State of Play of Debt Burden in Africa 2024

Debt Dynamics and Mounting Vulnerability

Afreximbank Research

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Transforming Africa's Trade

African Export-Import Bank
Banque Africaine d'Import-Export

State of Play of Debt Burden in Africa 2024

Debt Dynamics and Mounting Vulnerability

@afreximbank African Export-Import Bank

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ISBN 978-92-95097-35-3

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State of Play of Debt Burden in Africa

Debt Dynamics and Mounting Vulnerability [1]

Abstract:

The report examines recent debt dynamics and related sustainability in African countries. It documents that debt levels remain elevated despite the optimistic outlook. The cost of borrowing has also increased recently for African countries. A key finding of the report is the deterioration of most of the sustainability indicators into the risky zones. According to the well-established Debt Sustainability Framework, debt in more than half of African countries is assessed to be vulnerable. The report further finds that debt in the region is sensitive to growth and fiscal shocks as seen during the past pandemic. On a positive note, a potential end to the tightening cycle of Fed benchmark rates will help alleviate the debt burden.

Key takeaways:

- Debt levels in African countries remain elevated despite the optimistic outlook.
- The debt landscape has shifted especially the rise of external debt and private creditors.
- The cost of borrowing has increased markedly for African countries in recent years.
- The surge in sovereign debt defaults in Africa has presented a growing challenge over the past decade.
- Most of the sustainability indicators have deteriorated and are in risky zones.
- Debt in more than half of African countries is assessed to be vulnerable.
- Debt in the region is sensitive to growth and fiscal shocks as seen during the past pandemic.
- On a positive note, a potential end to the tightening cycle of Fed benchmark rates will help alleviate the debt burden.

[1] Prepared by Afreximbank Research and International Cooperation (RICO).

Executive Summary

The report examines recent debt dynamics and related sustainability in African countries. It first assesses the recent trends and stylized facts in Africa's debt accumulation and provides insights on loan default. The second half of the report examines the sustainability of debt in African countries using the well-established frameworks. In a third a last section, the main implications for the Bank are covered.

First, the debt outlook is on the optimistic side but still at high levels. Africa's debt burden has grown significantly in the past 15 years. Since the 2008 global financial crisis (GFC), the aggregated debt-to-GDP ratio of the continent has surged by 39.3 percentage points between 2008 and 2020 and thereafter declined to 68.6 percent of GDP in 2023. The debt trend is set to stabilize in 2024 and decline slightly thereafter. The debt in percent of GDP is set to decline further to 63.5 percent of GDP in 2028, thanks to robust growth, higher-than-historical inflation forecasts, and retreating fiscal imbalances.

Second, Africa's debt also reveals some key features. African debt remains mostly external. With higher external debt (especially when denominated in foreign currency), developments in debt are tied to currency movements. Africa's external debt is highly concentrated among ten countries for 67 percent. In line with the financing needs for infrastructure projects, the continent's debt has been dominated by long-term debt. Over the past decade, Debt from private creditors is growing as well as the cost of borrowing has increased markedly for African countries.

Third, the recent increase in sovereign debt defaults in Africa has presented a growing challenge. Africa's loans in default reached the highest record in three decades. In 2022, the amount of impaired loans increased to US$ 149.4 billion from US$ 112.2 billion in 2021 and US$ 100.2 billion in 2020. The concern is the risk of a potential "domino effect" that might sweep through other distressed sovereigns, particularly from 2024 onward when significant capital repayments are due on numerous international bonds.

Fourth, most of the sustainability indicators have deteriorated and are in risky zones. We first look at the key solvency and liquidity indicators used to assess debt sustainability. In terms of solvency, a perusal of data shows that African debt in percent to GDP has been above prudent levels for 9 years and the debt-to-exports ratio has been in the unsafe territory since 2019. The key liquidity indicators, both the debt service-to-revenue ratio and the debt service-to-exports ratio, have breached the recommended thresholds. Nevertheless, reserve adequacy has remained at comfortable levels.

We further find that debt in more than half of African countries is assessed to be vulnerable. Using DSA ratings for 52 African countries as of end 2023 and based on overall rating, more than half of African countries were assessed by the DSF to be at high risk or already in debt distress. furthermore, African debt is vulnerable to growth and fiscal shocks seen during the pandemic. The report further finds that debt in the region is sensitive to growth and fiscal shocks as seen during the past pandemic. On a positive note, a potential end to the tightening cycle of Fed benchmark rates will help alleviate the debt burden.

Contents

I. Introduction

A. Recent trends and stylized facts

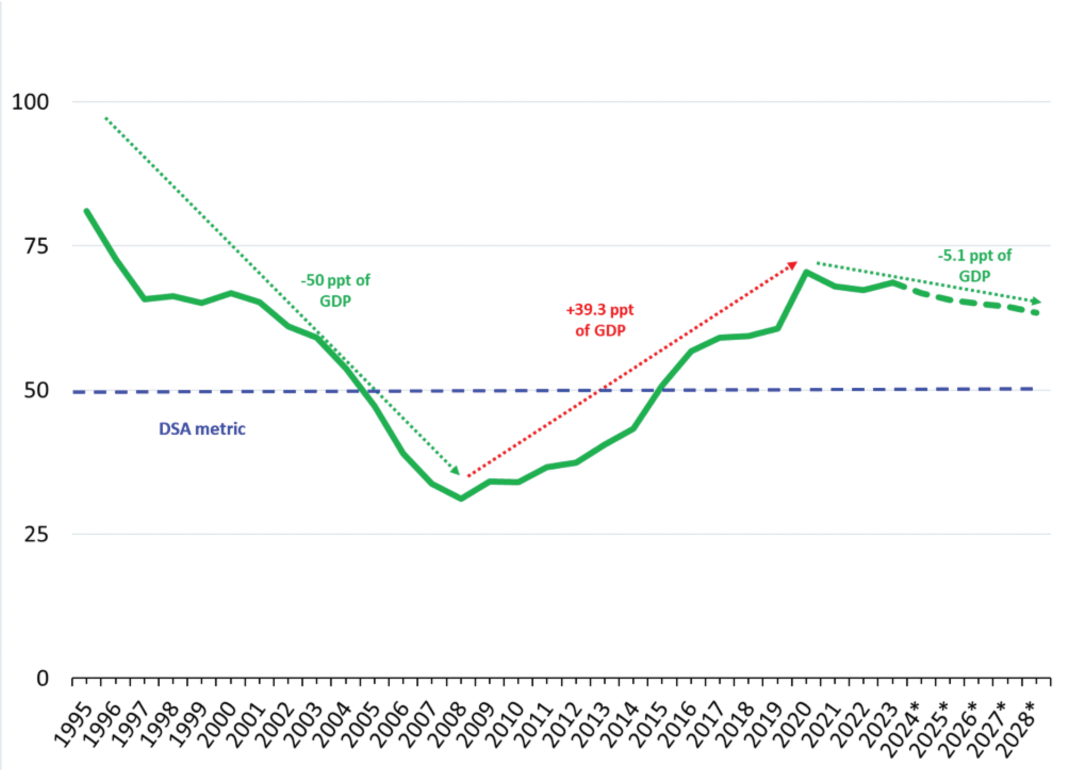
Debt levels are rising rapidly in African countries. Africa's debt burden has grown significantly in the past 15 years. Since the 2008 global financial crisis (GFC), the aggregated debt-to-GDP ratio of the continent has surged by 39.3 percentage points between 2008 and 2020 and thereafter declined to 68.6 percent of GDP in 2023 (see Figure 1). The debt burden inched up further between 2022 and 2023 by 1.3 percentage points. Such debt load was observed 25 years ago and required two rounds of debt reliefs under the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)[2]. A series of confounded shocks have led to fast-increasing debt levels across the continent. The 2008 GFC, the COVID-19 pandemic and the war in Ukraine have exacerbated debts challenges by limiting the region's growth potential and deteriorating fiscal stances. In addition, the drive to close infrastructure gaps has brought African frontier countries to tap into international capital markets with the multiplication of Eurobond issuances (see subsection C below).

The debt outlook is on the optimistic side but still at high levels. The debt trend is set to stabilize in 2024 and decline slightly thereafter. The debt-to-GDP ratio is estimated to decrease by 1.8 percentage points reaching about 66.8 percent in 2024 (see Figure 1). Based on IMF forecasts for the outer years (2023-28), the debt in percent of GDP is set to decline further to 63.5 percent of GDP in 2028, thanks to robust growth, higher-than-historical inflation forecasts, and retreating fiscal imbalances (see Figure 1). Growth is predicted to remain above 4 percent, GDP deflator inflation will taper to 7.2 percent by 2028, and fiscal stance will revert to a surplus of 0.2 percent of GDP by 2028 (see Table 1).

African debt remains mostly external. African countries have seen a significant increase in their external debt since 2008, reaching US$ 1.2 trillion and accounting for almost 60 percent of the region's total public debt stock in 2023 (see Figure 2, Panel A). In terms of ratios, external debt load has increased from 18.8 percent of GDP in 2008 to 41.6 percent in 2023. The growing share of external debt increases the risks to debt sustainability and the ability to service debt in real terms. With higher external debt (especially when denominated in foreign currency), developments in debt are tied to currency movements.

[2] The 1996 HIPC and 1999 Enhanced HIPC initiatives, characterized by debt rescheduling, cancelation, and write-offs, led to a significant decline in Africa's debt burden as several countries witnessed a steady decline in their debt stock.

Figure 1: Central Government Debt, African countries, 1995-2028 (Percent of GDP)



Source: Afreximbank Research based on IMF Global Debt Database. Note: "ppt" stands for percentage points.

Table 1: Macroeconomic Outlook, African Countries, 2022-28

	2022	2023	2024	2025*	2026*	2027*	2028*	Average 2024-28
Growth (percent)	4.5	3.3	4.0	4.4	4.4	4.6	4.6	4.4
Inflation, GDP deflator (percent)	11.7	19.8	17.3	11.2	8.7	7.6	7.2	10.4
Primary deficit (percent of GDP)	-1.5	-1.2	-0.9	-0.4	-0.2	-0.3	0.2	-0.3
Interest rate (percent)	6.0	7.0	8.0	9.0	8.0	8.0	8.0	8.2

Source: Afreximbank Research based on IMF World Economic Outlook. Note: *Forecast.

Africa's external debt is highly concentrated among few countries. About 67 percent of Africa's total external debt stock is borne by 10 African countries: Egypt (14.5 percent), South Africa (14.3 percent), Nigeria (8.4 percent), Morocco (5.9 percent), Mozambique (5.5 percent), Angola (5.3 percent), Kenya (3.7 percent), Tunisia (3.4 percent), Sudan (3.1 percent), and Ghana (3.0 percent), respectively (see Figure 2, Panel B).

Africa's debt is mostly long-term debt dominated. In line with the financing needs for infrastructure projects, Africa's debt has been dominated by long-term debt with the share of that category of debt increasing from 72 percent to 75 percent between 2008 and 2023 (see Figure 2, Panel C).

