Trip Notes

Investor & Policymakers Roundtables in Ghana 2022

Aktia

Investor and Policymaker Roundtables

Overview

- The 57th AfDB (African Development Bank) annual meeting took place in Ghana, Accra, May 23rd -27th. As side-event for the official meetings an Investor & Policymakers Roundtables event was arranged where global EM-sovereign investors had the opportunity to meet face to face with finance ministers, central bank governors, heads of debt management offices and other policymakers from almost 10 African nations. Total assets under management from investors present was USD 12 trillion. Aktia was honored to have been invited to join the meetings.

- On the back of the recent developments in market environment most discussed topics where funding conditions and overall fiscal situations, future market access, effects of rising commodity prices and the political environment. Obviously, times have been challenging and unfortunately for many of the countries the worst is probably still ahead. The funding situation remains tight and fiscal balances are under pressure due to higher living costs for citizens, as prices of energy and food items have in some cases doubled during the past year. However, there are countries in the region that are taking the issues very seriously and are willing to take necessary measures. There is also willingness to continue develop and deepen the relationships with funding providers like the IMF and the World Bank.

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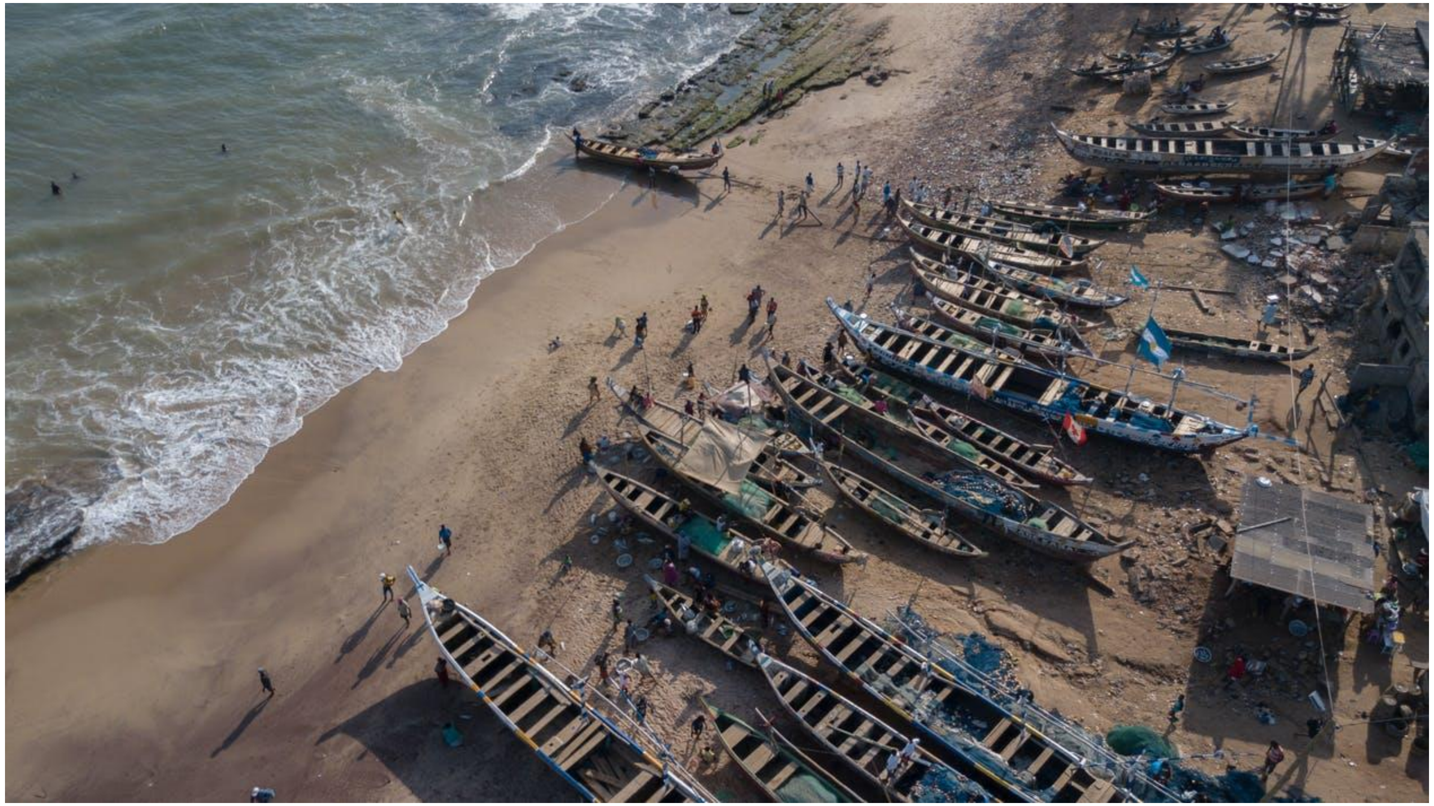
Picture of fishermen in Accra, Ghana



