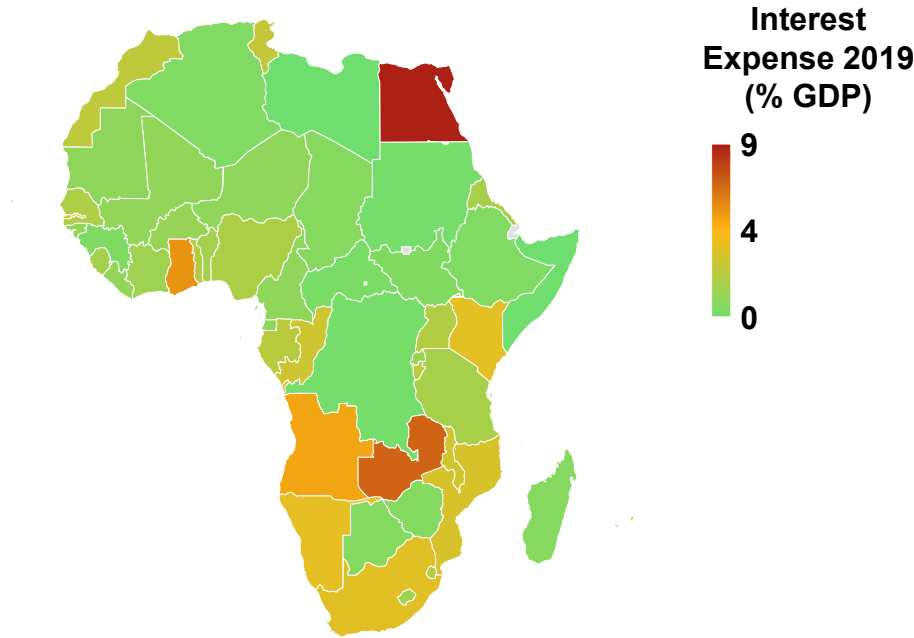


Interest Expense Rises Along with Rising Interest Rates

Interest Expense in 2019

Mean: 1.9% GDP

Median: 1.6% GDP

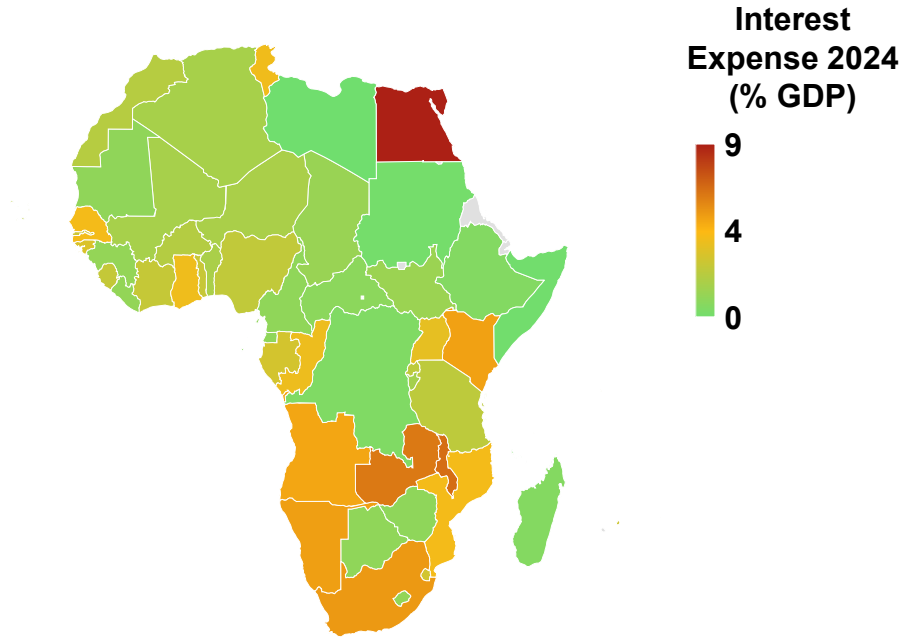


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Interest Expense in 2024

Mean: 2.5% GDP

Median: 2.2% GDP



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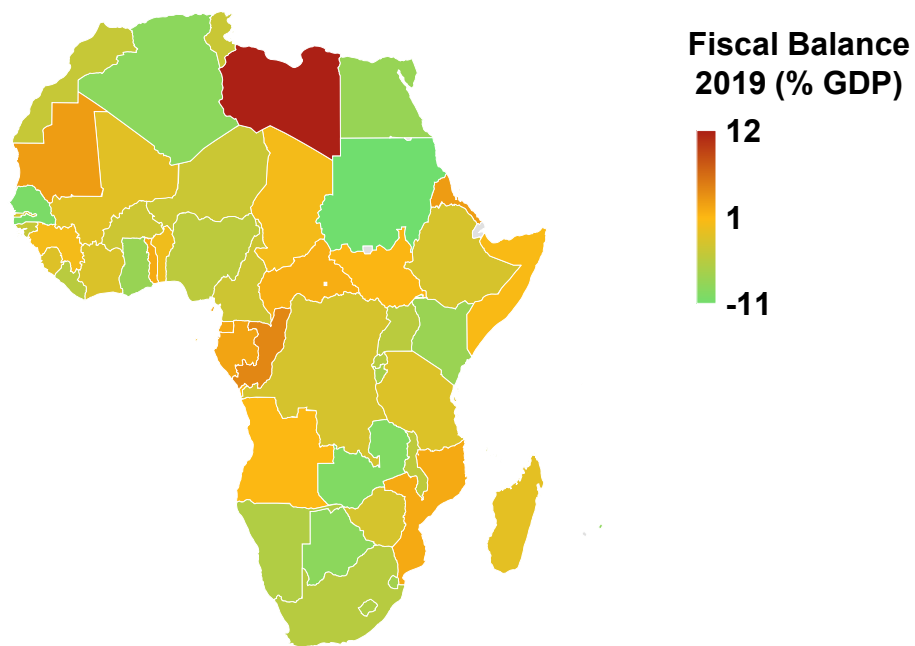
Interest Expense and COVID Spending have had Lasting Effect on Deficits

Fiscal Balance 2019 (% GDP)

Mean: 2.8% Deficit

Median: 2.7% Deficit

Percent in Deficit: 75%



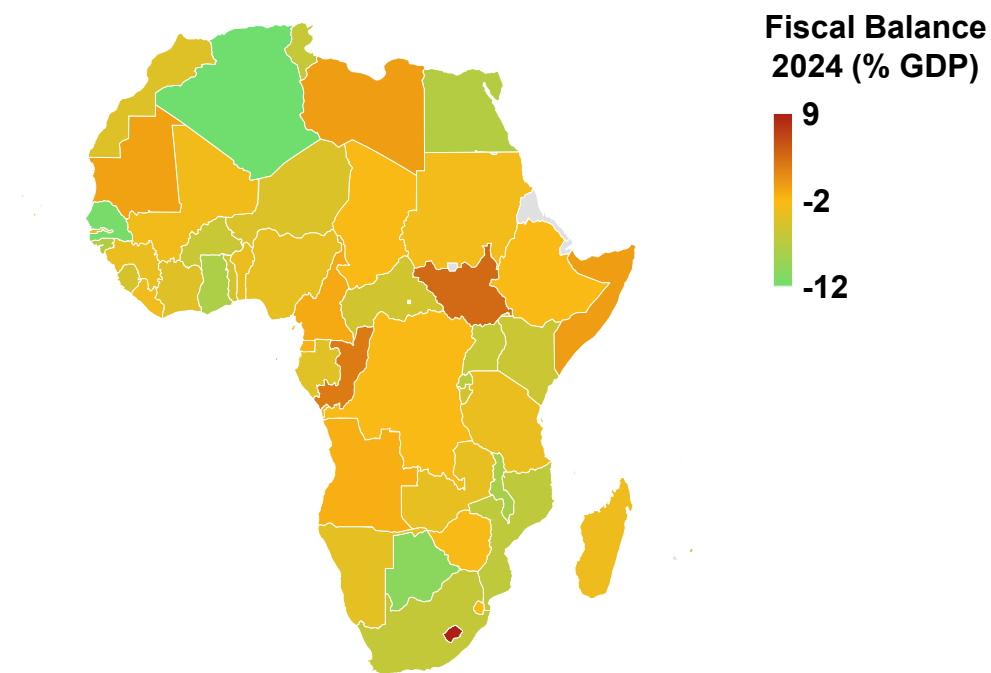
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Fiscal Balance 2024 (% GDP)

