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Africa sees wave of credit downgrades last year – bucking global trend of net upgrades.

- **Sub-Saharan Africa hit by 10 downgrades and only 4 upgrades**
- **North Africa had 5 downgrades and 0 upgrades**
- **43% downgrades made to sovereign bonds globally were inside Africa**
- **Only 8% upgrades made to sovereign bonds globally were outside Africa**

African countries saw 15 credit rating downgrades and only 4 upgrades to their sovereign bonds last year, says leading specialty (re)insurance group Chaucer. The wave of credit downgrades in African countries bucks the global trend of net upgrades – with 20 downgrades and 48 upgrades for the rest of the world (excluding Africa) last year.

An increase in global interest rates and volatile currency markets have put a strain on many African countries. Civil unrest and changes of government across a number of Central African states have also contributed to the credit ratings of sovereign bonds in some countries.

Downgrades of sovereign debt often fuels demand for political risk insurance which protects businesses from the risk of financially stressed countries failing to honour contracts with a business.

African countries account for 43% of all sovereign debt downgrades
Over the past twelve months, African countries have accounted for 43% (15 downgrades out of 35) of global credit downgrades. Over a quarter of all downgrades of sovereign bonds (10 downgrades or 29% of the total) were in Sub-Saharan Africa alone.

Central Banks increasing global interest rates has pushed up borrowing costs for many African countries, while a strong dollar has also made it more expensive for them to service hard currency debt.

Higher global interest rates make it harder for governments to service their debts as they must pay higher coupons on new bonds and higher payments on index linked bonds.

Sovereign debt downgrades will often further increase the borrowing costs of a country, potentially leading to a downward spiral in the economy.

Says Jonathan Bint, Senior Analyst and Underwriter at Chaucer: “Many African countries are contending with a combination of external financial pressures and internal political pressures. These challenges have driven away investors with a lower risk-appetite.”

“The debt downgrades have also caused businesses with commercial contracts, such as infrastructure investments, to reexamine their exposure to those countries and see if they need more insurance cover to limit their downside.”

Downgrades of sovereign debt concentrated in Global South
Four out of five downgrades were in the Global South, with Latin America and the Caribbean accounting for more than one quarter (11 downgrades or 31% of the total) of downgrades. The Middle East and North Africa (MENA) had seven downgrades (20% of the total).

Ethiopia (-4), Niger (-3) and Cameroon (-2) saw the most downgrades in Sub-Saharan African. Ethiopia and Cameroon have had years of separatist conflicts, in Tigray and Ambazonia respectively. Niger had a sudden change in government last year.

Countries in Western and Central Africa have undergone multiple changes of government in the past few years. Coups in Niger and Gabon have heightened fears that business assets could be expropriated. The past year has also seen civil war erupt in Sudan, with the economic fallout impacting all its neighbours.

Says Jonathan Bint: “Government change creates uncertainty for businesses. This is especially true of sudden regime changes.”

“The cancellation of contracts is one of the primary concerns businesses have with these new governments.”

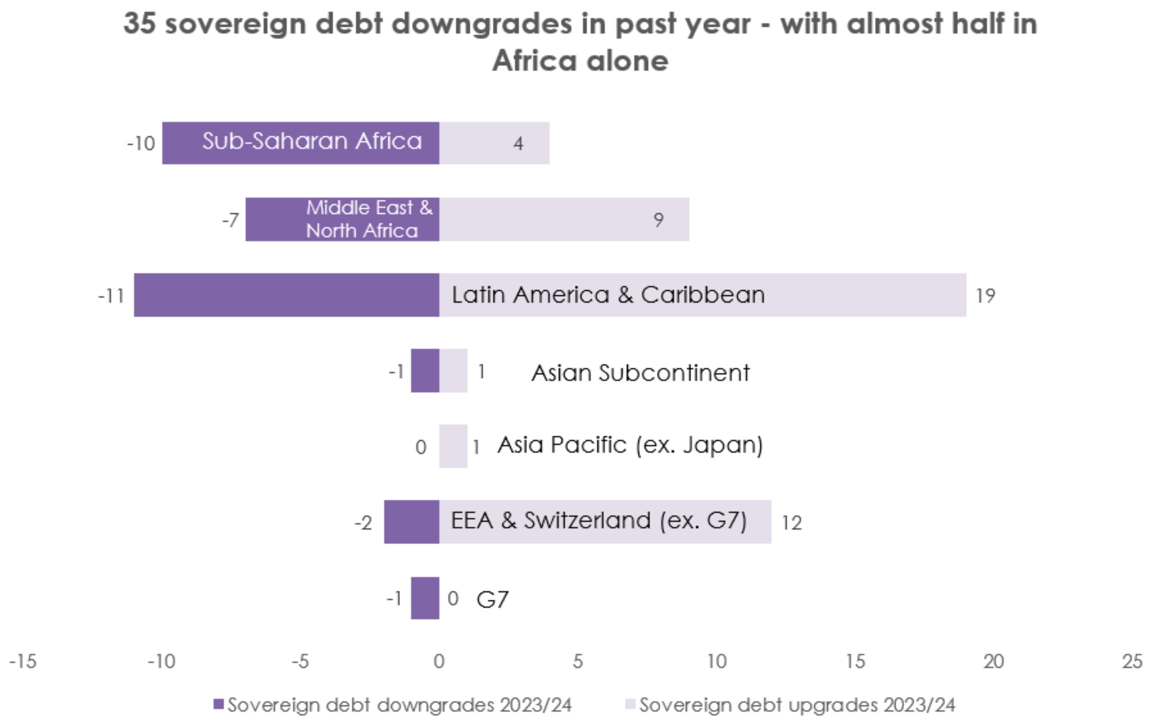
“Frequent changes in government drive up demand for contract frustration cover – especially in the most volatile regions.”

The Global North fares better
By comparison, countries in the G7 received only one downgrades last year. The European Economic Area (EEA) and Switzerland received just two downgrades and 12 upgrades – 23% of the total upgrades made worldwide.

52 countries saw their government bonds upgraded last year, a 33% increase on the number of upgrades made in 2022/23. Latin America and the Caribbean alone saw 19 upgrades to sovereign bonds – representing 37% of all global sovereign bond upgrades. Latin America and the Caribbean’s large number of upgrades mean the region actually netted eight sovereign debt upgrades last year.

Says Jonathan Bint: “The Global North has fared relatively well in the past year. The EEA and Switzerland have seen their sovereign bond ratings improve substantially.”

"More sovereign debt downgrades present increased risk for businesses globally. Failure to protect themselves could leave businesses exposed."



**Analysis of sovereign debt ratings data from ratings agencies Fitch Ratings, Moody's and S&P Global Ratings, year ending May 13.*

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Media Enquiries

Greer Stead
Chaucer
+44(0)20 7105 8258
greer.stead@chaucergroup.com

Gus Montgomery or Danielle Todd
Mattison Public Relations
+44(0)20 7645 3636
gus.montgomery@mattison.co.uk

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We are defined by an enterprising, bespoke approach to (re)insurance, enabled by the individual character, experience and imagination of our expert teams.

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