Sub-Saharan Africa: Emerging From COVID-19?

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S&P Global
Ratings

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Key Takeaways:
Sovereign Balance Sheets Take A Hit

- The majority of our rating actions in SSA has been negative due to the impact of COVID-19.
- We expect real GDP growth to contract an average 1% in the Sub-Saharan countries we rate due to the COVID-19 pandemic.
- Prospects for an economic recovery will be mixed, depending on the health of the economy prior to the pandemic, the fiscal and monetary policy responses, and global growth and trade.
- On the fiscal side, we expect revenues to drop and spending to spike in almost all rated sovereigns, leading to rising fiscal imbalances for the next few years and a material increase in debt in most cases.
- Balance of payments positions have weakened, triggering some urgent external financing needs amid falling sources of foreign income and capital outflows from offshore investors.

Key Takeaways: Bank Earnings Are To Weaken

- Central banks across Africa have proactively supported banks operating in the region by swiftly cutting interest rates and injecting liquidity.
- Loan growth will remain subdued as banks will face higher nonperforming loans because of recessionary conditions. Regulatory forbearance could delay recognition of NPLs and will lead inevitably to higher credit losses.
- While central banks are supporting local currency liquidity, U.S. dollar liquidity will continue to be tight in Nigeria where foreign currency loans average about half of rated banks' total loans.
- We have taken negative rating actions on banks in South Africa, Nigeria, and Kenya because of COVID-19 impacts on their economies. We downgraded South African banks to 'BB-' to reflect the sharp economic contraction in 2020 and related higher impairments charges. We downgraded Nigerian banks to 'B-' in March because of the dual shock of the slump in oil prices and COVID-19-related setbacks for economic growth prospects. Lastly, we assigned a negative outlook to a bank in Kenya, reflecting the same rating action on the sovereign. Despite higher credit losses, we expect this crisis to be an earnings, rather than a capital, event for most systems.
- We generally do not rate financial institutions in these countries above the foreign currency sovereign ratings due to the direct and indirect effects that sovereign distress would have on banks' operations.

Sovereign Rating Highlights

Diversified Sovereigns May Stage A Stronger Recovery

- COVID-19: Despite lockdown efforts and a later start, the coronavirus continues to spread in sub-Saharan Africa. South Africa is by far the most affected, followed by Nigeria. However, most countries are starting to ease lockdowns. Youthful populations may limit fatalities.

- Real GDP growth: We expect a contraction of 1% on average in the 19 SSA countries we rate, with variation depending on economic structures, lockdowns measures, and spread of the virus. Hardest hit will be economies most reliant on tourism and commodities and with pre-existing fiscal and external weaknesses.

- GDP recovery prospects: These depend on the health of each economy prior to the pandemic, level of diversification, fiscal and monetary policy response, and global growth and trade. More diversified economies should fare better.

Fiscal And External Positions Are Set To Weaken Across The Board

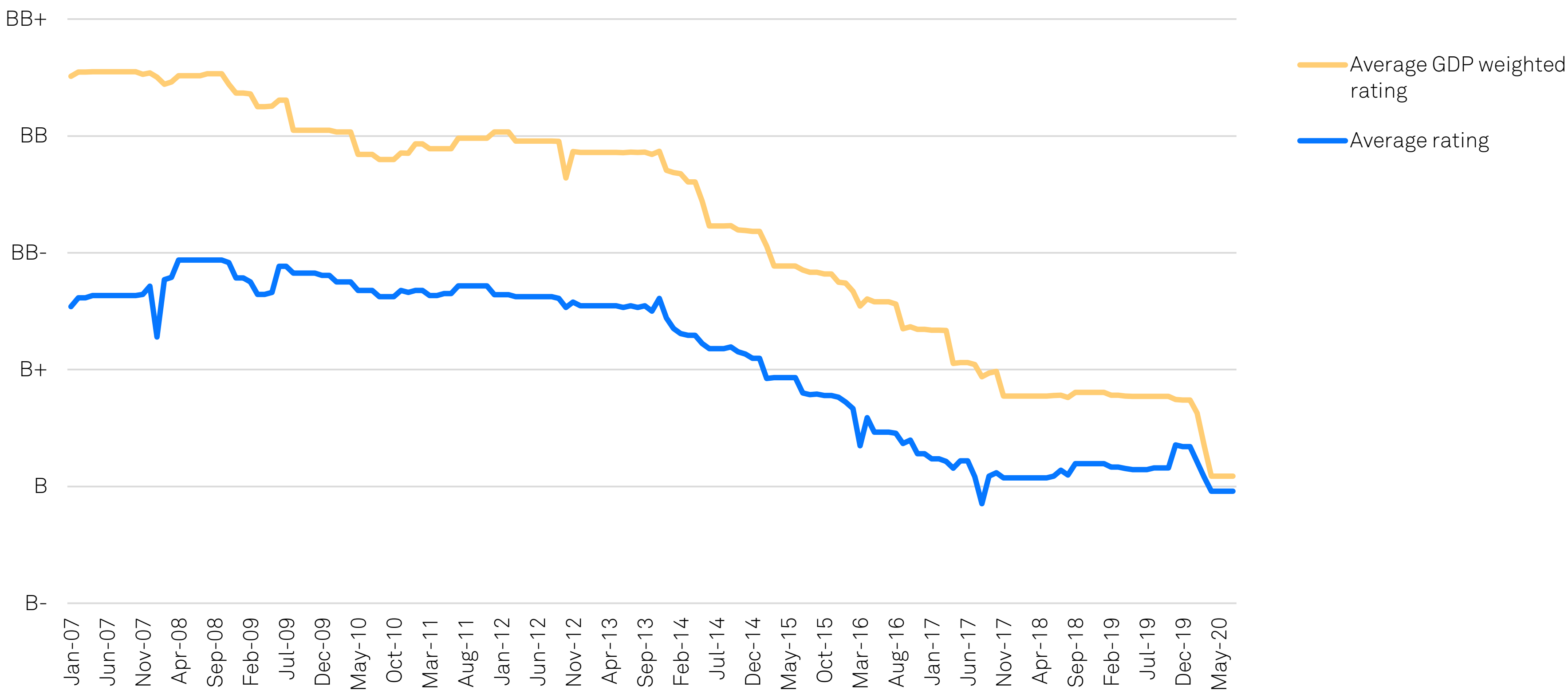
- Fiscal positions: We expect revenues to drop and spending to spike in almost all rated sovereigns, leading to rising fiscal imbalances in the next few years and in most cases increases in debt--exacerbating debt concerns in the region.
- External and balance of payments positions: The pandemic has resulted in a deterioration of balance of payments positions and has triggered some urgent external financing needs amid falling sources of foreign income--lower current account receipts, remittances, and foreign direct investment, and higher capital outflows from offshore investors, especially in March and April.
- Financial support and debt relief: The IMF has provided immediate rapid financing for some of SSA's most vulnerable members and doubled lending facilities. While other multilateral and bilateral lenders, and initiatives like the DSSI, are providing further support, it may not be enough.