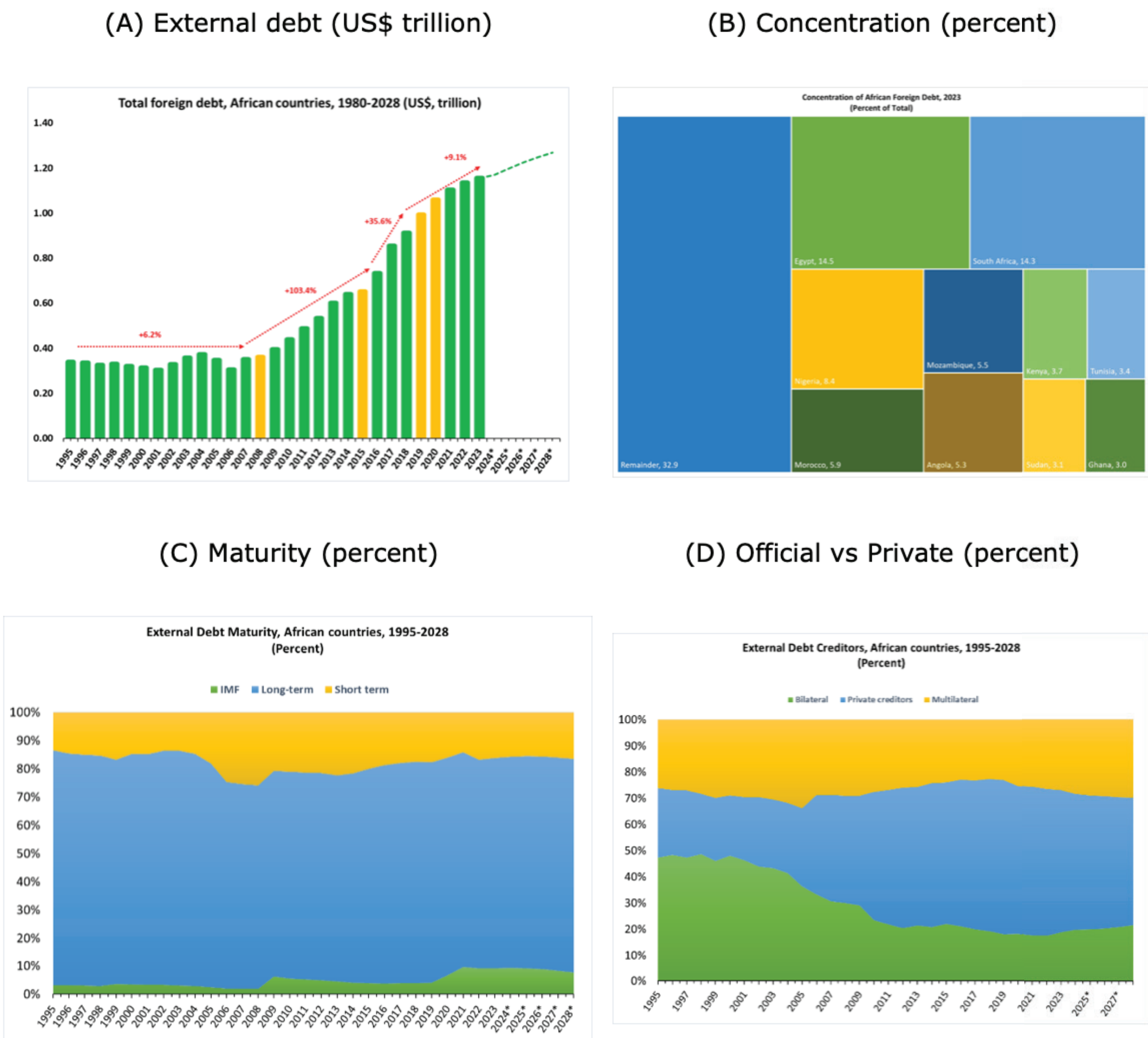
Debt from private creditors is growing. Over the past decade, there has been a notable shift in the composition of Africa's creditor-base away from traditional Paris Club sources toward commercial and non-Paris Club creditors[3]. This change reflects changes in the dynamics of global finance and highlights the increasing role played by diverse creditors in the continent's debt landscape, and further reflects the flexibility of private lending despite the relative higher cost. In particular, the region has increasingly relied on private creditors. Accordingly, private debt as a share of GDP increased from 18.8 percent in 2008 to 41.6 percent in 2023. In 2023, private debt constituted more than half of Africa's external debt. This specifically stood at 54.3 percent of the total debt, outpacing the contributions of bilateral and multilateral creditors, which accounted for 18.7 percent and 27.1 percent, respectively (see Figure 2, Panel D).

The cost of borrowing has increased markedly for African countries in recent years. For most countries, the spread widened in 2023 and continues to expand in early 2024 (see Figure 3). With the Covid-19 pandemic, the conflict in Ukraine, and the surge in global interest rates having severely dented African economies, most of them lost access to international capital markets in 2022 and 2023, as borrowing in foreign-currency denominated debt became more expensive. For instance, Egypt was the hardest hit on account of delays in reforms implementation, even though Nigeria's Eurobond yields improved year-to-date as reforms initiated under the new administration surprised on the upside.

Market access has resumed in 2024 though with higher premiums. After more than a year of inactivity since the US Fed began its hiking cycle in March 2022, the Eurobond market has been revived with three countries issuing: Côte d'Ivoire, Benin, and Kenya. In January, Côte d'Ivoire raised US$ 2.6 billion through two bonds with maturities of 9 years at 6.30 percent and 13 years at 6.85 percent. Benin also tapped the market with a 14-year bond worth US$ 750m at 8.375 percent in February. Kenya, the biggest economy in East Africa, followed suit and issued a seven-year note for US$ 1.5 billion at 10.375 percent. As of end of June 2023, the outstanding stock for Africa's sovereign Eurobonds was estimated at US$ 143 billion (face value) and priced by the market at around US$ 107 billion. This includes the Zambia (US$ 3 billion) and Ghana (US$ 13.2 billion) Eurobonds that are being restructured following defaults.

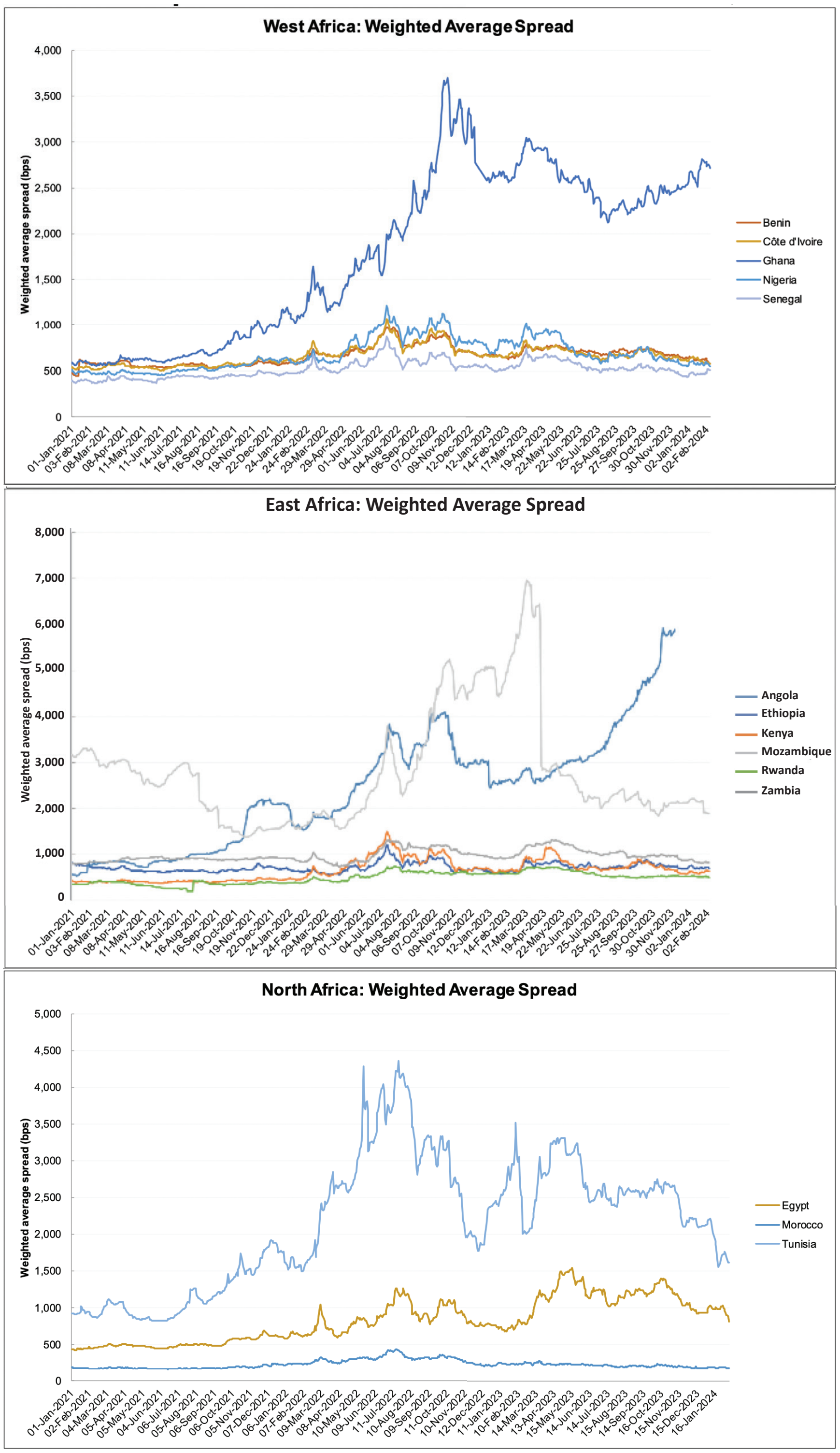
[3] Official creditors encompass entities such as the International Monetary Fund (IMF), the World Bank, other multilateral development banks, Paris Club creditors, non-Paris Club G20 creditors (including China, India, and South Africa), and other government development agencies. Private creditors include external bondholders, banks, and suppliers.

Figure 2: Stylized Facts on African Debt, 1995-2028 (Percent of GDP)



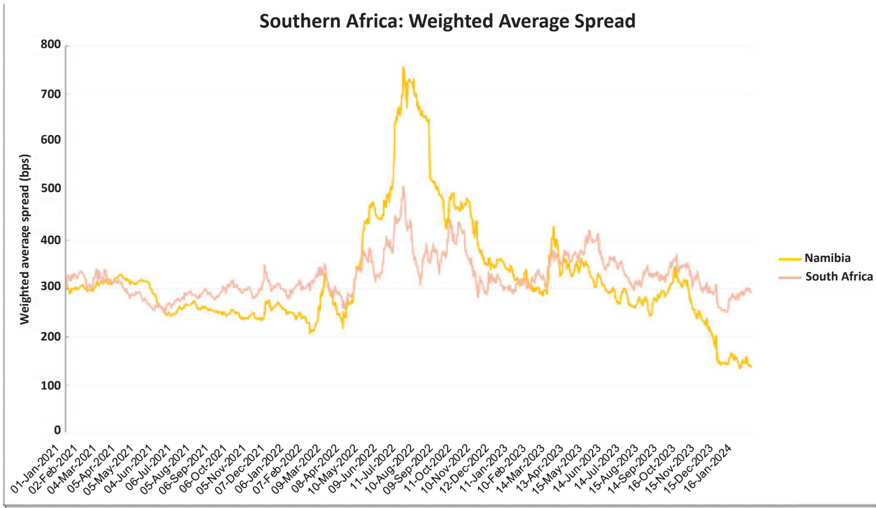
Source: Afreximbank Research based on IMF World Economic Outlook, IMF Global Debt Database, Economist Intelligence Unit forecast.

