

## Mozambique – the ‘tuna–bond’ debacle

Hanns Spangenberg

NKC African Economics, Senior Economist

---

### Background

The most prominent development in Mozambique’s fiscal landscape pertains to the debacle surrounding the debt issued by Empresa Mocambicana de Atum SA (Ematum), a government–owned fishing company that issued foreign–denominated debt amounting to \$850m in 2013. At issuance, the full loan was backed by a sovereign guarantee from the government, with the first principal repayment instalment in September 2015. Following the fishing enterprise’s inability to make the repayment, the government honoured its guarantee and repaid the first instalment on Ematum’s behalf. The fishing company was once again unable to repay the next instalment, due in March 2016, which the government also paid on Ematum’s behalf.

### Restructuring

Frequent rumours of “restructuring” came true in late–March 2016 when the Mozambican government made an official offer to voluntarily exchange the debt still owed on the Ematum bond. The exchange was officially completed on April 6, after investors voted overwhelmingly in favour of accepting the government offer. The new bullet notes that were issued in exchange for the Ematum loan participation notes (LPNs) hold a maturity date of 2023 (compared to 2020 for the LPNs), with a coupon of 10.5% (compared to 6.305% for the LPNs).

### Ratings Agencies

As was expected, the government’s offer to exchange the Ematum debt had considerable consequences for Mozambique’s foreign currency sovereign debt rating, with the completion of the exchange resulting in further rating movements. Standard & Poor’s Ratings Services’ (S&P) long–term foreign currency rating on Mozambique

was lowered by four notches from “B-” to “CC” on March 15, with a negative outlook also attached. The downgrade stemmed directly from the Mozambican government’s decision to offer an exchange of the debt issued by Ematum. The rating was downgraded further to Selective Default (“SD”) after the government announced that its exchange offer had been accepted: although the majority of investors voted to voluntarily accept the deal it was considered by S&P “to be a distressed debt exchange and tantamount to default”. The rating agency issued a post-restructuring sovereign debt rating of “B-” on April 15, which carried a stable outlook.

Similarly, Moody’s downgraded Mozambique’s issuer rating from “B2” to “B3” (equivalent to “B-” on S&P’s scale) on March 15, while maintaining the review for downgrade that was initiated in December 2015. In contrast to S&P, Moody’s decision to downgrade stemmed from a “deteriorating balance of payments position and reduced capacity for the government to service its outstanding debt”, while the review for downgrade allowed the rating agency “to assess the implications of the proposed debt exchange”. While Moody’s noted that the Ematum exchange proposal would likely be considered a “distressed exchange”, the agency stated that “[a]ny further downward adjustment to the government of Mozambique issuer rating would most likely be limited to one notch”. Consequently, Moody’s downgraded the country’s sovereign debt rating to “Caal” (equivalent to “CCC+” on S&P’s scale) with a stable outlook on April 15, thereby concluding the ‘review for downgrade’. The latest downgrade by Moody’s stemmed directly from the Ematum debt exchange, which the agency views as “a default on government-guaranteed debt”. Moody’s noted that, although the exchange has had a positive impact on the Mozambican government’s external debt amortisation profile, the rating agency “views the default as a sign of diminished willingness on the part of the government to honour future debt obligations”.

Finally, Fitch Ratings placed Mozambique’s foreign currency sovereign credit rating of “B” on Rating Watch Negative (RWN) on March 11, directly as a result of the Ematum exchange offer. However, the rating was affirmed at “B” on March 21, and the RWN removed, after the agency concluded that the exchange did not fulfill its Distressed Debt Exchange Criteria (DDE), in sharp contrast to the conclusions made by S&P and Moody’s. Fitch explained that, “although there is potentially a material reduction in terms compared with the original contractual terms, primarily because of the maturity extension, the agency does not consider the exchange to be necessary to avoid a traditional payment default on the guaranteed [Ematum] bond.” In other words, Fitch believes the country would have the ability and “willingness”

to continue servicing the outstanding liabilities related to the Ematum bond.

## Outlook

Media reports from the Wall Street Journal in early April indicated that there is more undisclosed debt in Mozambique that carries a government guarantee. As a result, the International Monetary Fund (IMF) cancelled a visit to Mozambique in the wake of what appears to be another external debt scandal. The IMF's African department director, Antoinette Sayeh, delivered a press briefing on April 15, in which she noted that recent media reports unearthed details regarding undisclosed loans by Mozambique that exceed \$1bn, and "significantly changes [the IMF's] assessment of Mozambique's macroeconomic outlook". As a result, the mission that was scheduled for the second half of April, which intended to discuss the country's policy support arrangements, was suspended. Furthermore, Ms Sayeh stated that Mozambique's standby credit facility from the IMF had also been cancelled, "pending a full disclosure and assessment of the facts". The credit facility refers to a \$282.9m loan that was approved in December last year in order to provide support to Mozambique in order to "augment reserves and maintain macroeconomic stability", of which some \$117.9m has already been disbursed.

While the Ematum debt debacle was already considerably negative for Mozambique's image as an investment destination, and strained relationships with multilateral organisations like the IMF, the matter was relatively successfully dealt with after the voluntary exchange was completed. Not only will the additional external debt on the government's books place considerable strain on the country's debt dynamics, but the IMF's lack of support is set to have far-reaching consequences. The Fund's opinion of emerging market economies is vital to the perception of debt sustainability and investment allure, even more so in an environment of severe external stress with low commodity prices. Additional concern pertains to the possible withdrawal of other donor support, which the IMF estimates could total up to \$400m. The withdrawal of this much-needed support could present considerably negative consequences, given Mozambique's already sizeable fiscal and current account deficits, and could once again place the sovereign risk rating under renewed downward momentum.

**[References]**

- Financial Times, IMF halts Mozambique aid after finding undisclosed debts of \$1bn, 18 April, 2016
- International Monetary Fund, Transcript of Africa Department Press Briefing, 15 April 2016
- Fitch Ratings, Fitch Affirms Mozambique at 'B', 21 March 2016
- Moody's Investors Service, Moody's downgrades Mozambique issuer rating to Caa1, 15 April 2016
- NKC African Economics, Mozambique Quarterly Update, 18 February 2015
- S&P, Mozambique Foreign Currency Sovereign Ratings raised to 'B-/B' Post Debt Restructuring, 15 April 2016
- The Wall Street Journal, Tuna and Gunships: How \$850 Million in Bonds Went Bad in Mozambique, 3 April 2016

DATE: 2016. 04. 21.