STANDARD & POOR'S

Sovereign Ratings in Africa

October 2004

United Nations Development Programme

African Ratings

- Benin
- Botswana
- Burkina Faso
- Cameroon
- Egypt
- Ghana
- Madagascar
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INTRODUCTION

The second edition of Standard & Poor's publication "Sovereign Ratings in Africa" released at the occasion of the 2004 Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group includes summary analyses of all the sovereigns in Africa that have been assigned ratings by Standard & Poor's, and of the African Development Bank, the continent's flagship multilateral development finance institution. More detailed analyses are available on RatingsDirect, Standard & Poor's Web-based credit analysis system.

Included in the October edition are two new rated sovereigns: Madagascar and Mozambique, which became the 102nd and 103rd sovereign ratings, respectively, to be released by Standard & Poor's. In common with the ratings assigned to the Republics of Benin, Burkina Faso, Cameroon, Ghana, and Mali, the ratings on Madagascar and Mozambique were assigned with the support of the United Nations Development Programme (UNDP), which has been funding these rating exercises.

With these two latest additions, the African continent now has 13 rated sovereign governments, compared with only one in October 1994, when the first rating was assigned to an African sovereign government, namely the Republic of South Africa. As African countries are turning increasingly to the private sector to find the resources to achieve their poverty reduction targets, Standard & Poor's expects to assign ratings to several other sovereign governments in the region in the year ahead. Demonstrating greater public-sector financial transparency, attracting foreign direct investment, providing access for private sector borrowers to global financial markets, and developing deeper domestic capital markets will continue to be the key drivers behind these rating requests, rather than the government wish to issue cross-border debt.

African sovereigns face a particular challenge in addressing investor perceptions that these countries suffer from deeply entrenched instability. Greater economic stability and the strengthening of institutional capacity are widely seen as primary factors for attracting foreign capital. Establishing a track record of stable--or even improving--credit ratings will be an important component of improved access to foreign capital for these newly rated countries.

This edition also includes remarks on the West African Economic and Monetary Union (WAEMU) and the Central African Economic and Monetary Community (CEMAC), which have had some success in prompting economic reforms and fiscal discipline among their member states through collective surveillance. Membership in the respective monetary union supports the ratings assigned to several member countries, as both West and Central African monetary unions have secured low inflation and benefit from similar arrangements backing the currency, and similar guarantees of convertibility (although not of a particular parity) from the Treasury of the Republic of France. These attenuate some of the external risks that their members would otherwise face.

Sovereign defaults by African governments on bonds and bank loans are heading lower in line with global trends, notes David T. Beers in this edition's commentary section. Looking ahead to 2005, Standard & Poor's expects the number of African sovereign borrowers in default, and the value of defaulted debt, to fall further.

Finally, as in the first edition, the "Key Risk Indicators" tables include much of the data that Standard & Poor's considers in rating these sovereign governments. It is important to remember, however, that the appraisal of each sovereign government's creditworthiness is both quantitative and qualitative; the latter is often vital in determining ratings due to the importance of political and policy developments.

Konrad Reuss
Managing Director
Sovereign Ratings

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United Nations
Development Programme

The United Nations Development Programme (UNDP) is the UN's global development network, advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. We are on the ground in 166 countries, working with them on their own solutions to global and national development challenges. As they develop local capacity, they draw on the people of UNDP and our wide range of partners.

In September 2000, world leaders pledged to achieve the Millennium Development Goals, including the overarching goal of cutting poverty in half by 2015. The eight goals also focus on achieving universal primary education, promoting gender equality, ensuring environmental sustainability, improving the quality of people's lives, and developing partnerships to ensure that globalization becomes a more positive force for all the world's people. Each of the goals has specific targets and indicators, and all are relevant for the private sector in today's interdependent global economy.

Foreword

Zéphirin Diabré
Under-Secretary General of the United Nations, and Associate Administrator of the United Nations Development Programme

The United Nations Development Programme (UNDP) is delighted to participate with Standard & Poor's in the African Sovereign Credit Rating Initiative--a key component of a comprehensive strategy designed to assist Africa's drive toward poverty reduction; human, social, and economic development; and productive integration into the global economy.

In September 2000, more than 190 Heads of State and Governments unanimously adopted the Millennium Declaration and formulated the Millennium Development Goals (MDGs) with time-bound, quantitative targets to address human poverty across the globe by 2015. Within this remit, UNDP has been given the special mandate of monitoring progress toward these MDGs.

The last of these goals, MDG 8, specifically targets the mobilization of resources needed, a topic addressed at the International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002. At this event, the participating countries and international agencies resoundingly emphasized a number of leading actions to improve financing for development, namely to:

- Mobilize domestic financial resources for development.
- Mobilize foreign direct investment and other private flows for development.
- Work for international trade as an engine for development.
- Increase international financial and technical cooperation for development assistance.
- Achieve debt sustainability.
- Enhance coherence, governance, consistency, and stability in the international monetary, financial, and trading systems to support the development of countries.

The conference also emphasized the important roles of international institutions and international financial and trade markets in the global partnership for development.

In line with these commitments, UNDP is actively supporting private sector development with the objective of eradicating poverty and promoting sustainable growth and development in Africa. We are strongly committed to contribute to halt the marginalization of Africa in the globalization process and to promote the continent's beneficial integration within the global economy. We also continue to promote good governance in national, regional, and international institutions as a basic requirement for sustainable socioeconomic and political development, as well as the achievement of peace and security in the region.

Zéphirin Diabré

NEW APPROACHES TO MEETING AFRICA'S DEVELOPMENT CHALLENGES

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Tackling the HIV/AIDS pandemic is a key concern in meeting poverty reduction targets across Africa.

Photo : R. Chalasani/UNDP

As the 21st century moves forward, Africa remains a continent brimming with hope but confronted with daunting internal and external challenges. Following the transformation of the Organization of African Unity (OAU) into the African Union (AU) in July 2002, the entire continent, infused with a new spirit of cooperation and determination, is poised to reach a higher level of regional integration. The increased promotion of participatory governance, as well as the important steps taken toward integration into global systems of information, technology, knowledge and commerce, bode well for the acceleration of African development in the new millennium.

For decades after political independence, Africa benefited only marginally, even as international capital markets broadened and deepened their influence on emerging economies around the world. Now, under the New Partnership for Africa's Development (NEPAD), an initiative by African leaders to promote socio-economic growth and end extreme poverty, better development policy implementation at national and regional levels can lead to enhanced and strategic participation in the global economy.

Since the mid-1990s the continent has been making slow but steady progress on other fronts to improve the lives of its peoples. Eritrea reduced child mortality by more than 20%, Mali expanded access to drinkable water by 12%, Malawi registered a 30% increase in school enrolment and Senegal and Uganda enjoyed notable success in stemming the spread of HIV/AIDS.

Yet, Africa continues to face enormous obstacles. The Human Development Report 2001 shows that 26 of the 40 countries with the lowest rankings on the human poverty index are located in sub-Saharan Africa.

In 2002, armed conflict occurred in six African countries, while 15 other countries in the region were negatively affected by this strife. These conflicts have resulted in major human suffering: the displacement and deaths of people, destruction of physical and social infrastructure, and disruption of economic activities and civilian life.

The HIV/AIDS pandemic also continues to pose a serious threat to many countries in sub-Saharan Africa. Of the 42.0 million people living with HIV/AIDS worldwide in 2002, nearly 30.0 million were in Africa, of whom 58% were women. The pandemic claimed the lives of 2.4 million Africans in 2002 alone. In Zimbabwe, for instance, life expectancy has fallen by five years and in Botswana by more than 10 years. In much of Africa, the pandemic will prove to be the biggest single obstacle to reaching national poverty reduction targets and the development goals agreed at the United Nations Millennium Summit.

The challenge is immense. How do countries reduce the proportion of people living in poverty when up to one-quarter of households are being

Credit Ratings Signal Progress Toward Prudent Economic Management in Ghana

Ghana's President John Agyekum Kufuor discusses how his government is encouraging continued economic growth by making Ghana an attractive business destination, while at the same time addressing human development needs including health care and education.

On Sept. 4, 2003, Standard & Poor's initially assigned its 'B+' long-term sovereign credit ratings to the Republic of Ghana. Have you been able to assess if the rating has had an impact on Ghana's economy so far? Looking ahead, what effect do you believe it will have in the longer term?

As yet, it is too early to determine the effects of the credit rating on our national economy. I think, however, that this rating, which is based on a thorough analysis of key economic indicators, reflects the signs of a gradual recovery and that the Ghanaian economy is being managed prudently and therefore deserves the attention of global business. Furthermore, it provides a real confidence boost to individuals and companies who are already undertaking business in Ghana.

Our focus as a government has been clear since we took office: to resuscitate Ghana's economy. Five priority areas--covering vigorous infrastructure development, modernized agriculture, enhanced social services with emphasis on education and health, private sector development, and good governance--have been identified as the main vehicles to achieve this goal. The results are already beginning to show and the sovereign rating from Standard & Poor's has helped to signal this progress.

How do you balance the need for foreign investment with the need to promote Ghana's own homegrown industries?

Two factors are crucial to GDP (that is, the measure of total aggregate supply) in any economy: the inventiveness of our local captains of industry and entrepreneurs, and foreign direct investment (FDI). So our philosophy follows that what's good for our local investor is good for the foreign investors: telephones must work; "Red tape" must be reduced; State institutions must be receptive to the needs of industry; and the transport system must be efficient and reliable. Our economy will grow with a skilled, well-educated workforce.

These prerequisites are key for both local and foreign investment and that is how we balance our call for FDI against support for our local industries.

Globalization has yet to fully deliver on its potential in terms of Africa's international trade.

Photo : UNDP

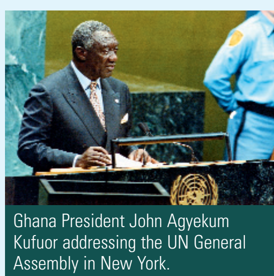
blighted by AIDS? How do countries deliver on policies aimed at equity of access to economic opportunities and social services when AIDS widens economic differentials and undermines service delivery? How do countries deliver on promises to improve the quality of life for coming generations when 40 million children will grow up orphaned by AIDS?

On the economic front, Africa continues to be adversely affected by unfavorable terms of trade, volatile commodity prices, limited access to financial resources, and a lack of internal capacity and policy frameworks conducive to competing effectively in global markets. Globalization, which is widely believed to hold out potential for new opportunities in all these areas, has in reality thrown up major obstacles to the continent's progress. More often than not, the special development situation of the region is not fully taken into account in arrangements for global governance, international trade and investment, development cooperation, and debt relief.

The relatively strong economic performances of countries such as Ghana and Uganda in the early 1990s had weakened by 2002. Moreover, the average economic growth rate of about 3% in sub-Saharan Africa hardly outstrips population growth. The reasons behind such relatively weak performance include ineffectual responses to external shocks, unfriendly business climates characterized by under-performing markets and ambiguous legal structures, and limited public sector support and incentives to the domestic private sector. In addition, the fragility of many of Africa's fledgling democracies has adversely affected both donor and investor confidence, thereby constraining further the mobilization of both internal and external savings for the investment that is critical to boosting production and growth. Until radical changes are made, the economic growth needed to reduce poverty on the continent will continue to be elusive.

Against the backdrop of such complex hindrances, Africa finds itself searching for a formula that will enable it to claim the opportunities of the 21st century. Eager to help Africa respond effectively to its development challenges, the international community gave special consideration to the continent at the Millennium Summit in 2000. The recognition of Africa's enormous development disadvantages was reflected in the adoption of the Millennium Development Goals as a framework to mobilize support and focus attention on the needs of the continent. Africa's own response is enshrined in the AU and NEPAD.

These new frameworks for action are the glimmerings of a road map for Africa's accelerated growth and development, and UNDP plays a major role in fostering this development.



Ghana President John Agyekum Kufuor addressing the UN General Assembly in New York.

Photo : UN/DPI

To what extent do trade barriers imposed by the world's richer countries affect Ghana's ability to generate jobs?
I am happy that current thinking, globally, is moving away from protectionism. Ghana is largely an agricultural country and greater access to markets for our produce has a direct bearing on job creation. Our export level could have been higher in Ghana without such barriers. These are issues that the international community must keep talking about within the framework of the World Trade Organization (WTO), and as a matter of urgency. There must be reciprocity in this matter.