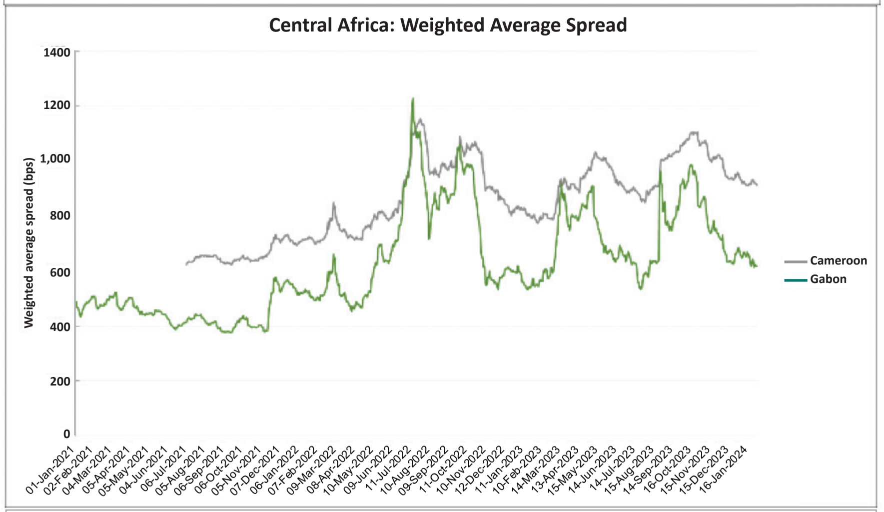
Figure 3: Eurobond Spreads and Issuances African countries, 1995-2028 (bps)

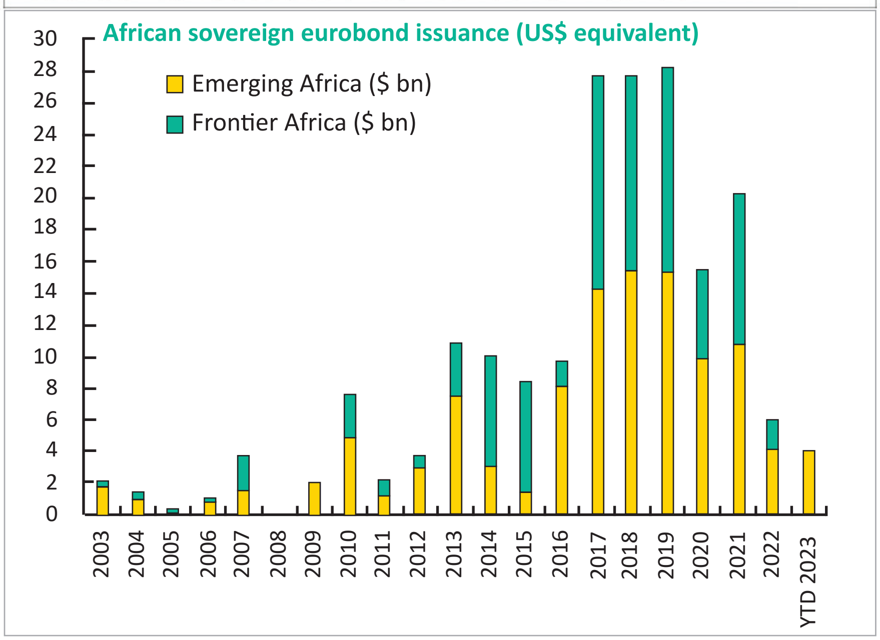


Source: Afreximbank Research based on Bloomberg LLC, Africa Eurobonds Q2 2023 by Gregory Smith.

Figure 3 (continued): Eurobond Spreads and Issuances African countries, 1995-2028 (bps)







Source: Afreximbank Research based on Bloomberg LLC, Africa Eurobonds Q2 2023 by Gregory Smith.

B. Sovereign debt defaults in a transformed financing landscape

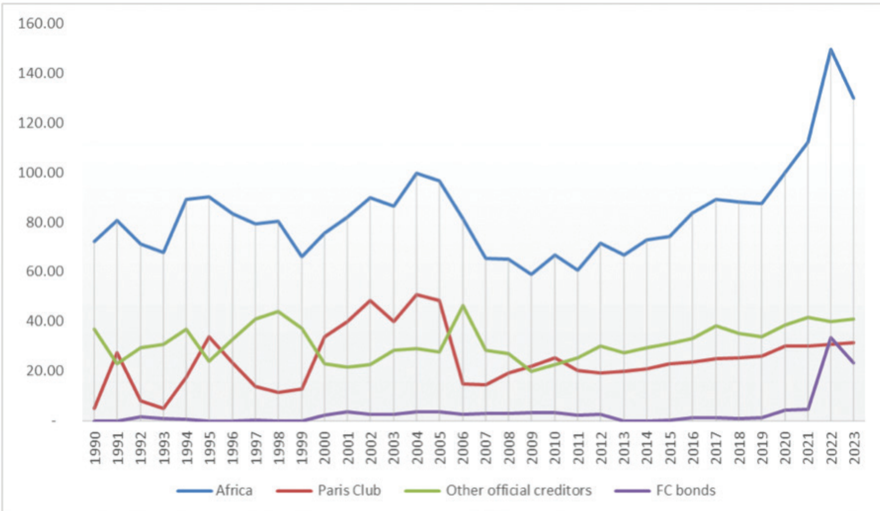
1. Trends in Africa’s loan default

The recent increase in sovereign debt defaults in Africa has presented a growing challenge. In late 2020, Zambia initiated default on its Eurobond coupon payments, marking the beginning of concerns about a potential "domino effect" sweeping through distressed sovereigns. Mali followed suit with a default in early 2022, setting the stage for a growing challenge in Africa's sovereign debt landscape. By 2022, Ghana joined the ranks of countries defaulting on external debt since the onset of the pandemic, adding to the concerns. Meanwhile, Zambia and Mali, having defaulted in late 2020 and early 2022, respectively, grappled with their default situations. In November 2022, a civil war in Ethiopia exacerbated the financial challenges the country faced due to the impact of the COVID-19 pandemic. However, it wasn't until 2023 that Ethiopia officially entered default territory, becoming Africa's third nation to do so within a span of three years. This development was marked by Ethiopia refraining to make a US$ 33 million "coupon" payment on its sole international government bond. Nevertheless, China is already suspending Ethiopia’s debt payment till the end of 2024. In response to their default situations, both Zambia and Ghana engaged in restructuring agreements for their sovereign debts in 2023. However, Zambia faced a setback in November when creditors, led by China and France, rejected a proposal to restructure approximately US$ 4 billion owed to private bondholders. This rejection added complexity to the challenges faced by countries attempting to navigate the intricate process of sovereign debt restructuring in the African context. The crux of the matter, since late 2020, has been the concern that a potential "domino effect" might sweep through other distressed sovereigns, particularly from 2024 onward when significant capital repayments are due on numerous international bonds. Contrary to these apprehensions, the situation has proven less dire, as many distressed sovereigns have undertaken voluntary and innovative approaches to restructure their debt, fostering transparency and credibility.

On the external front, progress has been more limited. This is primarily due to the challenges associated with the Common Framework, which replaced the Debt Service Suspension Initiative (DSSI) in early 2021 (see Box 1). Four African countries—Zambia, Ethiopia, Ghana, and Chad—have submitted applications for the framework. However, progress under the G20 Common Framework for Debt Treatment, initiated beyond the Debt Service Suspension Initiative (DSSI) in 2020, has been sluggish. Ghana, Chad, Ethiopia, and Zambia have all sought external debt restructuring under the Common Framework. Chad successfully concluded a restructuring deal with its external creditors in November 2022. In February 2024, China and India signed agreements to restructure their holdings of Zambian debt, instilling hope that a delayed effort to exit a long-running default is back on track. This underscores the complexities and hurdles faced in the international arena when addressing sovereign debt challenges in Africa. The ongoing negotiations highlight the intricate nature of dealing with sovereign debt and the continual efforts to find viable solutions on the global stage.

Africa's loans in default reached the highest record in three decades. In 2022, the amount of impaired loans increased to US$ 149.4 billion from US$ 112.2 billion in 2021 and US$ 100.2 billion in 2020. The sharp increase in sovereign default is attributed to the formidable global macroeconomic environment, characterized by intersecting crises that continually exert pressure on fiscal revenues. However, 2023 saw a trend reversal with the region's loan defaults declining by 13 percent to reach US$ 129.9 billion (see Figure 4), as many distressed sovereigns started to voluntarily restructure their debt in innovative, transparent, and credible ways.

Figure 4: Trends in Africa's Loan Default (US$ billion)

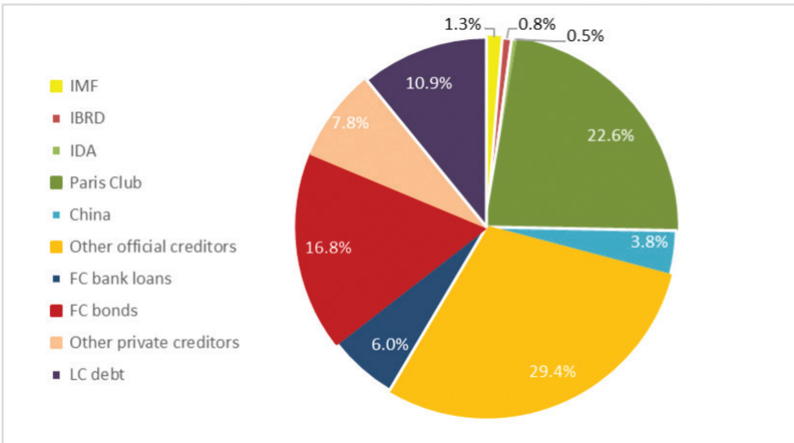


Source: Afreximbank Research, BoC-BoE Sovereign Default Database. Note: FC is foreign currency. Other official creditors are bilateral and multilateral creditors not identified separately.

