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Africa's solvency crisis: China's participation in G20 debt relief a sign of multilateralism, but a "DSSI+" framework is required

Presentation for EUI DebtCon5

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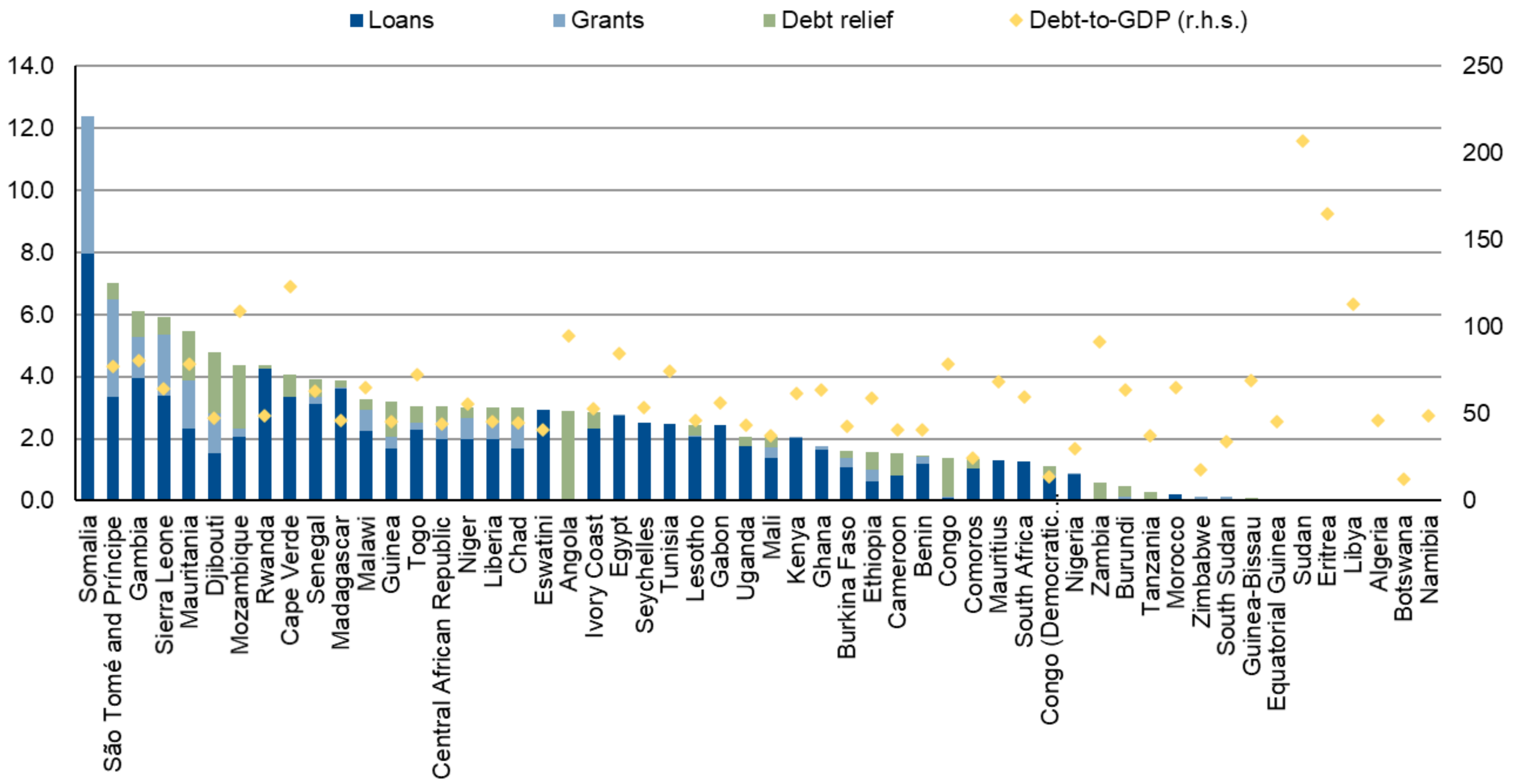
The official sector has provided substantive liquidity to low-income economies since the Covid-19 crisis

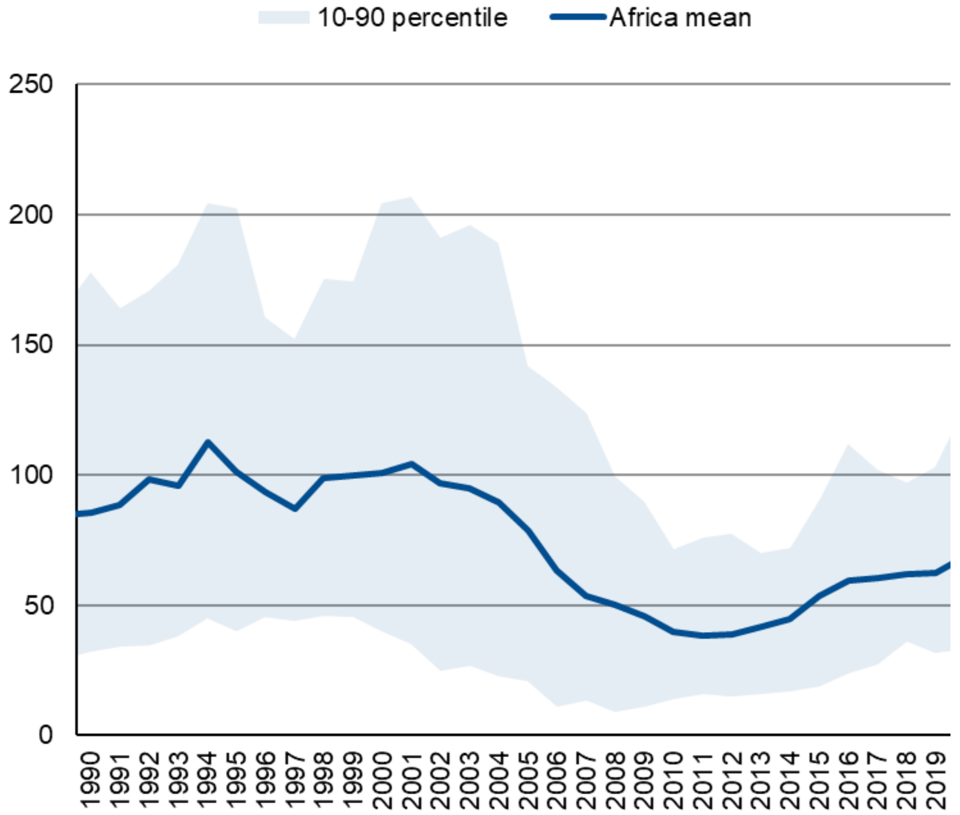


- **International fiscal support (as of Sep-2020) vs debt levels of African governments**, % of 2019 GDP, 54 UN-recognised African countries sorted by aggregate fiscal support

Full data on international fiscal support breakdown by African nation available in [Scope (Sep-2020), Annex I](). Source: IMF, World Bank, African Development Bank, Scope Ratings GmbH.