How does Ghana's debt burden affect its ability to promote its economy and combat poverty?
The debt crisis of the developing world undermines our effort at progress. Over the past decade, Ghana has been using significant parts of its GDP for debt service reduction, squeezing the amount of resources available for other pressing socio-economic objectives. In 2001, we joined the Highly Indebted Poor Country Initiative (HIPC) to give some much-needed relief to run the economy. HIPC is essentially a program that allows countries to use funds that would otherwise have been used to service debts for development and poverty alleviation.

In Ghana, such funds have made a huge difference. New schools and clinics have sprung up in the countryside. We are building roads and improving social services with funding that would normally have been transferred to our more endowed creditors.

Have the competitive pressures of globalization made it more difficult for Ghana to pursue a human development agenda that fights poverty and promotes human concerns?
Globalization provides both opportunities and challenges. The current state of world trade is unfavorable toward developing economies like Ghana. We are largely producers of primary products whose prices are determined by the developed world, which also determines pricing of our major imports. So we can say that it is not fair competition.

The recently stalled WTO talks are a clear manifestation of the frustrations of the developing world. Issues such as removal of subsidies and unrestricted access to markets should be addressed so that our farmers can really compete with their counterparts in Europe, the U.S., and elsewhere.

In Ghana, we are already doing our best to diversify our economy and to add value to our primary produce. We are also using the Presidential Special Initiative (PSI) to diversify our export base. The PSI is an attempt to add value and process primary products such as cassava, cotton, oil palm, groundnut, and salt. It is our way of bringing our rural farmers into the mainstream of the economy, increasing their income generation potential, and improving their quality of life.

This extract is adapted from an interview that orginally appeared in the June 2004 issue of CHOICES, UNDP's flagship magazine.

STABILITY PREVAILS IN THE CFA FRANC ZONE

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The crisis in Côte d'Ivoire and growth that has tapered off since the 50% devaluation of the CFA franc in 1994, as well as a slowing in the momentum of integration, have brought to the fore again questions about macroeconomic developments in the CFA franc zone. This zone comprises two monetary unions in West and Central Africa--the West African Economic and Monetary Union (WAEMU) and the Central African Economic and Monetary Community (CEMAC). Although Standard & Poor's now rates five sovereign governments that are members of either WAEMU or CEMAC, it has not assigned ratings to either of the zones' central banks--the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) and the Banque des Etats de l'Afrique Centrale (BEAC), respectively. Reflecting the strength of the arrangements backing the CFA franc and the guarantees of convertibility from the Treasury of the Republic of France, potential ratings on the zones' central banks (and with that the rating ceiling for the respective zone) could well be investment grade--significantly higher than the public ratings currently assigned to individual member states, which all are in the 'B' category. That said, BEAC's and BCEAO's ratings would not be same as its guarantor, the French Treasury (AAA/Stable/A-1+) due to the limited nature of the guarantees.

Background

WAEMU and CEMAC have tied the currencies of 14 African states to the Euro since 1999 and before that to the French franc. Although informal arrangements dated back to the beginning of the Depression in the 1930s, France (AAA/Stable/A-1+) formally established the "zone franc" by decree in 1939. In 1955, France established two banks of issue for its African colonies, the Banque des Etats de l'Afrique Centrale (BEAC) and the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO). In 1962, the Union Monétaire Ouest-Africaine (West African Monetary Union; WAMU) was established and the BCEAO's statutes were adopted. In 1963, Togo joined WAMU. During the 1960s, when the African states obtained their independence, all of the states, except Madagascar and Guinea, remained in the franc zone. In 1973, Mauritania withdrew from WAMU. In 1978, the headquarters of the BCEAO were moved to Dakar from Paris. In 1984, Mali joined WAMU. In 1994, at the time of the devaluation of the Communauté Financière Africaine (CFA) franc, WAMU was converted by treaty to WAEMU, which became effective that year, and in 1997 Guinea-Bissau joined it.

The BCEAO is the bank of issue of the CFA franc in WAEMU, which comprises the Republics of Benin (B+/Stable/B), Burkina Faso (B/Stable/B), Guinea-Bissau, Côte d'Ivoire, Mali (B/Stable/B), Niger, Senegal (B+/Stable/B), and Togo. BCEAO defines and implements the monetary policy for WAEMU, is the sole issuer of notes and coins, and is the official external payment channel in the union. The CFA franc (CFA) issued by the BCEAO maintains a fixed exchange rate with the euro, with 1.0 equal to CFA655.957. The BCEAO conducts the zone's monetary policy and centralizes all of the external assets of the member states. The BEAC fulfils the same functions under the same institutional arrangements in the CEMAC, which comprises the Republic of Cameroon (B/Stable/B), the Central African Republic, Congo-Brazzaville, Gabon, Equatorial Guinea and Chad.

The CFA Franc and the French Treasury

The French Treasury guarantees the free convertibility of the CFA franc for authorized intermediaries. The guarantee of convertibility is not an exchange rate guarantee, however. The French Treasury in principle provides unlimited overdraft facilities (at the prevailing rate of interest) to the BCEAO and BEAC to reinforce confidence in the currency. In exchange, the BCEAO and BEAC have agreed to a statutory limit for the ratio of their respective gross external assets to their respective sight liabilities excluding liabilities in Special Drawing Rights (SDRs) of 20%. Moreover, BCEAO and BEAC, which hold the pooled official foreign currency reserves of their respective member states, are obliged to deposit at least 65% of their respective net external assets in a French Treasury operation account at the Banque de France (AAA/Stable/A-1+). These requirements in effect reduce the need for the overdraft facility and in turn limit the BCEAO's and BEAC's policy flexibility. The French Treasury maintains a single account for the BEAC and BCEAO, and their funds are commingled; long positions in one offset short positions in the other.

Since 1973, when the current agreement with the French Treasury took effect, the operation account has been in deficit between 1980 and 1984 and in 1988-1989, reaching a maximum amount of 0.13% of France's GDP in 1983. The overdraft facility has not been used since the 1994 devaluation. In fact, official foreign exchange reserves in WAEMU and CEMAC respectively have continued to strengthen despite the crisis in Côte d'Ivoire or the Republic of Congo, reaching $6.5 billion in early 2004 for WAEMU and $1.8 billion for CEMAC, respectively.

According to the terms of the overdraft line,

should advances not be repaid in a short period of time (a maximum of three months), the directors of the BEAC and BCEAO would take the appropriate measures--through raising domestic interest rates, reining in domestic credit, or husbanding reserves. Should the overdraft become too high, France would take the necessary measures to reduce the impact on its fiscal stance, eventually resorting to devaluation.

As the BCEAO and BEAC are obliged to keep reserves with the French Treasury, they receive compensatory payments if the value of the euro falls vis-à-vis the SDR. In 2000, for instance, the BCEAO received nearly CFA66 billion (99 million) due to the depreciation of the euro. The banks, however, do not pay the French Treasury should the euro appreciate vis-à-vis the SDR. In any year during which the euro appreciates, the gain is credited to an account, and the amounts credited are accumulated from year to year. Conversely, should the euro depreciate, then the account is debited. Only when the account is in a net debtor position does the French Treasury make compensatory payments to the banks.

As long as the agreements underlying WAEMU and CEMAC remain the same, the franc zone is unaffected by France's integration with the EU, although the European Council must be informed in the event of major changes to the WAEMU or CEMAC framework (for example, the admission of new members, a change in the nature of the agreement with the French Treasury, or an impending devaluation).

Cohesion and Integration

Mechanisms exist for member states to leave WAEMU or CEMAC. The Head of States conference would have to be notified, and the decision would come into force 180 days later, although this period can be shortened pending agreement from the different parties. If a member secedes, then not only would it be responsible for its debts to BCEAO or BEAC, but also a share of other member states' debt should they be in a debtor position. As each state is both a creditor (by dint of its holdings of CFA franc banknotes) and a debtor, any redemption of banknotes would most likely be negotiated. The departure of a major state could prompt a devaluation, but no state has left the zone since Mauritania left WAEMU in 1973. A merger of the two CFA franc zones, though possible, is unlikely in the medium term. Originally, CEMAC and WAEMU existed as separate unions for historical reasons pertaining to the organization of the French overseas territories and the different pace of liberation of the two groups from France's colonial rule. Subsequently, however, the shifting relative economic strengths of the two regions made full integration difficult. During most of the period, CEMAC maintained more external assets than WAEMU due to its oil exports. Given its deeper structural reforms, however, WAEMU has benefited more from the 1994 devaluation.

Member states in the respective zones have committed themselves to further regional integration and convergence. To that end, convergence criteria were adopted by both WAEMU and CEMAC. The four primary criteria are: (i) the ratio of the basic fiscal balance (excluding grants) to GDP must be in balance or surplus; (ii) the ratio of outstanding debt to GDP must not exceed 70%; (iii) average annual inflation should not exceed 3%; and (iv) the variation on the stock of domestic and external payment arrears must be positive (i.e. no further accumulation of budgetary arrears). Little progress has been made in recent years in either zone, however, with respect to meeting the convergence criteria. No country in either zone is expected to be in full compliance with all criteria by year-end 2004--a task that is made more challenging in WAEMU by the ongoing crisis in Côte d'Ivoire. In CEMAC, fiscal consolidation has also remained disappointing, particularly in light of the ongoing commodity price boom, which benefits the zone given its considerable oil and other natural resources.

Economic and Financial Prospects

Oil sector developments continue to influence economic performance heavily within CEMAC as oil production dominates GDP, exports and budget revenues. On the back of buoyant oil prices, progress with the construction of the Chad-Cameroon pipeline, and the fledgling resolution of the crisis in the Republic of Congo, the real growth rate of regional GDP is estimated at between 4% and 5% in 2003 and 2004, respectively. Notwithstanding the oil and other natural resource wealth, poverty remains pervasive, with GDP per capita at about $965 in 2004, and the region continues to fare poorly in respect of social development indicators. Nevertheless, thanks to participation in the monetary union, member states have continued to enjoy low inflation, which is expected to remain around an annual average of 3%. The commitment to the convergence criteria, together with central bank independence and policy limitations stemming from the exchange rate peg, has prevented the monetization of budget deficits. In 2003, the region registered an overall fiscal surplus of about 4.6% of GDP due to robust oil revenues. Medium term declining oil output, budgetary spending pressures and the lack of economic diversification pose significant risks to economic stability. CEMAC has a

long history of high current account deficits, and the deficit is estimated to have remained at about 6.0% of GDP in 2004. Nevertheless, capital inflows over recent years have supported a gradual build-up in official foreign currency reserves at BEAC to about $1.8 billion in 2004. HIPC completion (a real prospect in the near term for Chad and Cameroon) as well as debt relief for the post-conflict Republic of Congo will temper pressure on foreign currency reserves due to external debt service in the medium term.

Economic developments in the WAEMU region are far less buoyant than in CEMAC. The exchange rate boost from the 1994 devaluation is wearing off and the crisis in Côte d'Ivoire hinders growth and integration in the region. Therefore real growth rates for regional GDP are unlikely to exceed 2%-3% in 2004 and 2005. Looking further ahead, the outlook for much of the region still hinges mainly on international commodity prices as the economies of member states still need to diversify much further through advancing structural reforms, and creating an environment more conducive to foreign and domestic private sector investment. In common with its CEMAC peer, inflation has remained low in WAEMU, estimated at 2.5% in 2004. BCEAO's prudent monetary policy and the robust peg of the CFA franc will support continued low inflation in the medium term. WAEMU also has a track record of high current account deficits, which have remained at about 6% of GDP. Donor flows, concessional lending and other capital flows, however, amply financed the gap in recent years and allowed for a build-up of reserves to about $6.7 billion.

			CEMAC				
Selected Indicators	**Units**	**2004e**	**2003**	**2002**	**2001**	**2000**	**1999**
GDP per capita	US$	965.0	950.0	774.0	717.0	718.0	701.0
Real GDP	% change	4.0	4.0	3.9	5.8	3.3	(0.4)
Real GDP per capita	% change	1.5	1.5	1.4	3.1	0.5	(3.0)
General government balance/GDP	%	N.A.	4.6	1.1	2.5	3.6	(2.4)
Consumer price index (average)	% change	3.5	3.7	3.0	4.3	1.2	1.2
Current account/GDP	%	(6.1)	(8.5)	(7.1)	(0.8)	(8.5)	(11.2)
Reserves/imports	months	1.5	1.5	1.6	1.2	1.7	1.6
Total external debt/CARs	% change	167.6	200.9	220.3	204.6	204.3	250.2
Gross offical reserves	mil. $	1,850.0	1,807.0	1,593.0	1,070.0	1,246.0	590.0

CARs--Current account receipts. e--Estimate. N.A.--Not available.