African sovereigns are actively working to avoid chaotic and opaque defaults. These defaults not only triggered financial crises but also led to years of divestment and a decline in investor confidence. In response, most debt-distressed countries are opting for a different path, aligning with the paradigm set by Angola's bilaterally negotiated debt reprofiling in 2020 and several other successful debt treatments applied in recent years, including those in Chad and the Republic of Congo. The economic and financial evidence suggests that African sovereigns, which avoid messy defaults and instead undergo managed debt treatments, are more likely to experience economic recovery and return to financial stability within a more compressed timeframe. This approach allows for a more structured and transparent resolution of financial challenges, fostering credibility and courting favorable investor sentiments and thereby minimizing the negative impact associated with disorderly defaults on an economy. By learning from past experiences and implementing prudent debt management strategies, these sovereigns aim to navigate the complexities of their financial obligations while prioritizing economic resilience and stability.

The composition of loan defaults has also shifted. Figure 5 shows the composition of loan defaults in 2023. It reveals that "other official creditors" (29.4 percent), then "foreign currency bonds" (16.8 percent), and the "Paris Club" (22.6 percent) were the primary contributors, accounting for about 69 percent of the region's loan defaults. The large contribution of other official creditors to Africa's overall loan default in 2022 reflected hefty defaults by several countries including Sudan (US$ 21.02 billion), Zimbabwe (US$ 8.2 billion), Libya (US$ 3.2 billion), Zambia (US$ 2.04 billion), and Tanzania (US$ 1.3 billion). Defaults to foreign currency bonds were driven by significant default by Ghana (US$ 27.1 billion), Zambia (US$ 3.5 billion), and Mozambique (US$ 1.4 billion). Likewise, the default to the Paris Club loan was occasioned by large default by Sudan (US$ 22.1 billion), Zimbabwe (US$ 3.7 billion), Somalia (US$ 1.6 billion), Ghana (US$ 1.4 billion), and Zambia (US$ 1.3 billion). Moreover, "other private creditors" and "local currency (LC) debt" contributed significantly to the region's loan defaults, accounting for about 18.7 percent in 2023. Defaults to China, constituting 3.8 percent of Africa's loan defaults in 2022, saw a decline from US$ 8.8 billion in 2022 to US$ 5.3 billion in 2022, attributed to China's cancellation of 23 interest-free loans to 17 African countries (see Figure 6).

Figure 5: Share of Sovereign Default by Creditor Type (percent), 2023



Source: Afreximbank Research, BoC-BoE Sovereign Default Database. Note: FC is foreign currency. Other official creditors are bilateral and multilateral creditors not identified separately.

2. Default by country and creditor

The landscape of sovereign default in 2023 exhibits a nuanced pattern when analyzed through the lens of creditor types (see Figure 6).

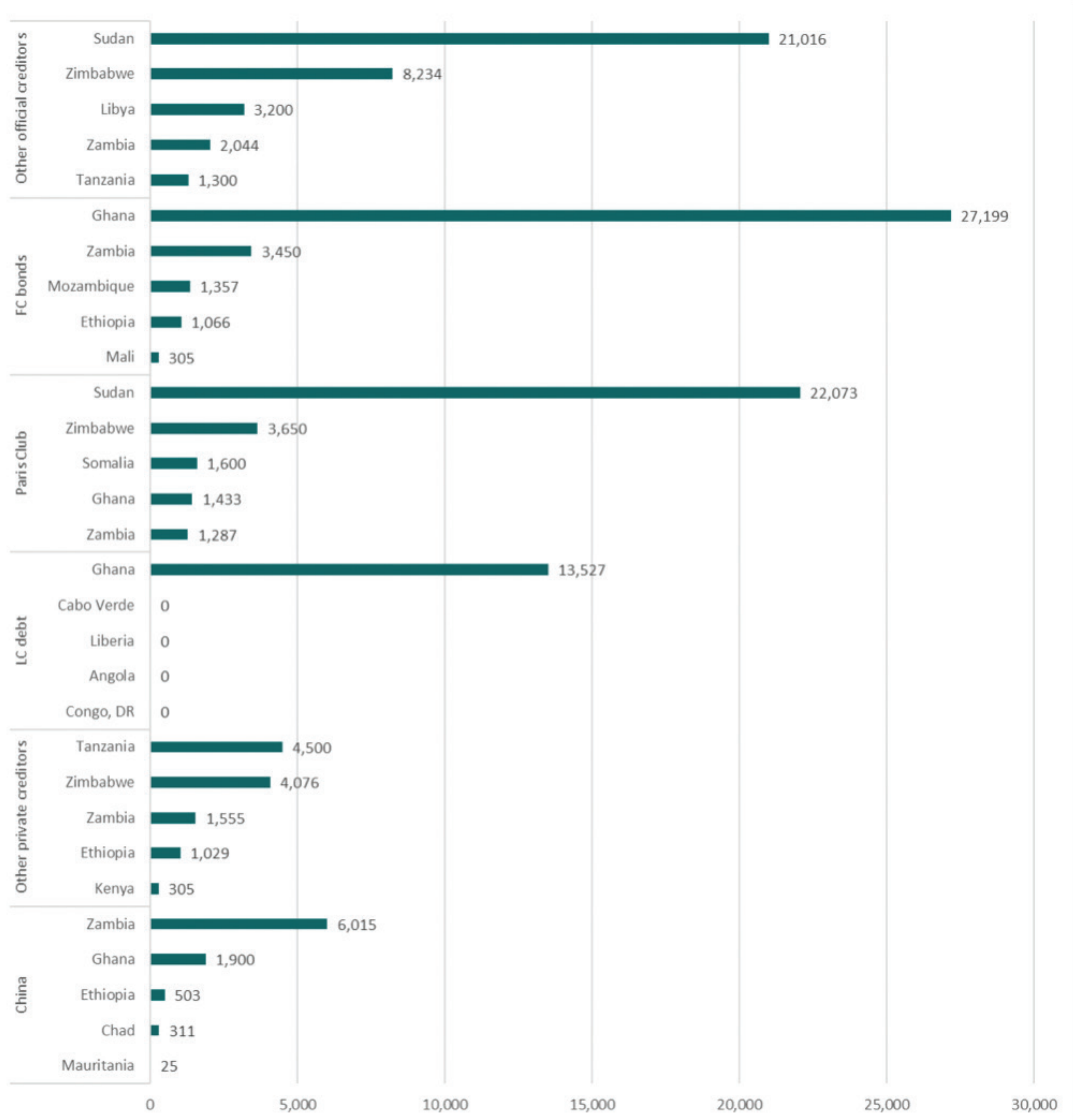
- **China and foreign currency bonds**. Zambia and Ghana emerge as the principal defaulters, featuring prominently in defaults to both China and in the realm of foreign currency bonds. Suspicions have lingered since 2016 that at least six African countries, including Kenya, Ethiopia, Djibouti, Mozambique, Zambia, and Ghana, have defaulted on Chinese loans. In contrast, only Mozambique (2017), Zambia (2020), and Ghana (2023) have defaulted on their Eurobond coupon payments during the same period. African countries with substantial exposure to Chinese loans, particularly Angola and Kenya, have taken the lead in bilateral debt treatments.

- **Local currency debt.** Ghana stands out as the primary defaulter in local currency debt in 2023. The country faces obligations exceeding US$ 4 billion to bondholders until May 2027, constituting a portion of its US$ 13 billion in dollar-denominated international bonds. Investment bank Morgan Stanley assesses Ghana's defaulted dollar-denominated government bonds with an average "recovery value" of US$ 46, derived from the country's local currency debt restructuring deal.

- **Paris Club and other official and private creditors.** Sudan and Zimbabwe take the forefront as the main defaulters to the Paris Club creditors, while simultaneously driving defaults in the category of other official creditors. Tanzania and Zimbabwe dominate the default landscape concerning other private creditors.

In summary, Ghana, Sudan, Zambia, and Zimbabwe emerge as the primary defaulters in 2023, each playing distinctive roles in various creditor categories. This nuanced analysis underscores the complexity of sovereign defaults and their interactions with different types of creditors in the African context.

Figure 6: Top 5 Defaulting Countries by Creditor Type (US$ million), 2023



Source: Afreximbank Research, BoC-BoE Sovereign Default Database. Note: LC is the local currency, and FC is for foreign currency. Other official creditors are bilateral and multilateral creditors not identified separately. Other private creditors are mainly suppliers.

Box 1: Debt Resolution Framework

	G20 Common Framework	Paris Club	London Club
Overview	-The Common Framework is an initiative endorsed by the G20, together with the Paris Club, to support, in a structural manner, -The idea is that the debt treatment under the Common Framework should be accompanied by reforms ensuring the future sustainability of -The Framework brings together the Paris Club and G20 official bilateral creditors in a coordinated process.	-The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries.	-The London Club has evolved as an ad hoc forum for restructuring negotiations. -Members include most of the world's largest commercial banks and investment banks, as well as insurance companies and
Eligible Debt	-Debt eligible to the treatment include all public and publicly guaranteed debts which have an original maturity of more than one year.	-Debts issued or guaranteed by a sovereign creditor to a sovereign borrower including guaranteed by a sovereign debtor	-The London Club is the multilateral forum for rescheduling loans from commercial banks.
Possible Arrangements	-The key parameters include at least (i) the changes in nominal debt service over the IMF program period; (ii) where applicable, the debt reduction in net present value terms; and (iii) the extension of the duration of the treated claims.	-Paris Club creditors provide debt treatments to debtor countries in the form of rescheduling, which is debt relief by postponement or, in the case of concessional rescheduling, reduction in debt service obligations during a defined period (flow treatment) or as of a set date (stock treatment).	-London Club Provides Loan sale at market value, Discounted debt trading and Debt swaps.

Source: Afreximbank Research.

II. Debt Sustainability

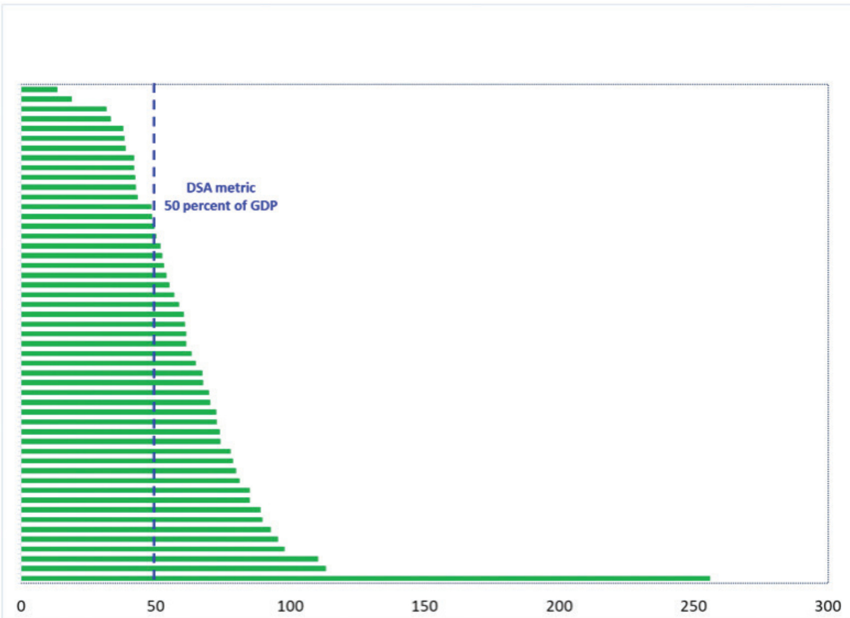
Sustainability of public debt is a key dimension for assessing macroeconomic stability. A country's debt is deemed sustainable if its current and future payment obligations are met without exceptional financial assistance, or an interruption in its development, or going into default. The Debt Sustainability Analysis (DSA) examines both the solvency and the liquidity aspects. Solvency is defined as the country's ability to discharge its external obligations on a continuing basis. The Debt Sustainability Framework (DSF) uses debt-to-GDP and debt-to-exports ratios as indicators for assessing the solvency of countries. The liquidity dimension focuses on a shortage of liquid assets affects the ability of an economy to discharge its immediate external obligations. The DSF focuses on debt service-to-revenue ratio, debt service-to-exports ratio, and reserve adequacy to assess the liquidity dimension.

