

## Africa Risk | Africa

# Adjusting to weak global growth and higher debt cost

- **African governments will have to contend with weaker external demand and higher borrowing costs this year. Our analysis shows a broad deterioration in country risk over the past quarter, but the devil is in the detail. Some of the continent's largest economies, most notably Kenya, South Africa, and Egypt, have seen an improvement in country risk, while perennial overachievers such as Botswana and Morocco have experienced a deterioration in risk. Idiosyncratic risks remain the main drivers behind each country's overall risk scorecard, but these performances also feed into each country's preparedness to deal with global economic challenges. (This is a brand-new quarterly publication that forms part of our Africa Forecasting Service product revamp. To learn more about the changes, please click [here](#).)**
- **Peaceful elections and indications of surprisingly tight purse strings have benefited Kenya's risk profile over the past quarter. In South Africa, a more favourable external liquidity position has been partly offset by further deterioration in fiscal finance risk. Egypt is still teetering on the precipice of a balance of payments crisis, but some bold policy actions and help from friends in the Gulf have nudged the country away from the cliff's edge.**
- **Despite being one of the continent's biggest economic winners due to geopolitical developments over the past year, Algeria has been the biggest loser from a country risk perspective over the past quarter. Oil market dynamics will weaken what is a still-strong external liquidity position, while a spendthrift government is ploughing all of last year's windfall gains back into the economy. In turn, Ghana's fall from grace continues, with the consequences of a delayed and troubled debt restructuring process still permeating all aspects of the economy. Furthermore, Botswana, which currently has the most favourable overall country risk score on the continent, will have to deal with a less effective monetary policy transmission mechanism after the central bank's wait-and-see approach backfired.**

Table 1: Darker red reflects higher risk, while green is indicative of more benign risks

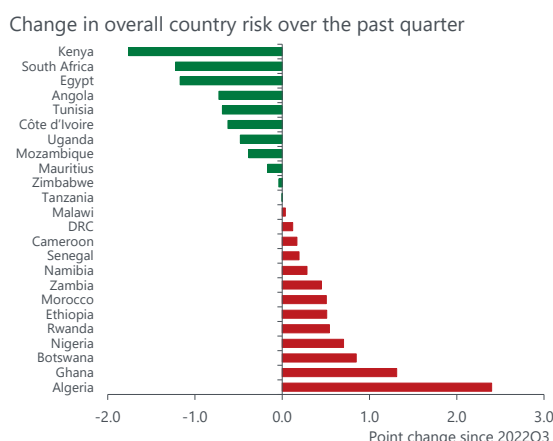
Risk scorecard: 2022Q4								
	Market Demand Risk	Market Cost Risk	Liquidity Risk	Exchange Rate Risk	Fiscal Finances	Financial Sector Soundness	Balance of Payments Risk	Political Risk
Algeria								
Angola								
Botswana								
Cameroon								
DRC								
Côte d'Ivoire								
Egypt								
Ethiopia								
Ghana								
Kenya								
Malawi								
Mauritius								
Morocco								
Mozambique								
Namibia								
Nigeria								
Rwanda								
Senegal								
South Africa								
Tanzania								
Tunisia								
Uganda								
Zambia								
Zimbabwe								

Source: Oxford Economics Africa

## Africa Overview

Three of the continent's largest economies – Kenya, South Africa, and Egypt – have seen the biggest improvements in overall country risk over the past quarter. **Kenya's** salient improvement can broadly be attributed to a drop in political risk following largely peaceful elections towards the end of last year. The country has a history of electoral violence, but a shift away from identity politics towards campaigns that are focused on economic issues dramatically reduced the impetus to instigate unrest. President William Ruto came out on top with a razor-thin victory margin against veteran opposition leader Raila Odinga. Stability has been sustained since then. However, the inability to deliver on campaign promises, while favourable for the fiscus, will not go down well with voters.

**Chart 1: A slight bias towards country risk deterioration over the past quarter**

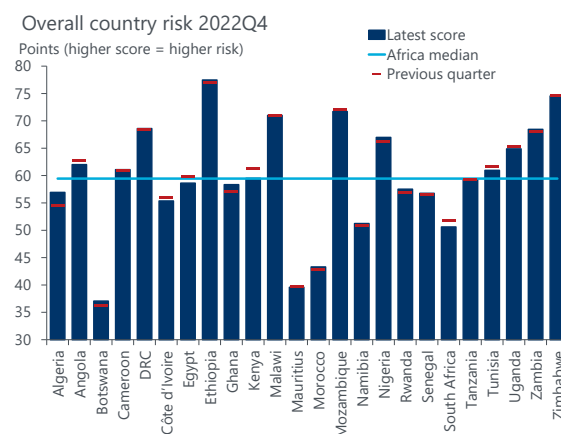


Source: Oxford Economics Africa

In **South Africa**, an improvement in liquidity risk, driven by a more favourable ratio of domestic money supply to forex holdings, was able to offset an impairment in fiscal finance risk. The latter was driven by an increase in external debt liabilities, which also had a negative impact on the country's balance of payments risk. Finally, **Egypt's** improvement in overall country risk is due to more beneficial scores on a number of risk measures, most notably balance of payments risk. We have adjusted our forecasts for Egypt to reflect a narrower current account deficit. This improvement has been supported by a narrower trade deficit (partly thanks to the implementation of import restrictions) as well as stronger performances in the services and transfers balances.