Meetings With Policymakers

Benin and Ghana

Benin

- Benin launched its eurobond issuance program in 2019 and has had a positive experience so far. It was clearly stated that there is a commitment and willingness to stay in the markets and continue issuances in the future. The first SDG bond was issued in 2021 and it has a yearly review coming in July, target projects were audited on site. Due to challenging market conditions, it is highly uncertain if there would be new issuance in 2022. However there has been discussions on ESG/SDG type of loan instrument but nothing is confirmed yet.

- The country is member of WAEMU (Western Africa Economic and Monetary Union) and it has fx pegged to Euro. Due to the fx peg, also future bond issuance will probably be in Euros.

- Regional bond market (WEAMU countries) could be a source of alternative funding if hard currency market levels stay elevated. Local market are liquid and active, and there was for example a 20y (coupon 4,5%, USD100mn) regional issuance just before the war in Ukraine. Benin is actively pushing the increase of share of foreign investors in these local instruments but there are still costs related to the instruments that are making them unfavorable for foreigners to use.

- Benin has a staff level agreement with the IMF in place. The program could have a board level approval as early as June. It would be a blended program, worth USD450m and a maturity of 4.5 years.

- There are also other multilateral loans in place but disbursements are yet to happen.

- WAEMU is seen as very vital for the area and Benin is 100% committed to it.

- Benin has debt-to-GDP ratio of 50% as WAEMU has limit of 70% so there is room to maneuver if needed. From the debt management point of view, Benin is one of the best performers compared to other WAEMU nations.

Ghana

- In short – the country is pushed into a corner and there is no easy way out from the problems it is facing.

- Short term rates are extremely high (on-shore overnights peaked at over 80%!). Fuel and food prices are 100% up in less than year. Local services, restaurants, grocery stores are going bankrupt – if you ask from locals in the street, Ghana is broke.

- Ability to survive for the next 48 months is vital. After that, debt servicing cost will ease as eurobond matures 2026. Currently reserves are decreasing rapidly, and all new debt is used in servicing old debt. These are issues specifically with domestic debt, not so much with external debt. Government has been in spending mode and now faces a situation where the only option is heavy expenditure cuts to even have a chance of survival. And would lower expenditures come true, that would probably also mean a lower growth trajectory going forward.

- Funding options are limited – basically an ideal solution would be a quick IMF package without common framework (=IMF program without restructuring/haircuts on outstanding bonds). This was also strongly suggested by international investors in present, but it seems that at the moment the government sees more problems than solutions with a potential IMF package. Arguments varies anything from ”unfair” premium in IMF deals with African nations, to losing market access, to trying to figure out what would the deal mean in practice (re-structuring etc). However, the relationship with the IMF is good and engagement continues, so nothing is ruled out. Bilateral loans are of course one possible option, but one has to remember that for example China is in a different situation compared to a couple of years back.

- It is highly unlikely that a potential IMF deal is not on the table before September. If an IMF package would become reality, it would most likely also mean haircuts for bond owners. On the hard currency side recovery rates would probably be near 40% (not 70% as some might expect). For local bonds it would mean maturity extensions (90d extended to 2yrs etc) but probably no haircuts on them (however local banks could survive even with moderate haircuts). For Ghanian Cedi this could mean more than 50% depreciation according to some economists.

- Eurobonds are currently about 60% of external debt. Total amount of external debt is roughly 20bn, so $13bn bonds + $6bn of syndicated loans.