Mean: 3.6% Deficit

Median: 2.4% Deficit

Percent in Deficit: 87%



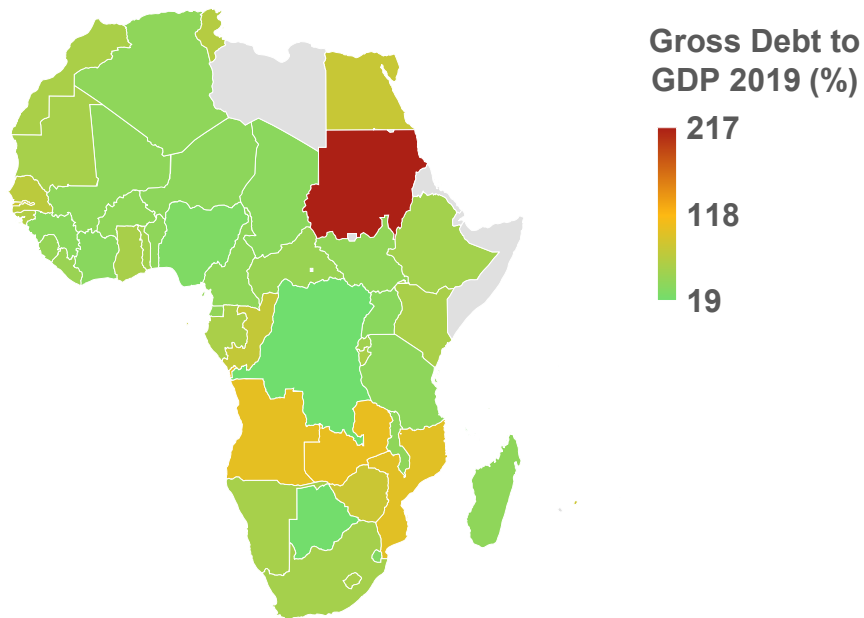
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As Fiscal Deficits Rose, so has the Stock of Debt

Gross Debt to GDP in 2019

Mean: 59% GDP

Median: 54% GDP

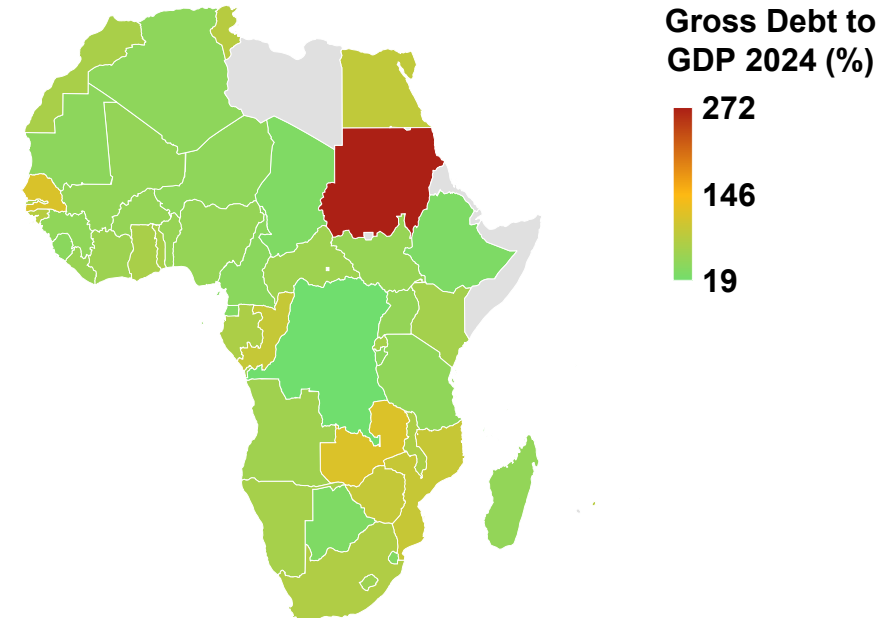


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Gross Debt to GDP in 2024

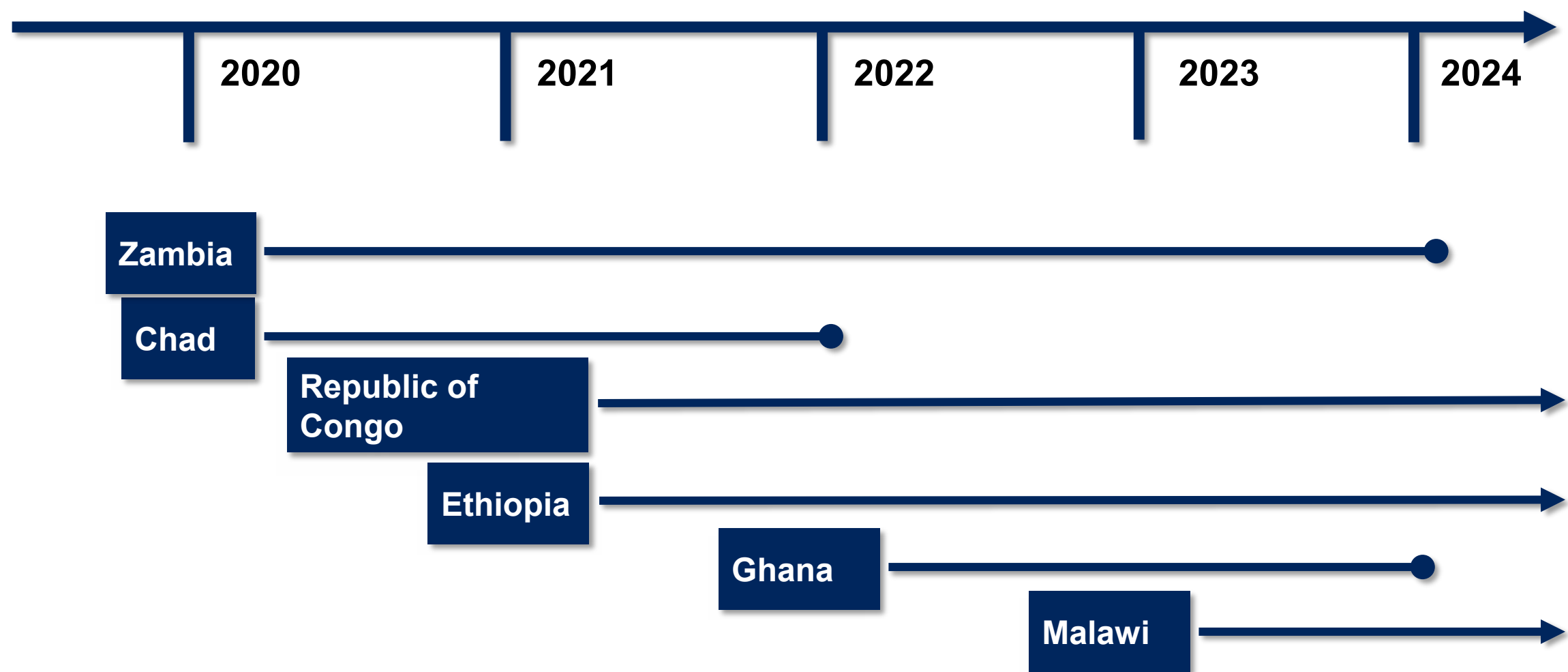
Mean: 66% GDP

Median: 59% GDP

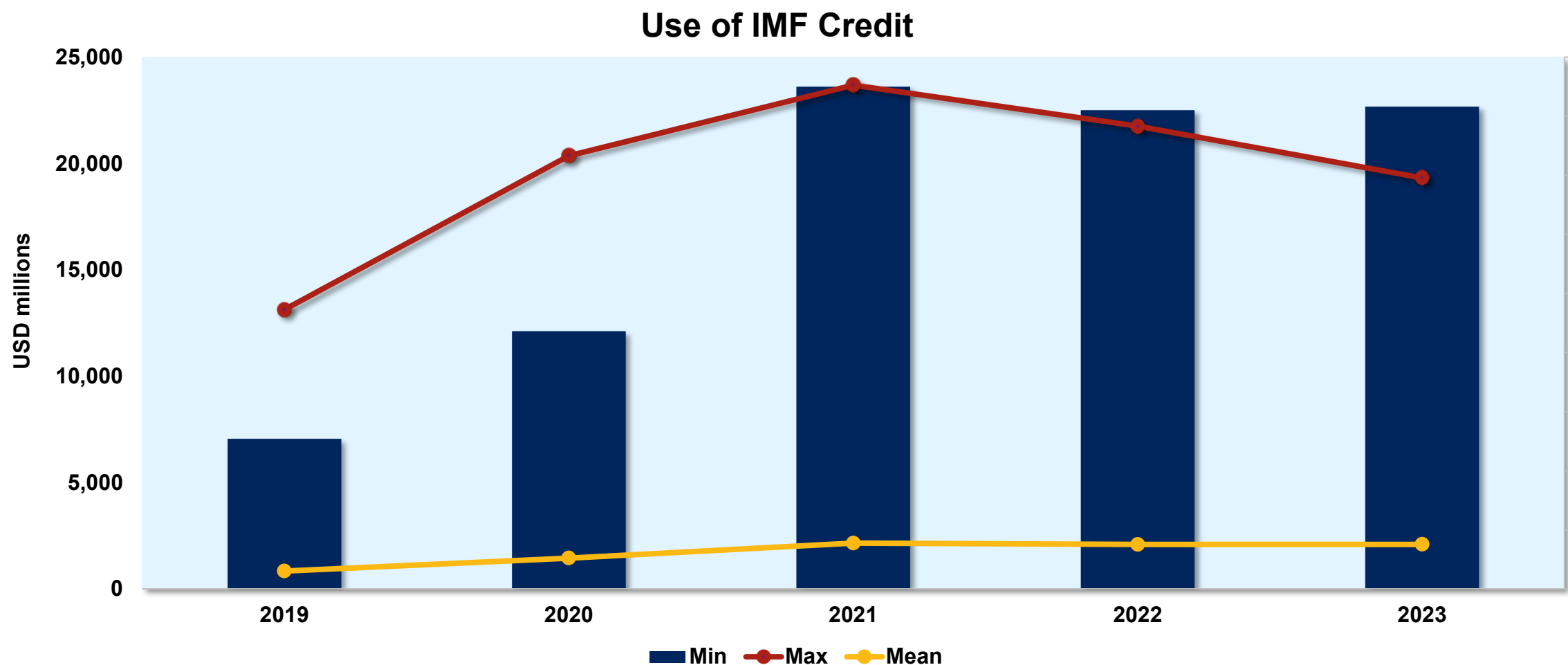


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Timeline of Defaults and Restructuring