Sovereign Rating Snapshot

Rating Snapshot	Dec. 31, 2019	Aug. 18, 2020
Issuer	Sovereign foreign-currency ratings	Sovereign foreign-currency ratings
Angola	B-/Negative/B	CCC+/Stable/C
Benin	B+/Stable/B	B+/Stable/B
Botswana	A-/Stable/A-2	BBB+/Stable/A-2
Burkina Faso	B/Stable/B	B/Stable/B
Cameroon	B/Negative/B	B-/Stable/B
Cape Verde	B/Stable/B	B/Stable/B
Congo Brazzaville	B-/Stable/B	B-/Negative/B
Congo, D.R.	CCC+/Positive/C	CCC+/Stable/C
Ethiopia	B/Stable/B	B/Negative/B
Ghana	B/Stable/B	B/Negative/B
Kenya	B+/Stable/B	B+/Negative/B
Mozambique	CCC+/Stable/C	CCC+/Stable/C
Nigeria	B/Stable/B	B-/Stable/B
Rwanda	B+/Stable/B	B+/Negative/B
Senegal	B+/Stable/B	B+/Stable/B
South Africa	BB/Negative/B	BB-/Stable/B
Togo	B/Stable/B	B/Stable/B
Uganda	B/Stable/B	B/Stable/B

Sovereign Ratings Have Weakened Since COVID-19

The Average Rating Declines To ‘B’ From ‘B+’



Source: S&P Global Ratings.

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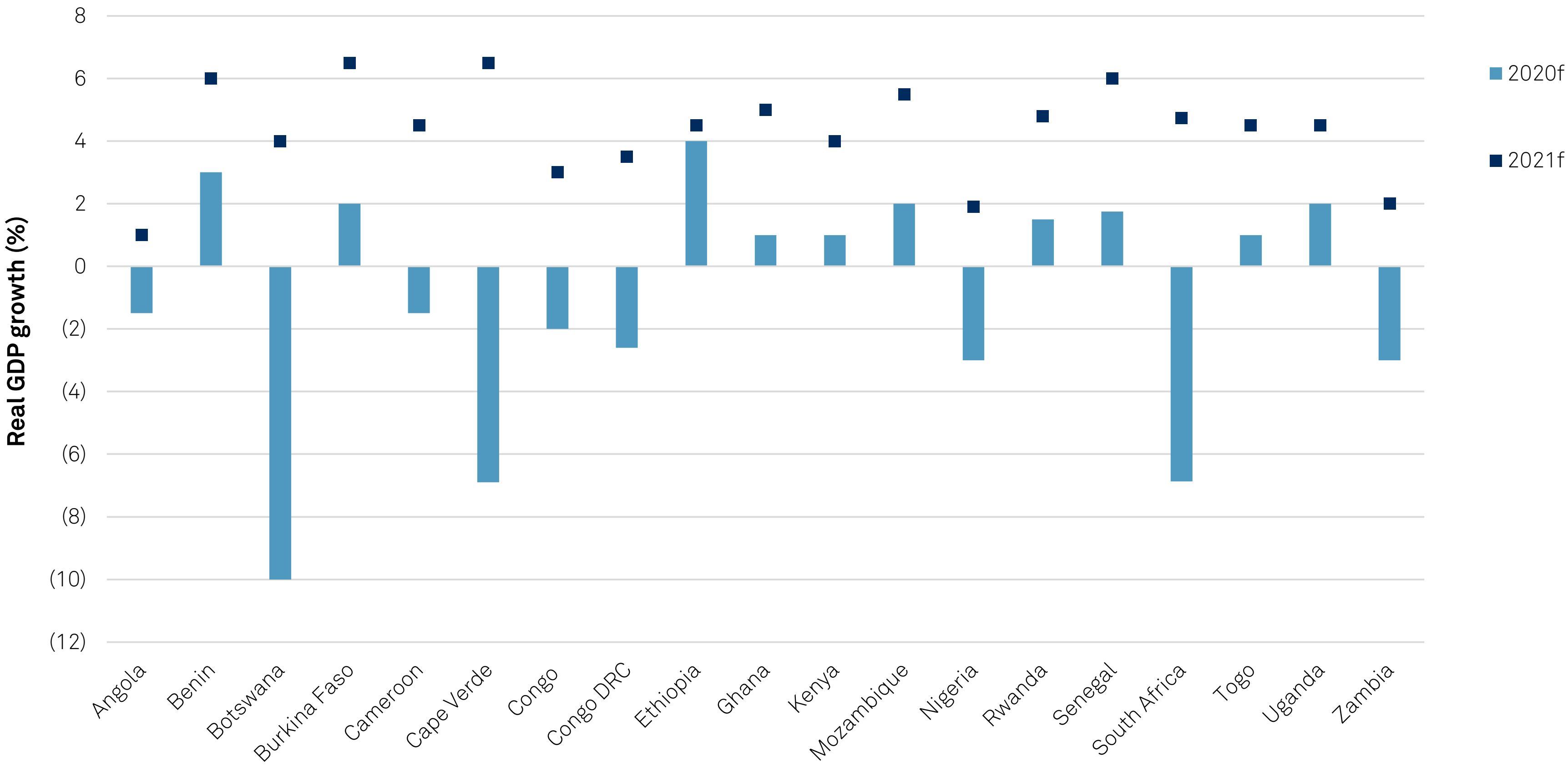
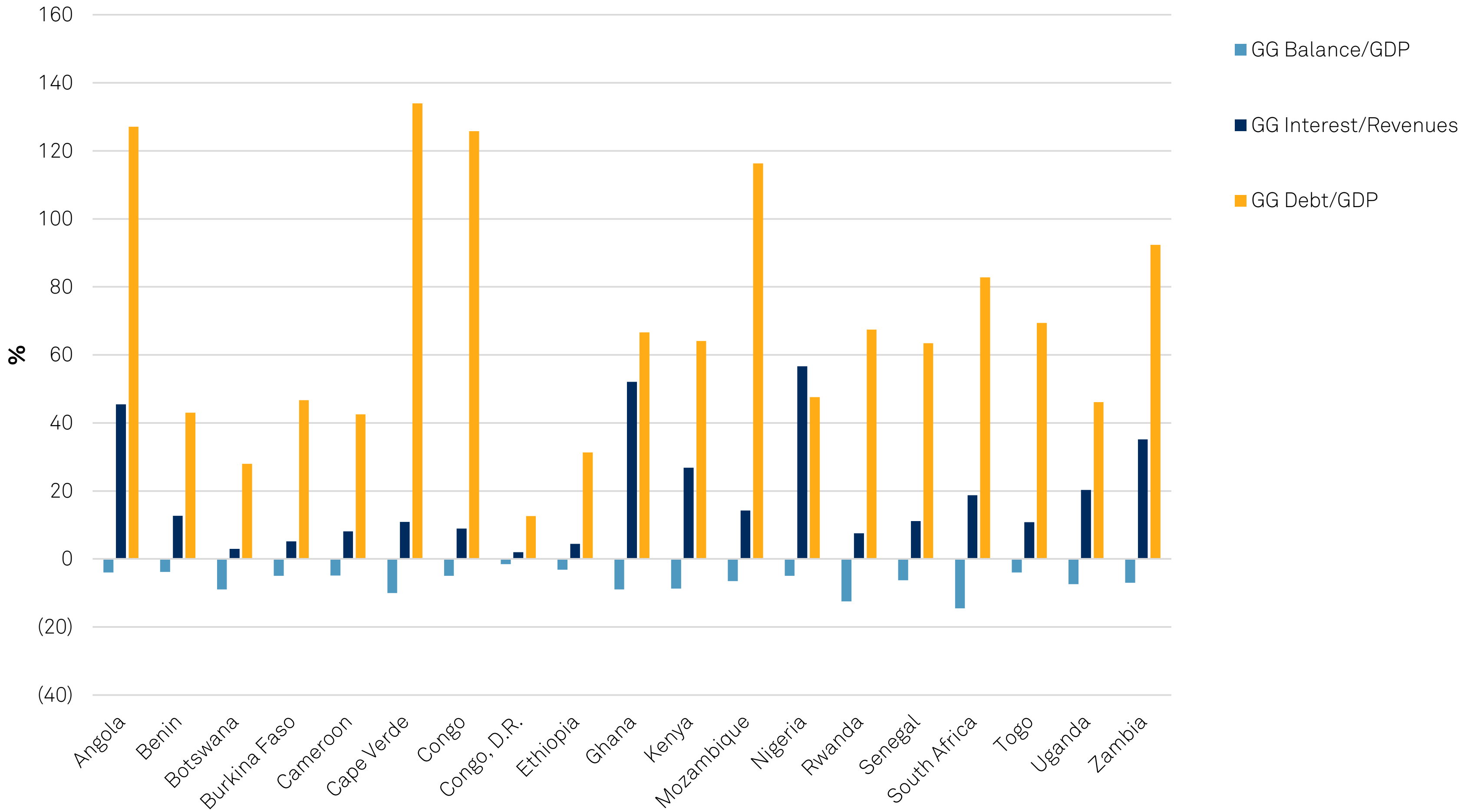
We See Wide-Ranging Downturns And Recoveries