			WAEMU				
Selected Indicators	**Units**	**2004e**	**2003**	**2002**	**2001**	**2000**	**1999**
GDP per capita	US$	650.0	563.0	464.0	428.0	420.0	465
Real GDP	% change	1.5	1.1	1.8	3.9	1.5	3.6
Real GDP per capita	% change	(0.9)	(1.3)	(0.7)	1.5	(2.1)	1.5
General government balance/GDP	%	N.A.	(2.7)	(2.5)	(2.1)	(2.3)	(2.7)
General government debt/GDP	%	N.A.	77.8	78.5	86.4	93.3	97.7
Consumer price index (average)	% change	2.5	1.3	2.9	4.0	1.8	(0.1)
Current account/GDP	%	(2.5)	(2.2)	(1.2)	(4.7)	(5.7)	(5.2)
Reserves/imports	months	1.1	1.4	1.4	1.6	1.3	1.5
Total external debt/CARs	% change	212.8	234.2	264.2	265.7	288.8	277.1
Gross offical reserves	mil. $	6,700.0	6,669.0	5,403.0	3,734.0	3,244.0	2,884.0

CARs--current account receipts. e--Estimate. N.A.--Not available.

CREDIT RATINGS CAN MOBILIZE PRIVATE CAPITAL FOR AFRICA

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As the 2015 target date for achieving the U.N. Millennium Development Goals (MDGs) approaches, the realization grows that they will be missed if substantive progress is not made over the coming decade. Among the development goals for which significant progress has to be made are to increase domestic savings and investment, and attract foreign direct investment (FDI). For most developing countries this requires creating efficient domestic capital markets integrating further with the global economy. These are tough enough challenges for all developing countries, but particularly so for most African countries. Africa's leaders have recognized this challenge and, through the New Partnership for Africa's Development (NEPAD), have vowed to "halt the marginalization of Africa in the globalization process and enhance its full and beneficial integration into the global economy".

The UNDP's initiative to fund Standard & Poor's sovereign credit ratings on several sub-Saharan African countries (see earlier articles) reflects a recognition of the role that sovereign credit ratings can play in enabling sub-Saharan African countries to start tackling their marginalization from global private capital flows as a means of achieving their Millennium Development Goals. The intention is not to enable governments or other resident entities in sub-Saharan Africa to issue global bonds, which is the conventional reason for sovereign ratings. Rather, Africa needs to compete with other developing countries for private equity and debt flows, both domestic and foreign. While credit ratings apply to debt rather than equities, the same conditions necessary for the development of debt capital markets also apply to equity markets. Debt and equity markets complement rather than substitute each other.

This article outlines the ways in which sovereign credit ratings, including those on Highly Indebted Poor Countries (HIPCs), can help mobilize private capital for Africa.

Sovereign Risk as a Key Ingredient in Investment and Credit Decisions

Sovereign credit risk is a key consideration in the assessment of the credit standing of banks and corporations under that jurisdiction. Sovereign risk also enters into private investment decisions. Investors need a discount rate (or rate of return on a "riskless" asset) with which to evaluate projects. A sovereign credit rating helps in this regard, especially if domestic debt markets are distorted and foreign investors seek a ranking on a global scale to enable them to compare risks across countries.

In the absence of sovereign credit ratings, foreign direct and portfolio investors, and foreign private creditors, such as banks, insurance companies, trade finance companies, assign their own sovereign credit ratings and/or use sovereign ratings by some financial magazines. These internal or nonprofessional sovereign ratings, which creditors use to determine country exposure limits, inevitably lack the global recognition that results from globally-understood rating criteria and comparisons, and do not benefit from interactive discussions with the governments concerned. As a result, they are likely to be inaccurate and not consistently comparable. Multilateral development banks and official export credit agencies also assign their own internal sovereign ratings. In such situations, public ratings from Standard & Poor's are often used as an independent check. Public ratings from Standard & Poor's also improve transparency and enhance the efficiency of decision-making by credit committees in those institutions.

The Role of Sovereign Credit Ratings in Mobilizing Private Capital for Africa

Standard & Poor's already rates several African countries (see following reports). It is important that African governments take the lead by developing their own debt markets, both primary and secondary. From the point of view of many foreign portfolio investors, a low rating is better than no rating. Some of the ways sovereign ratings can help mobilize private capital are by:

- Signaling that the country is ready to benchmark itself on a global scale and not shy away from scrutiny;
- Helping overcome indiscriminate negative perceptions about risk in Africa;
- Allowing international managed funds to invest in rated domestic government debt instruments;
- Helping the development of domestic capital markets; and
- Setting a benchmark for other potential borrowers, such as banks and corporates.

Notwithstanding the foregoing benefits of sovereign credit ratings, they are not sufficient for the development of domestic debt capital markets. The use of credit ratings needs to be broadened and deepened to include other entities.

The Role of Non-Sovereign Credit Ratings in Debt Capital Markets

An unquantified credit risk is one of the key deterrents to the functioning of debt markets, which is why credit ratings are crucial. Standard & Poor's rates a wide range of debt issuers beyond the sovereigns in both mature and emerging capital markets, and these ratings are indispensable for the functioning of these markets. Issuers include local and regional governments, universities, hospitals, housing associations, banks, insurance companies, corporations, and even specific projects. Moreover, the range of debt issues that Standard & Poor's rates goes beyond conventional bonds and notes to include bank loans, structured finance transactions--such as asset-backed securities (ABS), mortgage-backed securities (MBS), and collateralized debt obligations (CDO)--and now also Islamic certificates (sukuk).

Use of credit ratings is also increasing in large emerging markets in Latin America, Asia, Russia, and other countries of the former Soviet Union. In some of these markets, Standard & Poor's has developed national rating scales based on its international scale and criteria. This requires that enough domestic banks or corporations seek ratings, and when this happens, a virtuous circle develops and spurs the development of both debt and equity capital markets. In these countries, the widespread use of credit ratings has clearly helped the development of domestic capital markets and their integration into the global markets, thereby encouraging the mobilization of private capital, domestic and foreign. There is promising potential that the experience of many Asian, European, and Latin American emerging economies can be replicated in some African countries. In countries with sovereign ratings, the governments could encourage resident entities, especially banks and corporations, to seek ratings. A strong incentive for African banks and corporations with strong creditworthiness to be rated may come from the new rules for bank capital adequacy (Basel II), which will introduce a new capital adequacy framework using internal or external ratings-based approaches.

Stability is Key

Although credit ratings on their own cannot overcome the many obstacles to mobilizing private capital in Africa, they can play a catalytic role in the development of domestic debt (and indirectly, equity) markets. In many African countries, political and macroeconomic stability has been restored sufficiently to potentially attract international capital flows. Credit ratings may help bring this fact to the attention of markets. Apart from the assignment of a rating symbol, the ratings process entails ongoing surveillance and reporting to the market that addresses some of the informational deficiencies that characterizes most African economies. The challenge to African governments is to maintain political and macroeconomic stability and create an attractive investment climate. At the same time, the challenge to international capital markets is to take a fresh look at Africa and be creative.

SOVEREIGN DEFAULTS IN SUB-SAHARAN SET TO FALL AGAIN IN 2005

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Over the past decade, defaults by sovereign governments on bonds and bank loans in Sub-Saharan Africa have declined broadly in line with global trends. At present, Standard & Poor's Ratings Services estimates that the number of sovereigns in default on their commercial debt in the region is 11 (see Chart 1), less than one-half the total (25) in default as recently as 1992. The value of bonds and bank loans in default has also fallen substantially, to about $17 billion this year from a peak of $41 billion in 1989 (see Chart 2).

A further decline in sovereign defaults in Sub-Saharan Africa is expected in 2005 and over the next couple of years. Debt workouts such as Kenya's pending London Club deal, together with debt buybacks (at least one by Tanzania), are still in the pipeline, and their completion should outweigh any impact on the numbers resulting from any new sovereign defaults that occur. Other factors contributing to the improved credit standing of sovereigns in the region include greater political stability, official debt relief, and the embrace by a growing number of countries of fiscal discipline, structural economic reforms, and better debt management practices.

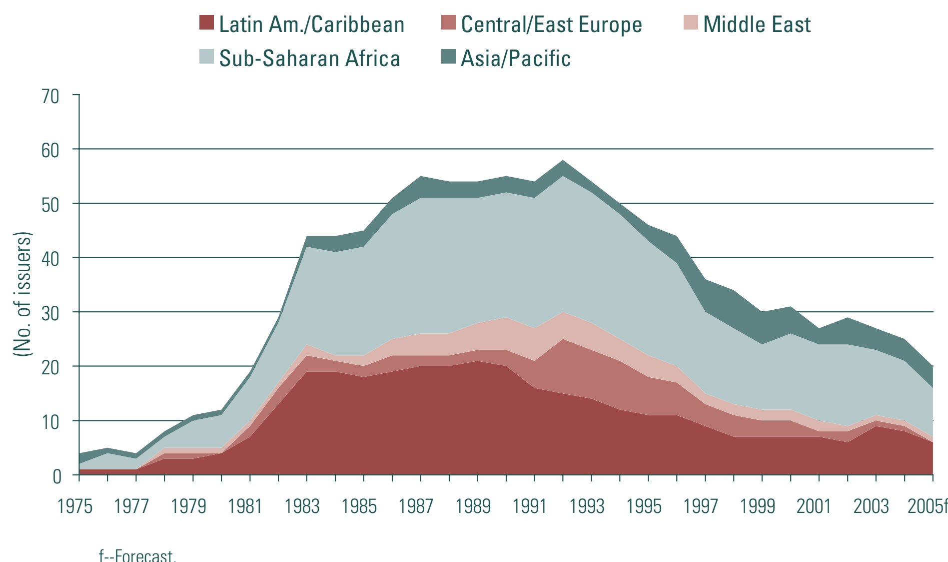
Six Default Dynamics That Set the Region Apart

Nevertheless, compared with other regions, there are differences in the dynamics of sovereign debt defaults in Sub-Saharan Africa that are likely to persist for some years to come:

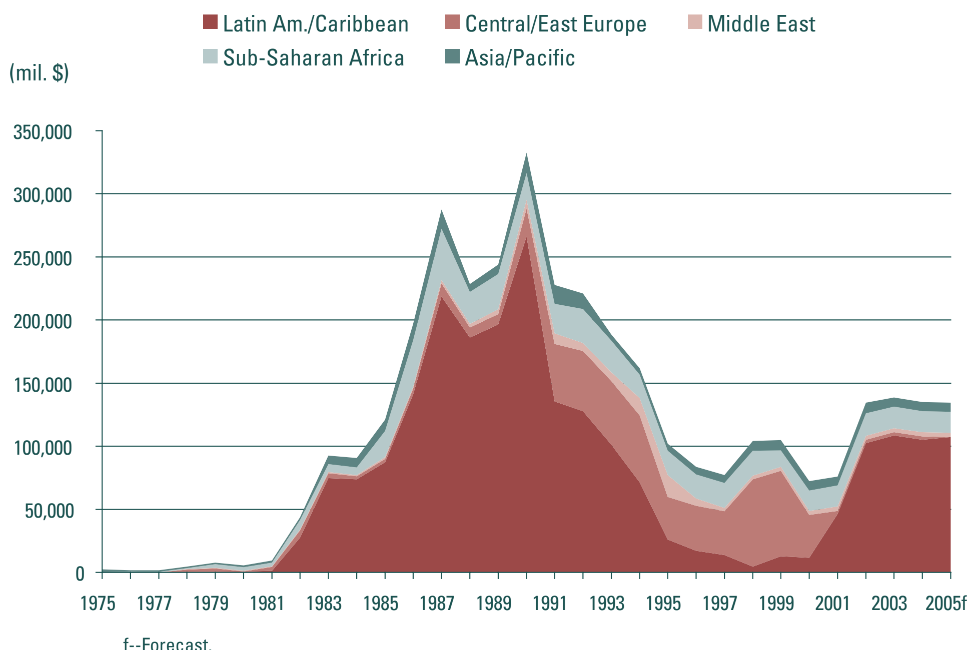
- The number of Sub-Saharan African governments in default continues to account for some 40% of the global total, and is therefore out of line with the region's relative economic standing. While average credit quality is weaker than in other regions, Standard & Poor's recent assignment of 'B' category credit ratings to seven Sub-Saharan African sovereigns, and its expectation of a further decline in the default rate, underscore that the region's credit standing is on an improving trend.
- Commercial sovereign debt workouts in Sub-Saharan Africa are driven more heavily by creditor government policies than elsewhere. With the notable exceptions of the Republics of Botswana (foreign currency A/Stable/A-1) and South Africa (foreign currency BBB/Stable/A-3), public sector external debt in the region largely consists of lending by the IMF, the multilateral development banks, and non-regional governments. Bank loans and bonds, by contrast, account for a low and declining share of the total. As a result, the resolution of commercial defaults in the region is often closely linked with workouts of the debt of official creditors. Furthermore, Paris Club "comparability of treatment" principles, which require that other creditors accept similar debt workout terms, are more strictly enforced. So long as official lenders remain the region's largest creditors, and as more governments in the region become eligible for official debt relief under the Highly Indebted Poor Country (HIPC) initiative, future commercial debt workouts will remain closely linked to workouts of official external debt.
- Historically, bank loans, not bonds, have been the predominant form of cross-border commercial lending in Sub-Saharan Africa. With few exceptions, commercial bank lending to sovereigns in the region is still on a declining trend. In at least 11 cases, defaults on bank loans have been cured through debt buybacks financed by the International Development Association (IDA) and

Chart 1

Regional Distribution of Sovereigns in Defaults, 1975 - 2004



f--Forecast.



