

*Discussion:*

The African Debt Rush: Assessing Effects of  
Sovereign Bond Issuance in Sub-Saharan Africa

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# Summary and Evaluation I

Many sub-Saharan countries have experienced much growth and inflow of capital over the past decade and issued a substantial amount of sovereign bonds in the international capital market

Issuing bonds denominated in a foreign currency carries with it big risks, especially for economies with limited diversification and large dependence on exports of only one or two commodities to generate foreign currency reserves

The paper provides a comprehensive background and descriptive analysis for nine countries: Congo, Côte d'Ivoire, Gabon, Ghana, Namibia, Nigeria, Rwanda, Senegal, and Zambia

A new, unbalanced panel dataset is constructed for the nine countries at the monthly frequency and is used to estimate several econometric models for average yield on each country's Eurodollar bonds

# Summary and Evaluation II

Main finding: Factors **outside** the control of the bond-issuing sub-Saharan countries—U.S. T-Bill rate, commodity prices, market volatility (VIX)—all seem to affect bond yields

Overall, I find the paper interesting, especially since it addresses an understudied topic. However, the depth of the current analysis is limited. As the authors seem to suggest, it is only the beginning of what could potentially become a comprehensive study

I sympathize with the authors and share their concern about the dearth and low quality of data for sub-Saharan Africa. However, I think the authors should provide more discussion of this issue and, in particular, comment on how measurement error could affect their results

There is an apparent puzzle that merits more analysis and a careful explanation: If these sovereign bonds are so greatly oversubscribed (i.e., in high demand), how come the yields on them are so very high?

# Substantive Comments

The motivation component should be strengthened. The '\$9B in bond sales' example is not compelling without a clarification: \$9B is a tiny amount in the international capital market. Perhaps you could show that \$9B is large relative to relevant GDP size, state expenditures, etc.

The background and literature review components should include some discussion of the 1997 Asian financial crisis. Bad experience of such developing countries as Indonesia can help illustrate inherent dangers of a currency mismatch

*Note:* a currency mismatch occurs when a country's assets are denominated in its domestic currency, but its liabilities are denominated in a foreign currency

Perhaps I misunderstand something about your econometric analysis. On p. 12, you indicate that unit-root test results support the presence of unit roots in all your main variables (i.e., non-stationarity). In that case, wouldn't your analyses be subject to the usual spurious regression bias? Shouldn't you go for analyses in **first differences** instead?

# Other Comments and Suggestions I

Try to avoid grandiose or charged language. E.g., on p. 4 instead of saying “a **blessed** resource,” you may want to say “a **valuable** resource.”

Another example of “grandiose” language is on p. 7: “...such a **huge appetite** for African bonds.” Perhaps you could say “**strong demand**” instead

In Figure 2 (p. 7), clarify if you report a simple average or a weighted average (say, using countries’ GDPs as weights)

Typically, notes to figures are included immediately below figures, rather than as footnotes on a page

In Figure 3, it would be helpful if you explain the three-letter country name abbreviations or use full names instead (say, rotate them by 90°)

# Other Comments and Suggestions II

On p. 8, when referring to Figure 4 you draw attention to a jump in the yields. I see a large jump at the end of 2008, but practically no jump in June 2013 which you seem to reference in preceding text

In Figure 5, you have a total of 10 colored bars, but the figure legend lists only 8 countries. Two countries are missing

Section 4 is entitled “Data and theoretical model.” However, no *theoretical* model per se is presented. Perhaps the section title should be changed to “Data and econometric approach”

I could not figure out what is being reported in Table 3: test statistics, p-values, or something else. Also, why didn't you test *all* variables for unit root? (You applied unit-root tests to only three variables)

In Eqs. (2) and (3), shouldn't the dependent variable be un-lagged? I.e.,  $\log y_{it}$  instead of  $\log y_{it-1}$ ?

# Minor Issues I

p. 3: I don't understand the phrase "...characteristic dependence few commodities defining..." Is "on" missing here?

p. 4: macroeconmic → macroeconomic

p. 4: causing, the country's products: remove comma

p. 6: the word "data" is plural, not singular

p. 6: off **my** as much → off **by** as much

p. 6: African **sovereigns** → African **countries** OR African **governments**. When used as a noun, a "sovereign" usually means a "monarch." However, it is OK to use "sovereign" as an adjective (e.g., "sovereign bonds")

p. 7, footnote 4: in the summer 2014 → in the summer **of** 2014

p. 8: due in 2032 **due to** → due in 2032 **as a result of**

# Minor Issues II

p. 9: issuances the past decade → issuances **in** the past decade

p. 10: nations terms of trade → nations' terms of trade

p. 10: Narain *et al.* (2003) **understand** → Narain *et al.* (2003) **define**

p. 10: “can be understood as” → “are”

p. 20: revise Table 2 title (either “Summary statistics,” or “Descriptive statistics”)

p. 13: **Solving** model (1) → **Estimating** model (1)

*Note:* you are not literally *solving* any model in the paper. You are simply *estimating* econometric models