Real GDP



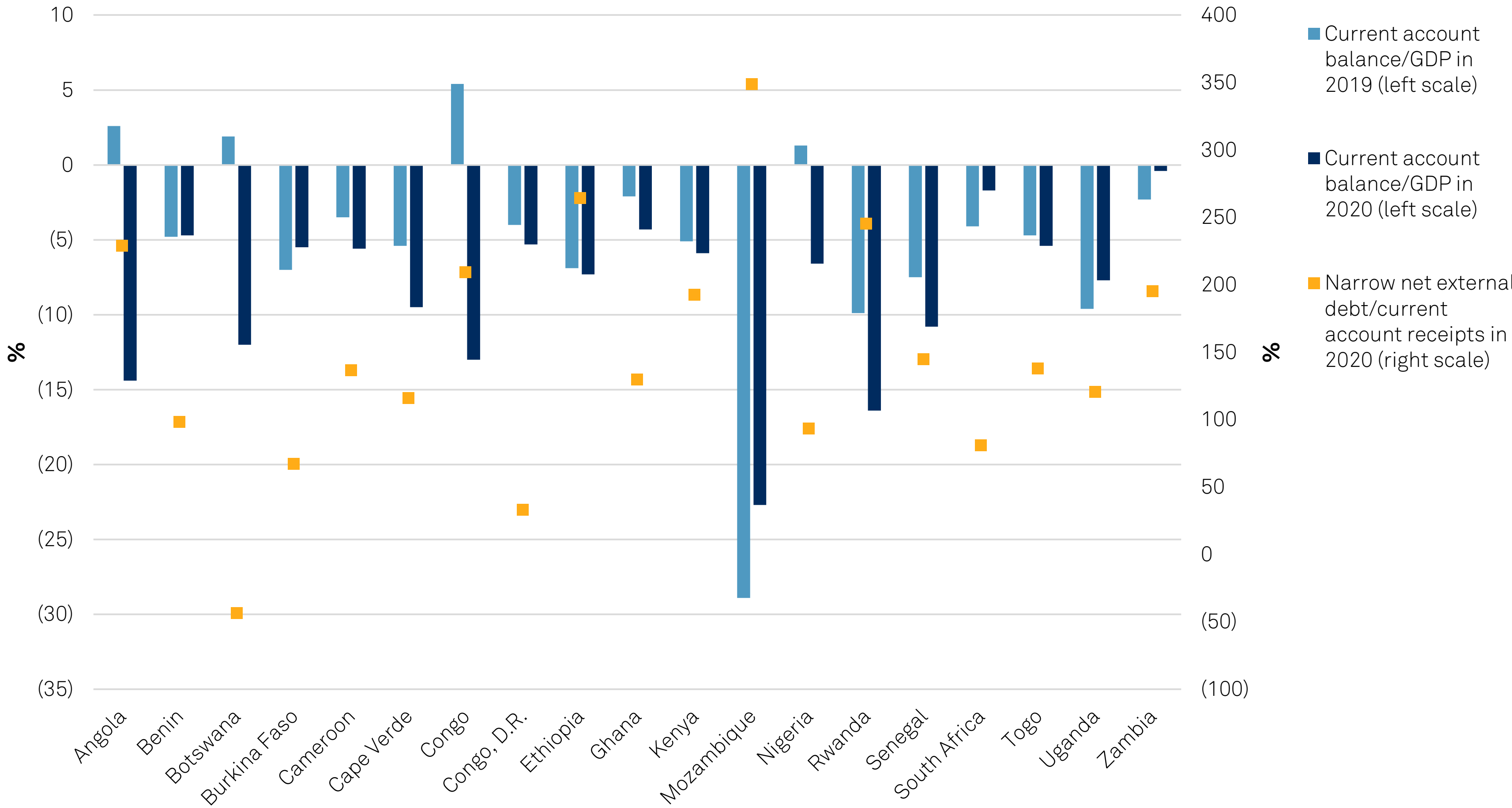
f--Forecast. Source: "Sovereign Risk Indicators," S&P Global Ratings, July 14, 2020.