A. Solvency indicators

1. Debt-to-GDP Ratio

Africa's debt in percent to GDP has been above prudent levels since 2016 (see Figure 1). In the past recent years, the debt-to-GDP ratio remained above the prudent threshold of 50 percent as defined by the DSF between 2016 and 2023. Since the 2008 GFC, the sustainability of Africa's debt stock using the debt-to-GDP ratio has deteriorated, breaching the 50 percent threshold in 2015. The ratio peaked in 2020 following the fallout of the Covid-19 pandemic in 2020 and stabilized in 2023 at around 68.6 percent. Forecasts indicate that in the medium term (2024-28) the ratio will curb but not enough to enter the below-50 percent safer territory. Out of the 51 countries with available data, 36 countries have their debt-to-GDP ratios above 50 percent in 2023 and 24 countries have seen increases in their ratios relative to 2022 (see Figure 7 and Annex 1). The high ratio associated with these countries presents a clear case of high vulnerability.

Figure 7: Central Government Debt, African countries, 2023 (Percent of GDP)



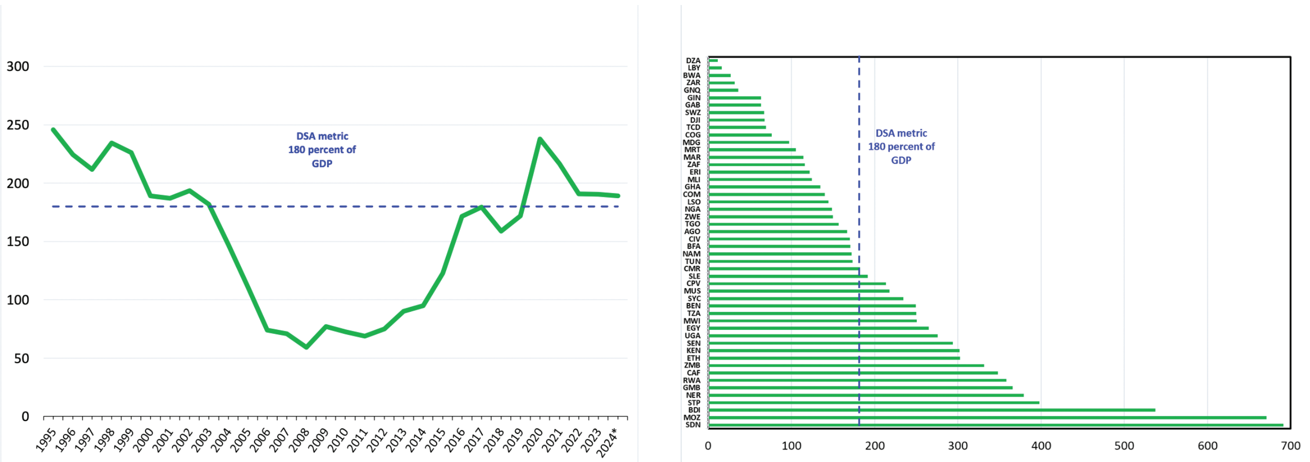
Source: Afreximbank Research based on IMF Global Debt Database, IMF World Economic Outlook Database, and World Bank International Debt Statistics. Country code in Annex 7.

2. Debt-to-Exports Ratio

The evolution of the debt-to-exports ratio is tied to the sustainability of external debt. This ratio is a measure of sustainability because an increasing debt-to-exports ratio over time, for a given interest rate, implies that total debt is growing faster than the economy's basic source of external income, indicating that the country may have difficulties meeting its debt obligations in the future. The threshold defined by the DSF for this indicator is 180 percent. Below this level, debt is deemed sustainable.

Based on the recent trend, the debt-to-exports ratio is in an unsafe territory. After trending down over a decade, from 245.5 percent in 1995 to about 59 percent in 2008, thanks to improving commodity prices and export receipts, the debt-to-exports ratio reversed its course and trended upward after the GFC entering the so-called unsustainable territory in 2019 above the prudent threshold, peaked in 2020 and trended down thereafter on the account of increased exports. In 2023, the ratio was estimated at 194.5 percent. Out of the 50 countries with available data, 22 countries have their debt-to-exports ratios above 180 percent in 2023 (down from 24 countries in 2022) though 32 countries have seen increases in their debt stock in percent of exports relative to 2022 (see Figure 8). In 2024, the debt-to-exports ratio for the continent is expected to reach 189 percent. The rise of the debt-to-exports ratio was driven mainly by a decline in export revenues as shocks related to the Covid-19 pandemic, supply chain disruptions, and the war in Ukraine put pressure on trade finance and depressed global demand for commodities, pushing African countries to increase borrowing, especially in the context of low domestic resource mobilization and rising borrowing costs.

Figure 8: Debt-to-Exports ratio, African countries,1995-2024 (Percent)



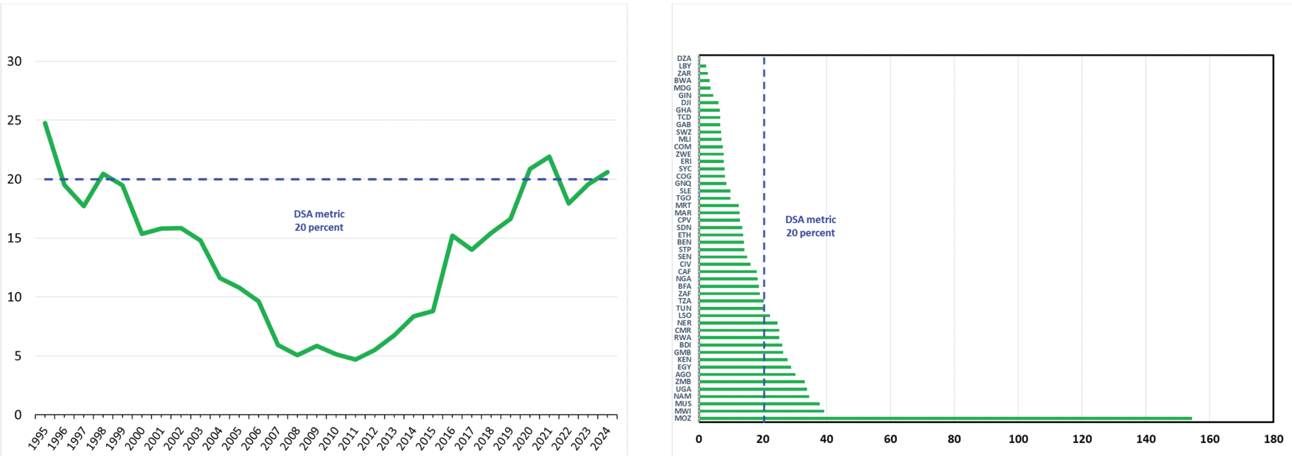
Source: Afreximbank Research based on IMF Global Debt Database, IMF World Economic Outlook Database, and World Bank International Debt Statistics. Country code in Annex 7.

B. Liquidity indicators

1. Debt Service-to-Revenue Ratio

Africa's debt service-to-revenue ratio has entered uncharted territory. For this indicator, we consider the median threshold of 20 percent, suggesting that African countries should allocate approximately 20 percent of their revenues to service external debt. A high ratio indicates relative vulnerability of the country to debt sustainability. Since the mid-90s, the debt service-to-revenue ratio for African countries has been trending downward, below the threshold indicating a contained liquidity concerns over the region's ability to service debt from fiscal revenue. This was mainly driven by savings from the HIPC and MDRI initiatives. Bold reforms to boost revenue also contributed to lowering the debt service-to-revenue ratio, which reached 4.7 percent in 2011 from 20.5 percent in 2000. However, there was a trend reversal in the early 2010s owing to the re-emergence of the Eurobond issuances and stalemates in domestic revenue mobilization. In 2023, the ratio for the continent was estimated at 19.6 percent. Out of the 50 countries with available data, 17 countries recorded debt service-to-revenue ratios above 20 percent in 2023 and 34 countries witnessed increases in their debt service-to-revenue ratios (see Figure 9). In 2024, the ratio of debt service-to-revenue is expected to increase by 1 percentage point and reach 20.6 percent.

Figure 9: Debt Service-to-Revenue ratio, African countries,1995-2024 (Percent)

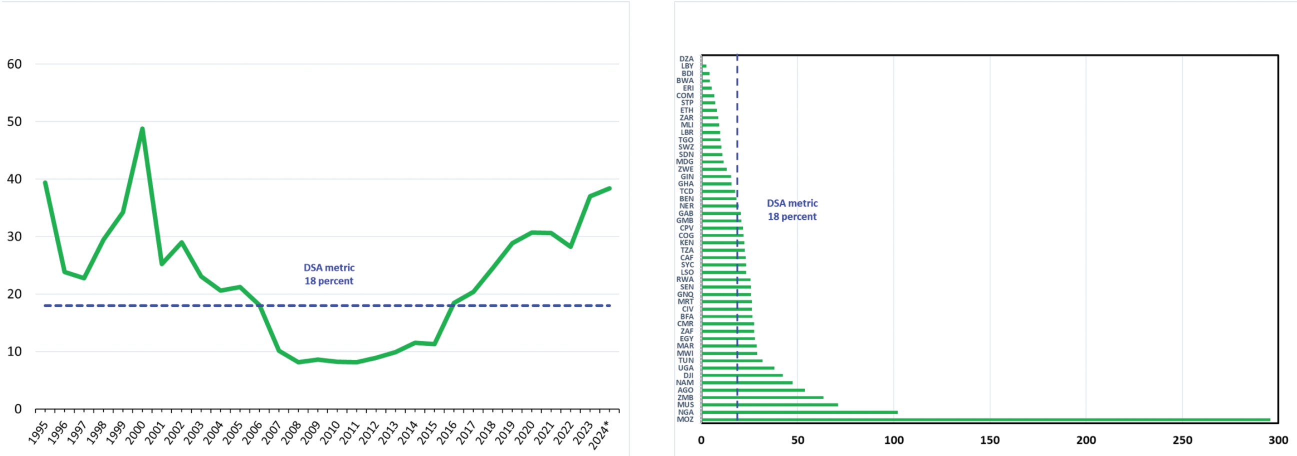


Source: Afreximbank Research based on IMF Global Debt Database, IMF World Economic Outlook Database, and World Bank International Debt Statistics. Country code in Annex 7.