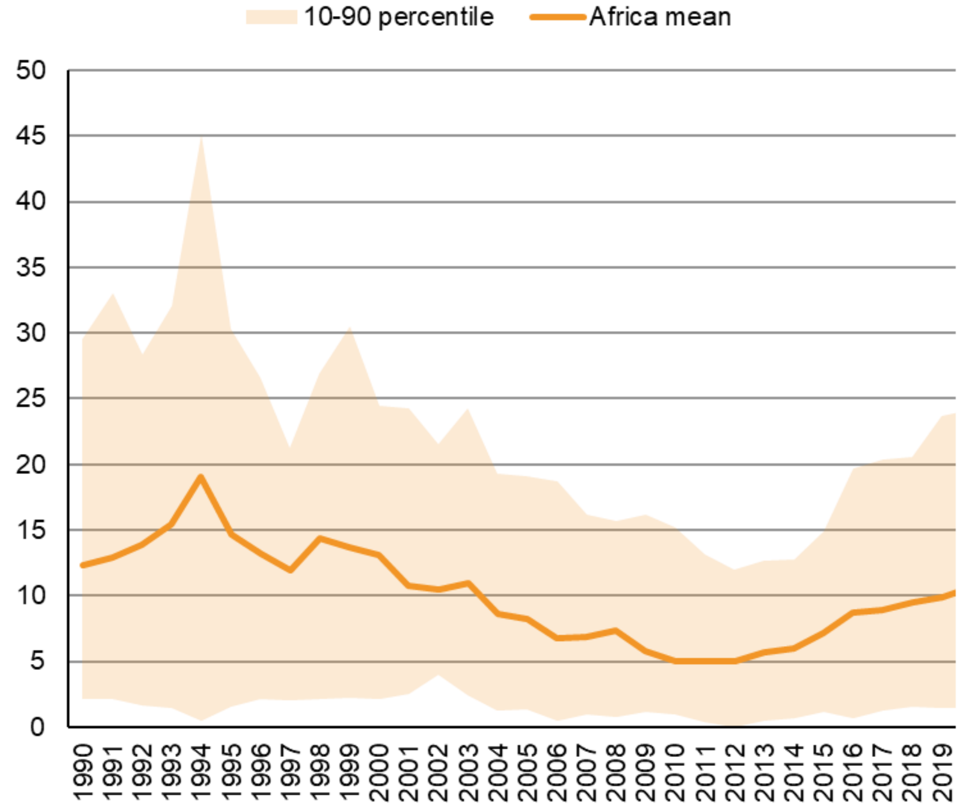
Africa's debt burden rose ahead of the Covid-19 crisis

Debt levels of African general government sector
% of GDP



Source: IMF, Scope Ratings GmbH

Interest payment burdens of African sovereign states
% of government revenue

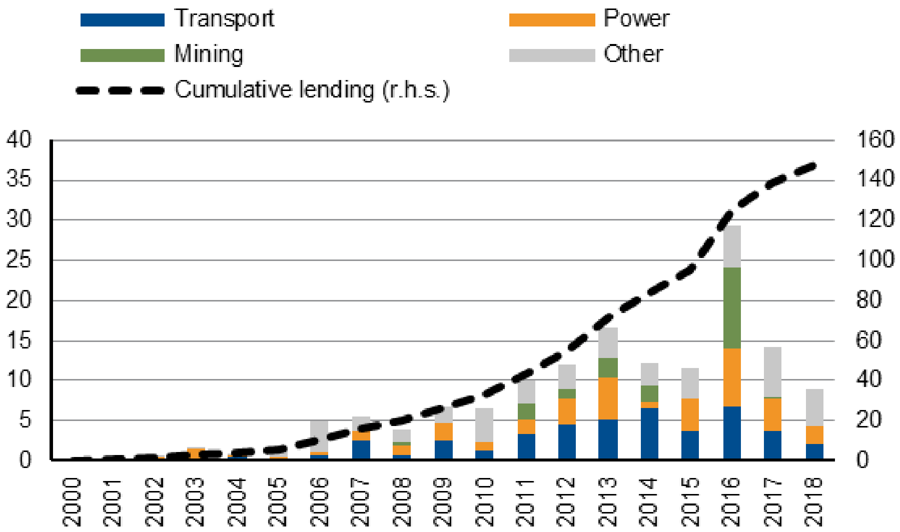


Source: IMF, Scope Ratings GmbH

China has become Africa's single largest creditor

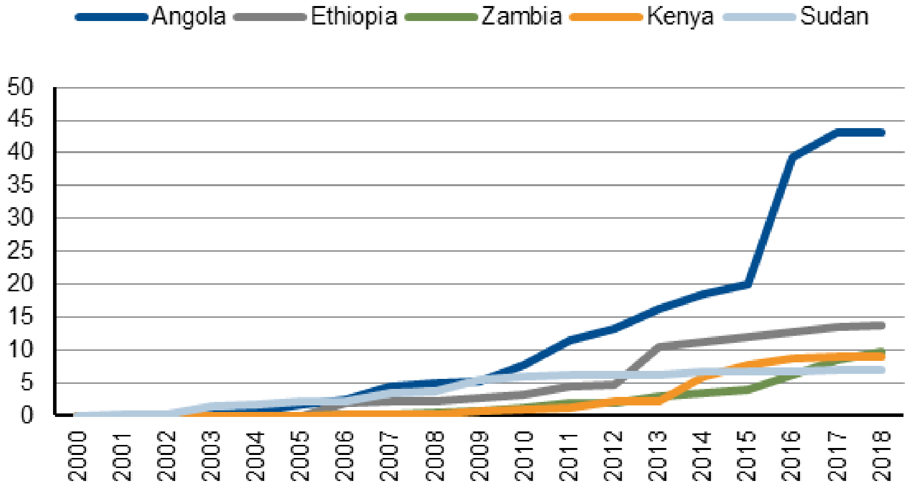
- Africa's rapid economic development has been supported by ties with China:
  - China today continent's single most important economic and trading partner
  - Between 2000 and 2018, China loaned aggregate USD 148bn to 50 African countries
  - Borrowing ranged from USD 43bn by Angola to only USD 9m from Algeria