At the other end of the spectrum, we see two notable deteriorations in country risk. In **Algeria**, the adverse trend in forex reserves has resulted in heightened liquidity risk, although it should be noted that the North African nation still has one of the most favourable liquidity risk scores on the continent. **Ghana's** weaker score can be attributed to higher exchange rate, balance of payments, and fiscal finance risks. The latter two measures have been negatively affected by upward revisions to external debt liabilities, while exchange rate risk reflects recent currency volatility. While still favourable, **Botswana** has seen a weakening in overall country risk, with an improvement in the demand outlook being offset by concerns over the effectiveness of monetary policy, which has pushed financial sector soundness risk higher.

**Chart 2: Improvements in major economies**



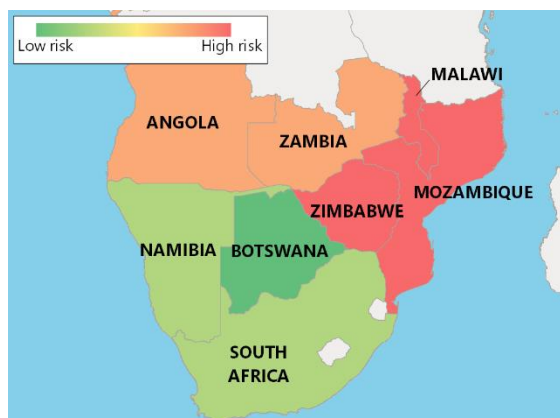
Source: Oxford Economics Africa

**Botswana, Mauritius, and Morocco** boast the most favourable overall country risk scores on the continent. Political stability and a healthy fiscus have been hallmarks of the Botswana economy for some time, while Mauritius outperforms most other economies on financial sector soundness and liquidity risk. Morocco benefits from a healthy financial sector and benign exchange rate risk, with these measures offsetting a relatively disappointing performance with regard to market demand risk. In turn, the highest overall country risk is found in **Ethiopia, Zimbabwe, and Mozambique**. Liquidity, market cost, and political risks are the main drivers behind the feeble performances of Ethiopia and Zimbabwe. Mozambique's poor performance is due to weak scores in most risk measures, with financial sector soundness and political risk the only measures in which the country does not severely underperform.

## Southern Africa

Southern Africa is host to not only some of the weakest overall country risk scores on the continent, but also some of the soundest. The most favourable score in the region is that of Botswana, which also boasts the strongest score in the broader Africa analysis. In contrast, both Zimbabwe and Mozambique are in the bottom three of worst-performing countries in Africa.

Chart 3: Overall country risk in Southern Africa



Source: Oxford Economics Africa

Angola and South Africa have seen the greatest improvements in country risk within the Southern Africa region over the past quarter. The biggest single improvement in risk in Southern Africa relates to **Angolan** fiscal finance risk: both the level of public debt as well as the affordability thereof have seen favourable adjustments over the past quarter. Elevated oil prices have strengthened the fiscal position with government oil revenues surging last year. These price developments have offset disappointing oil production figures, with external balances also gaining from higher export receipts. However, the impact of lower oil prices will outweigh higher domestic oil production going forward, leading to a decline in the value of oil exports, which will narrow the current account surplus in the medium term. This has prevented the balance of payments risk from improving further.

Table 2: Risk improvements in Southern Africa

Biggest improvements in risk		
Country	Risk measure	q/q change
Angola	Fiscal Finances	-8.0
South Africa	Liquidity Risk	-7.0
Botswana	Market Demand Risk	-6.0
Angola	Exchange Rate Risk	-3.0
Angola	Balance of Payments Risk	-2.3

Source: Oxford Economics Africa

**South Africa's** liquidity risk has eased due to a further build-up in foreign exchange holdings accompanied by a slowdown in domestic credit growth. In turn, **Botswana's** market demand risk has improved on upward revisions to the country's GDP figures, with the domestic diamond sector performing stronger than previously expected.

Table 3: Risk increases in Southern Africa

Biggest deteriorations in risk		
Country	Risk measure	q/q change
Botswana	Financial Sector Soundness	6.9
Malawi	Market Cost Risk	6.4
Malawi	Exchange Rate Risk	3.0
Mozambique	Exchange Rate Risk	3.0
Botswana	Market Cost Risk	2.9

Source: Oxford Economics Africa

Alas, the improvement in **Botswana's** market demand risk was more than offset by weak performances in financial sector soundness and market cost risk. On the former, we believe the Bank of Botswana was too complacent by delaying the start of the monetary policy tightening cycle and now has to raise interest rates to curb rampant inflation rather than managing inflation expectations. This knock to credibility will have a negative impact on the effectiveness of the country's monetary policy tools, which will inflate risks related to financial sector soundness.

**Malawi** has seen notable increases in both market cost and exchange rate risk over the past quarter. Price pressures will spill over from 2022 into 2023, with weak agricultural output, elevated fertiliser prices, domestic fuel price increases, and a weaker currency combining to keep inflation elevated. Despite uncomfortable levels of inflation, we expect the central bank to reverse direction and cut the policy rate over the next few years to help stimulate the economy. The 25% devaluation of the kwacha in May last year did little to ease the pressure on forex holdings, suggesting more currency weakness is to be expected.

