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Ivory Coast and Ecuador to return to bond markets

By Elaine Moore in London and Javier Blas in Kigali

Two frontier countries with a chequered history of debt defaults are returning to sovereign bond markets just five years after they last suspended payments to investors.

Ivory Coast, which defaulted in 2011, and Ecuador, which did the same five years ago, plan to issue new dollar-denominated bonds as early as July in a sign that more countries are moving to take advantage of strong investor demand for emerging market debt.

The period between a country defaulting on its debt and returning to the market appears to be shortening as investor demand for yield grows, said Stuart Culverhouse, chief economist at Exotix, a frontier markets specialist in London.

“Look at Greece coming out with a five year bond two years after it defaulted,” he said. “This is about what is happening in the markets as much as it is about the countries. They know they are likely to get good terms if they issue debt now.”

Ivory Coast, which defaulted during post-elections violence, aims to return to the sovereign bond market as early as July with a $500m, five-year note.

“The plan is to go to the market before the summer break,” said a person familiar with the country’s plan, who cautioned the bond could be postponed until September depending on the market conditions.

In spite of the past default on its debt payments, bankers believe the country will attract interest as it is known to investors, having issued hard currency bonds in the past.

“This is not Rwanda, which was completely unknown to investors until it tapped the Eurobond market last year,” one person familiar with the deal said.

Rwanda, which made its debut in April 2013 with a $400m 10-year bond, is one of several emerging market countries to tap markets in the last 18 months, joining Nigeria, Zambia, Tanzania and Pakistan as investors seek out yields.

However, some caution that the history of debt defaults from both Ivory Coast and Ecuador may dissuade investors.

Ivory Coast suspended payments in early 2011 on a $2.3bn bond launched in 2010, which in turn was itself issued as part of a restructuring of $2.4bn in securities issued in 1998, on which the country defaulted in 2000 after a coup a year earlier.

The 1998 bonds were in turn part of a larger debt restructuring under the Brady bonds scheme from loans accumulated in the 1970s and 1980s.

In 2008 Ecuador defaulted on two of its bonds worth $3.2bn, calling them illegitimate debt. Now it plans to return to financial markets with dollar-denominated bonds worth $700m.

Michael Ganske, head of emerging markets at Rogge Global Partners, says that investors may be wary of both.

“When a country defaults it takes some time for investors to buy back into the idea and believe that they are going to get their money back if they invest in it,” he said. “But, then again, emerging markets are a favourable asset class right now.”

Ivory Coast has selected Fitch and Moody’s for a sovereign rating, a process that will start next month and should be ready by mid-July.

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