2. Debt Service-to-Exports Ratio

The debt service-to-exports ratio has been above the prudent level since 2016. Another liquidity indicator in the DSF is the debt service-to-exports ratio. It indicates how much of a country's export revenue will be used up in servicing its debt, as well as how vulnerable the payment of debt service obligations is to an unexpected fall in export proceeds. The threshold defined by the DSF for this indicator is 18 percent. Below this level, debt is considered sustainable. After trending down since the early 2000s, the ratio of debt service to exports has reversed course and exceeded the prudent threshold of 18 percent in 2016. In 2023, the debt-to-exports ratio is estimated at about 37 percent. Out of the 50 countries with available data, 29 countries have debt service-to-exports ratios above 18 percent in 2023 and 30 countries have seen increases in their debt service in percent of exports compared to 2022 (see Figure 10). In 2024, the debt service-to-revenue ratio is expected to reach 38.4 percent.

Figure 10: Debt Service-to-Exports ratio, African countries,1995-2024 (Percent)

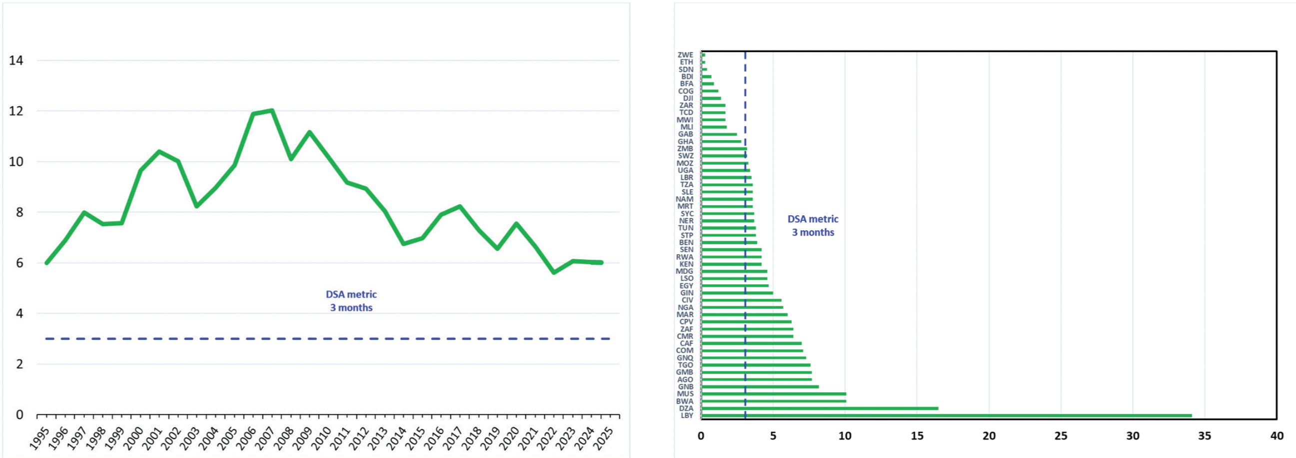


Source: Afreximbank Research based on IMF Global Debt Database, IMF World Economic Outlook Database, and World Bank International Debt Statistics. Country code in Annex 7.

3. Reserve adequacy

The reserve adequacy has been well above the recommended level for stability purpose. Reserve adequacy measures the number of months of imports that can be covered by foreign exchange reserves available from the Central Bank. While it fundamentally assesses the stability of a country's currency, it also provides indicative assessment of a country's debt vulnerability. Indeed, holding prudent reserves can help withstand debt crisis. The traditional "rules of thumb" that have been used to guide reserve adequacy suggest that countries should hold reserves covering the equivalent of 3 months of imports. The reserve adequacy has trended down in the past from 12 months of imports in 2007 to 6.1 months of imports in 2023, well above the desired metric of 3 months of imports. Out of the 50 countries with available data, 34 countries have their reserve adequacy above the metric of 3 months of imports. In 2024, the reserve adequacy is expected to remain stable at around 6 months of imports with 34 countries above the desired threshold.

Figure 11: Reserve adequacy, African countries,1995-2024 (Months of Imports)



Source: Afreximbank Research based on IMF World Economic Outlook Database. Country code in Annex 7.

C. Overall assessment

1. Debt Sustainability Framework

To conduct the overall vulnerability assessment, this section builds on the standard assessments by the World Bank and IMF. These institutions provide the most consistent source for individual country assessment under the DSF framework [4]. As discussed above, the DSF uses the debt-to-GDP ratio and the debt-to-exports ratio to evaluate the solvency dimension of the borrower while the debt service-to-exports ratio, the debt-service-to revenue ratio, and the reserve adequacy are used to assess the liquidity dimension of the borrower. Based on these thresholds and benchmarks, the DSF includes an assessment of the risk of overall and external debt distress based on four categories: low risk, moderate risk, high risk, and in debt distress)[5]. For African countries, most are ranked under the LIC-DSF methodology [6]. For this category of countries, the framework helps determine the risks of debt

[4] The World Bank and the IMF produce on a regular basis the Debt Sustainability Analysis (DSA) for countries under the Debt Sustainability Framework (DSF).

[5] Countries that breach at least 3 of the 4 indicators are classified as being highly vulnerable or in debt distress, while those countries that breach 2 of the indicators are treated as being at a high risk of debt distress. A distress event corresponds to the imminence of arrears emergence or a restructuring.

[6] In 2005, the WB and IMF approved the introduction of the Debt Sustainability Framework in low-income countries (LICDSA) to assess if these countries will be able to meet their external financing needs mostly through concessional financing.

distress, considering the country's capacity to carry debt and its projected debt burden under both baseline projections and shock scenarios [7]. Countries with market access are evaluated under the MAC-DSA framework where sovereign risks are assessed [8].

Debt in more than half of African countries is assessed to be vulnerable. Using the latest available DSA ratings for 52 African countries (as of end 2023) and based on the overall debt rating, we find that more than half of countries are assessed to be at high risk or already in debt distress (see Figure 12). A similar proportion is observed across the board of subgroupings including frontier markets, commodity exporters, and fuel exporters [9].

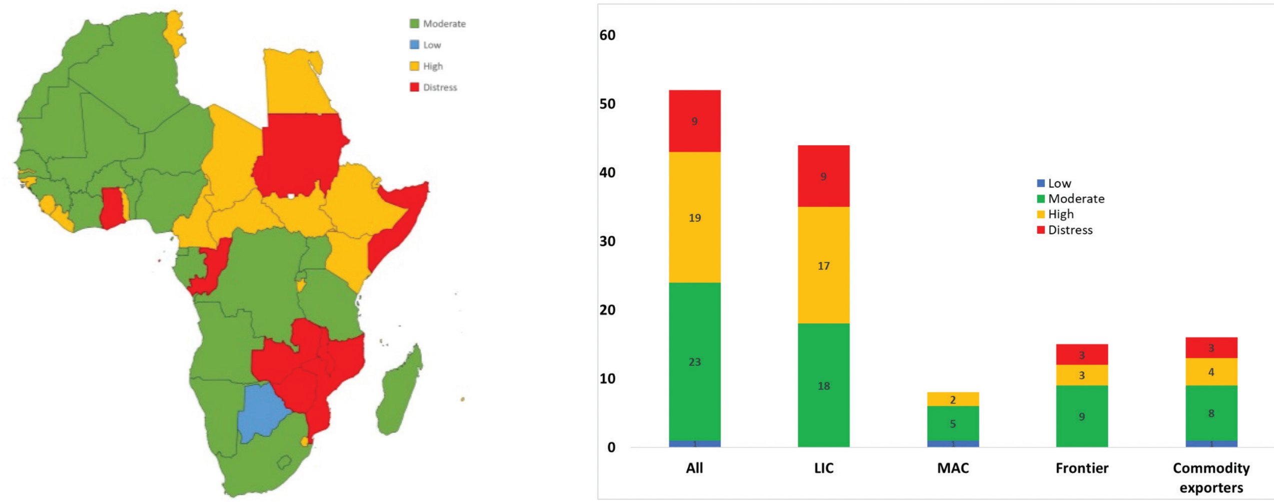
- Under the LIC-DSF for countries with no market access, the debt of 9 countries were rated in distress (Ghana, Malawi, Mozambique, Republic of Congo, Sao Tome and Principe, Somalia, Sudan, Zambia, Zimbabwe); debt in 17 countries were dubbed as high risk of distress (Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Djibouti, Ethiopia, Gambia, Guinea-Bissau, Kenya, Liberia, Mauritius, Sierra Leone, South Sudan, Togo and Tunisia) while debt in 18 countries are assessed as moderate risk of distress (Algeria, Angola, Benin, Burkina Faso, Cote d'Ivoire, Democratic Republic of Congo, Equatorial Guinea, Gabon, Guinea, Lesotho, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Tanzania, and Uganda).
- For the economies with market access (MAC-DSF), sovereign risks in Egypt and Eswatini are assessed as high while sovereign debt in Seychelles, Morocco, Namibia, Nigeria, South Africa are qualified as moderate risk of debt distress. Sovereign risk in Botswana is rated as low.

[7] LIC DSF countries: Algeria, Angola, Benin, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Cote d'Ivoire, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Niger, Republic of Congo, Rwanda, Senegal, Sierra Leone, Somalia, South Sudan, Sao Tome and Principe, Sudan, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

[8] In 2021, the IMF approved a new framework for assessing sovereign risk and debt sustainability for market access countries. Accordingly, a new template was developed for conducting the Sovereign Risk and Debt Sustainability Analysis (MACDSA). MAC DSF countries: Botswana, Egypt, Eswatini, Morocco, Namibia, Nigeria, Seychelles, and South Africa.

[9] **Frontier countries:** Angola, Benin, Cameroon, Cote d'Ivoire, Ethiopia, Gabon, Ghana, Kenya, Mozambique, Namibia, Nigeria, Rwanda, Senegal, South Africa, and Zambia. **Commodity exporters:** Angola (fuel), Botswana, Burkina Faso, Burundi, Cameroon (fuel), Chad (fuel), Republic of Congo (fuel), Democratic Republic of Congo, Equatorial Guinea (fuel), Gabon (fuel), Guinea, Guinea-Bissau, Malawi, Mali, Nigeria (fuel), South Sudan (fuel), and Zambia.

Figure 12: Debt Sustainability Assessment, Overall Risk Rating, African Countries, 2021-23, Latest Available



Source: Afreximbank Research based on LIC-DSA and MAC-DSA by the World Bank and IMF.