China's loan commitments to Africa
USD bn, by sector



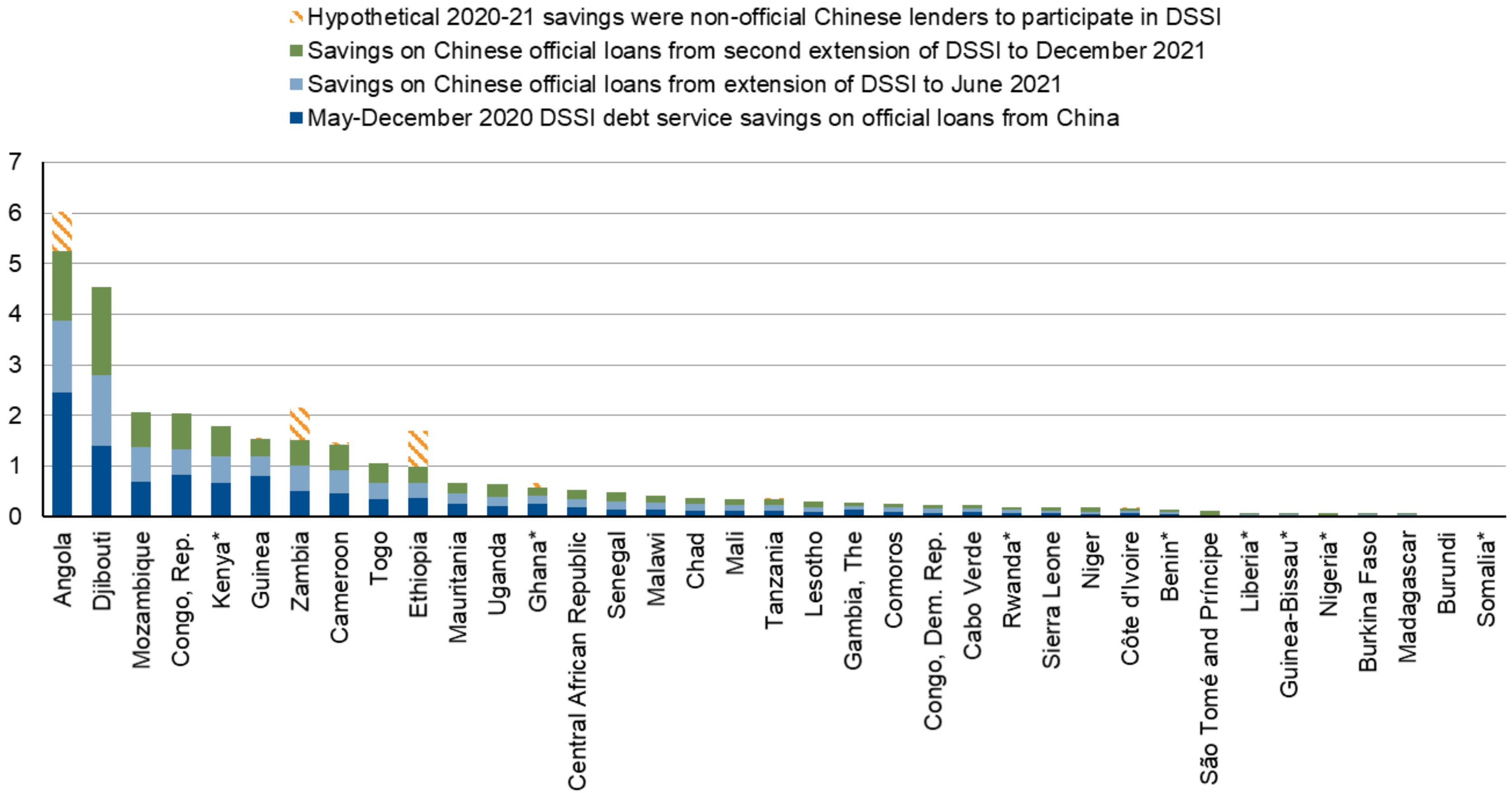
Source: John Hopkins University School of Advanced International Studies (SAIS), Scope Ratings GmbH

Cumulative borrowing from China since 2000, top five borrowers
USD bn, by country



N.B. These figures reflect cumulative amounts borrowed and not amounts of debt outstanding since substantial payments have been made by many countries.
Source: John Hopkins University SAIS, Scope Ratings GmbH.

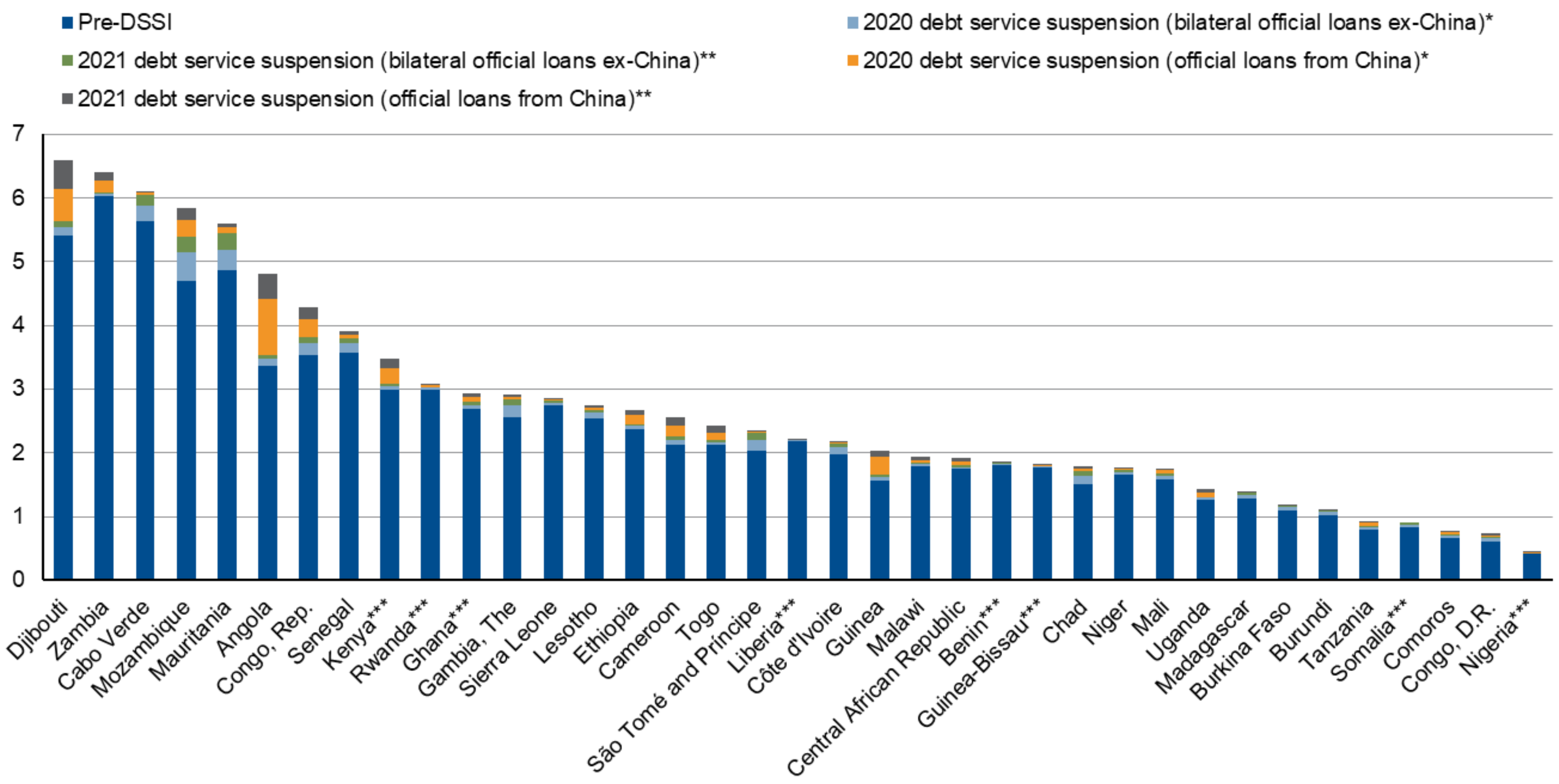
DSSI presented short-run savings for African governments on Chinese bilateral loans