On **Mozambique's** exchange rate risk, we foresee the Bank of Mozambique gradually starting to loosen its grip on the forex market through the course of 2023. This will be in an attempt to shore up forex reserves as the prices of Mozambique's key commodity exports decline. Consequently, the metical is expected to lose some ground against the US dollar in the short run as its fundamentals weaken.

# Adjusting to weak global growth and higher debt costs

**Botswana** has the most favourable country risk score on the continent. Risk is considered relatively benign on all measures under analysis. In addition to the best overall country risk score, Botswana outperforms all other African nations on measures relating to political risk, liquidity risk, exchange rate risk, and fiscal finance risk. Much of this success is attributable to the country's stable macroeconomic environment, government's ongoing commitment to fiscal discipline, the prudent management of mineral revenues, a well-capitalised banking system, and a sensible crawling peg exchange rate system. Corruption remains less pervasive than in other parts of Africa.

**Table 4: Southern Africa risk scorecard**

	Risk scorecard: 2022Q4							
	Market Demand Risk	Market Cost Risk	Liquidity Risk	Exchange Rate Risk	Fiscal Finances	Financial Sector Soundness	Balance of Payments Risk	Political Risk
Angola	87.0	84.2	57.0	58.0	71.5	78.3	46.8	54.4
Botswana	50.0	49.7	35.3	38.0	20.9	51.8	31.8	26.1
Malawi	98.0	91.6	78.0	91.0	83.3	65.6	86.9	49.9
Mozambique	82.0	76.8	85.7	82.0	79.5	62.7	70.7	51.8
Namibia	73.0	55.5	58.7	60.0	69.8	36.5	63.0	29.6
South Africa	64.0	41.7	55.0	51.3	64.0	27.1	44.1	47.6
Zambia	85.0	83.7	86.7	71.0	83.0	69.1	66.1	48.2
Zimbabwe	63.0	96.9	94.6	79.0	81.1	85.3	56.9	66.9

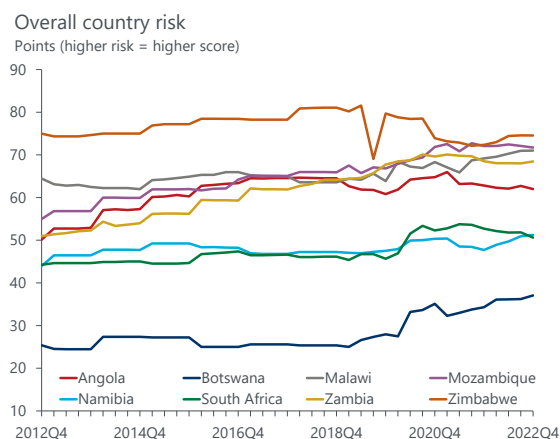
Source: Oxford Economics Africa

**South Africa** and **Namibia** have similar overall country risk scores, but the sources of risk differ. While Namibia enjoys one of the most favourable political risk scores on the continent, the same cannot be said of South Africa: short-term political risk will be driven by divisions and contestation within the ANC. Shifting political allegiances add to the instability, especially at local government level, while the rising cost of living is fuelling labour unrest and protest action. In contrast, South Africa's balance of payments risk is less concerning than that of Namibia, while market demand is also considered a bigger issue in Namibia than in South Africa –neither of these countries performs particularly well on market demand risk, but South Africa's figure is supported by a relatively strong stock of private sector savings. Furthermore, both these countries struggle with fiscal finance concerns. In Namibia, we predict some moderate fiscal slippages in the medium term given the slow economic recovery, the pressure from sharply lower customs union revenues, and the tepid pace of fiscal reforms aimed at improving revenue collection. In turn, South Africa's fiscal finance risk is kept elevated by deteriorating fiscal metrics and uncertainty regarding contingent liabilities at state-owned enterprises.

**Angola's** country risk score balances poor performances on measures of market demand, market cost and financial sector soundness risk, with strong showings in balance of payments and liquidity risk. The oil giant has one of the weakest market demand risk scores on the continent on account of its dismal and volatile economic performance, the frequent & intense loss of consumer purchasing power, and an underdeveloped domestic consumer market. Crude oil production has lagged our expectations in recent months, suggesting that the loss of production due to operational issues and oil well depletion is offsetting the impact of new oil projects coming on stream. As a result, we have lowered our oil output assumptions in the short-to medium term, which has put downward pressure on our economic growth projections.

**Zambia** underperforms on most risk measures. The most pressing concerns relate to external liquidity, fiscal finance, market demand and market cost risk. Protracted debt restructuring negotiations, which transmit to the inflation environment via the exchange rate and inflation expectations channels, are complicating matters for Zambian authorities. This is despite the seemingly ardent commitment to get the economy back onto a stable footing. The IMF will not provide support unless fiscal finances are deemed sustainable. The fiscal consolidation necessary to move towards fiscal sustainability will weigh on economic growth over the medium term. Forex holdings cannot even cover two months' worth of imports, and the country's dependence on copper exports means that the main source of forex is susceptible to fluctuations in international commodity prices.