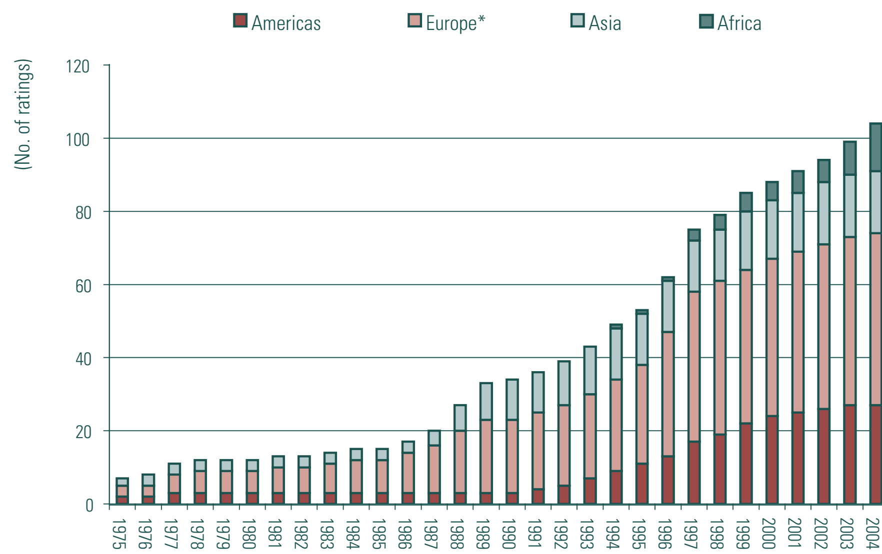
by creditor governments. The number of commercial debt restructurings has also declined in recent years, in part because such lending has been discouraged by the IMF and official creditors, and, in certain countries, because commercial banks have chosen to exit sovereign lending. IDA-financed buybacks of defaulted commercial bank debt have involved deep discounts, however, at prices ranging between eight and 14.5 cents per U.S. dollar face value of principal. Over the medium term, IMF- and HIPC-related restrictions on cross-border borrowings are likely to slow the recovery of bank lending to sovereigns in the region, and therefore contain the number of new defaults on commercial bank debt.

- The time it takes to resolve sovereign bank debt defaults in Sub-Saharan Africa is longer than the global norm, mainly because of the intractable political and security problems that some governments face. Defaults on commercial bank loans by Sudan and the Democratic Republic of the Congo, for example, date as far back as the 1970s. On average, Sub-Saharan sovereigns have been in default in 14 of the past 30 years, compared with an average of less than 10 years for sovereigns in other regions. Progress in the completion of commercial debt workouts, lower levels of new bank lending, and, most importantly, a greater willingness and ability by governments to negotiate with commercial creditors will be key to reducing the time it takes to resolve new commercial sovereign defaults in the region in the future.
- South Africa is the only sovereign in the region that has regularly accessed the cross-border bond markets in recent years. Nigeria and Côte d'Ivoire both issued Brady bonds in exchange for restructured bank loans in the 1990s, but Nigeria has avoided fresh issuance and the market has been closed to Côte d'Ivoire since it defaulted on its bonds in 2000. As with bank lending, IMF- and HIPC-related restrictions on cross-border borrowings are likely to restrict the number of new sovereign bond issuers in the region for some years yet, and, in turn, the number of new foreign currency bond defaults.
- Sovereign defaults on local currency debt in Sub-Saharan Africa have been fewer than expected, given the high default rate on foreign currency debt. This appears to be mainly due to policies that resulted in low levels of domestic financial intermediation. Now, a growing number of Sub-Saharan African sovereigns are giving renewed attention to developing their domestic debt markets as part of broader economic reform programs. Their success in meeting this objective will depend on (i) securing an extended period of macroeconomic stability, including low inflation, and (ii) implementing a variety of legal and institutional measures that help stimulate long-term savings and investment (see commentary article titled "HIPC Doesn't Preclude Domestic Capital Market Development," published on Ratings Direct, Standard & Poor's Web-based credit analysis system, on April 26, 2004). Assuming such reforms lead to higher local currency debt issuance by sovereigns in the region, local currency defaults could feature more prominently in future episodes of financial distress.

GLOBAL SOVEREIGN RATINGS DISTRIBUTION

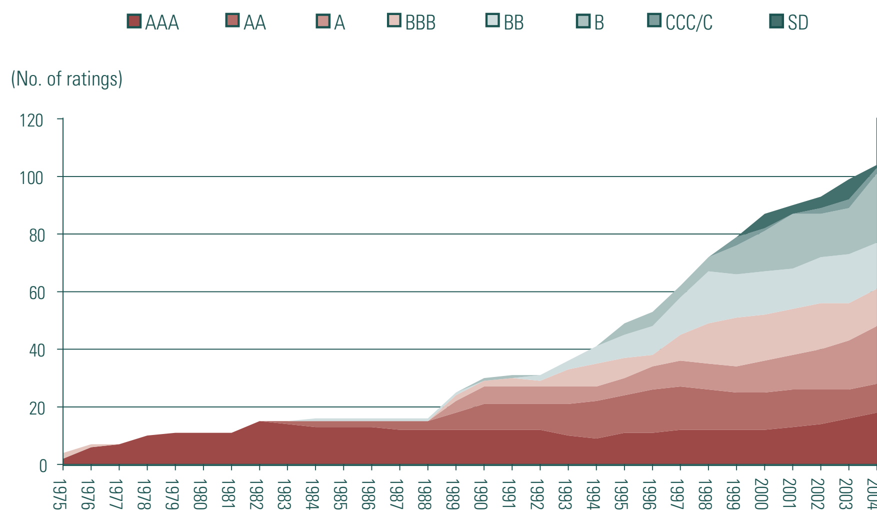
By September 2004, 104 sovereign governments worldwide had obtained a Standard & Poor's credit rating. This marks a spectacular increase from just 7 sovereign ratings worldwide in 1975. Today, 13 sovereign governments on the African continent are among those rated--a number that is expected to increase further as governments recognize the advantage of having a globally accepted benchmark of creditworthiness. In addition, as the spectrum of rated sovereigns has widened, both governments and investors have become comfortable accepting ratings across the entire rating spectrum.

Growth of Standard & Poor's Foreign Currency Sovereign Credit Ratings 1975-2004



Data as of Aug. 4, 2004. *Includes sovereigns in the Middle East and former Soviet Union.

Distribution of Foreign Currency Sovereign Credit Ratings 1975-2004



Note: Implied senior debt ratings through 1995; sovereign credit ratings thereafter. Ratings as of Aug. 4, 2004.

BENIN (REPUBLIC OF)

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Publication date:
Sept. 28, 2004 Extracted from RatingsDirect

Credit Ratings:
Foreign currency B+/Stable/B

Local currency B+/Stable/B

Ratings history:
Long and short-term foreign and local currency ratings assigned December 2003.

Default history since 1975:
Cumulative reschedulings of $647 million with the Paris Club between 1989 and 2003.

Population:
6.91 million

Per capita GDP:
$653

Head of State:
President Mathieu Kérékou

Next parliamentary elections:
March 2007

Next presidential election:
2006

Major Rating Factors

Strengths:

- Prudent fiscal stance securing strong donor support and debt relief under HIPC
- Economic stability ensured through membership in the West African Economic and Monetary Union

Weaknesses:

- Low levels of economic development and a narrow economy
- Limited fiscal flexibility

Rationale

The ratings on the Republic of Benin are constrained by its low level of economic development and a narrow economy. Per capita GDP is estimated at $653 in 2004, and Benin is highly reliant on the export of a single commodity--namely cotton--and the re-export trade with Nigeria. Beyond these sectors, economic diversification is very limited. Weak human development indicators, infrastructure deficiencies, slow reforms, and the lack of a defined industrial strategy constrain economic development prospects. Progress in structural reforms has been uneven, particularly with regard to the privatization of public utilities, the public ginning company, and the state-owned bank. Moreover, Benin's narrow economy is substantially limiting fiscal flexibility. Customs receipts accounted for 49% of domestically raised revenues in 2003. The importance of trade and the informal sector in the economy limit possibilities to widen the tax base.

The ratings on Benin are supported by a prudent fiscal stance, and a reduced external debt burden following the completion of the Heavily Indebted Poor Country (HIPC) debt relief initiative, which the country reached in April 2003. General government deficits averaged 0.5% of GDP from 1999-2003, and after HIPC debt reductions, the general government debt burden is estimated at about 38.0% of GDP in 2004. General government interest payments are also low, at an estimated 3.3% of revenues in 2004, as most external debt is owed to official creditors and on concessional terms. General government deficits are projected to remain at less than 2.0% of GDP over the medium term on the back of improved expenditure management and better tax and customs administration. Benin's creditworthiness also benefits from its membership of the West African Economic and Monetary Union (WAEMU), which has secured low inflation and exchange rate stability. The Union has an independent central bank, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), responsible for monetary policy and issuance of the Communauté Financière Africaine (CFA) franc, the WAEMU zone's local currency. The CFA franc is pegged to the euro and enjoys a guarantee of convertibility (although not of its exchange rate) from the Treasury of the Republic of France (AAA/Stable/A-1+). These institutional arrangements have had several benefits for the zone. They have encouraged fiscal discipline and produced low inflation, averaging 2.5% in 2003. They have also rendered the zone (which comprises the Republic of Benin, Burkina Faso (B/Stable/B), Guinea-Bissau, Côte d'Ivoire, the Republic of Mali (B/Stable/B), Niger, the Republic of Senegal (B+/Stable/B), and Togo) less vulnerable to external liquidity pressures.

Outlook

The stable outlook on Benin reflects Standard & Poor's expectation that the government will continue to pursue prudent fiscal policies, while also raising social expenditure and investments aimed at reducing poverty. Benin's credit standing could benefit if tax and customs administration were significantly strengthened, thereby raising revenue flexibility. The acceleration of reforms aimed at attracting investment and diversifying the economy, in particular with a view to promoting industrial and agricultural development, would also support the ratings. Conversely, the ratings could be undermined if policy responses in the event of external shocks--such as a sharp fall in cotton prices, or a deterioration of relations with Nigeria negatively affecting trade--were inappropriate and threatened economic and fiscal stability. The ratings would also come under pressure if fiscal and reform slippage were to undermine donor support.

Comparative Analysis

Economic development environment compares unfavorably with that of peers.
Like the Republics of Ghana (B+/Stable/B; all references to ratings hereafter are to foreign currency sovereign credit ratings), Senegal , Cameroon (B/Stable/B), Bolivia (B-/Stable/C), Mongolia (B/Stable/B), Burkina Faso, and the Independent State of Papua New Guinea (PNG; B/Stable/C), Benin is a low-income developing economy. Its narrow economy, particularly its reliance on cotton, however, makes it more vulnerable to external shocks than most peers.