Fiscal Outlook In 2020



GG--General government. Source: S&P Global Ratings, Sovereign Risk Indicators, July 14, 2020.

External Outlook In 2020



Source: S&P Global Ratings, Sovereign Risk Indicators, July 14, 2020.

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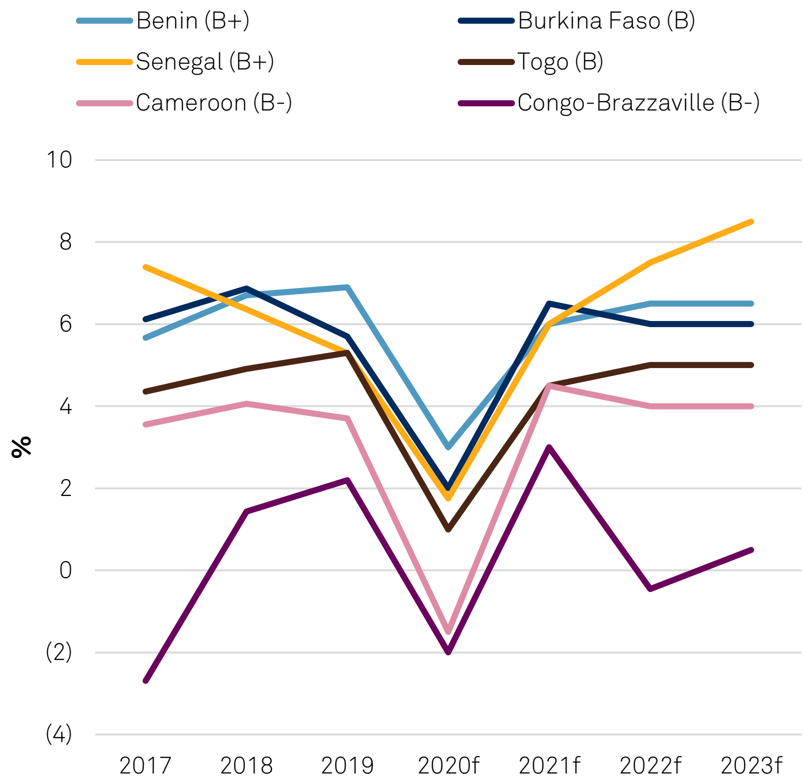
Focus On The CFA Franc Zone

CFA Franc Zone: COVID-19's Toll

WAEMU Has Stepped Into The Crisis With Stronger Fundamentals Than CEMAC

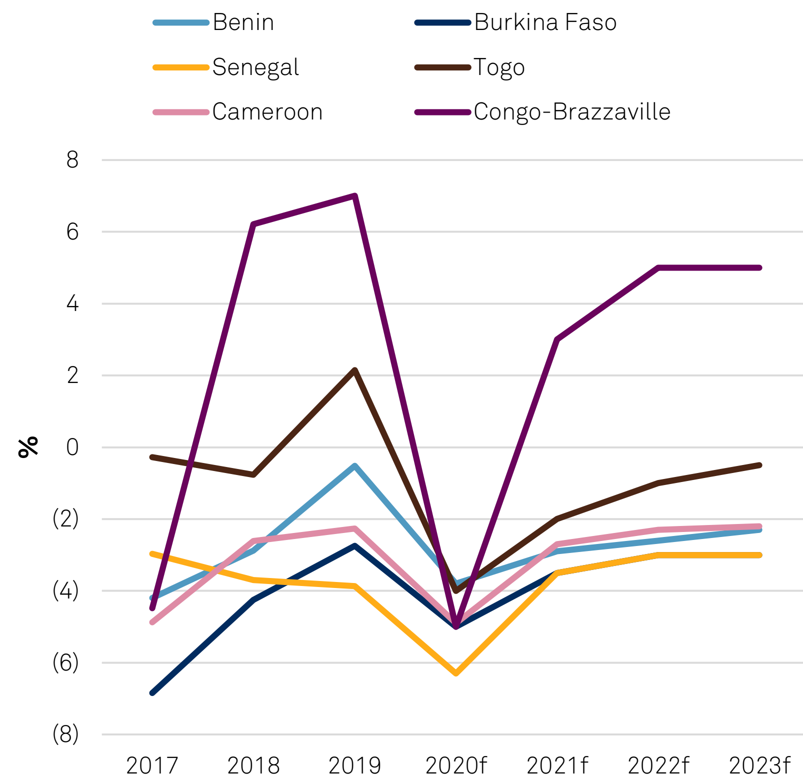
Real GDP growth



Sources: S&P Global Ratings, Sovereign Risk Indicators, July 14, 2020. WAEMU --West African Economic and Monetary Union. CEMA--Economic and Monetary Community of Central Africa. f--forecast.