- **Aggregate savings on debt service on loans from China,** 2020-21, % of 2019 GDP

Data are shown for 37 African countries eligible for the DSSI that, moreover, report external debt to the World Bank Debtor Reporting System (DRS). Underlying data for this diagram by country available via Scope (Nov-2020), Annex II . *Did not participate in the DSSI. Source: World Bank, Scope Ratings GmbH.

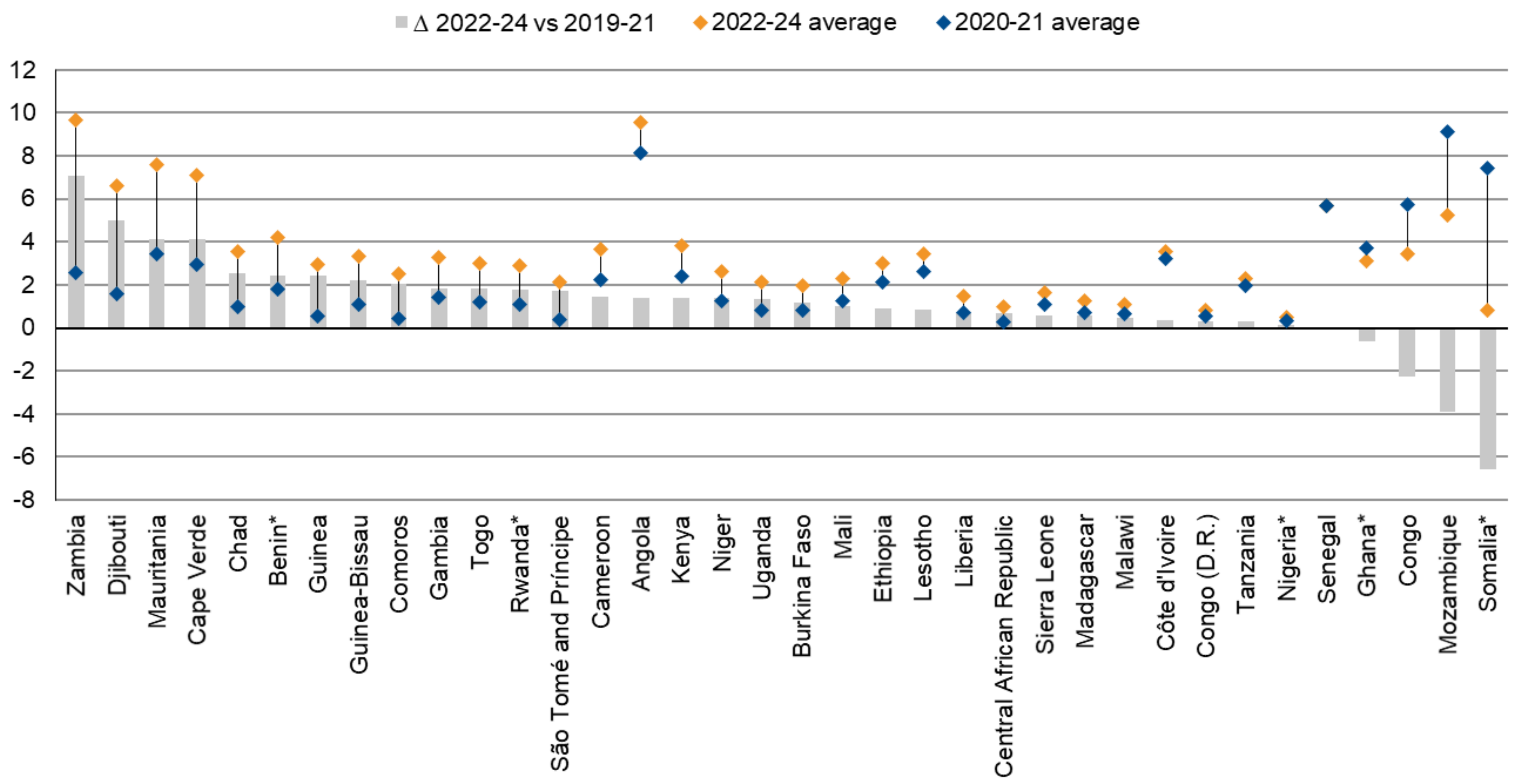
However, delayed debt service from DSSI compounds 2022-24 debt servicing requirements



➢ **Impact of DSSI participation on average annual debt service**, 2022-24, % of 2019 GDP

*May-December 2020 debt service assumed to be suspended under the three-year repayment structure plus one-year grace period; assumes 1/3 of suspended amounts repaid each year between 2022-24; NPV-neutral suspension assuming a 2.5% discount rate. **After DSSI was extended a second time to suspend all 2021 debt service on bilateral official loans. Assumes 2021 debt service suspended under a five-year repayment structure plus one-year grace period; assumes 1/5 of suspended amounts repaid each year between 2023-27; NPV-neutral suspension assuming a 2.5% discount rate. Data are shown for 37 African countries eligible for DSSI that, moreover, report external debt to the World Bank DRS. Underlying data for this diagram by country available via Scope (Nov-2020), Annex II. ***Did not participate in the DSSI.
Source: World Bank, Scope Ratings GmbH.