Policy predictability compares well with peers.
Benin's stable political institutions are comparable with those of Senegal. The democratization process, which was started in 1990, has a longer

track record than in Ghana. Furthermore, Benin does not suffer the internal unrest of southern Senegal or the social polarization of Bolivia. Policies are predictable and the quality of the administration compares well with that of peers. Reforms have been slow, however, and corruption--as in Cameroon, albeit to a lesser extent--is perceived to be high.

Relative fiscal success, despite limited revenue and expenditure flexibility.
The structure of the economy, with its narrow tax base, high reliance on customs receipts, and a sizable informal sector, limits revenue flexibility. Nevertheless, despite strong expenditure pressures, Benin has been able to maintain relatively low fiscal deficits. The general government deficit (including grants), at an average of 0.5% in 1999-2003, is comparable with that of Senegal (1.0%), and lower than that of PNG (3.3%), Ghana (5.5%), Bolivia (6.3%), and Mongolia (7.2%). As in Senegal, fiscal sustainability is assisted by membership of a monetary union and foreign grants. These grants accounted for 13% of total revenues in 2003, compared with 11% in Senegal, 13% in Ghana, 31% in Burkina Faso, and 3% in Cameroon.

Sizeable debt relief follows HIPC completion.
General government debt is projected to fall to 38.0% of GDP in 2004, well below the 'B' median (74.4%), and that of Burkina Faso (49.0%), PNG (71.2%), Bolivia (81.3%), Mongolia (92.9%), and Ghana (96.7%). Furthermore, as in Senegal, Cameroon, Mongolia, and Bolivia, most debt is owed to multilateral and bilateral creditors, and there is a high level of concessionality. Consequently, general government interest payments, at an estimated 3.3% of revenues in 2003, are modest, comparable with those of Senegal (4.7%) and Mongolia (3.8%), but far lower than in Bolivia (11.4%), Ghana (26.1%)--which services costly domestic debt--and the 'B' median (19.8%).

Monetary union membership underpins macroeconomic stability.
Like Senegal, Burkina Faso, and Cameroon, Benin is a member of the franc zone. Inflation in Benin was estimated at 1.7% in 2003, which is lower than the 'B' median (7.0%), as well as the level in Mongolia (4.8%), Papua New Guinea (14.6%), and Ghana (26.9%). The potential for external liquidity stress is greatly reduced by reserve pooling within the WAEMU and France's guarantee of convertibility to the CFA franc.

Benin (Republic of)								
Selected Indicators	**Unit**	**2005f**	**2004f**	**2003**	**2002**	**2001**	**2000**	**'B' median 2004f**
GDP per capita	US$	690.0	653.0	544.0	428.0	391.0	379.0	1,116.0
Real GDP	% change	5.1	6.9	6.7	4.6	6.2	4.9	4.9
Real GDP per capita	% change	2.4	4.2	4.0	1.9	3.4	2.3	2.9
General government balance/GDP	%	(1.6)	(1.5)	(1.6)	(1.1)	(0.1)	(1.6)	(3.2)
General government debt/GDP	%	38.1	38.0	38.3	49.6	57.3	57.7	69.6
Net general government debt/GDP	%	30.1	29.3	28.9	40.1	46.5	49.2	62.2
General government interest/revenues	%	3.0	3.3	4.1	4.0	3.9	4.7	16.3
Domestic credit to private sector and NFPEs/GDP	%	12.1	12.0	11.5	11.3	10.5	11.6	28.0
CPI	% change	2.4	2.4	1.7	2.4	3.9	4.2	6.9

f--Forecast. NFPE--Nonfinancial public enterprise.

BOTSWANA (REPUBLIC OF)

Credit Analysts:
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Publication date:
Sept. 28, 2004 Extracted from RatingsDirect

Credit Ratings:
Foreign currency A/Stable/A-1

Local currency A+/Stable/A-1

Ratings history:
Long- and short-term foreign and local currency ratings assigned April 2001.

Default history since 1975:
None

Population:
1.8 million

Per capita GDP:
$4,250

Head of State:
President Festus Mogae

Next parliamentary elections:
October 2004

Next presidential elections:
The president is elected by the national assembly following the general elections.

Major Rating Factors

Strengths:

- Strong public sector balance sheet and expenditure flexibility
- A well-managed minerals economy
- A Long record of political and macroeconomic stability

Weaknesses:

- A narrow economic base
- Development needs and an HIV/AIDS pandemic that pose significant policy and financial challenges

Rationale

The ratings on the Republic of Botswana are supported by the strength of the public sector's balance sheet, and expenditure flexibility. Public sector net external assets, at about 130% of current account receipts (CARs) in 2004, are among the highest recorded by rated sovereigns, bolstering the government's capacity to absorb potential shocks. Spending pressures due to the HIV/AIDS pandemic (which could require up to 3%-4% of GDP per year in additional health and social spending), combined with stagnating mineral revenues could represent important fiscal challenges in the future. The government has built a track record of prudent fiscal policies, however, and is expected to curb spending growth in non-priority areas in the years ahead, to secure sustainable budget outcomes. Fiscal deficits since 2001/2002 have remained at 3%-4% of GDP, mainly due to cyclical factors. Nevertheless, these outturns do not reflect a change from the government's policy of sustainable budgets, and the general government is projected to return to broad budgetary balance in the current fiscal year.

Botswana's creditworthiness is underpinned by a well-managed minerals economy, coupled with a long record of political and macroeconomic stability. Botswana produces about one-third of the world's gems. High returns on investment, competitive mining laws, and political stability have attracted leading international mining companies. This has underpinned a sustained period of economic development, with real per capita GDP growth averaging more than 7% per year in the past 30 years. In the medium term, Botswana's stable and market-friendly environment, sound macroeconomic policies, and investment in education and infrastructure should help it to attract the investment needed to secure real GDP growth of 3%-4%.

The narrowness of Botswana's economy remains the key rating constraint. With the diamond sector accounting for more than one-third of GDP and 70% of exports, Botswana remains heavily dependent on the performance of the global diamond market. Moreover, diamond production, the driving force behind past growth and budget surpluses, is reaching a plateau. As a result, future income growth will largely rest on the performance of the nonmineral sector, which, however, will be particularly affected by the HIV/AIDS pandemic. Per capita GDP, at present about $4,250, is the lowest among 'A' rated sovereigns.

The HIV/AIDS pandemic poses a further challenge. About one-third of the 14-49 year-old population is estimated to be infected by HIV, and AIDS cases are therefore rising sharply. This will increasingly affect GDP growth, domestic savings, and public finances in the current decade.

Outlook

The stable outlook on Botswana balances the country's strong public sector net asset position against the challenges of its development needs and the AIDS crisis. The ratings could improve in the medium term if economic diversification progresses, and if the government is successful in controlling nonhealth spending, broadening its revenue base, and thereby keeping budgets close to balance. Conversely, the ratings would come under pressure if fiscal discipline deteriorated.

Comparative Analysis

In terms of economic structure, Botswana's closest peers are the rentier oil economies of the Gulf--the State of Kuwait (A+/Stable/A-1+; all references to ratings hereafter are to foreign currency sovereign credit ratings), the Kingdom of Bahrain (A-/Positive/A-2), and the State of Qatar (A+/Positive/A-1)--as well as the Republic of Chile (A/Stable/A-1), which also has a relatively narrow economy with a concentrated export base. Like the Gulf countries mentioned above, Botswana is still a two-sector economy, with the mineral sector as the primary generator of government revenues and the public sector as a key employer. Other sovereigns in the 'A' category (most of them are the new EU member countries) tend to enjoy significantly higher per capita incomes and more diversified economies. The ratings on these countries are mostly constrained by weaker fiscal positions and the challenges of structural change.

Strong government balance sheet anchors Botswana firmly in the 'A' category.

Botswana's rating constraints (a narrow economy, relatively low per capita incomes for the 'A' category, and long-term structural and financial challenges) are offset by the government's strong balance sheet and long record of prudent economic management. At about 15% of GDP, general government debt in Botswana is the lowest in its peer group. In addition,

as a large part of Botswana's debt is of a concessional nature, its general government interest burden, at 1% of revenues in 2004, is also low.

Botswana's public sector net external asset position is the second-highest in its peer group, at close to 130% of CARs, surpassed only by Kuwait, which posts an exceptional 420% of CARs. Moreover, Botswana's external assets are fully accounted for, verified, and liquid. By contrast, data on the sovereign assets of the Gulf states tend to be less transparent.

Vulnerability to external shocks is tempered by prudent economic management and political stability.

Botswana has recorded fiscal surpluses with few interruptions throughout the past decade. This past record, and the expectation of at least broadly balanced budgets in future, also position Botswana firmly in the 'A' category.

Similar to Chile and EU accession peers, but in contrast to the Gulf states, a stable democratic system, transparency, and macroeconomic stability are further supporting factors for the ratings on Botswana.

Poverty- and AIDS-related challenges distinguish Botswana from all other 'A' rated countries.

No other 'A' rated country faces the same challenges as Botswana in respect of poverty alleviation and the HIV/AIDS epidemic. At a five-year average of $3,400, Botswana's per capita income is the lowest in the 'A' category, compared with a $12,500-$30,000 range for its Gulf peers and $4,900 in Chile. In addition, Botswana has one of the highest HIV prevalence rates in the world (estimated at one-third of the adult population). Notwithstanding the significant long-term social, economic, and fiscal costs of the pandemic, Botswana is well placed financially to fight the AIDS crisis without undermining its sovereign creditworthiness and 'A' category status. Moreover, Botswana's comparatively low per capita income levels and high poverty rates are mitigated by the substantial progression of infrastructure provision in the past decade. Education and health care are virtually free, while the state welfare system provides an effective safety net for the poor.

Botswana (Republic of)								
Selected Indicators	**Unit**	**2005f**	**2004e**	**2003**	**2002**	**2001**	**2000**	**'A' median 2004f**
GDP per capita	US$	4,857.0	4,557.0	4,246.0	3,245.0	3,123.0	3,245.0	13,148.0
Real GDP	% change	3.7	4.0	5.0	6.7	2.2	8.5	4.5
Real GDP per capita	% change	2.6	2.3	3.8	5.5	1.1	6.6	3.7
General government balance/GDP	%	(1.2)	(0.8)	(0.6)	(4.1)	(3.2)	8.8	(1.5)
General government debt/GDP	%	10.8	11.3	12.5	6.0	9.2	8.5	31.8
Net general government debt/GDP	%	(13.8)	(14.7)	(15.9)	(39.4)	(77.9)	(75.8)	26.0
General government interest/revenues	%	2.1	2.0	1.4	0.6	0.7	0.6	4.1
Domestic credit to private sector and NFPEs/GDP	%	16.3	17.7	19.1	18.2	16.9	16.8	59.1
CPI	% change	5.5	7.0	9.2	8.0	6.6	8.5	2.3
Gross financing requirement/reserves	%	(12.1)	(12.4)	(10.9)	(1.5)	(8.0)	(6.3)	91.8
Net general government debt /CARs	%	(107.1)	(107.4)	(113.9)	(145.8)	(160.6)	(154.8)	(27.8)
Net banking sector external debt/CARs	%	(9.0)	(8.6)	(7.2)	(6.6)	(7.8)	(6.0)	4.8
Net nonbank private debt/CARs	%	(11.6)	(11.7)	(11.6)	(15.6)	(17.5)	(24.8)	7.5

f--Forecast. NFPE--Nonfinancial public enterprise. CARs--Current account receipts.

BURKINA FASO

Credit Analysts:
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Publication date:
Sept. 28, 2004 Extracted from RatingsDirect

Credit Ratings:
Foreign currency B/Stable/B

Local currency B/Stable/B

Ratings history:
Long- and short-term foreign and local currency ratings assigned March 2004.

Default history since 1975:
Foreign currency commercial bank debt, amounting to an estimated $107 million, including interest arrears, in default in 1983-1996; cured through a combination of debt buybacks and conversions.

Population:
13.4 million

Per capita GDP:
$365

Head of State:
President Blaise Compaoré.

Head of government:
Prime minister Ernest Paramanga Yonli

Next parliamentary elections:
April 2007

Next presidential election:
November 2005

Major Rating Factors

Strengths:

- Strong donor support and debt relief under HIPC.
- Economic stability ensured through membership of the West African Economic and Monetary Union.

