Corporate

November 2015

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With the fall in global commodity prices and slowdown in Chinese demand for commodities, a number of African governments may face the imminent prospect of having to restructure their sovereign and parastatal debt. They should not be ignoring this and recent examples have shown that the more proactive an approach that can be taken, the better the long term results.

Introduction

Governments across Africa will face a number of economic challenges in the coming months. A steep rise in government debt across the continent, combined with the impact of the decline in commodity prices, raises the very real prospect of sovereign debt crises. It may become a necessity for governments to renegotiate their debt agreements with creditors and the experiences of Niger and the Seychelles demonstrate that this can yield favourable results.

What has happened?

Growth in sub-Saharan Africa in 2015 is predicted to fall to its lowest level (3.75%) since before the global financial crisis, with only a modest recovery forecast for 2016 (4.25%). Many large oil and metal exporting nations will be among the hardest hit, notably Angola, Nigeria, Guinea, Sierra Leone, South Africa and Zambia, though some low income nations will register growth of 7% or more in 2015, including Democratic Republic of Congo, Ethiopia and Mozambique. Oversupply, shrinking Chinese demand, falling production costs and the development of substantial new mining capacity in China during the commodities boom period mean it is likely commodity prices have not yet bottomed – nor will they do so until excess mining capacity is squeezed out. For a long time, many had suggested that the large Chinese investment was aimed at securing supply regardless of costs, but with oversupply has there been a shift towards recovering the sums that were lent?

We are able to work with the countries to develop both the strategy and the implementation to generate the best possible results for our clients.

BRIAN GORDON, PARTNER

Some African states face a number of challenges. One of the more difficult has been the challenge of controlling inflation, which is on the rise in sub-Saharan Africa. As with any state locked into a battle with inflation, the usual remedy is to consider raising interest rates. External balances are weaker than in 2008 in 21 countries; according to the International Monetary Fund (IMF), Ethiopia, Ghana, Kenya, Senegal and South Africa are now facing gross external financing needs in excess of 10% of GDP. It is no longer an option to ignore the pressure from sovereign loans.

Whilst African nations traditionally borrowed from multilateral lenders and the Paris Club, they have increasingly turned to international capital markets and new bilateral lenders, including China, India and other emerging market governments, to fulfil their borrowing needs. Numerous African governments have issued foreign currency denominated sovereign bonds in recent years, notably Ethiopia, Ghana, Kenya, Ivory Coast, Rwanda, Senegal and Zambia. Although sovereign debt issuance in sub-Saharan Africa on global capital markets rose from US$6 billion in 2012 to US$11 billion in 2014, financing is anticipated to become more challenging and expensive. Going forward, the uncertain economic climate means there is a real risk governments will be unable to meet their repayment obligations to creditors.

Key points

Recent examples illustrate that banks have agreed to renegotiate contracts with African governments to allow the government to extend the term for repayment and reduce the principal repayment amount. This is one of a number of options that are available.

Earlier this year HFW worked on behalf of the Republic of Niger on a sovereign debt restructuring deal which demonstrated that, where there is a strong desire to engage in constructive bilateral negotiations and an equal desire by the state and its counterpart to resolve and secure an affordable deal, an equitable agreement can be reached. In this case the Government of Niger was able to secure more favourable and achievable payment terms from its foreign lender in exchange for reduced interest and a write-down of capital. Whilst this was an undoubtedly good result for Niger, it also reflected the underlying tension between creditor and debtor, and the need for lenders to accept changing realities following the global commodities downturn.

From 2018, the Seychelles will begin repaying 100 loans from 27 creditors. A debt restructuring agreement reached with Paris Club creditors in 2009 granted the Seychelles a 45% debt write-off, worth around US$65 million, though under the agreement the Seychelles needed to achieve similar terms with other creditors. Negotiations with non-Paris Club commercial creditors were completed in 2013 when a deal was concluded with the Export-Import Bank of India to write off 45% of a loan, amounting to US$1.7 million, with the remaining 55%, US$2.1 million, to be repaid over a 20-year period with a five-year grace period.

The Government of Chad is currently in the process of negotiating terms to delay repayment of around US$1.5 billion that it owes through oil deliveries. The government has stated that it needs to preserve cash due to the collapse in crude prices and its intervention in the war against Boko Haram in Nigeria. Delaying repayment of these loans may affect a number of banks, which in 2014 assisted in raising money for one of two oil-backed loans.

HFW perspective

HFW has particular experience in advising on the renegotiation of loans provided to both parastatal companies, as well as the sovereign nations themselves. We are able to work with the countries to develop both the strategy and the implementation to generate the best possible results for our clients. Our recent experience in Niger is illustrative of the work we can do and the success that can be achieved.

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