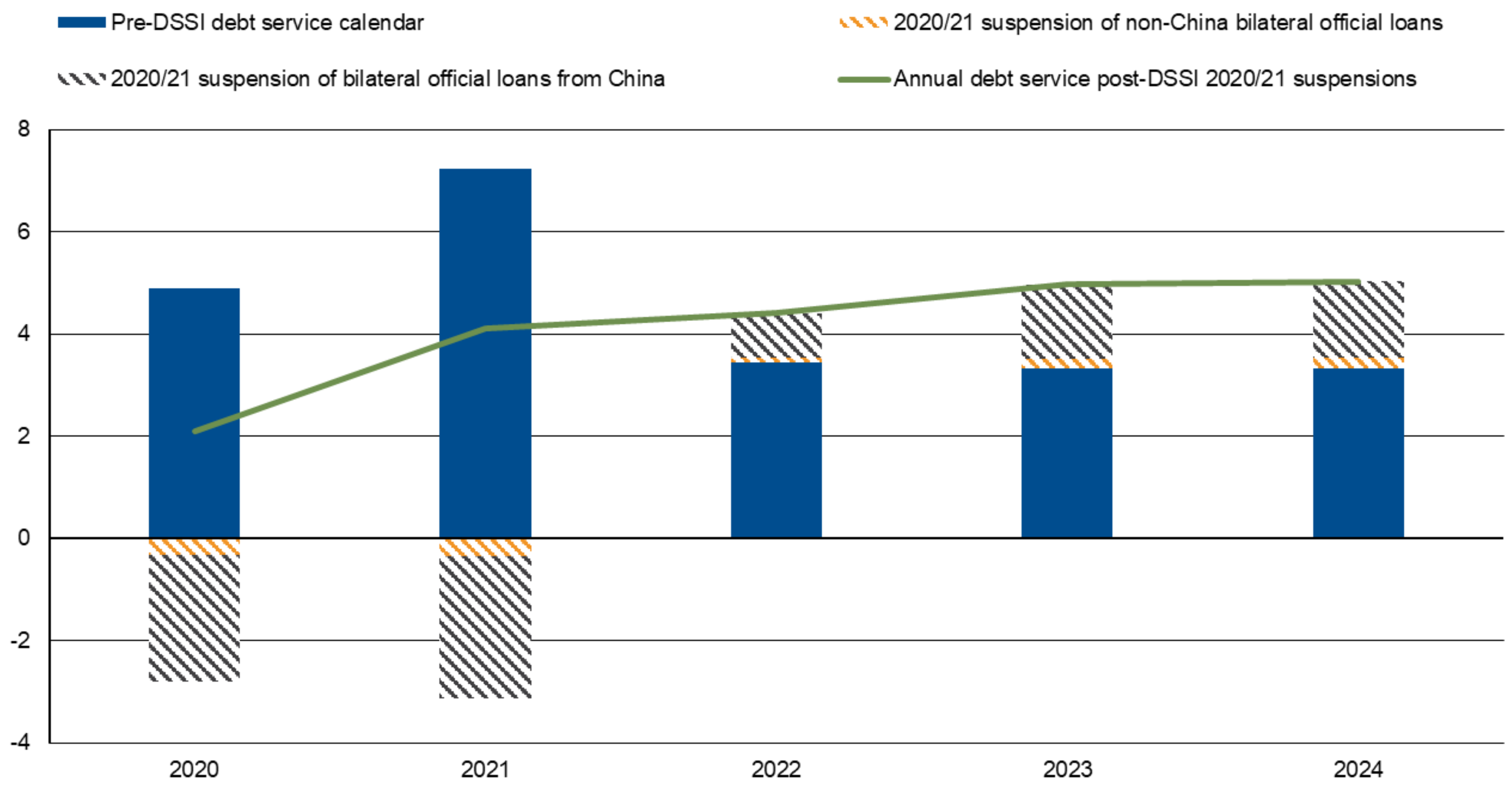
Participation in the DSSI exacerbates 2022-24 debt service stress



➢ **2022-24 average versus 2019-21 average debt service**, % of 2019 GDP

*Did not participate in the DSSI.
Source: World Bank, Scope Ratings GmbH.

DSSI transfer of debt distress from near- to medium-term in the example of Angola



- **Effect of debt service suspension on Angola's debt service calendar**, % of 2019 GDP

N.B. May-December 2020 debt service assumed to be suspended under the three-year repayment structure plus one-year grace period; assumes 1/3 of suspended 2020 amounts repaid each year between 2022-24; NPV-neutral suspension of 2020 debt service assuming a 2.5% discount rate. Above illustration assumes 2021 debt service on bilateral official loans as fully suspended. Assumes 2021 debt service suspended under a five-year repayment structure plus one-year grace period; assumes 1/5 of suspended 2021 amounts repaid each year between 2023-27; NPV-neutral suspension of 2021 debt service assuming a 2.5% discount rate.
Source: World Bank, Scope Ratings GmbH.

A DSSI+ global debt-restructuring framework is required

- Bringing debt forgiveness to the fore – address cases of underlying insolvency
- Ensuring ‘equal treatment of creditors’ principle
- Enhance transparency/consistency of participation of non-Paris Club creditors

A DSSI+ global debt-restructuring framework as required

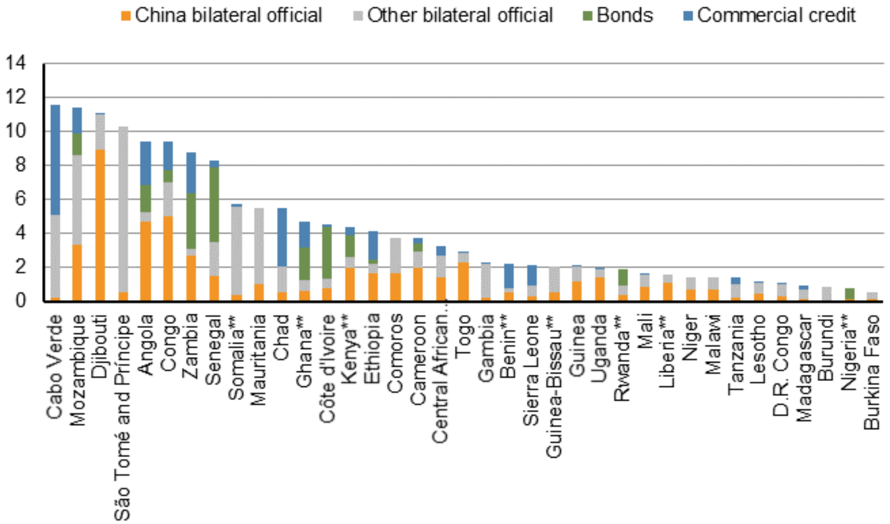
- Creditors require ‘all hands on deck’ approach
  - Orderly debt restructuring framework managed via IFIs – properly prescribe liquidity vs solvency risk
  - Aggregate collective action clauses
  - Require participation of multilateral institutions despite preferred creditor status
  - China’s role: Elimination of ‘non-disclosure agreements’
  - Mandate rather than support voluntary participation of the private sector
    - Brady-like credit enhancements and sweeteners such as GDP warrants
  - Ensure conditionality in exchange for debt relief as further assurance for creditors