**Chart 4: Trends in Southern Africa country risk**



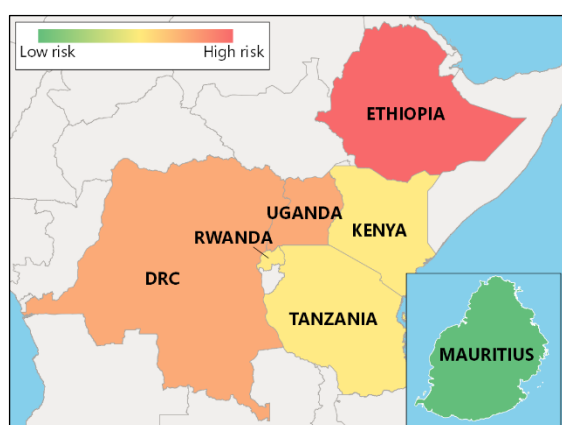
Source: Oxford Economics Africa



## East Africa

**Mauritius** has the most favourable country risk score in East Africa, while **Ethiopia** has the weakest, both by some measure. The island nation's strong performance is broad-based. The risk measure in which it compares least favourably pertains to exchange rate risk – the latter is still considered benign in a broader African context. Ethiopia's weak performance is due to elevated liquidity, market cost and political risk, while exchange rate risk and financial sector soundness are also cause for concern.

Chart 5: Overall country risk in East Africa



Source: Oxford Economics Africa

A number of East African countries have seen an improvement in exchange rate risk over the past quarter, most notably **Rwanda**. The latter's improvement stems from a more favourable ratio of short-term external liabilities to exports, as well as a reduction in the interest rate differential relative to some advanced economies. In its latest meeting in November, the Rwandan MPC hiked the policy rate by 50 bps, bringing the total 2022 increase to 200 bps. The central bank also re-instated the reserves requirement ratio to the pre-Covid level of 5%. Tighter monetary policy as well as a slight improvement in the inflation outlook also benefited the exchange rate risk scores of Kenya and the DRC.

Table 5: Risk improvements in East Africa

Biggest improvements in risk		
Country	Risk measure	q/q change
Rwanda	Exchange Rate Risk	-8.0
Kenya	Political Risk	-6.8
Uganda	Market Demand Risk	-6.0
Kenya	Exchange Rate Risk	-5.0
DRC	Exchange Rate Risk	-5.0

Source: Oxford Economics Africa

The other notable improvements in risk across East Africa over the past quarter relate to political risk in **Kenya** and demand risk in **Uganda**. As discussed above, the conclusion of peaceful elections in Kenya eased political tensions considerably. In Uganda, the latest data reflects a much more resilient economy than previously expected, and we have adjusted our GDP forecasts accordingly. This has fed into an improvement in market demand risk.

Table 6: Risk increases in East Africa

Biggest deteriorations in risk		
Country	Risk measure	q/q change
Rwanda	Market Cost Risk	4.8
Rwanda	Liquidity Risk	4.3
Ethiopia	Liquidity Risk	3.0
Rwanda	Market Demand Risk	3.0
Uganda	Fiscal Finances	3.0

Source: Oxford Economics Africa

Turning to deteriorations in East African risk, **Rwanda** stands out as the biggest loser over the past quarter. Three of the five biggest increases in risk in the region took place in Rwanda. The most prominent increase relates to market cost risk. Exchange rate risk has eased, but this is in part due to the currency weakness that we have seen in recent months – the risk of further abrupt depreciation has subsided. However, this currency weakness will translate into higher cost pressures going forward. Likewise, Rwandan forex holdings have come under increased pressure, pushing liquidity risk higher, while a less favourable price inflation outlook will weigh on market demand going forward. In **Ethiopia**, access to foreign capital markets seems to have deteriorated further over the past quarter, inflating liquidity risk and cementing the East African nation's position as having the highest liquidity risk score among countries considered in this analysis. Furthermore, **Uganda's** fiscal finance risk has increased due to an upward revision to projected debt servicing costs. Similar to the dynamic playing out in Rwanda, where some drivers behind the improvement in exchange rate risk are set to inflate market cost risk, so too are the factors supporting Ugandan market demand pushing fiscal finance risk higher. The construction of the East African Crude Oil Pipeline (EACOP) will require increased government spending, which will necessitate an uptake of more expensive debt.

# Adjusting to weak global growth and higher debt costs

Looking at the various risk measures in more detail, **Mauritius** is the stand-out performer, with the region's most favourable risk scores on a number of measures. The country's market demand risk in particular is much more favourable than those of regional peers as well as the broader African peer group. The island nation's market demand risk is contained by high GDP per capita levels, relative market maturity, as well as a tourism recovery that is finally taking shape. The region's second most favourable country risk score belongs to **Rwanda**. Despite the recent deterioration in liquidity risk, Rwanda still has one of the continent's most favourable liquidity risk scores. Forex holdings remain sufficient to cover around five months of imports. In addition, recent currency weakness could require less intervention by the central bank in foreign exchange markets, while signs of a strong recovery in tourism bode well for forex receipts. Rwanda underperforms on measures of market cost risk and fiscal finance risk. Public external debt levels are elevated, and Rwanda remains highly dependent on foreign aid – a weakness that could increasingly come to the fore if its involvement in the instability in the DRC deters Western donors from engaging.

