Letter

Letter: Economic reform is the way to drive down Africa's debt costs

From Alain Nkontchou, Managing Partner, Enko Capital, Chairman of the Board, Ecobank Group, London SW1, UK

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Regarding the article by Vera Songwe ("African countries should have their own 'repo' markets", Opinion, June 26) the scheme, as described, would provide financing to investors willing to buy additional debt from selected African countries. However, such an initiative would not guarantee a reduction in the financing costs of their debt. Interest rates on market-based loans or eurobonds are a function of the perceived debt sustainability of the issuer and the proposed vehicle does not appear to offer a credit enhancing mechanism.

Repo markets provide liquidity (or leverage) to investors, but do not necessarily reduce the cost of borrowing for the issuer. Nor do they alleviate the solvency risk.

If the ultimate objective is to reduce African borrowing costs, the countries themselves will need to, firstly, wean themselves from their dependency on commodity exports for economic growth. And secondly, make productivity enhancing investments that effectively leverage their potential capital and labour growth to attain the best growth multiplier.

This would stabilise their external balances, reduce macro volatility and eventually achieve strong economic growth. Long-term economic reforms will eventually drive down borrowing costs and increase debt sustainability as demonstrated by the experience of Morocco, Botswana and Namibia, all benefiting from relatively low borrowing costs.

Furthermore, we should not forget the all-time low interest rates some African issuers achieved prior to the Covid-19 crisis. Ghana issued a $750m 41-year eurobond at a yield of 8.75 per cent in January and last year Benin issued a 7-year bond at 6 per cent which raised €500m.

The immediate challenge facing African countries is liquidity. Solutions to that issue can parallel the bold fiscal and monetary expansion that developed countries deployed to cushion the economic impact of the virus. While such countries can monetise their debt, African countries could be provided with liquidity from developed countries or multilaterals in the form of long-term zero-coupon debt at a rate of 1 per cent or less.

Such an initiative could act as a backstop to the current liquidity challenge and eventually address the potential solvency threat.

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