Weaknesses:

- Low levels of economic development and vulnerability to external shocks.
- Large underlying fiscal imbalances and high government debt.

Rationale

The ratings on Burkina Faso are constrained by a low level of development and very narrow economic base. GDP per capita is low, at an estimated $365 in 2004, and social indicators are very weak. The economy is highly dependent on cotton and external aid. Furthermore, the country's landlocked position, infrastructure deficiencies, location in the drought-prone Sahel region of West Africa, and high costs for inputs such as electricity, water, and telecommunications are hindrances to diversification. Against this dire economic background, general government deficits have remained high, at an average of 4.8% of GDP in 1999-2003, and is expected to be 4.5% in 2004-2005. These deficits are higher than those of peers, and mainly financed by concessional external borrowing.

Reflecting the narrow economic base and the high share of the informal sector, domestically raised central government revenues are low, at an estimated 13.8% of GDP in 2004. The country is also highly reliant on grants: their share in total revenues, averaging 35.4% in 1999-2003, is the highest of all rated sovereigns. These fiscal weaknesses create liquidity problems for the Treasury and periodically delay the execution of committed expenditures. Consistently high deficits have resulted in a heavy debt burden, with net general government debt estimated at 41.5% of GDP in 2004. Interest payments account for a modest 4.0% of revenues, however, because debt is mostly concessional and owed to official creditors. Despite debt relief, debt indicators are likely to remain, in the medium term, above the sustainability threshold defined under the Highly Indebted Poor Countries (HIPC) initiative.

Burkina Faso's creditworthiness is underpinned by strong donor support and debt relief under HIPC. The country is expected to continue to meet donors' conditionalities and to engage in reform programs, which should secure sufficient external assistance for the coming years. In addition, monetary and exchange rate stability benefit from Burkina Faso's membership of the West African Economic and Monetary Union (WAEMU), with an independent central bank--Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)--responsible for monetary policy and issuance of the Communauté Financière Africaine (CFA) franc, the zone's local currency. The CFA franc is pegged to the euro and enjoys a guarantee of convertibility (although not of its exchange rate) from the Treasury of the Republic of France (AAA/Stable/A-1+). These institutional arrangements have had several benefits for the zone. They have produced low inflation for the zone (which comprises Burkina Faso, the Republics of Benin (B+/Stable/B; all references to ratings hereafter are to foreign currency sovereign credit ratings), Guinea-Bissau, Côte d'Ivoire, Mali (B/Stable/B), Niger, Senegal (B+/Stable/B), and Togo), estimated at about 2% in 2004, and have reduced vulnerability to external liquidity pressures

Outlook

The stable outlook reflects Standard & Poor's expectation that the government of Burkina Faso will continue both to receive substantial grants from multilateral and bilateral donors, and to avoid fiscal slippage. The outlook also reflects the expectation that political and social tensions will remain subdued. In the long term, the ratings could improve if diversification renders the economy less vulnerable, and if the government strengthens its revenue-raising capacity and reduces the budget deficit. Equally, the ratings could be undermined in the event of an external shock such as a prolonged drought or a sharp fall in cotton prices, if these setbacks were not offset by increased donor support. The ratings could also deteriorate in the event of fiscal laxity, or if political instability leads to a suspension of external assistance.

Comparative Analysis

Economic development in Burkina Faso is lower than peers.

Like the Republics of Ghana (B+/Stable/B), Senegal, Cameroon (B/Stable/B), Bolivia (B-/Stable/C), Suriname (B-/Stable/--), Benin, the Independent State of Papua New Guinea (PNG; B+/Stable/C), and Mongolia, Burkina Faso is a low-income developing economy. GDP per capita, estimated at $365 in 2004, is lower than that of all rated sovereigns. It is about one-half the per capita income in Senegal ($752) and less than one-third of the 'B' median ($1,064).

Furthermore, with a low life expectancy and a very low adult literacy rate (24.8% in 2001), Burkina Faso's human development index is the lowest of all rated sovereigns, ranking 173 out of 175 countries.

Burkina Faso engaged in a democratization process in 1991. Nevertheless, unlike in Ghana and Benin, but similarly to Cameroon, this has not led to fundamental democratic changes in government. The many democratic institutions that were put in place have not yet been tested and seem less effective than those in Senegal, Ghana, and Benin.

Fiscal imbalances are larger than those of peers.
Due to the structure of the economy, with large informal and agricultural sectors, the tax revenues-to-GDP ratio is lower than for all peers. Burkina Faso is also more dependent on external grants than peers: in 2003, grants constituted 30.7% of total revenues in Burkina Faso, compared with 3.0% in Cameroon, 11.0% in Senegal, and 13.0% in Ghana and Benin. These substantial grants are a source of vulnerability, as they are susceptible to delays in disbursements and could be affected by political instability.

The central government deficit (including grants), at an average of 4.8% in 1999-2003, compares unfavorably with an average surplus of 1.1% in Cameroon over the same period, and with small deficits averaging 1.0% in Senegal, 0.9% in Benin, and 3.6% in Papua New Guinea. The Burkinabe deficit is, however, lower than the average deficit in Ghana (6.4%), Suriname (6.6%), and Mongolia (6.9%).

Owing to generous debt treatment and the high concessionality of external borrowing terms, net general government debt, at 41.5% of GDP in 2004, is lower than the 'B' median (62.2%), and Ghana's 81.6%, Bolivia's 78.2%, and Mongolia's 83.4%, although higher than Benin's 29.4%. Similarly, the general government interest payments-to-revenues ratio, at 4.0% in 2004, is comparable with that of Mongolia, Senegal, and Benin, which are also indebted mostly on concessional terms. The ratio is lower than the 'B' median (17.7%), and the 16.0% of Ghana (which services costly domestic debt).

Monetary union underpins macroeconomic stability.
Like Senegal, Benin, and Cameroon, Burkina Faso is a member of the franc zone. These countries have forfeited the financial flexibility that an independent monetary policy could bring. Nevertheless, WAEMU membership has helped to achieve relative exchange rate stability, low inflation rates, and a reduction in external liquidity stress.

				Burkina Faso				
Selected Indicators	**Unit**	**2005f**	**2004f**	**2003**	**2002**	**2001**	**2000**	**'B' median 2004f**
GDP per capita	US$	381.0	365.0	307.0	243.0	219.0	207.0	1,116.0
Real GDP	% change	5.5	5.5	6.4	4.5	5.9	2.6	4.9
Real GDP per capita	% change	2.5	2.4	3.3	1.5	2.9	(0.5)	2.9
General government balance/GDP	%	(3.8)	(5.1)	(3.6)	(5.1)	(5.0)	(3.9)	(3.2)
General government debt/GDP	%	45.7	47.7	49.0	56.3	61.9	71.0	69.6
Net general government debt/GDP	%	40.0	41.5	42.3	49.1	56.9	66.2	62.2
General government interest/revenues	%	3.1	4.0	3.9	4.4	4.7	4.7	16.3
Domestic credit to private sector and NFPEs/GDP	%	13.3	13.6	14.0	13.8	12.6	12.4	28.0
CPI	% change	2.0	2.0	2.0	2.2	5.0	(0.3)	6.9

f--Forecast. NFPE--Nonfinancial public enterprise.

CAMEROON (REPUBLIC OF)

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Publication date:
Sept. 28, 2004 Extracted from RatingsDirect

Credit Ratings:
Foreign currency B/Stable/B

Local currency: B/Stable/B

Ratings history:
Long- and short-term foreign and local ratings assigned November 2003.

Default history since 1975:
1985-2003: London Club buyback of $341 million in principal on commercial debt (banks and suppliers) in August 2003.

1989-2001: Cumulative rescheduling of $5,771 million with the Paris Club.

Population:
16.3 million

Per capita GDP:
$934

Head of State:
President Paul Biya

Head of government:
Prime Minister Peter Mafany Musonge

Next parliamentary elections:
June 2007

Next presedential election:
October 2004

Major Rating Factors

Strengths:

- Strong donor support and debt relief under HIPC.
- Economic stability ensured through membership of the West African Economic and Monetary Union.

Weaknesses:

- Low levels of economic development
- Large underlying fiscal imbalances and high government debt

Rationale

The ratings on the Republic of Cameroon are constrained by a low level of economic development, with GDP per capita standing at $934 in 2004. Institutional weaknesses, low investment, and infrastructure bottlenecks--notably in the electricity sector--constrain growth and diversification.

Moreover, public finances remain very vulnerable. One-quarter of government revenues derive from oil, and these revenues are sensitive to oil price swings and, more importantly, to projected declines in production levels in Cameroon's offshore oil fields. Even after substantial debt relief from commercial creditors and--after reaching the Heavily Indebted Poor Countries (HIPC) initiative completion point--official creditors, Cameroon will still have a high general government debt burden, projected at 59% of GDP in 2005. Interest on this debt, coupled with wages, transfers, and subsidies, will consume about 60% of government revenues in 2005. This reduces flexibility to undertake much-needed capital expenditures and increase social spending to address pressing needs in health care and education. In addition governance issues, notably poor transparency, plague the public sector and affects business practices in the private sector. This is also reflected in the incompleteness of information on the state-owned oil company, Société Nationale des Hydrocarbures (SNH). Cameroon's efforts to computerize its general ledger, with technical support from official creditors, should help with the monitoring and control of public finances. Senior government officials are also pressing lower echelons of government to reform.

Cameroon's ratings are underpinned by the country's membership of the Central African Economic and Monetary Union (CEMAC), with an independent central bank--Banque des Etats de l'Afrique Centrale--responsible for monetary policy and issuance of the Coopération Financière en Afrique Centrale (CFA) franc, the zone's local currency. The CFA franc is pegged to the euro and enjoys a guarantee of convertibility (although not of its exchange rate) from the Treasury of the Republic of France (AAA/Stable/A-1+). These institutional arrangements have had several benefits for the zone. They have encouraged fiscal discipline and produced low inflation, estimated at 2.3% in 2003 in Cameroon. They have also rendered the zone (which comprises Cameroon, the Central African Republic, the Republic of Congo, the Gabonese Republic, the Republic of Equatorial Guinea, and the Republic of Chad) less vulnerable to external liquidity pressures.

Cameroon's fiscal position will benefit from substantial debt relief expected under the HIPC initiative. After Cameroon reaches the HIPC completion point, the net present value of its external debt should be reduced by 27%. Total external debt is expected to fall to less than 60% of GDP in 2005.

Outlook

The stable outlook reflects the expectation that the government of Cameroon will continue to strengthen non-oil revenues in order to compensate for the expected fall in oil receipts. Furthermore, the government is expected to increase the efficiency of public expenditure by raising social and capital spending (in conformity with HIPC requirements and poverty-reduction objectives), while reining in other expenditures. Structural reforms (including the restructuring or privatization of some public enterprises), and improvements to governance and the institutional environment, could allow higher growth and economic development and strengthen Cameroon's credit standing. Conversely, fiscal laxity or a weakening commitment to reform could undermine the ratings.

Comparative Analysis

Economic development is comparable with that of peers.

Within the 'B' rating category, Cameroon is comparable with the Republics of Senegal and Ghana (both rated foreign currency B+/Stable/B; all references to ratings hereafter are to foreign currency ratings), the Republic of Bolivia (B-/Stable/C), The Republic of Suriname (B-/Stable/--), and the Independent State of Papua New Guinea (PNG; B/Stable/C). Per capita GDP in Cameroon, at $934 in 2004, is above the levels in Ghana ($402), PNG ($748), and Senegal ($752), and comparable with that in Bolivia ($889), although less than in Suriname ($2,712) and the 'B' median ($1,031). Cameroon, like Suriname, has been

unable to benefit fully from its vast agricultural and mineral wealth. Like its peers, the country features a commodity-based economy, but within this category, its production is more diversified. As measured by United Nations Development Programme (UNDP) indicators, Cameroon's adult literacy rate, at 72%, exceeds the level in PNG and Senegal.

Policy-making environment is weak.
Among its peers, Cameroon, along with Senegal, has experienced the least civil strife. In contrast to its peers, however, Cameroon has not experienced a democratic handover of power between political parties. Furthermore, problems with the judiciary and police constrain growth and investment. In Transparency International's 2003 Corruption Perceptions Index, Cameroon ranked 124 out of 133 countries, behind PNG (118), Bolivia (106), Senegal (76), and Ghana (70).