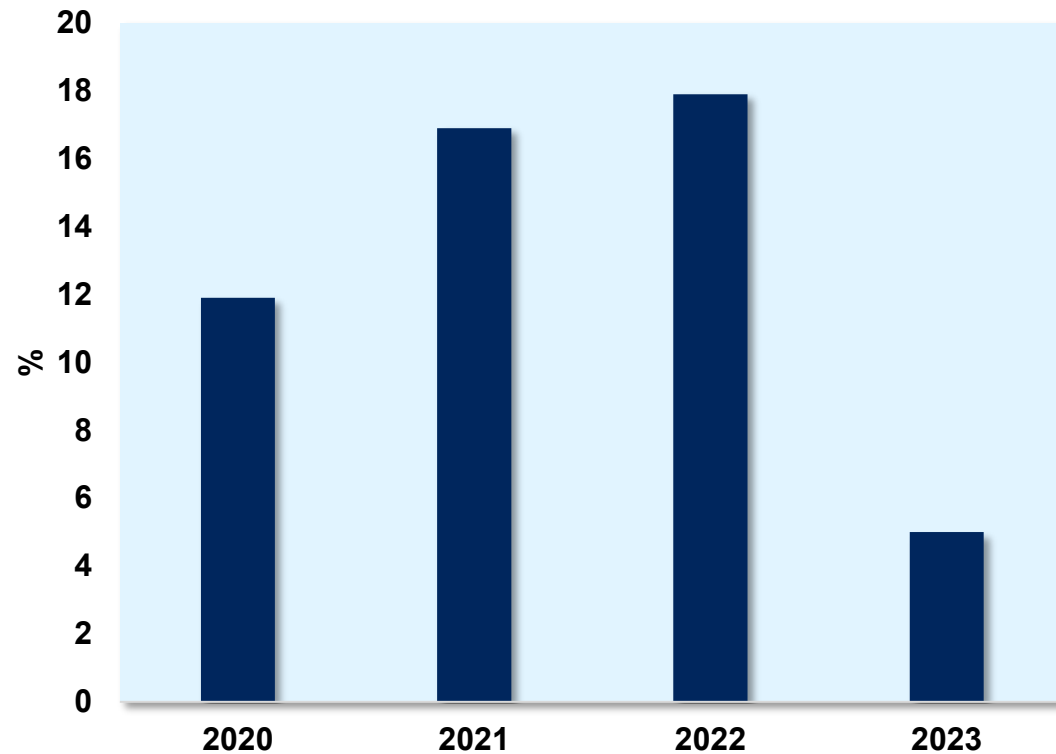
IMF Support Surged After COVID-19



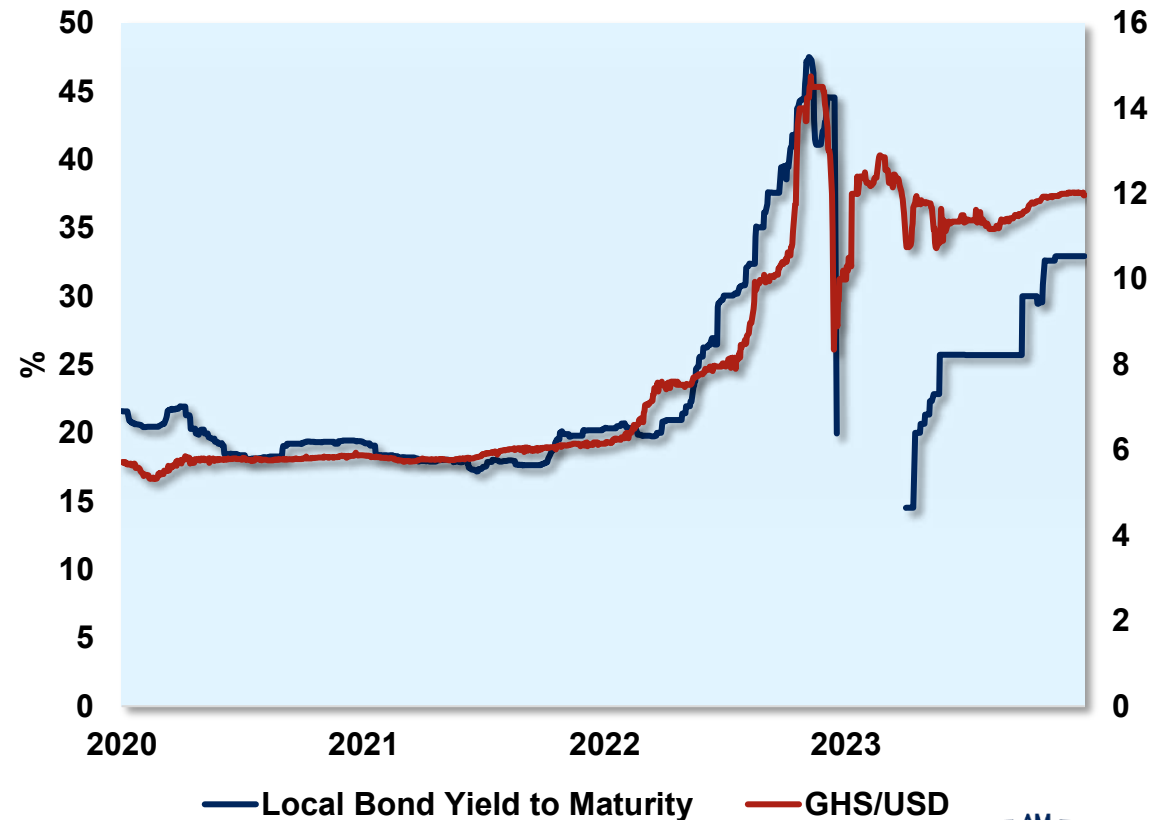
The largest user of IMF credit is Egypt, with almost USD 24 billion outstanding in 2021