2. Outlook for Debt Sustainability in Africa

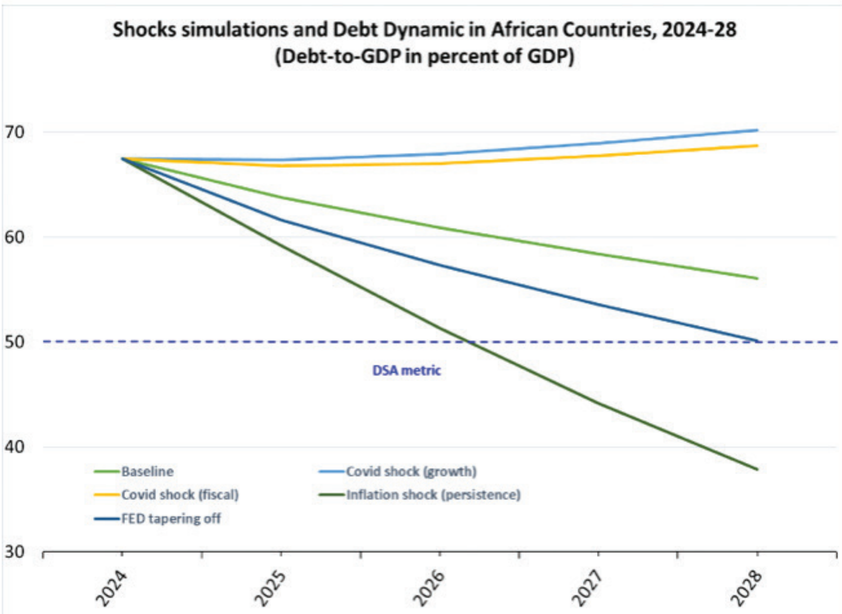
In this section we take advantage of a simple equation of debt dynamics to assess the resilience of debt at the continental level to a series of shocks in the years to come. In practice, the debt sustainability analysis is derived from the debt accumulation equation as defined in Annex 6. This simple equation can help understand how the debt-to-GDP ratio changes over time with the economic conditions and policies. The debt-to-GDP ratio is driven by four main factors: growth rate, changes in inflation, nominal interest rates, and fiscal stance. Higher growth and higher inflation have the potential to reduce the debt burden while higher interest drives up the debt-to-GDP ratio. A prudent fiscal policy helps bring down the debt-to-GDP ratio while stock flow adjustments represent the ad hoc increases in the debt ratios such as materialization of contingent liabilities or one-off borrowing unrelated to fiscal needs.

With the objective to provide an outlook for overall vulnerability of debt for the continent, we simulate four shocks using 2024 as base year for 2025-28.

- **Growth shock.** The first shock is a pandemic growth shock mimicking the mark down in growth during the last covid-19 pandemic. This shock assumes growth is negative at -1.2 percent throughout the simulation period.
- **Fiscal shock.** The second shock is also a pandemic fiscal shock assuming the deterioration of fiscal balances to -3.5 percent of GDP throughout the simulation period.
- **Persistent inflation shock.** The third shock represents the persistence of the recent inflation shock bringing the GDP deflator to a permanent high level of 19.9 percent during the full simulation period.
- **FED tapering off shock.** The fourth and last shock captures the end of the Fed rate hike cycle. Based on historical trend, this will bring permanently nominal interest rates for African countries from an average of 8 percent to 5¼ percent.

All other things being equal, the simulations show that debt-to-GDP ratio for the African region is vulnerable to shocks seen during the pandemic. Under both the Covid-19 growth shock and the Covid-19 fiscal shock, the debt-to-GDP ratio will increase to around the 70 percent mark by 2028. On a positive note, a potentially tightening cycle of FED benchmark rates will help alleviate the debt burden through lower nominal interest rate with the debt-to-GDP ratio dwindling to the 50-percent safer territory. A persistence in the current inflation dynamic would also help bring the debt-to-GDP ratio down mechanically. One note of caveat is that these interpretations are based on partial and simplistic modeling of the debt-to-GDP ratio and do not account for cross linkages between the various parameters governing the debt accumulation dynamic. At the best, the simulations provide a broad outlook of the vulnerabilities of debt at the continental level.

Figure 13: Shocks simulations and Debt Dynamic in African Countries, 2024-28 (Debt-to-GDP in percent of GDP)



Source: Afreximbank Research.

III. Concluding Remarks

Debt levels in African countries remain elevated despite the optimistic outlook. The cost of borrowing has increased markedly for African countries over the recent years. The debt landscape has shifted especially the rise of external debt and private creditors. In addition, the multiplication of sovereign debt defaults on the continent has presented a growing challenge over the past decade.

Most of the sustainability indicators have deteriorated and are in risky zones. We first look at the key solvency and liquidity indicators used to assess debt sustainability. In terms of solvency, a perusal of data shows that African debt in percent to GDP has been above prudent levels for 9 years and the debt-to-exports ratio has been in the unsafe territory since 2019. The key liquidity indicators, both the debt service-to-revenue ratio and the debt service-to-exports ratio, have breached the recommended thresholds. Nevertheless, reserve adequacy has remained at comfortable levels.

We find that debt in more than half of African countries is assessed to be vulnerable. We build on the standard Debt Sustainability Assessment (DSA) under the Debt Sustainability Framework (DSF) for Low Income Countries (LIC) with no market access and the Frontier Countries with Market Access (MAC). Using DSA ratings for 52 African countries as of end 2023 and based on overall rating, more than half of African countries were assessed by the DSF to be at high risk or already in debt distress. Furthermore, African debt is vulnerable to growth and fiscal shocks seen during the pandemic. On a positive note, a potential end to the tightening cycle of FED benchmark rates will help alleviate the debt burden with the debt-to-GDP ratio dwindling to the 50-percent safer territory.

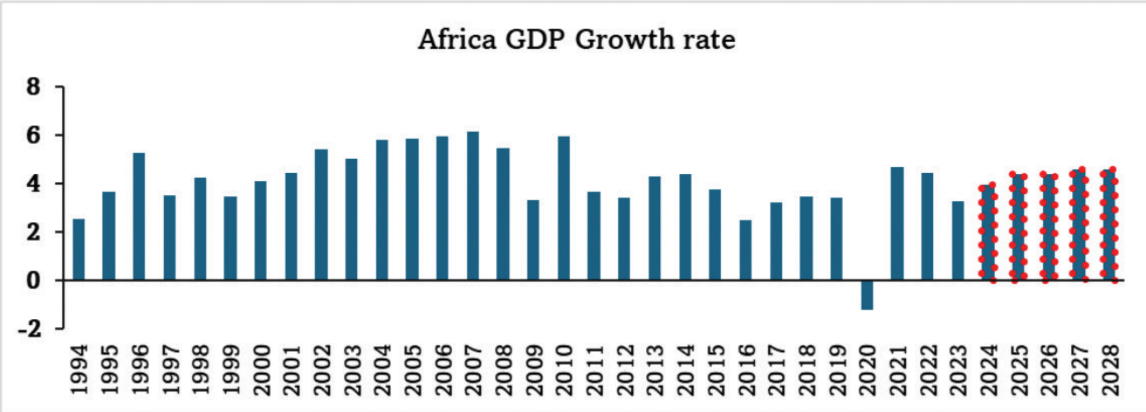
Annexes

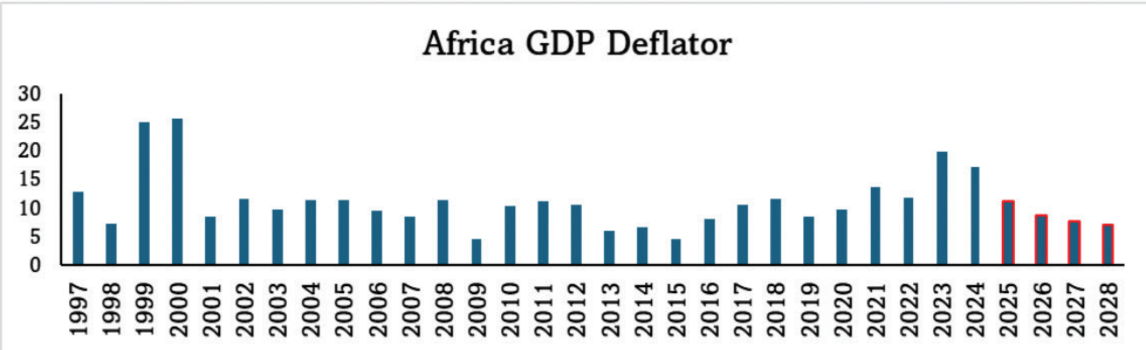
Annex 1: Change in debt-to-GDP ratio by country, 2022-24