Fiscal performance compares favorably with peers.
Cameroon's fiscal accounts have been in surplus on average in the past five years, and deficits have been smaller than those of the other five governments. The government relies less on donor aid than peers, with aid transfers accounting for 3% of revenues, compared with 11% in Senegal and 13% in Ghana. Cameroon also has a broader revenue mix, comprising direct and indirect taxes, plus royalties and dividends from the state-owned oil company SNH. Nevertheless, its fiscal balance is vulnerable, owing to a projected decline in oil receipts.

Cameroon's public sector debt, at 66.3% of GDP in 2004, is lower than that in Ghana (111.4%), Bolivia (84.9%), and the 'B' median (75.6%), although higher than in PNG (60.4%) and Senegal (53.0%). The general government interest burden, at 12.4% of general government revenues in 2003, is less than in Ghana (16.0%), which has high levels of expensive domestic debt, but more than in Senegal (5.3%), where a higher portion of debt is concessional.

Membership of a monetary union keeps inflation low and reduces liquidity risks.
Like Senegal, Cameroon operates in a monetary zone. As in Bolivia and Senegal, inflation in Cameroon is expected to remain at less than 3.0%, compared with Suriname's 20.0% in 2004, and PNG's 11.3%. Both West and Central African CFA franc zones benefit from similar arrangements backing the currency, and similar guarantees of convertibility (although not of a particular parity) from the Treasury of the Republic of France (AAA/Stable/A-1+). These attenuate some of the external risks that their members would otherwise face.

				Cameroon (Republic of)				
Selected Indicators	**Unit**	**2005f**	**2004f**	**2003**	**2002**	**2001**	**2000**	**'B' median 2004f**
GDP per capita	US$	961.0	934.0	793 .0	634.0	580.0	573.0	1,116.0
Real GDP	% change	4.0	4.0	4.0	4.2	4.8	4.7	4.9
Real GDP per capita	% change	1.6	1.7	1.7	1.9	2.6	2.4	2.9
General government balance/GDP	%	(1.6)	(1.1)	(0.3)	2.4	1.1	3.1	(3.2)
General government debt/GDP	%	59.2	66.3	74.3	87.8	92.9	96.3	69.6
Net general government debt/GDP	%	55.3	62.1	70.0	82.5	87.8	91.6	62.2
General government interest/revenues	%	10.3	12.4	13.9	14.4	17.5	16.7	16.3
Domestic credit to private sector and NFPEs/GDP	%	11.3	11.3	11.4	11.1	10.6	10.4	27.9
CPI	% change	2.2	2.2	2.3	2.9	4.4	1.2	6.9

f--Forecast. NFPE--Nonfinancial public enterprise.

EGYPT (ARAB REPUBLIC OF)

Credit Analysts:
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Publication date:
Sept. 28, 2004 Extracted from RatingsDirect

Credit Ratings:
Foreign currency BB+/Negative/B

Local currency BBB-/Negative/A-3

Ratings history:
Long- and short-term foreign and local currency ratings assigned January 1997.

Default history since 1975:
Foreign bank debt in default in 1984. Cured in 1984, with creditors recovering 100% of debt face value.

Official bilateral (Paris Club) debt in default from 1987-1991. Rescheduled in 1987 and 1991, with a 50% reduction in the net present value of original principal and interest payment schedule.

Other official bilateral debt in default from 1987-1996.

Population:
67.3 million

Per capita GDP:
$990

Major Rating Factors

Strengths:

- Strong external liquidity, underpinned by current account surpluses and healthy reserves.
- Moderate net public external debt and debt service payments.

Weaknesses:

- Slow pace of structural reforms which constrains private sector activity, and economic growth.
- Large and sustained fiscal deficits.
- A growing general government debt burden.

Rationale

The new cabinet appointed in July 2004 could reinvigorate Egypt's stalled reform agenda. The slow pace of reform to tackle a bloated public sector and unfavorable environment for private sector investment has long been a key constraint of the credit ratings on Egypt. Not since 1999 has real growth in GDP exceeded 6%, the level required to begin to address the country's social problems. Growth in per capita incomes has persistently lagged the 'BB' median. A favorable external environment, a weak pound, and tax cuts are forecast to lift economic growth to 4.5% in fiscal year 2004/2005 (ending June 30, 2005).

Tax cuts are expected to exacerbate the general government deficit further still, however. Estimates suggest that proposed tax reforms could lower revenues by as much as 1.5 percentage points of GDP, widening the central government deficit to as much as 7.5% of GDP. Taking into account the quasi-fiscal operations of the National Investment Bank and the surpluses of the social insurance funds, the consolidated general government deficit is expected to widen to 3.1% of GDP in 2004/2005.

Although privatization receipts could moderate the increase in the debt burden, a widening deficit and off-budget outlays are forecast lift the general government debt-to-GDP ratio to a forecast 120% in 2004/2005, and gross central government debt to 130% of GDP. The government is expected to announce details of the privatization program before the end of 2004. Financial sector reforms, implemented in 2003, are likely to have improved the salability of the remaining state-owned banks.

External indicators remain sound. A current account surplus equivalent to 3.0% of GDP is forecast in 2004/2005, compared with an estimated 4.1% of GDP in 2003/2004. This narrowing of the surplus is expected to raise the gross external financing requirement to close to 30% of official reserves. At the same time, net external public sector debt remains moderate, declining to an estimated 52% of current account receipts (CARs). External debt service including short-term debt is similarly modest, at 25% of CARs. Both the financial and nonfinancial private sectors are expected to remain in a net external asset position.

Outlook

Notwithstanding the new cabinet's efforts, the persistent failure of successive administrations to implement a far-reaching agenda of structural reform underpins the negative outlook on the ratings on Egypt. Implemented in isolation of reform, the planned tax cuts would further weaken fiscal sustainability and provide only short-term respite from a fresh decline in Egyptian living standards. A timely resumption of structural reform is therefore essential to ease the downward pressure on Egypt's credit standing. The announcement of the new government's privatization program, and signs of its imminent implementation, will be important markers of policymakers' intent. The trend in public finances will also be significant. Increases in expenditure beyond those budgeted for 2004/2005, or an increase in off-budget spending, could compromise fiscal sustainability, and would quickly result in a downgrade.

Comparative Analysis

Slow pace of reform constrains growth.
At an estimated $990 in 2003/2004, Egypt's per capita income is about one-half the 'BB' median. The longstanding decline in living standards relative to Egypt's peers is expected to be arrested in the near term, with economic growth forecast to average 4% annually until 2005/2006, in line with similarly rated sovereigns.

The slow pace of market-oriented reforms (despite progress in the financial sector) is one of the key factors constraining both economic growth and the ratings on Egypt. As in the Republics of Costa Rica (foreign currency BB/Negative/B; all references to ratings hereafter are to foreign currency sovereign credit ratings) and India (BB/Positive/B), the pace of structural reforms to promote private sector activity remains slow, reflecting concerns about their impact on unemployment and political stability. In this respect, Egypt compares adversely with the Hashemite Kingdom of Jordan (BB/Stable/B) and the Kingdom of Morocco (BB/Positive/B).

Head of State:
President Hosni Mubarak

Head of government:
Prime Minister Ahmed Nazif heads a majority National Democratic Party government.

Next parliamentary elections:
by November 2005

Next presidential election:
by November 2005

Debt reduction will be a lengthy process.
Limited fiscal flexibility and a high debt burden also constrain the ratings on Egypt. At an estimated 94%, Egypt has one of the highest of net general government debt-to-GDP ratios within the 'BB' category. Like Jordan, however, Egypt's heavy debt burden is mitigated by the favorable structure of most of its foreign debt, which is Paris Club debt. Consequently, general government interest payments by Egypt consumed an estimated 22% of revenues in fiscal year 2003/2004, which, although twice the 'BB' median, compares favorably with India, Costa Rica, and the Republic of Colombia (BB/Stable/B).

Like many of its peers, Egypt's physical and human capital investment requirements will continue to place pressure on fiscal policy and the general government budget, hindering fiscal consolidation efforts. At the general government level, which includes the operations of the National Investment Bank (NIB) and the social insurance funds, Egypt's budget deficit is expected to remain close to the 'BB' median of 3.4% of GDP. At the central government level, however, the budget deficit is likely to remain in excess of 6.5% of GDP for the foreseeable future, stalling debt reduction in the absence of privatization or divestment operations.

External indicators compare favorably with peers.
Egypt's current account surplus, equivalent to a forecast 3.1% of GDP in 2004/2005, compares favorably to the 'BB' median--which is a deficit equivalent to 1.5% of GDP. Egypt's official foreign exchange reserves currently stand at more than $13 billion, providing between seven and eight months of current account payments in 2004/2005. This reserve coverage is twice the 'BB' median, but less than that in India and Morocco. In theory, this coverage should provide a comfortable cushion against temporary political or economic shocks. In practice, however, the central bank has so far been reluctant to sell foreign exchange to meet all the demand of the market, while also preventing the exchange rate from floating.

				Egypt (Arab Republic of)				
Selected Indicators	**Unit**	**2005f**	**2004f**	**2003**	**2002**	**2001**	**2000**	**'BB' median 2004f**
GDP per capita	US$	1,049.0	990.0	1,219.0	1,275.0	1,368.0	1,507.0	1,985.0
Real GDP	% change	4.5	3.7	3.3	3.0	3.3	5.1	4.3
Real GDP per capita	% change	2.4	1.6	1.2	0.9	1.2	2.9	2.5
General government balance/GDP	%	(3.1)	(2.5)	(2.4)	(2.5)	(2.2)	(1.2)	(3.5)
General government debt/GDP	%	120.2	116.7	110.9	100.3	89.8	81.2	57.0
Net general government debt/GDP	%	99.7	94.0	89.4	78.6	72.8	65.7	44.9
General government interest/revenues	%	22.6	21.5	20.8	19.6	18.6	16.7	13.9
Domestic credit to private sector and NFPEs/GDP	%	70.2	80.0	74.3	74.4	74.2	71.2	38.2
CPI	% change	5.4	5.5	4.3	2.5	2.4	2.8	5.2
Gross financing requirement/reserves	%	28.0	24.6	32.4	42.3	40.1	44.5	83.1
Net general government debt/CARs	%	51.6	61.9	64.4	69.4	57.6	54.3	24.4
Net banking sector external debt/CARs	%	(11.2)	(11.1)	(9.7)	(8.8)	(6.6)	(12.6)	2.1
Net nonbank private debt/CARs	%	(38.6)	(40.6)	(42.6)	(41.3)	(39.4)	(29.6)	2.5

f--Forecast. NFPE--Nonfinancial public enterprise. CARs--Current account receipts.

GHANA (REPUBLIC OF)

Credit Analysts:
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Publication date:
Sept. 28, 2004
Extracted from RatingsDirect

Credit Ratings:
Foreign currency
B+/Stable/B

Local currency
B+/Stable/B

Ratings history:
Long- and short-term foreign and local currency ratings assigned August 2003.

Default history since 1975:
1979 and 1982: Bank of Ghana (BoG) demonetized some bank notes and exchanged others at less than equivalent face value.

1987: $42 million of BoG short-term debt was rescheduled into long-term debt.

1996-2002: Cumulative rescheduling of $337 million with the Paris Club.

Population:
20.8 million

Per capita GDP:
$402

Head of State:
John Agyekum Kufuor

Next parliamentary elections:
December 2004

Next presidential election:
December 2004

Major Rating Factors

Strengths:
- Strong external liquidity, underpinned by current account surpluses and healthy reserves.
- Moderate net public external debt and debt service payments.

Weaknesses:
- Weak fiscal flexibility and expenditure management
- High general government debt.
- A low level of economic development.

Rationale

The ratings on the Republic of Ghana balance weak general government finances and a low level of economic development, with strong external liquidity and moderate net public external debt and debt service payments.

Although fiscal discipline and expenditure management have improved, fiscal flexibility remains weak. The general government deficit is forecast to narrow to 1.8% of GDP in 2004, from an average 5.5% of GDP per year between 1999 and 2003. Nevertheless, progress in restructuring the public sector remains slow. In particular, political pressures temper progress with the privatization of major enterprises. Strong donor support underpins policymakers' focus on fiscal restraint and the restructuring of state-owned enterprises, however.