Turning to Local Borrowing did not Prevent Ghana's Default

Ghana –
External Debt Servicing Costs as
Percentage of Exports

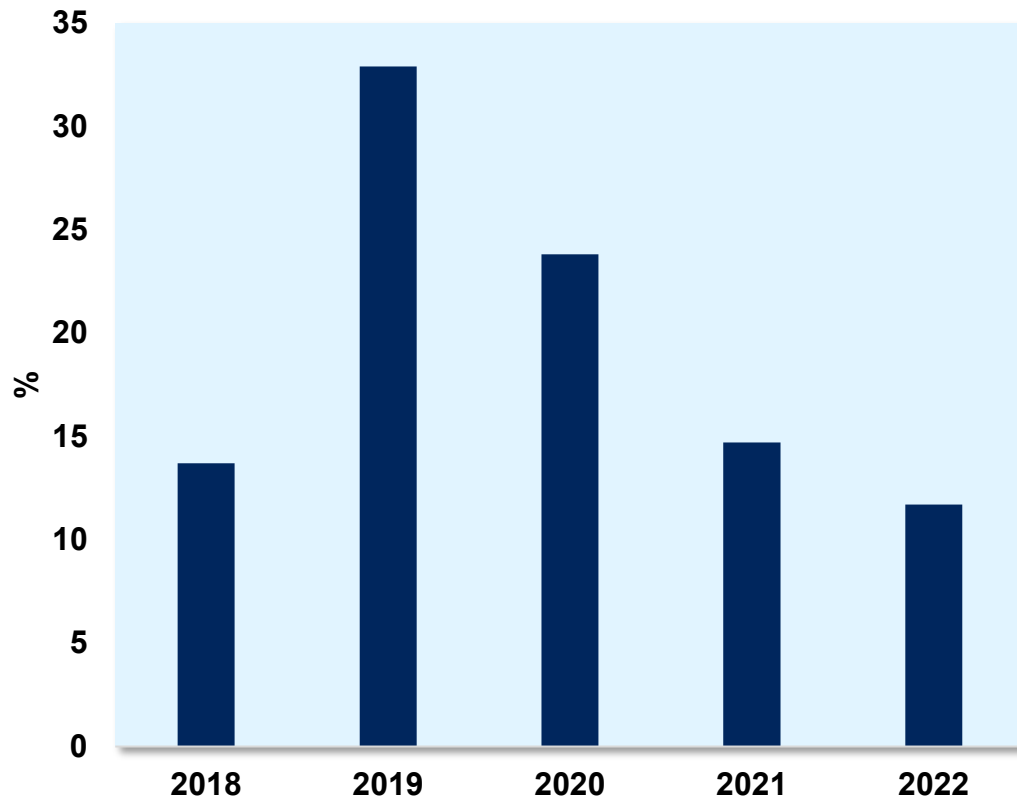


Ghana –
Local Bond Yields and
Exchange Rates

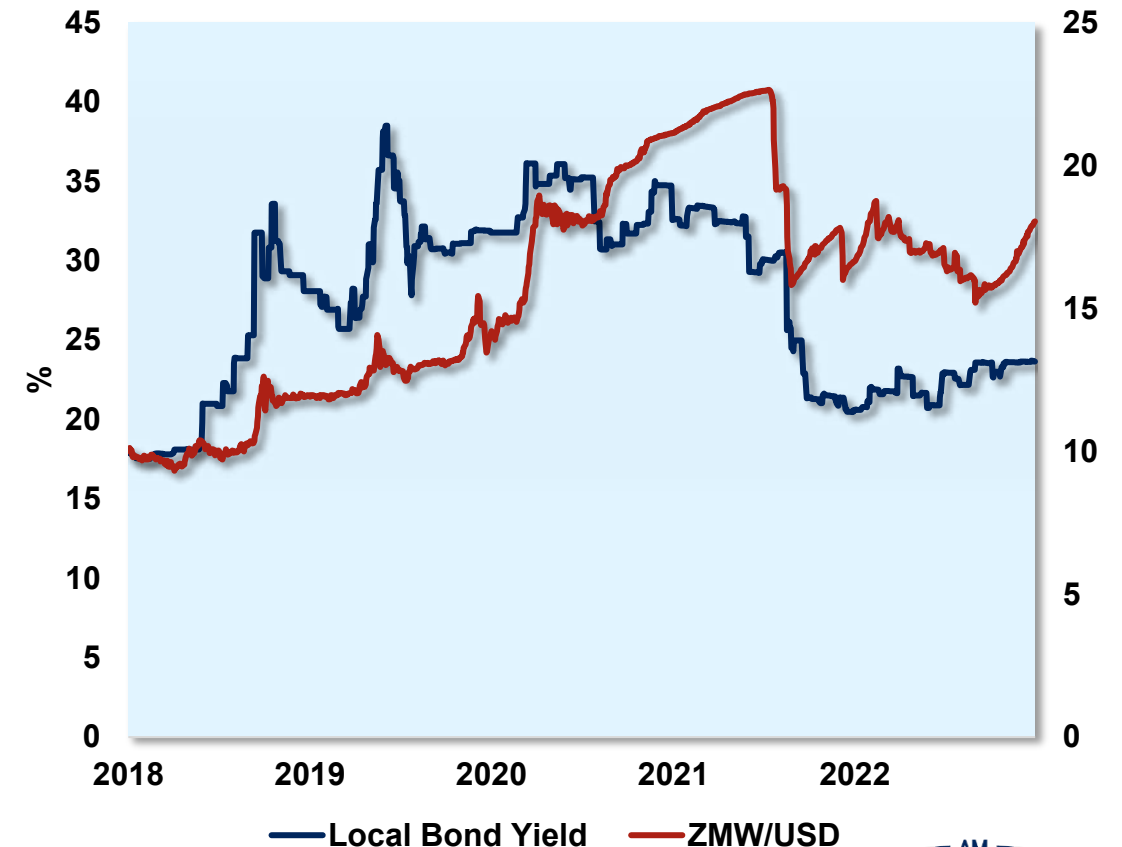


Currency Depreciation Contributes to Zambia's Default as Well

**Zambia –
External Debt Servicing Costs as
Percentage of Exports**



**Zambia –
Local Bond Yields and
Exchange Rates**



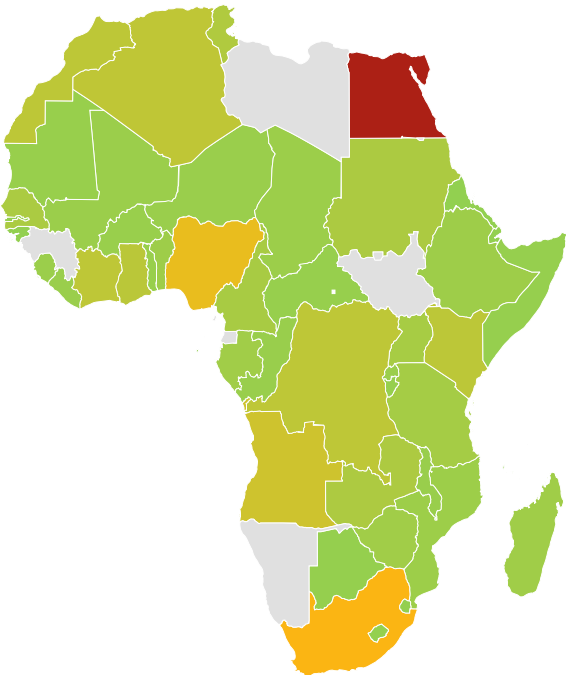
— Local Bond Yield — ZMW/USD

Short-Term Refinancing Requirements Map Out Stress Points

Use of IMF Credit in 2024

Mean: USD 2.1 billion

Median: USD 0.9 billion



Use of IMF Credit, US\$ Billions

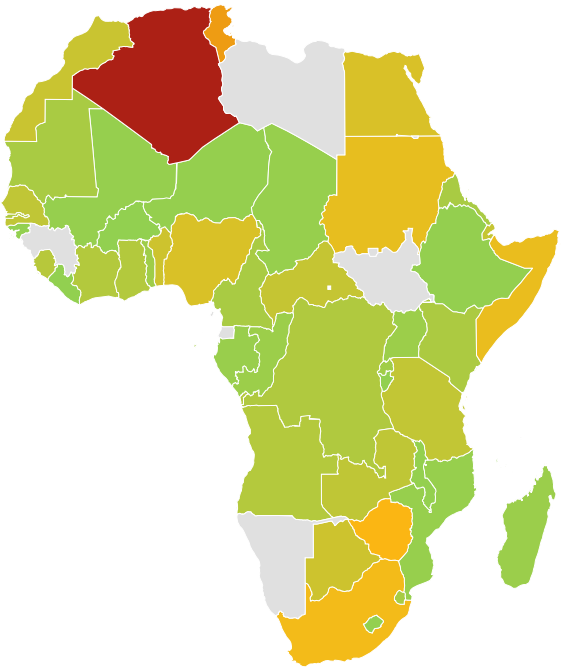


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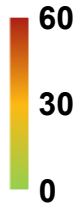
Short-Term Debt Percentage in 2024