- Debtors may need better incentives to initiate debt renegotiation
  - Borrowers ought not be afraid of ‘stigma’ of debt restructuring/default
  - Provision of investment and bridge financing & further suspension of debt service during restructuring talks
  - Credit rating agencies need to continue review of methodologies to curtail borrower trepidation

Savings from hypothetical 25% write-down of Africa's debt

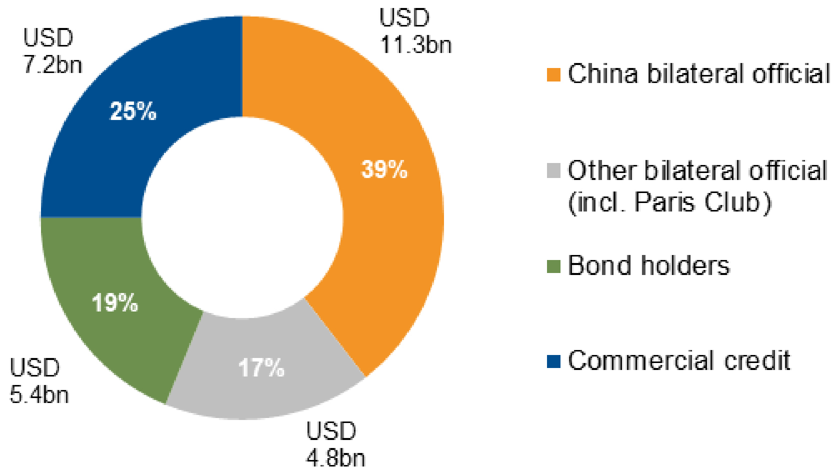
- Debt forgiveness could represent difference between sustainable recovery and a lost decade
  - Governments such as of Cabo Verde, Mozambique and Djibouti would see largest savings from harmonised write-off
  - A 25% write-off <u>only for distressed borrowers</u> could see an aggregate USD 29bn of saving, especially on Chinese loans

Potential savings from an illustrative write-down of 25% of the outstanding debt stock*, by country
% of 2019 GDP



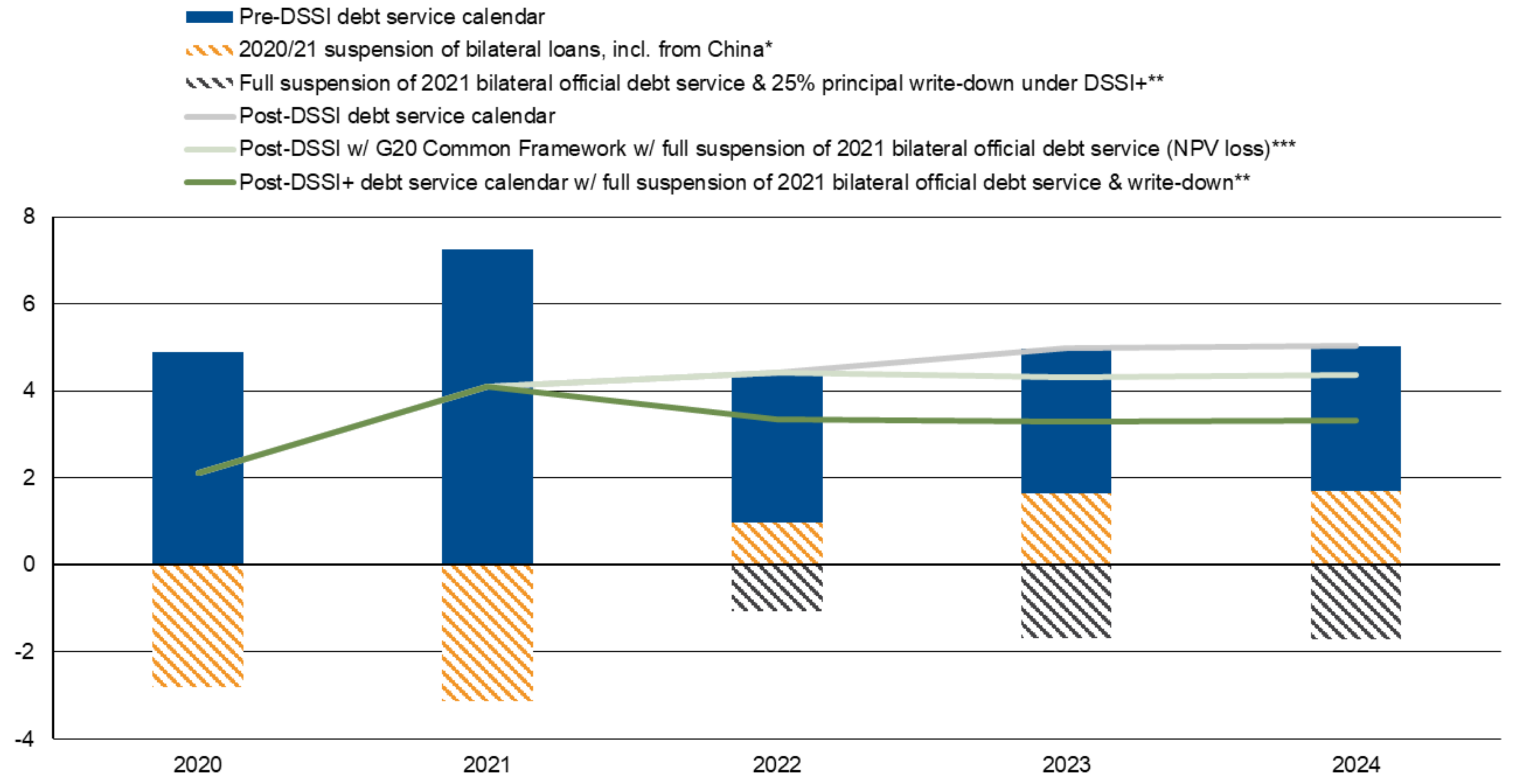
N.B. Data are shown for 37 African countries that report external debt to the World Bank's DRS, based on 2018 outstanding debt stocks. *Excluding multilateral development bank loans; **Did not participate in the DSSI. Source: World Bank, Scope Ratings GmbH.

Aggregate savings from debt write-down* on 25% of principal for 18** distressed African borrowers
USD bn and % of total



*Excluding loans from multilateral development banks; **DSSI-eligible countries designated as "High" risk or "In distress" for their risk level of external debt distress under the September 2020 World Bank debt sustainability analysis ratings plus Angola. Source: World Bank, Scope Ratings GmbH.