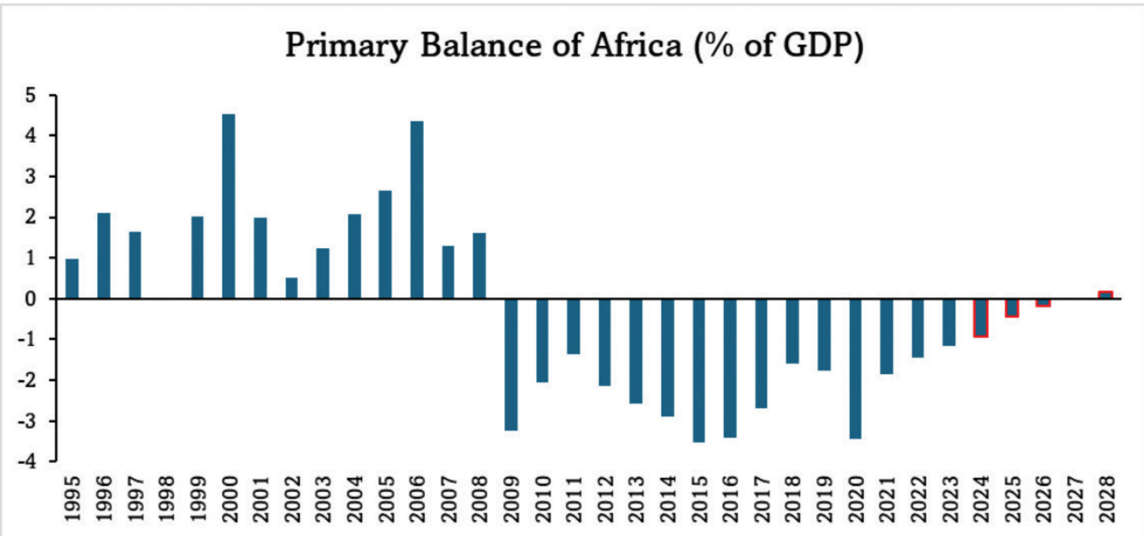
Country	2022	2023	2024	Change 2023-2022	Change 2024-2023
Algeria	55.6	55.1	58.8	-0.5	3.6
Angola	66.7	84.9	77.1	18.2	-7.7
Benin	54.2	53.0	52.4	-1.2	-0.5
Botswana	18.0	18.7	18.1	0.7	-0.6
Burkina Faso	58.3	61.2	61.2	2.9	0.1
Burundi	68.4	72.7	65.8	4.4	-6.9
Cabo Verde	127.3	113.1	109.7	-14.2	-3.4
Cameroon	45.5	41.9	39.6	-3.6	-2.3
Central African Rep.	51.8	50.1	49.6	-1.6	-0.6
Chad	48.8	43.2	38.7	-5.6	-4.5
Comoros	27.9	33.3	36.9	5.4	3.6
Congo Dem. Rep.	14.5	13.3	11.1	-1.3	-2.2
Congo Rep.	92.5	97.8	91.0	5.3	-6.8
Cote d'Ivoire	56.8	56.8	57.0	0.1	0.2
Djibouti	40.4	41.8	41.9	1.4	0.0
Egypt	88.5	92.7	88.1	4.1	-4.6
Equatorial Guinea	34.6	38.3	33.7	3.7	-4.6
Eswatini	42.0	42.4	41.9	0.4	-0.5
Ethiopia	46.4	37.9	31.2	-8.5	-6.7
Gabon	57.7	64.9	64.5	7.2	-0.4
Gambia	82.8	72.3	65.5	-10.5	-6.8
Ghana	92.4	84.9	81.5	-7.5	-3.4
Guinea	33.1	31.6	31.5	-1.4	-0.2
Guinea-Bissau	80.3	73.9	71.4	-6.4	-2.5
Kenya	68.4	70.2	68.3	1.8	-1.9
Lesotho	59.9	61.3	60.4	1.4	-0.9
Liberia	53.9	52.3	52.7	-1.6	0.4
Madagascar	55.1	54.0	53.5	-1.1	-0.5
Malawi	75.2	78.6	77.4	3.4	-1.2
Mali	51.7	51.8	52.6	0.1	0.8
Mauritania	50.8	49.5	48.2	-1.2	-1.3
Mauritius	83.1	79.7	78.9	-3.4	-0.8
Morocco	71.5	69.7	69.1	-1.8	-0.6
Mozambique	95.5	89.7	92.4	-5.9	2.8
Namibia	69.8	67.6	66.8	-2.3	-0.8
Niger	50.3	48.7	46.4	-1.7	-2.3
Nigeria	39.6	38.8	41.3	-0.9	2.5
Rwanda	61.1	63.3	72.1	2.2	8.8
Senegal	76.6	81.0	72.1	4.4	-8.9
Seychelles	61.5	60.8	59.0	-0.7	-1.7
Sierra Leone	95.8	88.9	82.6	-6.9	-6.3
South Africa	71.1	73.7	75.8	2.6	2.1
South Sudan	37.8	60.4	50.9	22.5	-9.5
Sao Tome and Principe	77.7	58.5	54.4	-19.2	-4.1
Sudan	186.2	256.0	238.8	69.7	-17.2
Tanzania	42.3	42.6	41.9	0.3	-0.7
Togo	66.3	67.2	67.6	0.9	0.4
Tunisia	79.8	77.8	77.1	-1.9	-0.7
Uganda	48.4	48.3	47.7	-0.1	-0.6
Zambia	98.5	110.2	100.8	11.7	-9.4
Zimbabwe	98.4	95.4	56.9	-3.0	-38.5

Source: Afreximbank Research based on IMF Global Debt Database.

Annex 2: Underlying macroeconomic drivers of debt-to-GDP ratios.







Source: Afreximbank Research based on IMF World Economic Outlook. Note: Red for forecasts.

Annex 3: Debt Sustainability Assessment (DSA) within the Debt Sustainability Framework (DSF), Overall Risk Rating, African Countries, 2021-23, Latest Available.

Country	Rating
Algeria	Moderate
Angola	Moderate
Benin	Moderate
Botswana	Low
Burkina Faso	Moderate
Burundi	High
Cabo Verde	High
Cameroon	High
Central African Republic	High
Chad	High
Comoros	High
Republic of the Congo	Distress
Cote d'Ivoire	Moderate
Democratic Republic of the Congo	Moderate
Djibouti	High
Egypt	High
Equatorial Guinea	Moderate
Eswatini	High
Ethiopia	High
Gabon	Moderate
Gambia	High
Ghana	Distress
Guinea	Moderate
Guinea-Bissau	High
Kenya	High
Lesotho	Moderate
Liberia	High
Madagascar	Moderate
Malawi	Distress
Mali	Moderate
Mauritania	Moderate
Mauritius	High
Morocco	Moderate
Mozambique	Distress
Namibia	Moderate
Niger	Moderate
Nigeria	Moderate
Rwanda	Moderate
Sao Tome and Principe	Distress
Senegal	Moderate
Seychelles	Moderate
Sierra Leone	High
Somalia	Distress
South Africa	Moderate
South Sudan	High
Sudan	Distress
Tanzania	Moderate
Togo	High
Tunisia	High
Uganda	Moderate
Zambia	Distress
Zimbabwe	Distress

Source: Afreximbank Research based on IMF World Bank DSA ratings.
Note: Countries with market access are evaluated under the MAC-DSA framework where sovereign risks are assessed.

Annex 4: LIC DSA, Overall Risk Rating, African Countries, 2021-23, Latest Available

Country	Risk of overall debt distress	Risk of external debt distress	Date of Publication	Date of Publication
Algeria	Moderate	Moderate	2023	2-Feb-23
Angola	Moderate	Moderate	2023	6-Mar-23
Benin	Moderate	Moderate	2023	24-May-23
Burkina Faso	Moderate	Moderate	2023	3-Oct-23
Cote d'Ivoire	Moderate	Moderate	2023	12-Jun-23
Democratic Rep. of the Congo	Moderate	Moderate	2023	5-Jul-23
Equatorial Guinea	Moderate	Moderate	2022	3-Aug-22
Gabon	Moderate	Moderate	2022	8-Jul-22
Guinea	Moderate	Moderate	2023	23-Jan-23
Lesotho	Moderate	Moderate	2023	20-Jul-23
Madagascar	Moderate	Moderate	2023	21-Mar-23
Mali	Moderate	Moderate	2021	30-Mar-21
Mauritania	Moderate	Moderate	2023	3-Feb-23
Niger	Moderate	Moderate	2023	12-Jul-23
Rwanda	Moderate	Moderate	2022	19-Dec-22
Senegal	Moderate	Moderate	2023	7-Jul-23
Tanzania	Moderate	Moderate	2023	28-Apr-23
Uganda	Moderate	Moderate	2023	6-Jun-23
Burundi	High	High	2023	25-Jul-23
Cabo Verde	High	Moderate	2023	18-Jul-23
Cameroon	High	High	2023	20-Mar-23
Central African Rep.	High	High	2023	6-Nov-23
Chad	High	High	2023	23-Jan-23
Comoros	High	High	2023	21-Jun-23
Djibouti	High	High	2020	12-May-20
Ethiopia	High	High	2020	6-May-20
Gambia	High	High	2023	21-Jun-23
Guinea-Bissau	High	High	2023	15-Feb-23
Kenya	High	High	2023	19-Jul-23
Liberia	High	Moderate	2022	14-Sep-22
Mauritius	High	High	2022	15-Jul-22
Sierra Leone	High	High	2023	27-Nov-23
South Sudan	High	High	2023	9-Mar-23
Togo	High	Moderate	2020	16-Apr-20
Tunisia	High	High	2023	Feb-23
Ghana	In distress	In distress	2023	17-May-23
Malawi	In distress	In distress	2023	22-Nov-23
Mozambique	In distress	In distress	2023	13-Jul-23
Rep. of the Congo	In distress	In distress	2023	24-Jul-23
Sao Tome and Principe	In distress	In distress	2022	20-Sep-22
Somalia	In distress	In distress	2023	31-May-23
Sudan	In distress	In distress	2021	1-Jul-21
Zambia	In distress	In distress	2023	13-Jul-23
Zimbabwe	In distress	In distress	2022	8-Apr-22

Source: Afreximbank Research based on IMF World Bank DSA ratings.

Annex 5: MAC DSA, Overall Risk Rating, African Countries, 2021-23, Latest Available

Country	Sovereign risk			Date of Publication	Date of Publication
	Overall	Medium Term	Long Term		
Botswana	Low	Low	Low	2023	Aug-23
Seychelles	Moderate	Moderate	Moderate	2023	Jun-23
Egypt	High	High	...	2023	Jan-23
Eswatini	High	High	Moderate	2023	May-23
Morocco	Moderate	Moderate	Moderate	2023	Oct-23
Namibia	Moderate	Moderate	Moderate	2023	Dec-23
Nigeria	Moderate	Moderate	Moderate	2023	Feb-23
South Africa	Moderate	High	High	2023	Jun-23

Source: Afreximbank Research based on IMF World Bank DSA ratings.

Annex 6: Debt Dynamic Equation

The debt dynamic equation links the level of the debt-to-GDP ratio to the existing debt stock through the impact of the nominal interest rate, inflation rate, and output growth rate to the primary balance, and any stock-flow adjustments:

$$d_t = \left(\frac{1 + i_t}{(1 + \pi_t)(1 + g_t)} \right) d_{t-1} - pb_t + sf_t$$

Where:

$d_t =$ Debt at the end of period t, as a ratio to GDP at t.

i_t = Nominal interest rate in period t; paid in period t on the debt stock outstanding at the end of t − 1.

$\pi_t =$ Change in the GDP deflator between t − 1 and t.

$g_t =$ Real GDP growth rate between t − 1 and t.

$pb_t =$ Primary balance in t, as a ratio to GDP at t.

$sf_t =$ Stock flow at t.

The equation above summarizes the direct channel through which inflation, growth, nominal interest rate and primary balance affect the debt-to-GDP ratio.

Source: Afreximbank Research.

Annex 7: Country Code

Country Name	Country Code	Country Name	Country Code
Algeria	DZA	Liberia	LBR
Angola	AGO	Libya	LBY
Benin	BEN	Madagascar	MDG
Botswana	BWA	Malawi	MWI
Burkina Faso	BFA	Mali	MLI
Burundi	BDI	Mauritania	MRT
Cameroon	CMR	Mauritius	MUS
Cape Verde	CPV	Morocco	MAR
Central African Rep.	CAF	Mozambique	MOZ
Chad	TCD	Namibia	NAM
Comoros	COM	Niger	NER
Congo Dem. Rep.	ZAR	Nigeria	NGA
Congo Rep.	COG	Rwanda	RWA
Cote d'Ivoire	CIV	Sao Tome and Principe	STP
Djibouti	DJI	Senegal	SEN
Egypt, Arab Rep.	EGY	Seychelles	SYC
Equatorial Guinea	GNQ	Sierra Leone	SLE
Eritrea	ERI	Somalia	SOM
Ethiopia (excludes Eritrea)	ETH	South Africa	ZAF
Ethiopia (includes Eritrea)	ETF	Sudan	SDN
Gabon	GAB	Swaziland	SWZ
Gambia, The	GMB	Tanzania	TZA
Ghana	GHA	Togo	TGO
Guinea	GIN	Tunisia	TUN
Guinea-Bissau	GNB	Uganda	UGA
Kenya	KEN	Zambia	ZMB
Lesotho	LSO	Zimbabwe	ZWE

Source: Afreximbank Research based on World Bank.

State of Play of Debt Burden in Africa 2024

Debt Dynamics and Mounting Vulnerability

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