Mean: 11.3%

Median: 7.9%

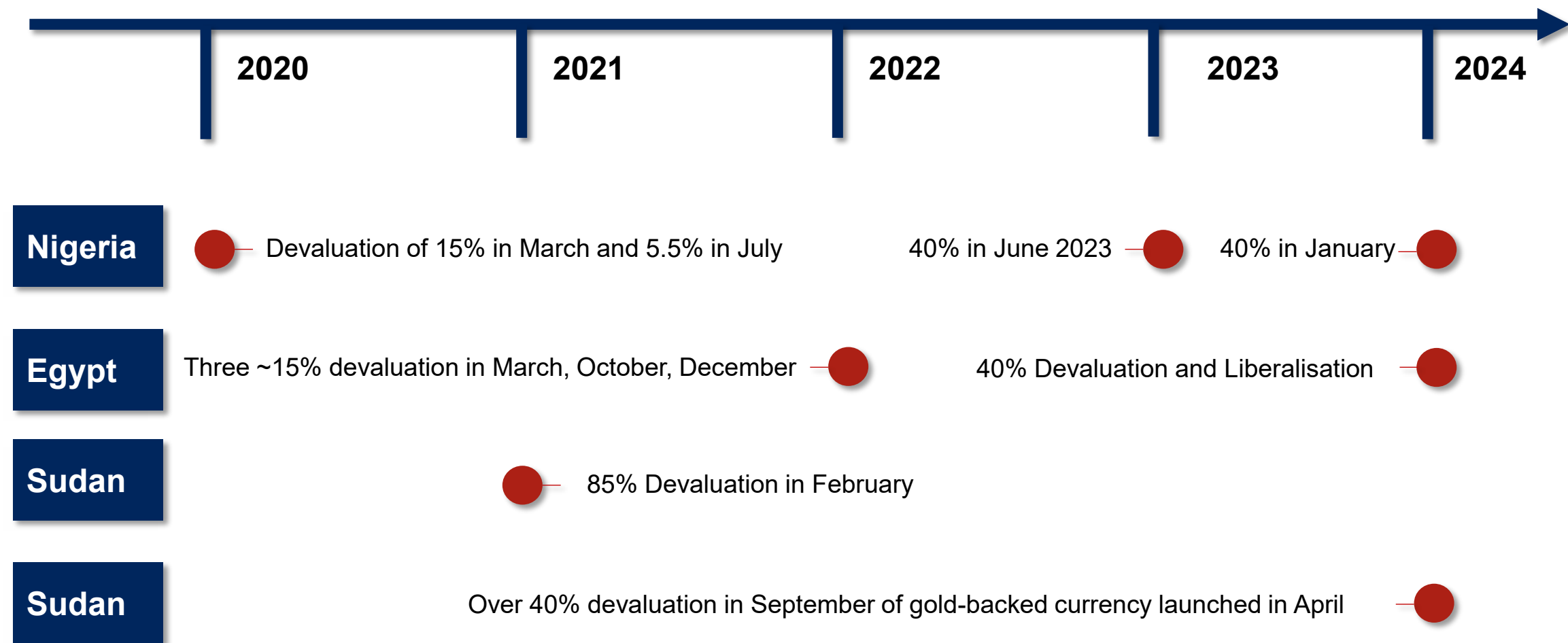


External Short Term Debt as Percentage of Total External Debt



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Rising US Dollar Contributed to Sharp Devaluations Across Africa



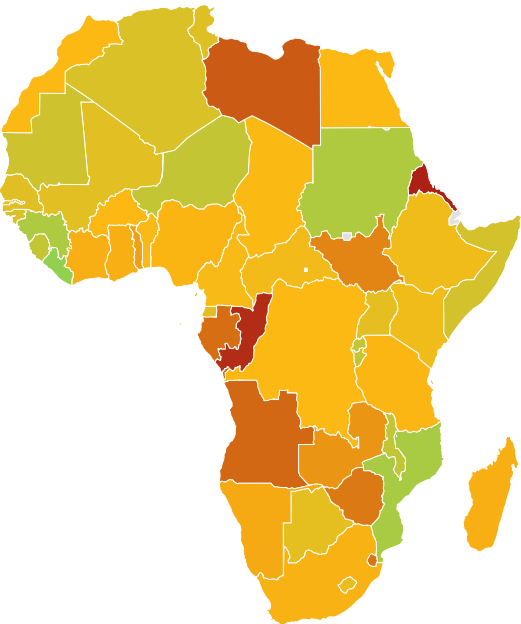
Foreign Earnings are Key to Defending Currency Value in the Long Term

Current Account in 2019

Mean: 4.8% Deficit

Median: 4.3% Deficit

Percent in Deficit: 81%



Current account
balance 2019 (%
GDP)

13
-3
-20

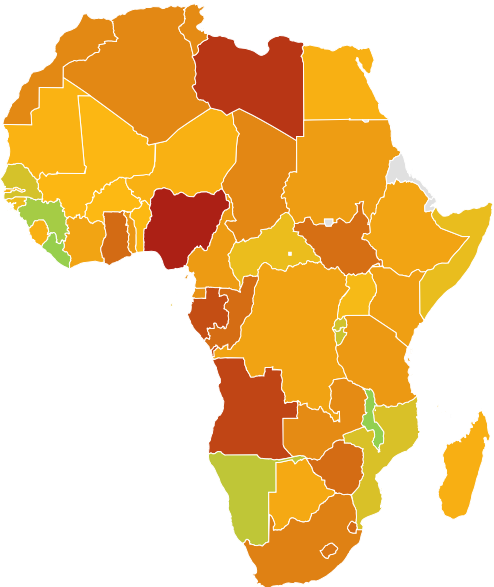
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Current Account in 2024

Mean: 4.9% Deficit

Median: 4.5% Deficit

Percent in Deficit: 81%



Current account
balance 2024 (%
GDP)

9
-6
-22

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Trade, Income, and Foreign Liabilities are Interdependent

Higher national income gives the opportunity for greater saving

$$\underbrace{Y}_{\text{Income}} = \underbrace{C}_{\text{Consumption}} + \underbrace{I}_{\text{Investment}} + \underbrace{G}_{\text{Government Spending}} + \underbrace{(X - M)}_{\text{Net Exports}}$$

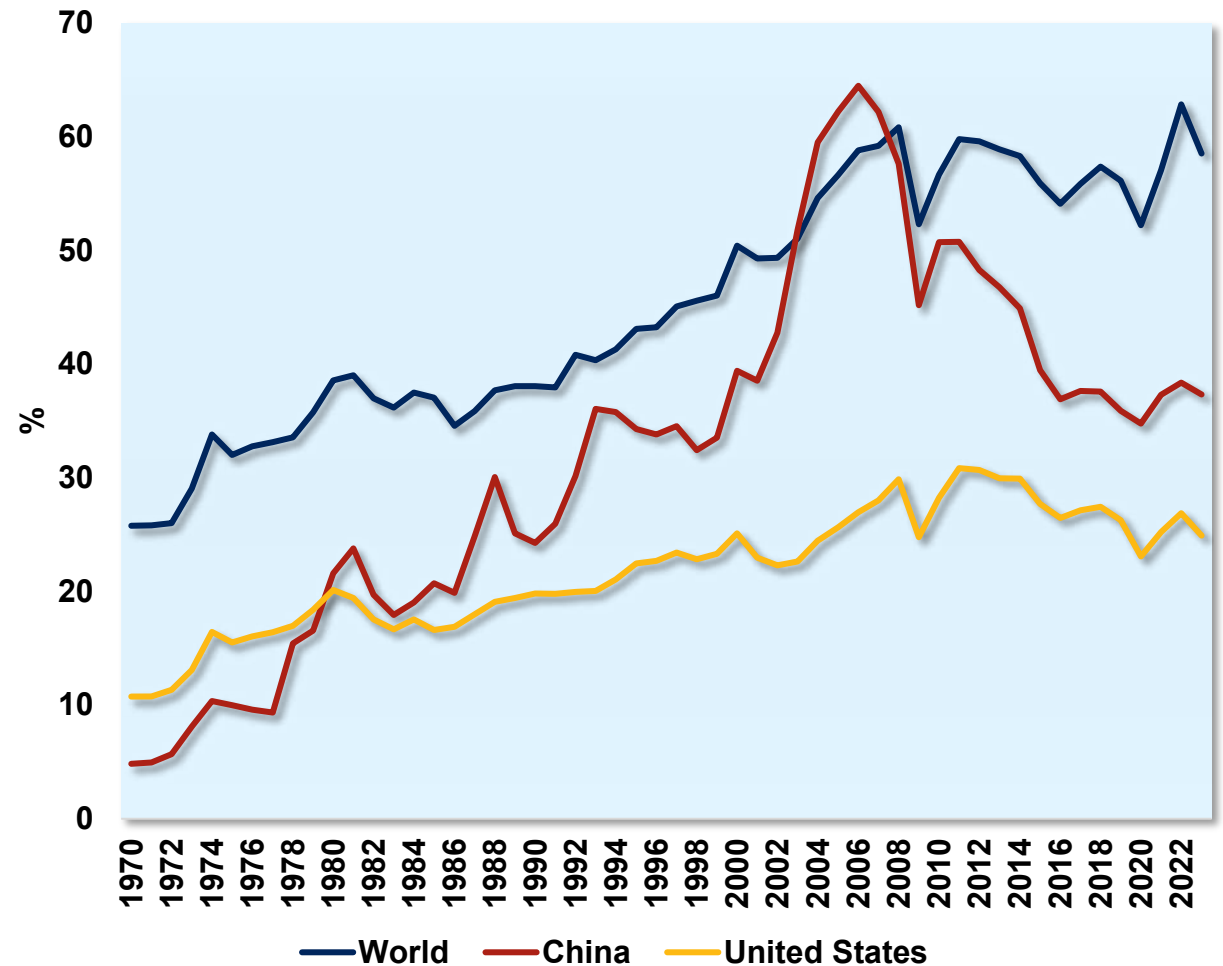
$$\underbrace{S}_{\text{Savings}} - \underbrace{I}_{\text{Investment}} - \underbrace{(G - T)}_{\text{Fiscal Balance}} = \underbrace{X - M}_{\text{Net Exports}}$$