- Fiscal numbers are mixed - growth is still strong (2021 5,4%, Q4 7%), debt cumulation reduced since 2020, current debt-to-GDP 76% (thanks to high growth), at the same time inflation is running at 23%, budget deficit target of 7,4% is very ambitious and revenues target at 18-19% of GDP but currently running only at around 13%.

- Funding for the 2022 should be done via external funding sources (total $1,5bn). Some support is coming from wage bill made already 2020 (2021 +4%, 2022 +7%, total of roughly 10% wage increase is positive, compared how much prices have increased). Also, gold and oil prices are somewhat supportive, but oil production prices are high and domestic gold miners have difficulties to sell gold to the market due high trading spreads with CB.

- Official cocoa production dropped more than 40% this year due to bad crops and smuggling.

- Next steps or at least some indication of those could come in July when there is a budget review.

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Meetings With Policymakers

Namibia, Tanzania and Zambia

Namibia

- The past few years have been challenging due to price developments in the commodity sector (country imports food and energy), draughts in the agriculture sector and COVID-10 severely hitting the revenues side. Government's aim is to recover from deficits step-by-step and to keep expenditures stable with regards to subsidies, the wage bill and SOE transfers. All these areas have reforms ongoing, and the government is highly committed to executing them as planned.
- Debt-to-GDP is expected to peak during fiscal year 2023-2024 at 74-75%. Growth trajectory is expected to be 5,5% per year for the next 3 years.
- Funding needs are estimated to be around 10-15bn for the next couple of years. Share of domestic funding dominates (around 60% of total) and foreign funding is seen as complimentary (40% of total). Right now, market environment is challenging for new external bond issues, but these are not excluded.
- Government has a renewable energy program in action and as a first phase there is an over 9bn green hydrogen project on the table waiting for final agreement to be signed with private investors. This and future projects are planned to be made side-by-side with the private sector, but so that governments funding liabilities are limited.
- Kudu gas field project is alive and construction phase could start in next 18 months.

Tanzania

- Growth 4,9% 2021, a bit lower still than pre-covid (6,4%). Inflation contained around 5% (CB target at 5%) and longer term realized average inflation is 3,7%. Budget deficit target 3% of GDP but currently the actual number is 2%. Debt levels are very sustainable and debt-to-GDP is at 35% with maximum limit of 50%. Fuel subsidies are in place, cost for government is $45m per month since price of fuel on pump has increased 50%.
- Funding need for the year is $4bn
  - Recently issued domestic 2y paper with 4% coupon
  - Multilaterals, loans etc. worth of $1bn
  - Eurobond issue is not coming during current fiscal year
  - All borrowing is attached to the development projects (governments objective)
- Political environment is quite stable. New president, Samia Suluhu Hassan came in power 2021. Next elections coming 2025 and this is driving force for the reform agenda.
- Government is executing various reforms currently and the main goal is to attract more investments into the country. Main sectors include industrial production, energy and renewables like hydro and solar. There is a government owned hydro energy project in construction phase and it also includes the transmission of electricity. The reform agenda also embraces many different infrastructure projects (for example roads).
- There is a new possibility for international investors to invest to Tanzania via South Africa (SADC = Southern African Development Community). Official credit rating is expected to come end of the summer (still uncertain by which two rating firms but guesstimate for rating is single B).

Zambia

- Re-structuring negotiations started back in September 2021. At the moment it seems that the Chinese will be joining to common framework but this still waits official announcement (deadline is end of June). According to government officials there is no reason to doubt commitment from the Chinese side. Due to the postponement, there has not been a first official creditors committee meeting yet.
- For now, it's already clear that restructuring process will not be completed this year.
- Funding for the current year is dependent on the IMF and World Bank. IMF program approval (IMF board meeting in June/July could confirm this) would unlock World Bank support and this could be enough to make the budget this year. Budget is neutral from IMF program point of view. With IMF negotiations, electricity tariffs and agricultural sector (fertilizer prices) have been among key topics.
- 2022 has started spot on from a budget point of view, both revenues and expenditures are inline. The government will reduce fuel subsidies gradually via tax reforms but not before a pipeline conversion to carry finished diesel is completed (estimated to happen in June/July). Pipeline conversion is done since Zambia has closed down its own oil refinery business. Copper price for the budget is $9000 but at the same time production is slightly below target.

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