**Table 7: East Africa risk scorecard**

Risk scorecard: 2022Q4								
	Market Demand Risk	Market Cost Risk	Liquidity Risk	Exchange Rate Risk	Fiscal Finances	Financial Sector Soundness	Balance of Payments Risk	Political Risk
DRC	66.0	78.8	71.2	72.0	44.0	80.2	41.2	70.5
Ethiopia	71.0	94.7	99.0	81.0	58.5	78.6	69.1	64.3
Kenya	65.0	68.7	58.4	58.0	71.6	49.8	58.8	50.7
Mauritius	41.0	48.9	36.6	56.0	51.0	31.9	46.9	34.2
Rwanda	65.0	70.2	49.1	61.0	69.0	49.1	64.6	54.1
Tanzania	63.0	66.2	57.7	51.0	57.0	65.6	56.1	50.3
Uganda	67.0	64.4	65.0	56.0	71.3	53.6	67.6	57.5

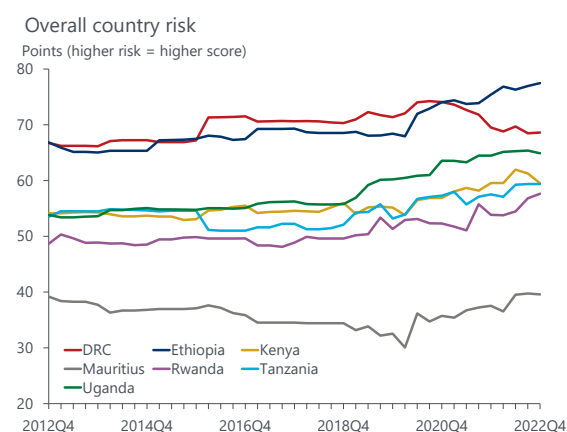
Source: Oxford Economics Africa

**Kenya** and **Tanzania** are deemed to have similar overall country risk scores, but the drivers behind those scores differ in important ways. Elevated fiscal finance risk is the main driver behind Kenya's overall country risk. Our current projections see Kenya's budget deficit narrowing from an average of just over 7% of GDP during 2021-2022 to just over 6% of GDP over the next three years. Given the outlook for debt servicing costs, this means public debt is set to increase consistently in coming years. Our estimates suggest that nearly 30% of government revenue is directed towards debt servicing, which is high even in an African context. In contrast, fiscal finance risk is considered relatively benign in Tanzania, with manageable debt levels and debt

servicing not consuming a significant proportion of the revenue take. However, Tanzania underperforms relative to its northern neighbour on measures of financial sector soundness. This is driven by a less robust commercial banking system together with a weaker monetary transmission mechanism. Tanzania's financial sector soundness risk score is weaker than that of the African median.

Turning to the weaker performances in the region, **Ethiopia's** market cost and liquidity risk scores are of the highest on the continent. Foreign reserve levels are wholly inadequate, and the inability to repatriate profits will deter foreign investment. Efforts to shield the country's forex holdings are pushing inflation higher, and a disorderly devaluation of the birr has become a real risk. Political risk is another concern, with the ramifications of the war in Tigray yet to be addressed. Another source of regional risk is the **DRC**. The security situation in the eastern DRC has deteriorated substantially this year. The resurgence of the M23 rebel group, in particular, has reignited pre-existing hostilities between the DRC and its neighbours and there is currently a major risk that the subsequent diplomatic fallout between the DRC and Rwanda may escalate into a full-blown confrontation. Elections are scheduled for later this year, but there are some concerns about whether elections will actually be held on time. The legitimacy of the polls will also be questioned, as is usually the case in the DRC. Consequently, the DRC has one of the least favourable political risk scores on the continent. This risk is only partly offset by a healthy fiscal position and favourable external balances, with both these measures being supported by commodity price developments.

**Chart 6: Trends in East Africa country risk**

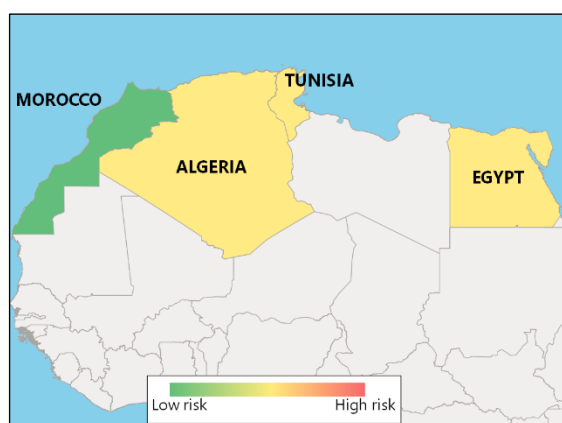


Source: Oxford Economics Africa

## North Africa

The stand-out performer in the North Africa region is **Morocco**, with an overall country risk score much lower (more favourable) than those of regional peers. While Morocco is struggling with elevated market demand risk due to economic weakness stemming from a severe drought, in addition to recent exogenous shocks, it compares favourably to North African peers in most other risk measures.

Chart 7: Overall country risk in North Africa



Source: Oxford Economics Africa

**Egypt** has been the biggest North African winner over the past quarter. Three of the five biggest quarterly improvements in risk in the region are in relation to Egyptian risk measures. The country's reduction in balance of payments risk has been the most prominent improvement in the region. The latest balance of payments data shows that the current account deficit came in considerably narrower than we had initially expected. This was supported by a narrower trade deficit (partly due to the implementation of import restrictions) as well as an improvement in the services and transfers balances. In turn, liquidity risk has eased due to surprisingly strong FDI and a narrower current account deficit which prevented forex reserves from being overstretched – equivalent to just over three months' worth of imports, forex reserves are not yet at comfortable levels.