A Deglobalizing World Could Make Hard Currency Difficult to Earn

April 2nd US Tariffs on Selected African Countries

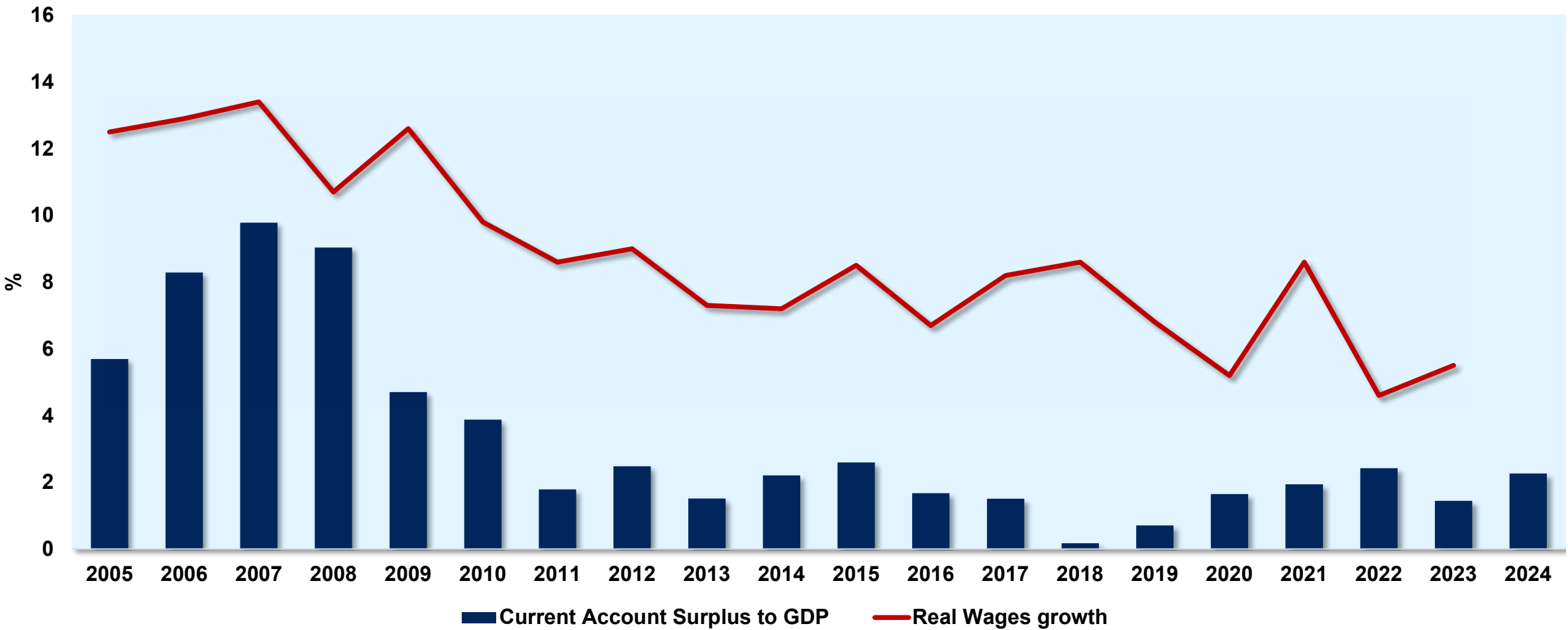
Country	April 2 nd US Tariffs (%)	Share of Country Exports to US (%)
South Africa	30	8.2
Egypt	10	5.2
Algeria	30	9.9
Nigeria	14	7.6
Morocco	10	3
Kenya	10	6.5
Ethiopia	10	9.8
Angola	32	1
Côte d'Ivoire	21	4.3
Tanzania	10	1.3
Lesotho	50	19

Trade as Percentage of GDP

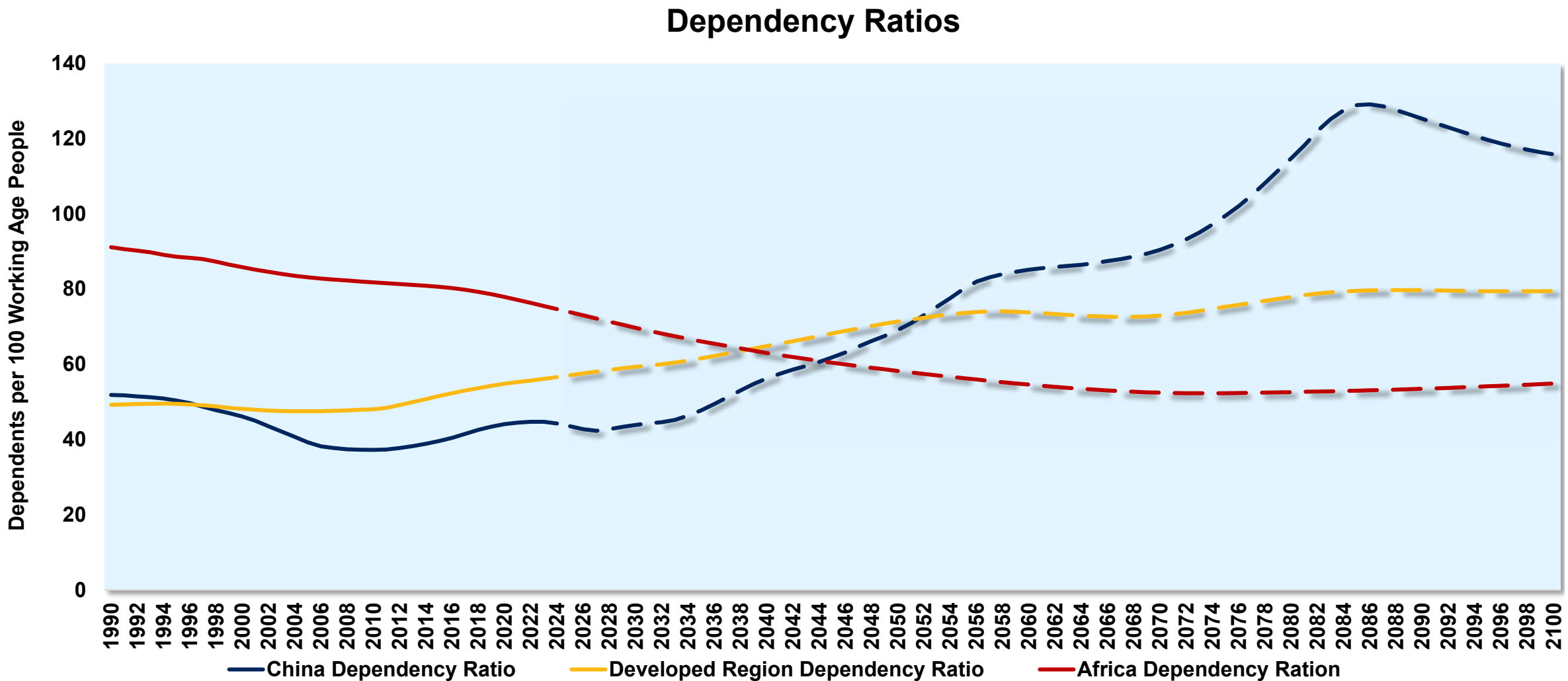


Rising Chinese Labour Costs Give Africa an Export Opportunity

Chinese Trade and Wage Growth



Africa Benefits from a Demographic Dividend as the Rest of the World Ages



Growth in Africa will Depend on Harnessing Demographic Opportunity

Growth = Change in Quantity of Labour + Change in Labour Productivity

Favourable demographics should give Africa a growth boost, but GDP per capita will remain low without improvements in labour productivity

“Technological Advancement”