Recovery Will Be Key For Fiscal Sustainability

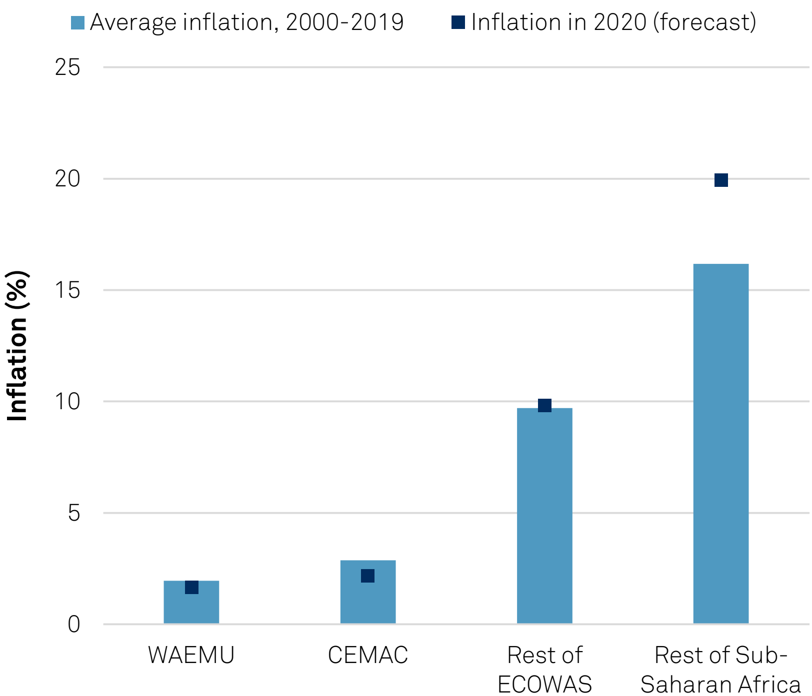
GG Balance/GDP



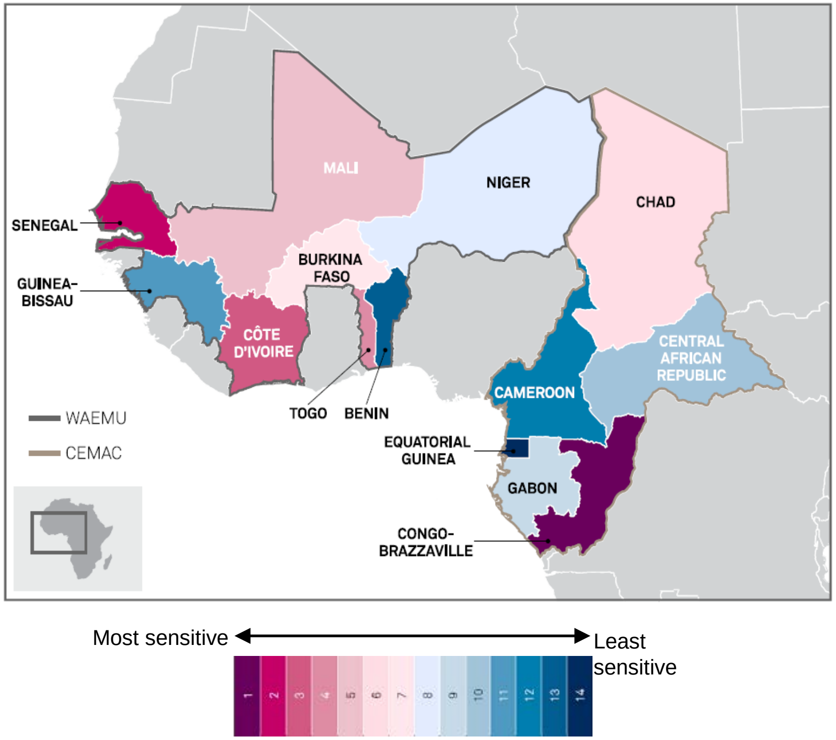
Sources: S&P Global Ratings, Sovereign Risk Indicators, July 14, 2020. f--forecast. GG-General government.

CFA Franc Zone: WAEMU And CEMAC Membership Provides Substantial External Buffers

Inflation In The CFA Franc Zone Is Significantly Lower Than In Rest Of SSA



CFA franc countries ranked by sensitivity to devaluation



Sources: "The Eco Era: What Will West Africa's New Currency Mean For The Region?" S&P Global Ratings, Feb. 17, 2020; IMF--World Economic Outlook, April 2020. WAEMU--West African Economic and Monetary Union. CEMA--Economic and Monetary Community of Central Africa. ECOWAS--Economic Community of West African States.

Debt Moratoriums For African Sovereigns

The DSSI Is Unlikely To Be Enough

- In response to the coronavirus pandemic, G-20 countries have agreed to provide debt relief for many low-income countries under the debt service suspension initiative (DSSI).

- To the extent that "official" creditors provide debt relief, we would not likely view the failure to pay scheduled debt service as a sovereign default under our criteria.

- To the extent the private-sector (nonofficial) creditors provide debt relief, a country's failure to pay scheduled debt service would be viewed as credit negative, which in some cases could constitute a sovereign default under our criteria. However, we would assess the relevant issues and characteristics case by case.

- However, a debt moratorium will unlikely be enough because of high debt burdens and limited fiscal flexibility, which sovereigns will still need to address through domestic fiscal reforms, including consolidation to contain interest burdens.

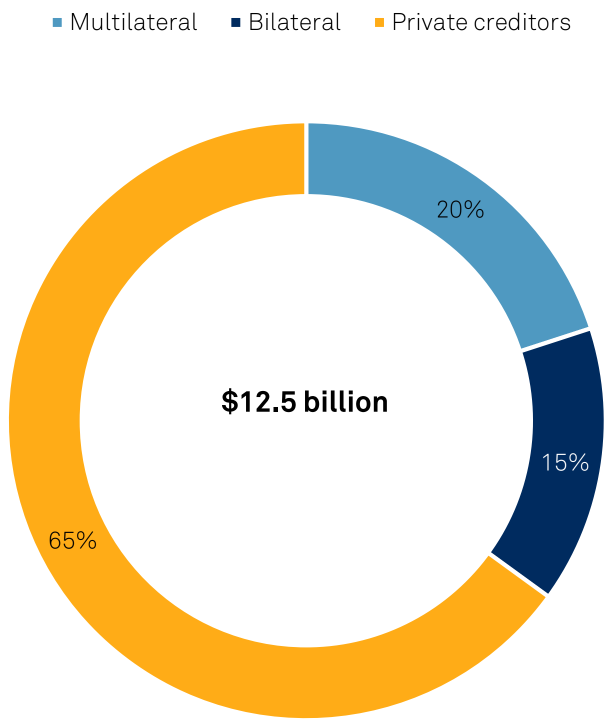
Debt Service Suspension Initiative (DSSI)