Table 8: Risk improvements in North Africa

Biggest improvements in risk		
Country	Risk measure	q/q change
Egypt	Balance of Payments Risk	-6.7
Tunisia	Balance of Payments Risk	-6.0
Egypt	Liquidity Risk	-3.3
Egypt	Exchange Rate Risk	-2.0
Morocco	Exchange Rate Risk	-1.0

Source: Oxford Economics Africa

Egyptian exchange rate risk has benefited from a loosening of the central bank's grip on the local currency. This resulted in marked depreciation, which brought the exchange rate more in line with market fundamentals. While we think it is still too early to determine whether the currency regime is now truly flexible, the external position is incredibly fragile and susceptible to sudden external shocks. An accelerated drawdown on foreign reserves could place even more depreciatory pressure on the currency in a floating context. Furthermore, another notable improvement in North African risk relates to **Tunisian** balance of payments risk: we have revised our current account forecasts to reflect a narrower deficit, while the ratio of external debt to exports has improved over the past quarter.

Table 9: Risk increases in North Africa

Biggest deteriorations in risk		
Country	Risk measure	q/q change
Algeria	Liquidity Risk	9.0
Morocco	Liquidity Risk	3.3
Morocco	Balance of Payments Risk	2.4
Algeria	Fiscal Finances	1.0

Source: Oxford Economics Africa

Morocco and Algeria have seen the most distinct risk increases in North Africa over the past quarter. **Algerian** liquidity risk has deteriorated significantly due to oil market dynamics resulting in forex holdings trending less favourably than previously projected, while the ratio of forex holdings to domestic money supply has also deteriorated. However, with forex holdings sufficient to cover around 14 months' worth of imports, external liquidity remains at comfortable levels. In turn, fiscal finance risk has weakened after the government decided to take full advantage of the oil price windfall by doubling fiscal spending during the next fiscal year. Expenditure on social benefits will be expanded, while the military budget will increase considerably, reportedly due to unrest in Libya and "rising tensions over the disputed Sahara". In turn, **Morocco's** liquidity and fiscal finance risk have deteriorated over the past quarter due to indications of larger external imbalances. With the goods trade imbalance expected to persist, and weaker FDI inflows projected amid a global economic slowdown, foreign reserves are forecast to remain under pressure this year. Fiscal finance risk has increased following the unveiling of the latest budget, which is very expansive with a strong focus on increased social spending.

# Adjusting to weak global growth and higher debt costs

Despite the recent increase in liquidity and balance of payments risk, **Morocco** continues to compare favourably on both these measures in a North African, and broader African, context. In fact, Morocco manages to crack the top three best performances on the continent in a number of measures, namely financial sector soundness, market cost risk and exchange rate risk. The country enjoys a stable monetary environment, and while price inflation increased markedly last year, the average rate of just under 7% for 2022 remains much lower than that seen in other African countries. Similarly, while the dirham has weakened of late, this is in large part due to the currency's peg to the euro and the US dollar at a ratio of 60:40, which means that euro weakness translated into dirham weakness. However, one clear blemish on Morocco's scorecard is market demand risk, with GDP growth having dropped to an estimated 0.8% last year, and expected to come in at just 1.8% in 2023.

**Table 10: North Africa risk scorecard**

Risk scorecard: 2022Q4								
	Market Demand Risk	Market Cost Risk	Liquidity Risk	Exchange Rate Risk	Fiscal Finances	Financial Sector Soundness	Balance of Payments Risk	Political Risk
Algeria	54.0	57.4	57.8	36.0	34.6	65.9	31.6	54.1
Egypt	62.0	60.5	62.0	63.0	74.0	42.3	54.3	55.5
Morocco	69.0	38.7	37.5	38.0	53.5	31.0	40.6	41.5
Tunisia	64.0	48.9	68.3	42.3	76.0	52.7	71.2	41.3

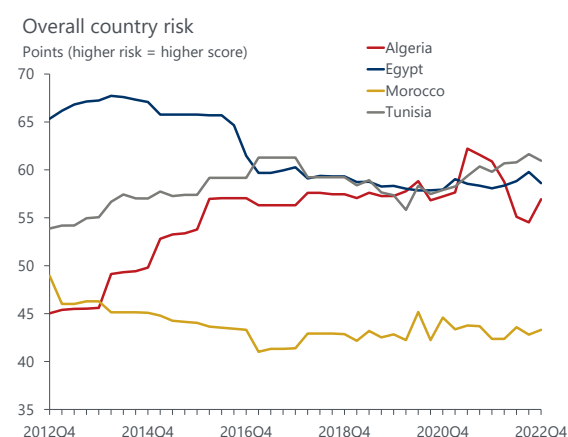
Source: Oxford Economics Africa

**Egypt** underperforms on a number of risk measures. The country's weakest scores relate to fiscal finance and political risk, both of which are elevated even in a broader African context. Not only are public debt levels concerning, but debt servicing is also consuming a significant proportion of revenue (estimated at around 50%) while wide fiscal deficits suggest there is a long way to go before authorities are able to bring the debt trajectory under control. Public debt is set to breach 100% of GDP this year, trending closer to 120% of GDP by the end of the year, while fiscal deficits are expected to remain between 6% and 7% of GDP over the medium term. On political risk, growing economic pain threatens to drive social discontent, but the military-led government has maintained a strong grip on society thus far. The outlook for the economy remains largely dependent on the government's ability to contain its current account deficit and attract FDI & portfolio inflows, thereby buoying foreign reserves. Key to this is the ambitious state privatisation strategy.