An illustrative 25% principal haircut across all bilateral loans, bonds and commercial credit would stabilise Angola's debt servicing demands

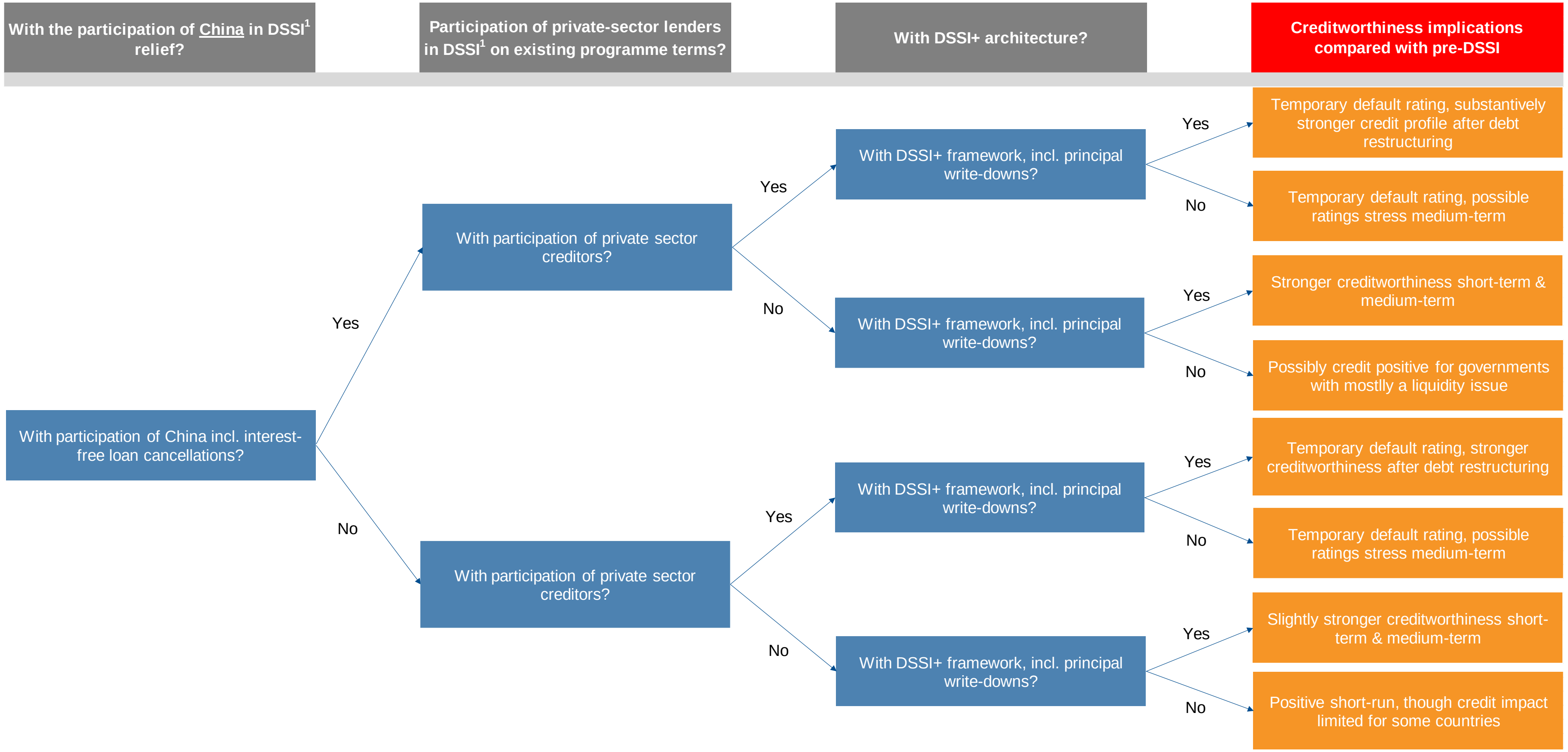


- **Effect of DSSI+ debt forgiveness on Angola's debt service calendar**, % of 2019 GDP

*Under DSSI, May-December 2020 debt service assumed to be suspended under the three-year repayment structure plus one-year grace period; assumes 1/3 of suspended amounts repaid each year between 2022-24; NPV-neutral suspension assuming a 2.5% discount rate. Assumes all 2021 debt service on bilateral loans is suspended under a five-year repayment structure plus one-year grace period; assumes 1/5 of suspended 2021 debt service repaid each year between 2023-27; NPV-neutral suspension of 2021 debt service assuming a 2.5% discount rate. **For DSSI+, assumes instead a theoretical suspension of 2021 debt service under a 10-year repayment window including a five-year grace period and repayment in full on a neutral nominal basis – i.e., repayment of the same total nominal amount as the amount originally suspended from 2021 (NPV losses) and assumes an end-2021 DSSI+ model 25% write-down of the principal across all bilateral loans, bonds and commercial loans. ***In addition to suspension of 2020 debt service under DSSI terms, assumes a Common Framework for Debt Treatments beyond the DSSI suspension of 2021 debt service under an extended 10-year repayment window including a five-year grace period and repayment on a neutral nominal basis – i.e., repayment of the same nominal amount as the amount originally suspended from 2021 in full (resulting in NPV losses). Source: World Bank, Scope Ratings GmbH.

Implications for creditworthiness of an African sovereign borrower from DSSI versus "DSSI+" debt restructuring framework

- DSSI[1] versus "DSSI+" implications for the credit ratings of DSSI-participating African borrowers