Country	Participation	Potential DSSI savings (USD)	% of 2019 GDP
Angola	Yes	2,645.6	3.1
Benin	No	13.7	0.1
Burkina Faso	Yes	23.3	0.2
Cabo Verde	Yes	14.9	0.7
Cameroon	Yes	276.1	0.7
DRC	Yes	104.4	0.2
Congo Republic	Yes	146.2	1.3
Ethiopia	Yes	511.3	0.5
Ghana	No	354.1	0.5
Kenya	No	802.6	0.8
Mozambique	Yes	294.2	2
Nigeria	No	107.5	0
Rwanda	No	12.6	0.1
Senegal	Yes	131.7	0.6
Togo	Yes	25.8	0.5
Uganda	Yes	95.4	0.3
Zambia	Yes	139.2	0.6

Source: World Bank.

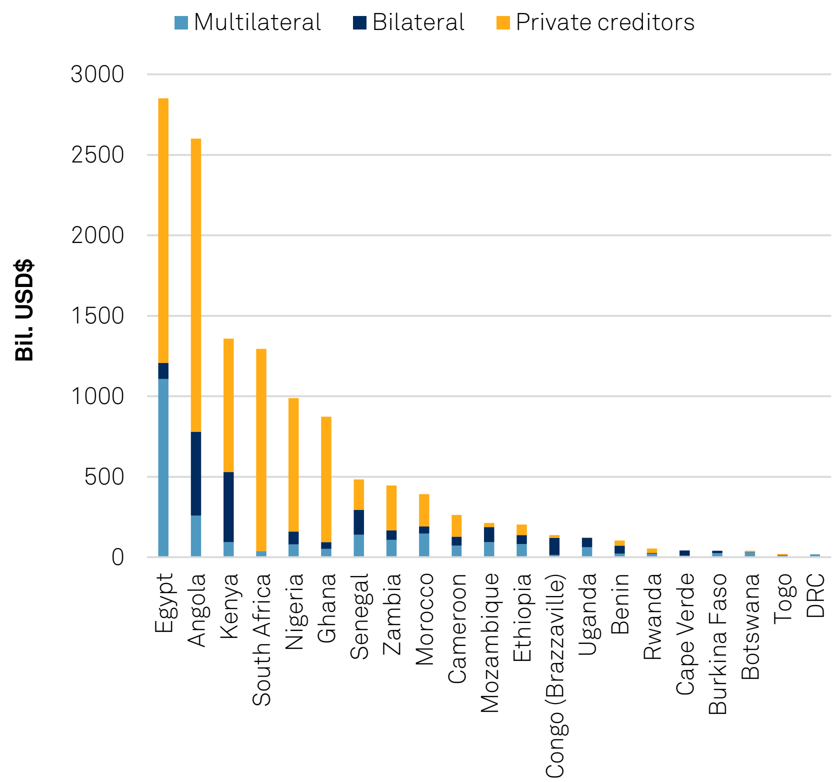
DSSI: External Interest Payments Distribution Skewed Toward Private Creditors

$12.5 Billion In Interest Payments In 2020



Source: S&P Global Ratings.

Breakdown Of External Interest Payments



Source: S&P Global Ratings.

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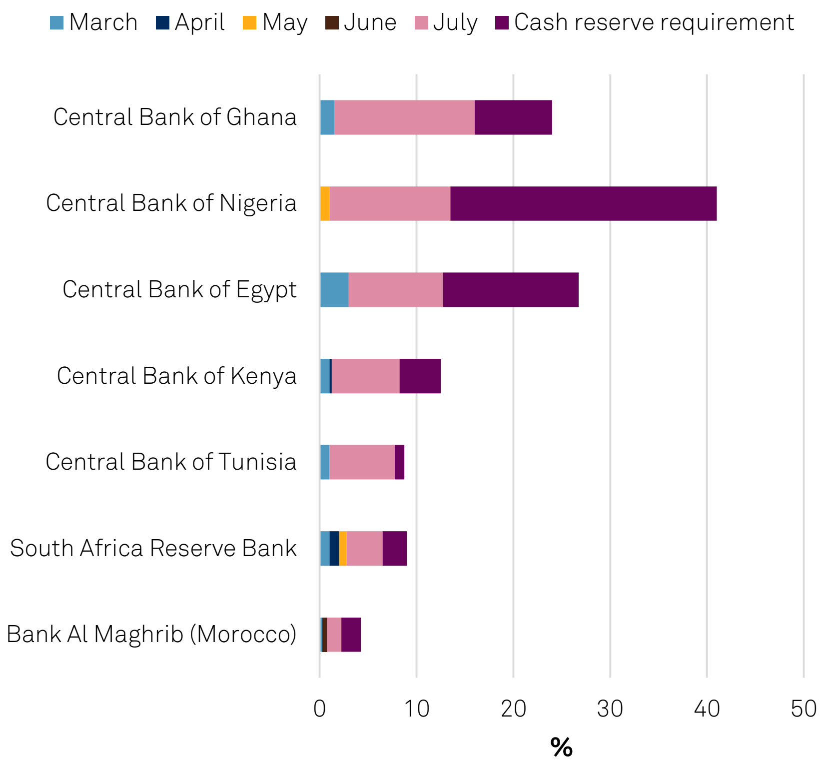
Banking Sector Highlights In 2020

COVID-19: An Earnings Event For Most Rated Banks

- Loan growth: Transmission mechanisms are generally weak in Africa, and financial intermediation is low despite a wave of digital transformation and push for greater financial inclusion. We expect broadly muted loan growth as banks grapple with rising asset quality problems amid the contraction. This is despite swift action by central banks in Africa to soften credit conditions and support economies.
- Asset quality: We estimate credit losses will rise to 2.5%-3% through 2020-2021 and nonperforming ratios will remain high, despite regulatory forbearance, which could delay recognition of NPLs. Loan recoveries will slow, notably in Ghana, while restructured loans and write-offs will rise strongly in oil-producing countries. High sector and single-name-concentration and foreign currency lending remain sources of credit risks.
- Capitalization: We see the current shock as an earnings event for most banks we rate. We do not discount capital events for lower-tier banks, especially in case of sharp local currency depreciation.
- Liquidity and external refinancing risks: These risks are limited, except for Nigeria, where liquidity for the U.S. dollar financing of oil and gas exposures and trade finance flows tends to weaken in times of stress, given the lack of large and deep domestic capital markets in Africa. This has pushed Nigerian banks to raise funding on the international capital markets.