Foreign investment can help transfer know-how

Capital Accumulation

Low levels of national income can make this a challenge

Higher National Income can Reduce External Liabilities

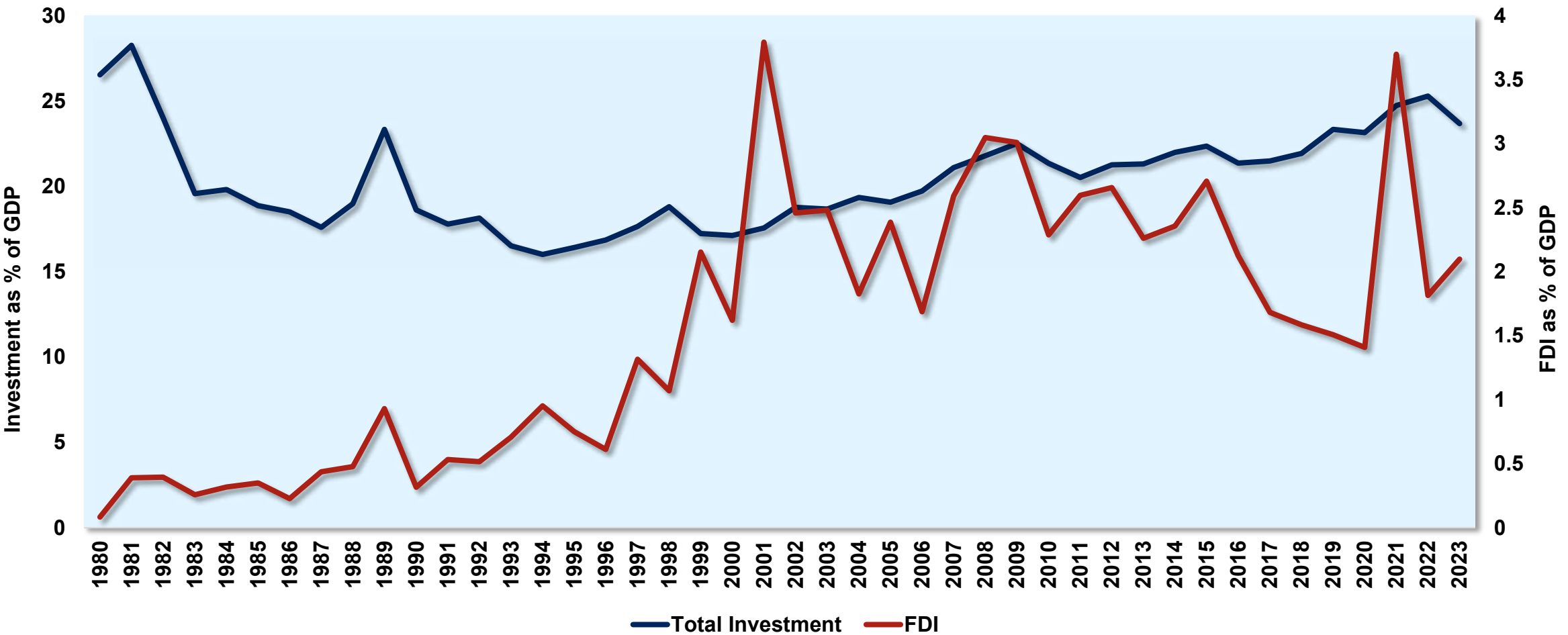
Higher national income gives the opportunity for greater saving

$$\underbrace{Y}_{\text{Income}} = \underbrace{C}_{\text{Consumption}} + \underbrace{I}_{\text{Investment}} + \underbrace{G}_{\text{Government Spending}} + \underbrace{(X - M)}_{\text{Net Exports}}$$

$$\underbrace{S}_{\text{Savings}} - \underbrace{I}_{\text{Investment}} - \underbrace{(G - T)}_{\text{Fiscal Balance}} = \underbrace{X - M}_{\text{Net Exports}}$$

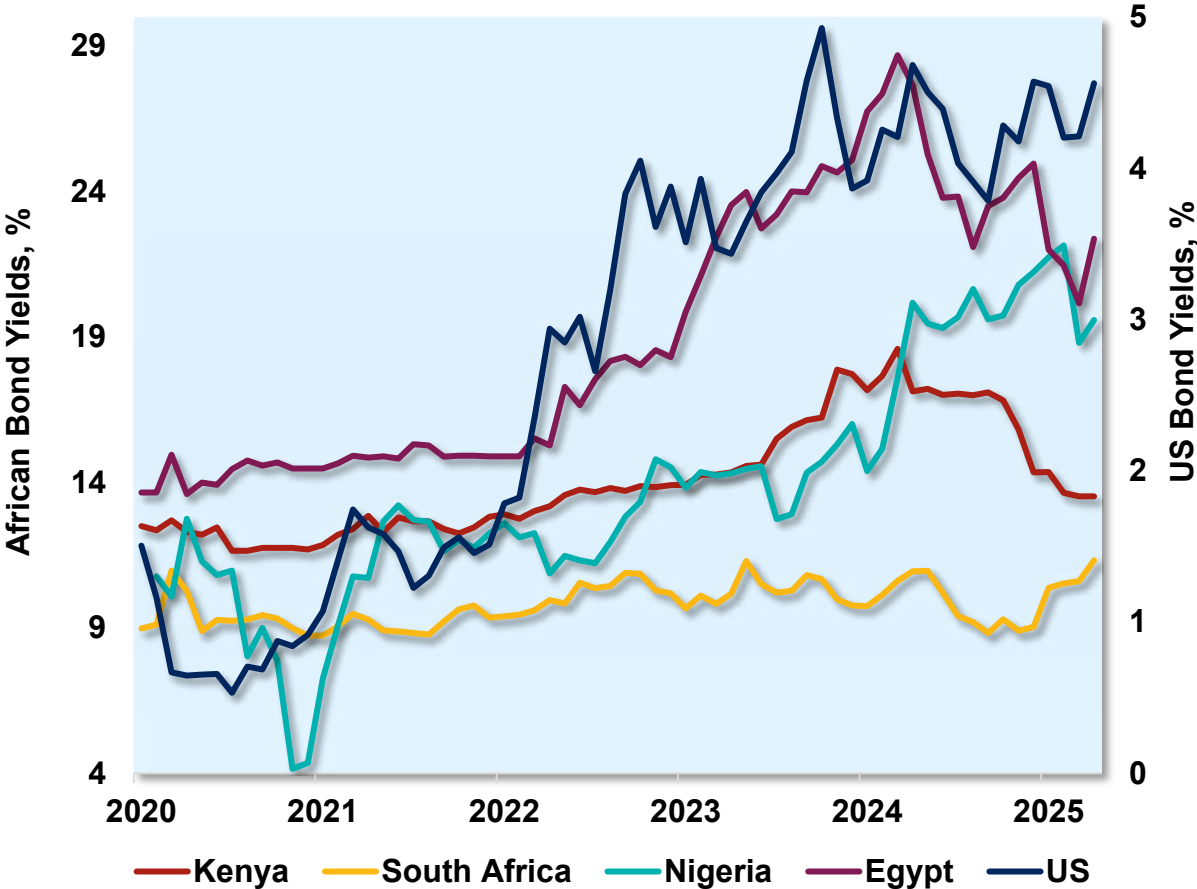
FDI is Increasing Portion of African Investment in the Era of Globalisation

Composition of Investment in Sub-Saharan Africa



US Asset Demand used to Monopolized Global Capital

US and African Bond Yields

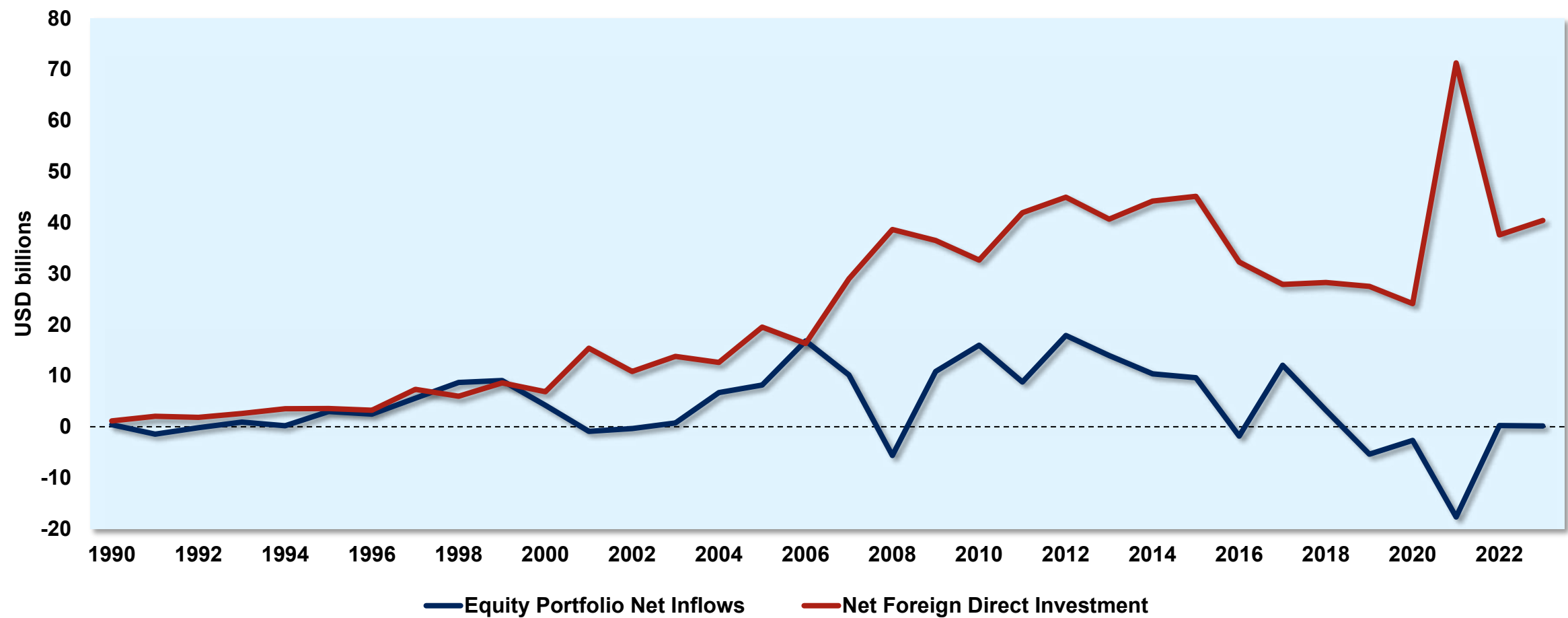


Correlation of US and African Bond Yields over the past five years

	US	Kenya	South Africa	Nigeria	Egypt
US	1.00	0.82	0.59	0.78	0.89
Kenya	0.82	1.00	0.38	0.69	0.92
South Africa	0.59	0.38	1.00	0.34	0.48
Nigeria	0.78	0.69	0.34	1.00	0.74
Egypt	0.89	0.92	0.48	0.74	1.00