**Tunisia** has the least favourable country risk score in the North Africa region. This weak performance is primarily driven by elevated fiscal finance and balance of payments risk. The \$1.9bn Extended Fund Facility with the IMF obtained staff-level agreement in October but still needs Executive Board sign-off. Risks to Tunisia's outlook will remain skewed to the downside even under any eventual IMF agreement. The implementation of government's reform agenda – to reduce spending on public sector wages and subsidies, and to reform state-owned enterprises – is likely to be tested by political, social, and institutional obstacles. Furthermore, while political risk is not particularly elevated, this does not mean that the country boasts a favourable institutional environment. The rights environment has taken a sharp turn for the worse and President Kaïs Saïd is becoming paranoid and increasingly dismissive of basic principles of legal process. However, opposition to Mr Saïd is weak.

**Algeria** has seen a deterioration in country risk over the past quarter, but it remains one of the biggest economic winners from the past year's geopolitical developments. Liquidity and fiscal finance risk have worsened over the past quarter, but Algeria continues to compare favourably in an African context on both these measures. The country's most unfavourable comparisons involve financial sector soundness and political risk. Government involvement in the banking sector is a concern, while the monetary policy transmission mechanism remains weak. Moreover, Algerian people accept political disenfranchisement in exchange for material assurances, which keeps a lid on dissent but puts a floor under overall political risk.

**Chart 8: Trends in North African country risk**



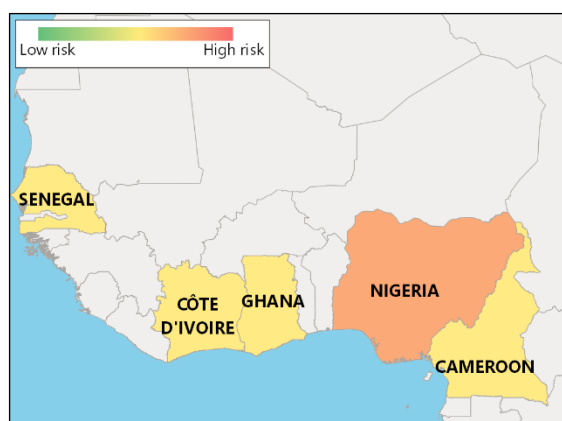
Source: Oxford Economics Africa



## West Africa

**Nigeria** has the weakest overall country risk score in West Africa, and by some measure. Its market cost, market demand and political risk all compare unfavourably in a broader African context, with a strong showing in balance of payments risk unable to counter these weak performances. The second-weakest country risk score in the region is that of Cameroon, although the latter has seen a notable improvement in country risk in recent quarters.

Chart 9: Overall country risk in West Africa



Source: Oxford Economics Africa

Côte d'Ivoire and Senegal have seen the biggest improvements in risk in West Africa over the past quarter. The improvement in **Côte d'Ivoire's** fiscal finance risk can be attributed to a more favourable repayment profile, with a drop in the proportion of revenue directed towards debt servicing. With external borrowing costs having risen sharply last year, authorities have opted to turn to domestic capital markets instead. A relatively comfortable repayment profile together with manageable debt levels have resulted in Côte d'Ivoire recording one of the more favourable fiscal finance risk scores on the continent. In turn, Ivorian market demand risk has benefited from an improvement in short-term growth prospects. Despite a global economic slowdown, Côte d'Ivoire is expected to record GDP growth north of 5% this year.

Table 11: Risk improvement in West Africa

Biggest improvements in risk		
Country	Risk measure	q/q change
Côte d'Ivoire	Fiscal Finances	-4.0
Côte d'Ivoire	Market Demand Risk	-4.0
Senegal	Fiscal Finances	-2.5
Côte d'Ivoire	Balance of Payments Risk	-2.1
Senegal	Market Demand Risk	-2.0

Source: Oxford Economics Africa

**Senegal** is another West African nation that has seen some favourable risk score developments over the past quarter, although overall country risk has weakened slightly. The outlook for overall public debt levels has improved, resulting in a reduction in fiscal finance risk, while the economy has proven to be unexpectedly resilient amid uncharacteristically high price pressures. Robust fixed investment, in large part associated with the development of the hydrocarbons sector, continues to support growth, while the worst of recent price pressures have passed.

Table 12: Risk increases in West Africa

Biggest deteriorations in risk		
Country	Risk measure	q/q change
Ghana	Balance of Payments Risk	6.6
Ghana	Exchange Rate Risk	6.0
Nigeria	Market Demand Risk	6.0
Nigeria	Exchange Rate Risk	6.0
Côte d'Ivoire	Market Cost Risk	5.8

Source: Oxford Economics Africa

The two big losers with regard to West African country risk over the past quarter are Ghana and Nigeria. **Ghana's** balance of payments risk has deteriorated due to expectations of wider current account deficits as well as an increase in external debt ratios. In addition to a higher import bill, portfolio outflows have resulted in the deficit on both the invisible accounts and the overall current account widening. In turn, Ghanaian exchange rate risk has increased sharply on concerns regarding what the public debt restructuring process will mean for private investors. Fluctuations in sentiment are driving currency volatility, with little hope of respite until we find clarity on the way forward regarding debt restructuring and the role the IMF will play in this process.