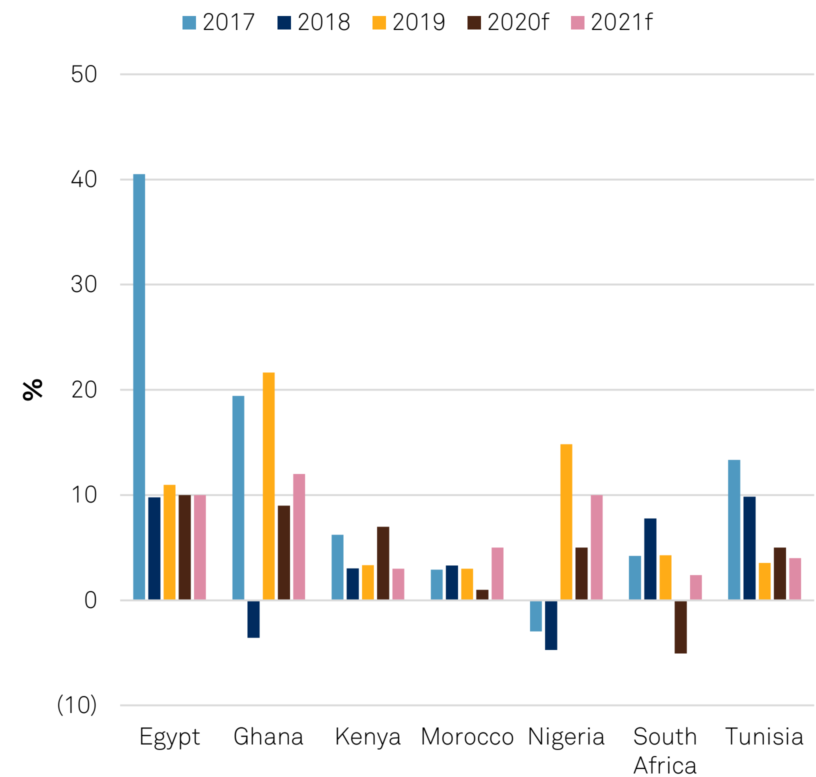
Central Banks Are Helping Banks Navigate The COVID-19 Crisis

Monetary Policy Rate Actions Have Been Swift



Source: Central banks.

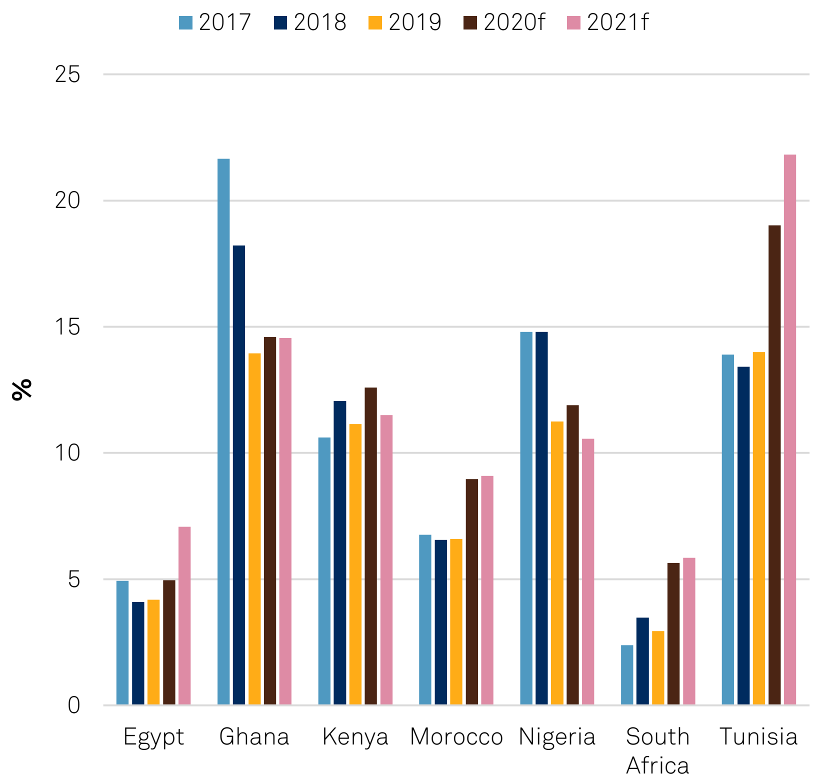
Credit To The Private Sector Will Remain Constrained



f--Forecast. Source: S&P Global Ratings.