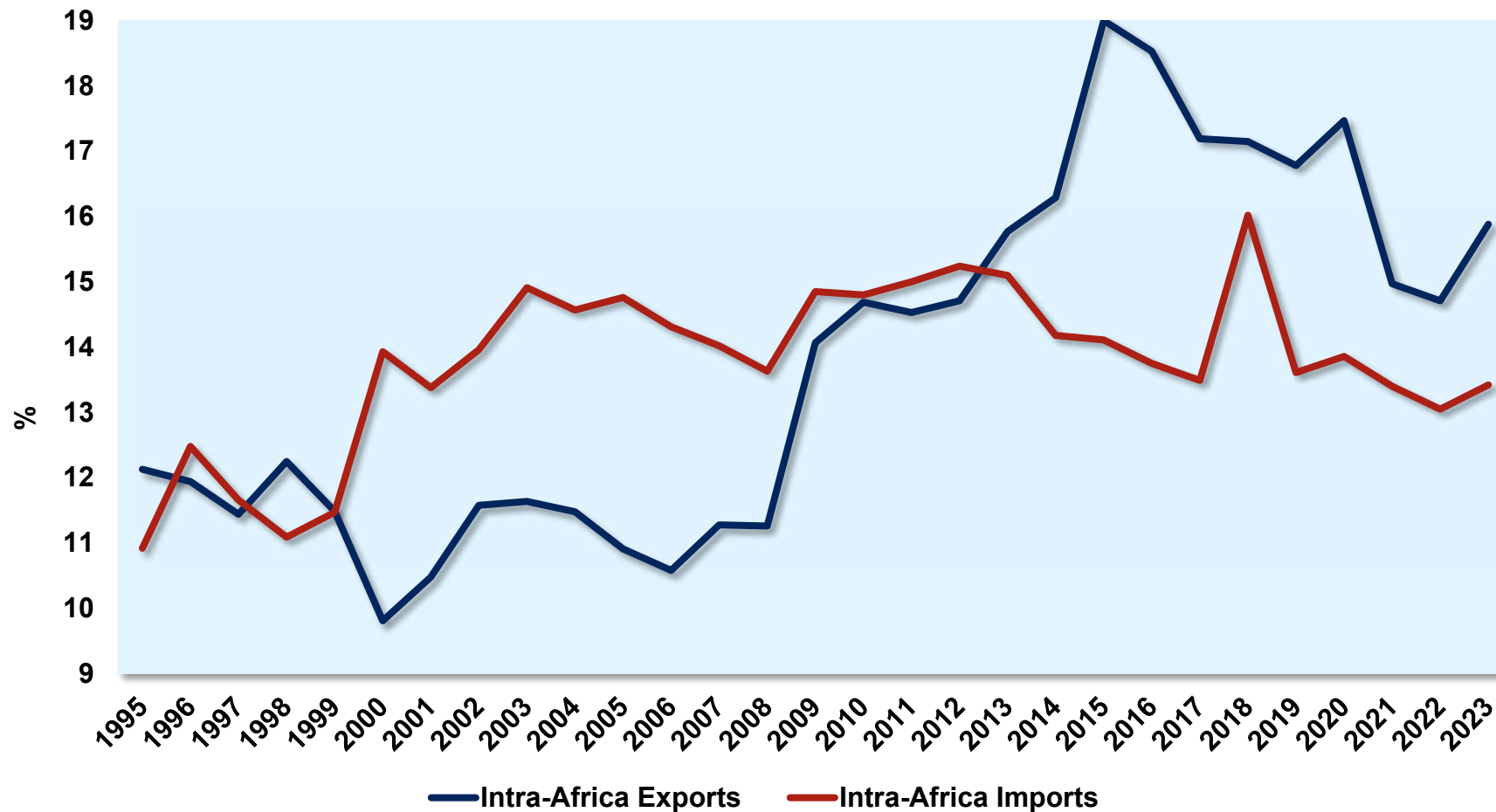
Liquid Portfolio Investments can Rapidly Unwind and Pressure Currency

FDI and Equity Portfolio Net Inflows in Sub-Saharan Africa



African Integration can Bring Specialization and Growth

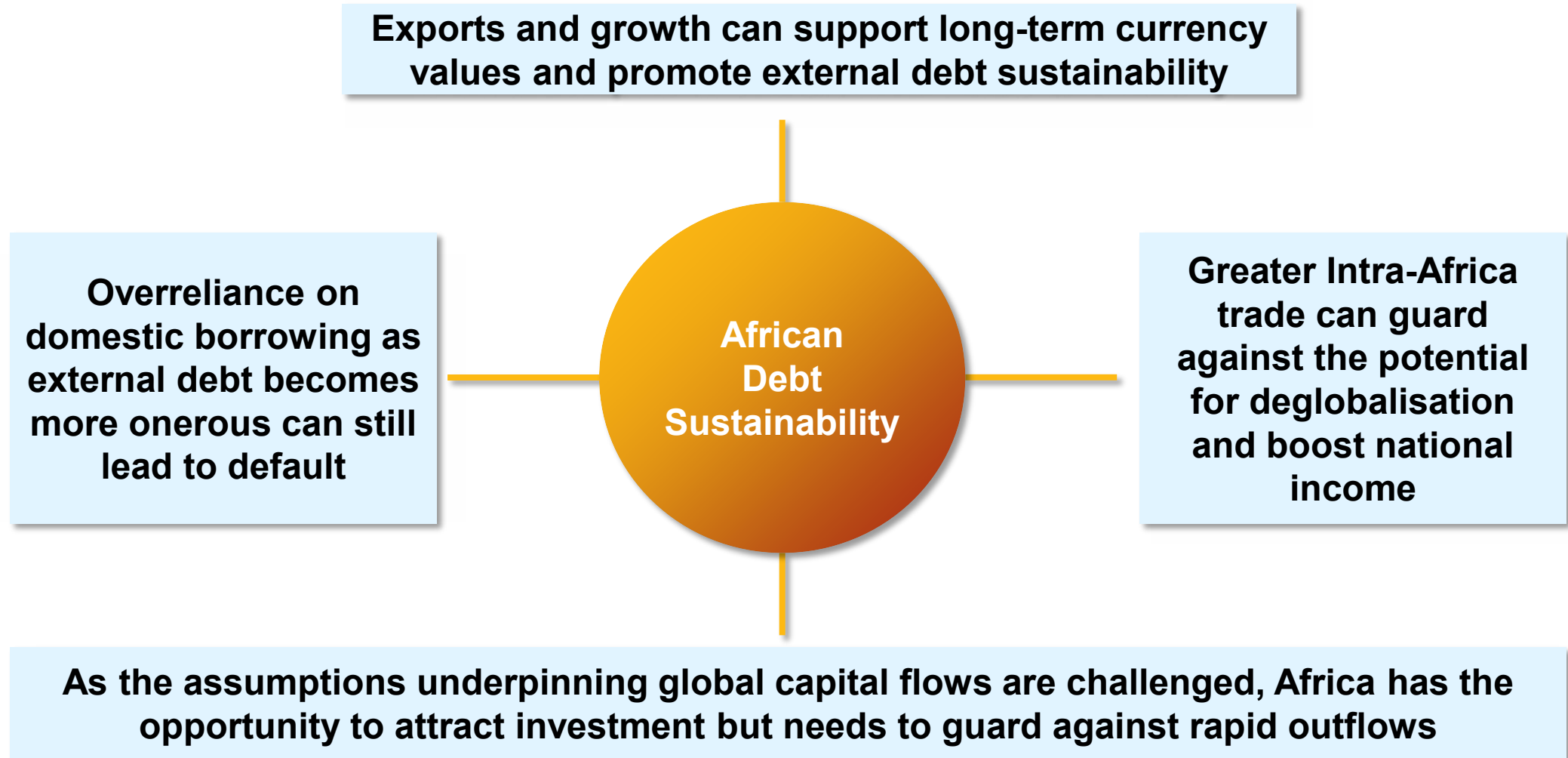
Share of African Trade with Itself vs. Rest of The World



Although Intra-Africa trade is slowly rising, it remains low compared to other geographic regions...

...Almost 70% of European trade is with itself

Key Takeaways



Q&A