**Nigeria** has seen its overall country risk increase over the past quarter, in large part driven by higher market demand and exchange rate risk. The increase in market demand risk reflects the impact of a less favourable oil price environment amid broader economic weakness and persistent price inflation. Oil production has recovered, but this has been insufficient to prop up an economy plagued by supply chain constraints, faltering purchasing power, and ever-tightening monetary conditions. In turn, the increase in exchange rate risk is rooted in ill-conceived policies aimed at preserving an overvalued exchange rate, with pressures only exacerbated by a botched attempt to transition to a redesigned naira.

# Adjusting to weak global growth and higher debt costs

**Nigeria** has one of the highest (weakest) market cost risk scores on the continent. Risk measures on the rate of inflation are currently at maximum, while central bank independence and the effectiveness of monetary policy tools also weigh on the country's market cost score. Inflation in Nigeria increased to a fresh 17-year high of 21.8% y/y in January 2023. This jump in the headline print surprised markets somewhat, as the annual reading in December eased for the first time in 12 months. Higher price inflation, especially accelerating core inflation, suggests that the battle with price pressures is far from over. This adverse inflation outlook has fed into higher market demand risk, while the latter is also kept elevated by low GDP per capita levels and a weak economic growth outlook. Turning to political risk, insecurity is certain to persist in the short- to medium term and the violence in the southeast may intensify. Long-term risk remains high due to demographic stresses, economic volatility, lack of social cohesion, and weak governing institutions.

**Table 13: West Africa risk scorecard**

Risk scorecard: 2022Q4								
	Market Demand Risk	Market Cost Risk	Liquidity Risk	Exchange Rate Risk	Fiscal Finances	Financial Sector Soundness	Balance of Payments Risk	Political Risk
Cameroon	72.0	51.8	55.3	42.0	51.5	50.5	48.5	67.8
Côte d'Ivoire	54.0	56.3	68.5	42.0	49.5	48.2	58.7	47.1
Ghana	75.0	79.9	66.3	69.0	80.5	68.4	58.4	39.9
Nigeria	83.0	91.0	65.3	73.0	56.5	71.3	44.3	63.4
Senegal	60.0	58.7	65.7	41.0	72.0	44.6	67.6	37.0

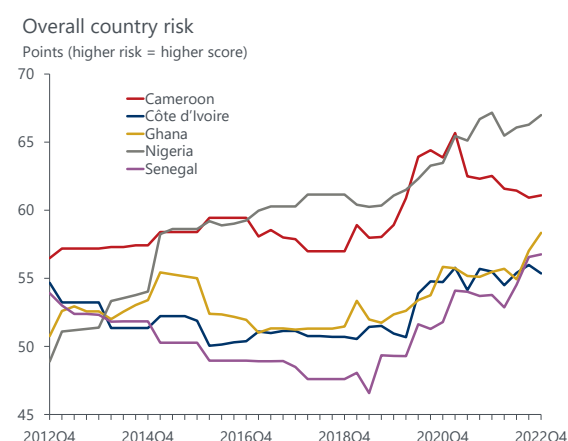
Source: Oxford Economics Africa

**Cameroon** has the second-highest country risk score in West Africa, although this measure has seen a remarkable improvement in recent quarters. The main factors keeping Cameroon's overall country risk elevated are market demand risk and political risk. The former is kept high by low GDP per capita levels, volatile economic growth, and indications of an underdeveloped domestic consumer market. In turn, the weak performance on political risk reflects a fragile political structure with stability highly dependent on the health and ability to govern of the oldest head of state in the world: President Paul Biya. Corruption is also a real hindrance to doing business, even in an African context, and the Anglophone conflict is a big deterrent to business expansion and investment. The improvement in overall country risk in recent quarters, in turn, can be attributed to a more favourable external liquidity position accompanied by more favourable external balances.

**Ghana** has seen one of the biggest deteriorations in overall country risk over the past quarter, which is a continuation of a general trend that commenced around two years ago. The most pressing Ghanaian risks at the moment relate to fiscal finances and market cost risk. Ghanaian credit is currently considered in 'restricted default' by Fitch Ratings. While reaching an agreement earlier this month, the local debt restructuring process dragged on longer than the government would have hoped for. Given that authorities will only now turn their focus to external debt restructuring, which in all likelihood will be another couple of months, it is likely that the first disbursement from the IMF will occur in H2 only. This will continue to weigh on the government's fiscal capacity, and efforts to strongarm payments from large foreign investors run the risk of damaging the country's reputation as a place in which to do business.

**Côte d'Ivoire** and **Senegal** have the two most favourable country risk scores in West Africa. Both these countries enjoy benign exchange rate risk due to their currency pegs to the euro. This also feeds into relatively good performances on market cost risk and financial sector soundness. Furthermore, both these countries have relatively strong economic growth outlooks, which contain market demand risk. One concern in Côte d'Ivoire's risk profile relates to external liquidity: the extent to which cocoa dominates Côte d'Ivoire's export profile exposes the country to potential exogenous price shocks. In turn, Senegalese fiscal finance and balance of payments risks have come to the fore in recent quarters, although the commencement of natural gas exports later this year is expected to placate both these concerns to a large degree.

**Chart 10: Trends in West African country risk**



Source: Oxford Economics Africa