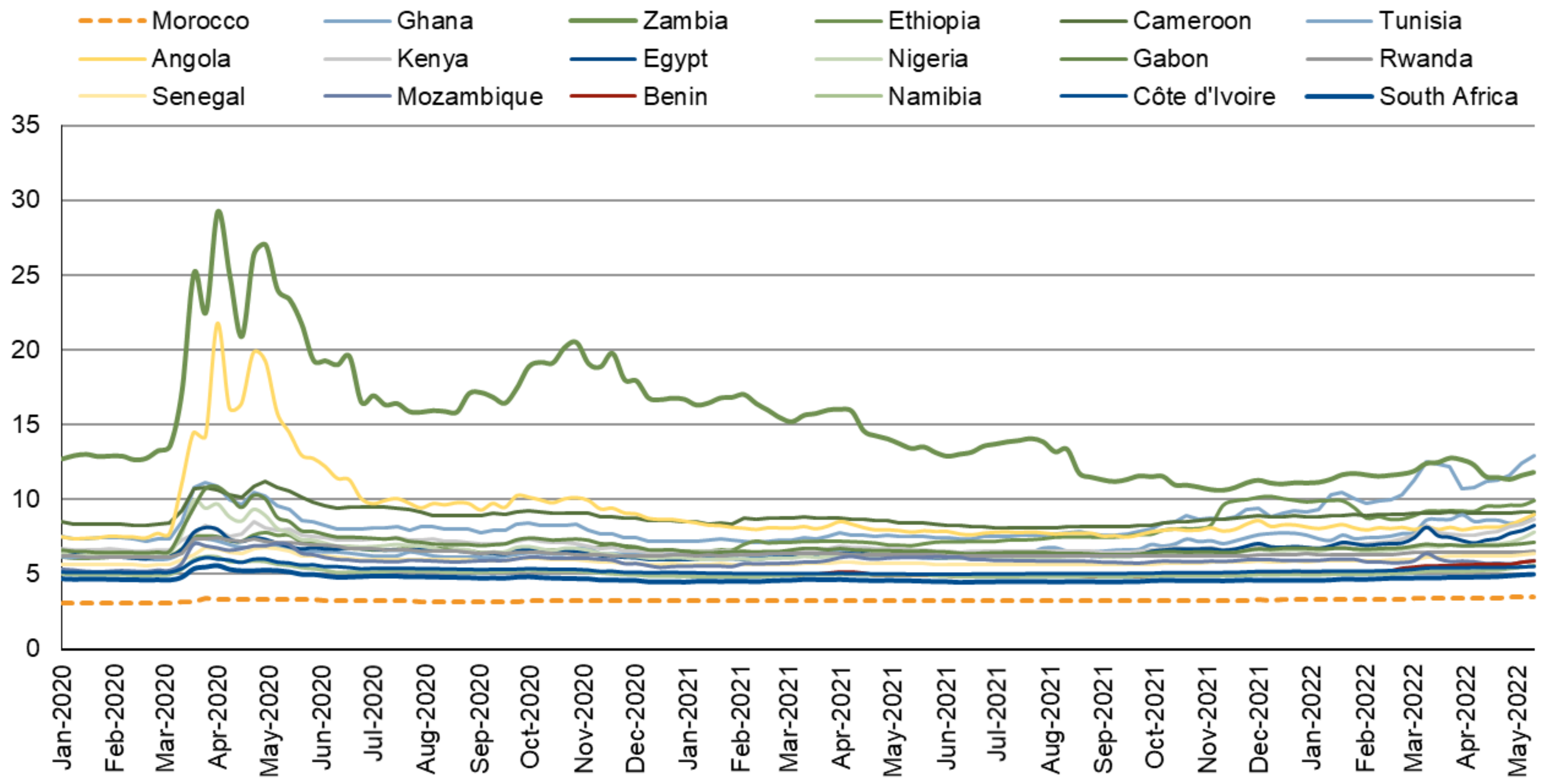


[1]DSSI in this diagram assumes the availability of debt measures under the G20 and Paris Club's Common Framework for Debt Treatments beyond the DSSI (CF) endorsed on 13 November 2020. Assumes such CF debt treatments will generally not be conducted in the form of debt write-offs or cancellations. N.B. Refers to implications for long-term issuer ratings in each hypothetical scenario.
Source: Scope Ratings GmbH.

Many thanks!

- Questions.

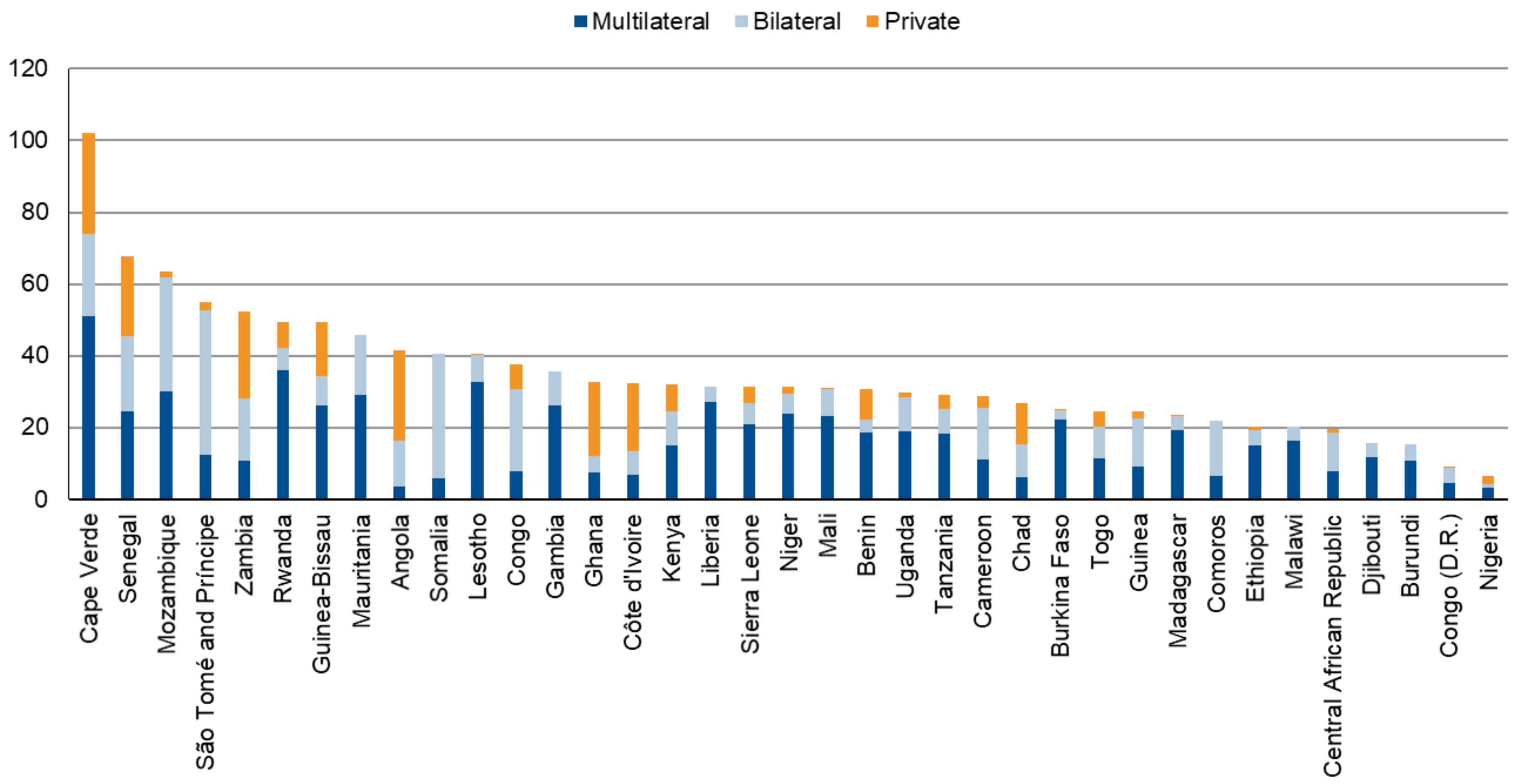
Annex: Foreign bond yields rising over 2022



➢ **Dollar bond yields**, %

Data are shown for a benchmark dollar-denominated Eurobond for each country, weekly data, last updated 11 May 2022.
Source: Bloomberg.

Annex: Composition of Africa's public debt by nation



- **General government debt**, as of 2020, % of 2019 GDP

Source: World Bank, Scope Ratings GmbH

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