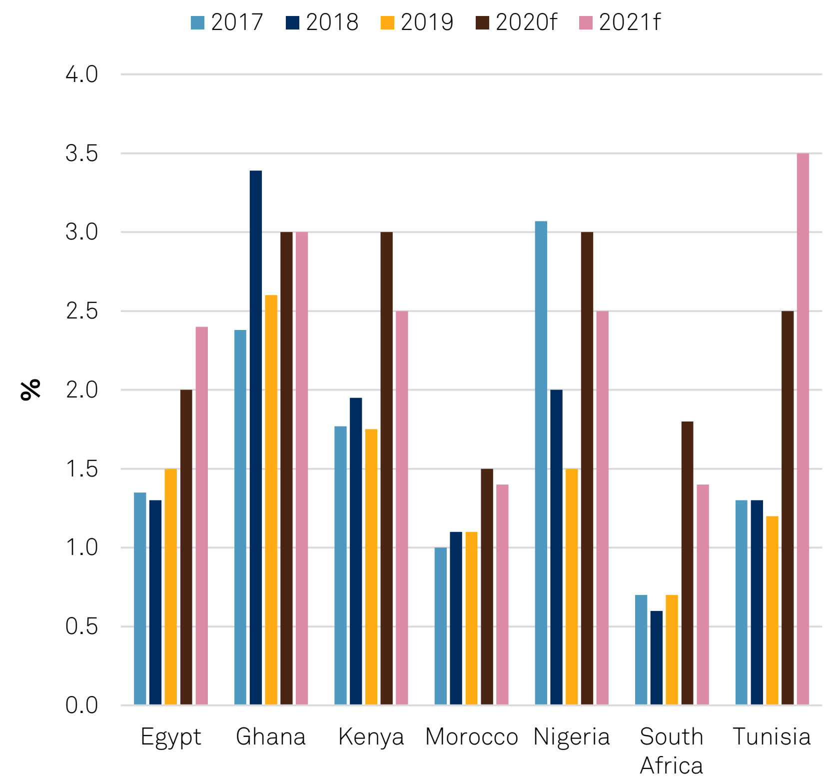
Credit Risks Will Rise Across The Board

Nonperforming Loans Will Remain High



f--Forecast. Source: S&P Global Ratings.

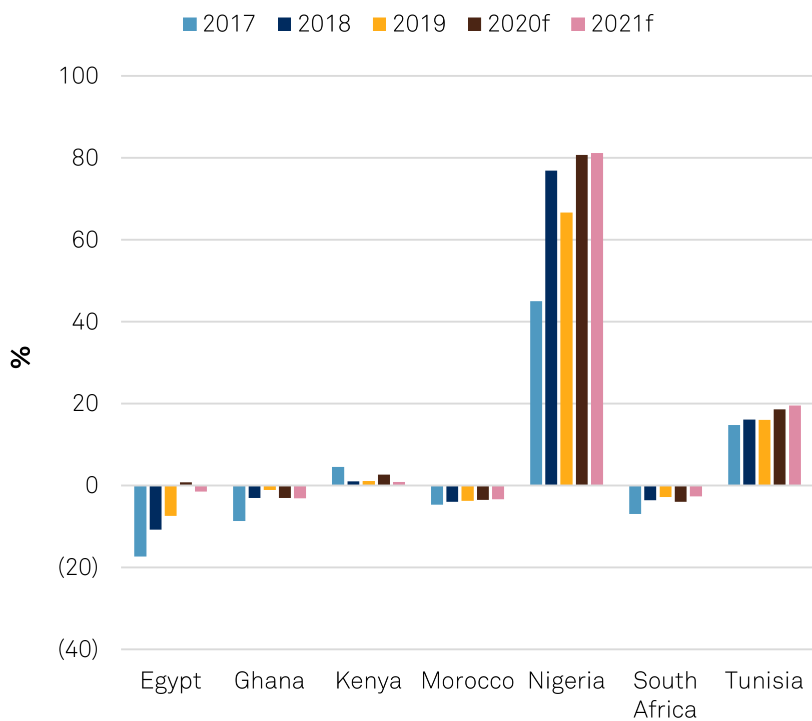
Credit Losses Will Rise Sharply In 2020 Despite Regulatory Forbearance



f--Forecast. Source: S&P Global Ratings.

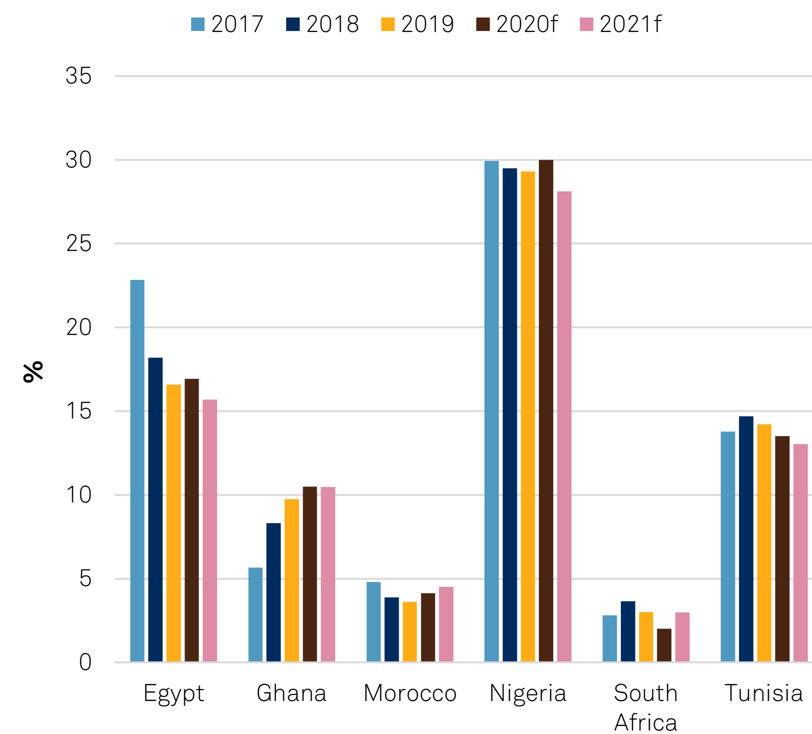
External Refinancing Risk Is Limited For Most Banking Sectors Except Nigeria

Banks' External Refinancing Risk Is Limited
Net banking sector external debt as % of systemwide domestic loans



f--Forecast. Source: S&P Global Ratings.

System Dollarization Is Linked To Higher Risk Of Currency Depreciation
Liabilities in foreign currency as a % of systemwide liabilities



f--Forecast. Source: S&P Global Ratings.

Related Research

- Central Banks In Africa Are Guiding Banks Through COVID-19's Economic Fallout, July 22, 2020
- The G20 External Interest Payments Moratorium Will Partly Ease African Sovereign Debt Service Burdens, June 24, 2020
- COVID-19 Impact: Key Takeaways From Our Articles, Aug. 13, 2020
- COVID-19 Deals A Larger, Longer Hit To Global GDP, April 16, 2020
- Various South Africa-Based Insurers Downgraded Following Sovereign Downgrade; National Scale Ratings Affirmed, May 4, 2020
- COVID-19 And Implications Of Temporary Debt Moratoriums For Rated African Sovereigns, April 29, 2020
- The Eco Era: What Will West Africa's New Currency Mean For The Region?, Feb. 17, 2020

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