In 2004, Ghana's general government debt-to-GDP ratio is forecast to fall to 87% from 104% a year earlier, following debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. Debt relief lowered gross external debt by 56%, but the domestic debt burden remains significant. Domestic debt is mostly short term, and carries high rates of interest. In aggregate, interest payments amount to 16% of general government revenues in 2004.

Declining current account deficits have improved external liquidity, and a current account deficit equivalent to 0.3% of GDP is forecast in 2004. Ghana's gross external financing requirement should fall to about 45% of reserves in 2004, from close to 282% in 2000. Although foreign exchange earnings are vulnerable to commodity prices, debt relief will continue to bolster reserves in the medium term. At the same time, net public external debt remains close to 130% of current account receipts (CARs). External debt service, including short-term debt, is modest at 18% of CARs.

Outlook

A continuation of fiscal restraint and monetary stabilization underpin the stable outlook. The credit ratings on Ghana could strengthen if the restructuring and privatization of public enterprises is vigorously pursued, thereby improving the country's growth prospects. Conversely, a slackening of fiscal discipline or delays in the implementation of structural reforms would place the ratings under downward pressure.

Comparative Analysis

A low income, but medium human development country.

At $402 in 2004, Ghana's GDP per capita is less than the average for sub-Saharan Africa, and among the lowest of all rated sovereigns. By contrast, its human development index is higher than many of its peers, including the Independent State of Papua New Guinea (PNG; foreign currency B/Stable/C; all references to ratings hereafter are to foreign currency sovereign credit ratings), the Islamic Republic of Pakistan (B/Positive/B), and the Republic of Senegal (B+/Stable/B), reflecting the country's efforts with health care and education. Real growth in per capita incomes, at a forecast 2.5% between 2004-2008, is higher and subject to less fluctuation than Ghana's peers.

The debt burden is high, but declining.

Due to sustained central government budget deficits coupled with substantial losses at state-owned enterprises, the public sector debt-to-GDP ratio peaked at 203% in 2000. After HIPC completion, public sector debt remains high at a forecast 113% of GDP in 2004. This compares unfavorably with the 'B' median (76%), Mongolia (105%; B/Stable/B), and Belize (93%; B-/Negative/C). Similar to Mongolia, the Republic of Bolivia (B-/Negative/C), and Senegal, most of Ghana's external debt is owed to official creditors, on concessional terms. Ghana differs from its peers, however, in that it has built up expensive domestic debt. Consequently, general government interest payments, at an estimated 16.0% of revenues in 2004, are much higher than in Senegal (5.3%), Mongolia (3.6%), and Bolivia (10.0%) but lower than similarly indebted Belize (19.0%).

Monetary and fiscal performance converges to the 'B' median.

Reliance on foreign grants, considerable quasi-fiscal activities, and weak expenditure management mean that Ghana's fiscal and monetary perform-

ance compares unfavorably with its peers. The general government deficit has averaged 5.5% in the past five years, higher than in Senegal (1.0%) and the 'B' median (4.1%), but lower than in Mongolia (7.2%) or Belize (7.4%). As a result of fiscal weakness and external vulnerabilities, Ghana has experienced large currency depreciations and high levels of inflation (26% in 2003). Under the government's current fiscal and monetary stabilization program, the general government deficit is forecast to converge to the 'B' median in the medium term. Similarly, inflation is expected to decline to 10% in 2004.

External liquidity compares favorably with peers. Underpinned by high gold prices and debt relief, Ghana's external liquidity has improved significantly. At 45% of usable reserves, its gross external financing requirement is markedly lower than the 'B' median (101%), and compares favorably with Bolivia (117%) and the West African Economic and Monetary Union (438%). Nevertheless, Ghana remains vulnerable to external shocks, particularly from fluctuations in commodity prices, which could undermine external liquidity.

Ghana enjoys relative political and social stability. Like Senegal, Ghana has experienced a democratic handover of power between political parties, although democratic institutions in Ghana have a shorter track record than in Senegal, and are less entrenched than in Jamaica (B/Negative/B) or Belize. Transparency International's Corruption Perceptions Index, which attempts to measure the quality of governance, places Ghana 70 out of 133 countries, close to Senegal (76), but markedly ahead of Bolivia (106).

		Ghana (Republic of)						
Selected Indicators	**Unit**	**2005f**	**2004f**	**2003**	**2002**	**2001**	**2000**	**'B' median 2004f**
GDP per capita	US$	424.0	402.0	371.0	311.0	274.0	263.0	1,116.0
Real GDP	% change	5.0	5.5	5.2	4.6	4.2	3.7	4.9
Real GDP per capita	% change	2.5	2.5	2.3	2.1	1.8	1.3	2.9
General government balance/GDP	%	(0.9)	(1.8)	(2.5)	(4.0)	(6.4)	(7.0)	(3.2)
General government debt/GDP	%	79.0	88.7	104.2	125.1	130.9	167.9	69.6
Net general government debt/GDP	%	72.2	81.6	93.0	63.7	125.8	85.1	62.2
General government interest/revenues	%	11.5	16.0	23.3	26.6	28.7	34.2	16.3
Domestic credit to private sector and NFPEs/GDP	%	18.8	19.0	15.6	14.6	16.6	18.6	27.9
CPI	% change	6.0	10.0	26.4	14.8	32.9	25.2	6.9
Gross financing requirement/reserves	%	47.3	44.6	76.8	222.0	375.5	282.8	117.3
Net general government debt /CARs	%	105.7	116.3	109.8	153.2	159.6	175.0	67.3
Net banking sector external debt/CARs	%	(2.8)	(3.0)	(3.4)	(4.0)	(3.8)	(1.7)	(5.6)
Net nonbank private debt/CARs	%	4.5	4.8	6.3	14.0	9.0	12.6	5.1

f--Forecast. NFPE--Nonfinancial public enterprise. CARs--Current account receipts. N.A.--Not available.

MADAGASCAR (REPUBLIC OF)

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Publication date:
Sept. 28, 2004
Extracted from
RatingsDirect

Credit Ratings:
Local currency
B/Stable/B

Foreign currency
B/Stable/B

Ratings history:
Long- and short-term foreign and local currency ratings assigned May 2004.

Default history since 1975:
Foreign currency commercial bank debt, amounting to an estimated $138 million, in default during 1987-2002; cured through a combination of debt exchanges and payments.

Population:
17.4 million

Per capita GDP:
$271

Head of State:
President Marc Ravalomanana

Next parliamentary elections:
2007

Next presidential election:
2006

Major Rating Factors

Strengths:

- A carefully planned and ambitious program of reform.
- Strong donor support.
- A relatively well-diversified economy compared with similarly rated sovereigns.

Weaknesses:

- A low level of economic development, with real GDP per capita of US$ 314 in 2003.
- Untested social and political stability following the 2002 political crisis.
- Limited fiscal flexibility and dependence on grants.

Rationale

The ratings on the Republic of Madagascar are supported by the government's commitment to economic reforms as outlined in the 2003 Poverty Reduction Strategy Paper (PRSP). The reform program aims to achieve sustained growth of about 6.0% in real terms in the coming years, while keeping budget deficits at about 2.8% (including substantial donor support). Most of the small number of remaining parastatals will be privatized or placed under private management in 2004. Tariff and tax structures have been simplified, which should support the government's efforts to broaden the tax base and to raise the fiscal revenues-to-GDP ratio. Government investment spending is targeted to increase to more than 8.2% of GDP in 2004 and beyond (from 5.8% in 2003). With a focus on infrastructure, health care, and education, this should help to sustain high rates of economic growth in the coming years.

Continued strong support from the international donor community should be reinforced when Madagascar reaches the completion point of the Heavily Indebted Poor Countries (HIPC) debt relief initiative in 2004.

Madagascar's economy is relatively well diversified, with agricultural, tourism, mining, and textiles being the main areas of activity. A low level of economic development, however, kept GDP per capita at about $314 in 2003.

Although social, economic, and political fundamentals are on a steady path to recovery following the 2002 political crisis, uncertainties remain regarding the government's ability to deliver on its policy promises at a time when it still needs to strengthen governance and institutions. Already, the ambitious reform program is behind schedule on key aspects.

The ratings on Madagascar are also constrained by very limited fiscal flexibility. Deficits remain high (at 3.9% of GDP in 2003) even after the inclusion of substantial grant elements. The government's revenue-raising flexibility is limited by inefficient tax administration and widespread corruption in customs. It was further curtailed by a temporary detaxation law, passed in August 2003, that exempted a range of products from import taxes and tariffs for two years. A high interest burden (14% of revenues in 2004) compared with its HIPC peers, also limits fiscal flexibility.

Outlook

The stable outlook reflects the expectation that the government will adhere to its fiscal and reform targets and will receive HIPC debt relief in the near term. Continued recovery from the 2001 political crisis should underpin solid economic growth in 2004. Nevertheless, an acceleration of reforms beyond what is likely at the moment is key to improved creditworthiness. A strengthening of institutions and governance, and consolidation of political stability--to reduce further the risk of a repetition of the 2001 political crisis--would also be supportive.
Conversely, the rating could come under downward pressure if fiscal imbalances are allowed to escalate or if structural reforms slip, as both events would erode donor support and jeopardize long-term debt sustainability and economic stability.

Comparative Analysis

Immature democracy sustains high political risk. Madagascar's disputed 2001 presidential elections and the ensuing political crisis emphasize the immaturity of the country's democratic institutions. Unlike the Republic of Cameroon (foreign currency rating B/Stable/B; all ratings hereafter refer to foreign currency ratings) and Burkina Faso (B/Stable/B), which have not experienced a handover of political power between parties, there have been democratic changes in Madagascar's government. That said, the political transition in Madagascar has not been as peaceful as the transitions experienced in other relatively nascent democracies, such as the Republics of Benin, Senegal, and Ghana (all rated B+/Stable/B).

Notwithstanding efforts to improve administration and governance, the country's institutional capacity to implement reforms remains hindered by poor infrastructure and significant levels of corruption. This is echoed by Transparency International's 2003 Corruption Perceptions Index, which placed Madagascar 88 out of 133 countries. Although better than Cameroon (124) and the Republic of Bolivia (106), this ranking is worse than that of Senegal (76) and Ghana (70).

A low level of economic and social development. Madagascar is a low-income country with per capita GDP barely a third of the 'B' median level of

$963. Only two rated sovereigns have lower levels, these being Burkina Faso ($307) and the Republic of Mozambique ($228; B/Positive/B). Ongoing depreciation of the Malagasy franc has reduced 2004 forecasts to $271.

Madagascar's medium-term real rates of per capita GDP growth are projected at 3.0%, which is marginally higher than the 'B' median of 2.4%. With its diversified economy, Madagascar should enjoy relatively stable growth. This contrasts with the potentially volatile performance that might be expected from those peer economies that rely on one or two commodities, such as Benin, Burkina Faso, Ghana, and The Republic of Suriname (B-/Stable/--).

Fiscal inflexibility caused primarily by low revenues.

In common with its peers, fiscal flexibility is very limited in Madagascar, and fiscal sustainability is heavily dependent on grants. Despite the inflow of grants, Madagascar's general government deficit (including grants) averaged 3.86% per year in 1999-2002, significantly higher than that of Benin (0.23%), Senegal (0.9%), and Cameroon, which ran an average surplus of 1.45%. Madagascar compares more favorably with the 'B' median deficit of 4.13%, Burkina Faso (5.1%), and Ghana (6.2%).

Madagascar had a high general government debt burden of 98.1% of GDP in 2003. This exceeds the 'B' median (78.3%), as well as the levels of all peers except Ghana. The high debt level partly reflects the fact that Madagascar is somewhat behind several of its peers in the HIPC process. Benin, Bolivia, Burkina Faso, and Senegal have already reached HIPC completion and achieved irrevocable debt relief.

Madagascar's interest payments-to-revenues ratio is estimated at 13.8% in 2004. Although this is less than the 'B' median of 16.3%, it is well above that of most other HIPC countries such as Benin (3.3%), Burkina Faso (3.9%), and Senegal (5.3%). This reflects Madagascar's increased use of domestic debt. In this respect, Madagascar is similar to Ghana, which has an interest payments ratio of 16.0%.

Monetary and external stability compare unfavorably.

Madagascar lacks the relative exchange rate stability, low inflation rates, and reduced external liquidity risk that monetary union has provided to Burkina Faso, Senegal, Benin, and Cameroon, among others. Madagascar's gross external financing requirement, estimated at 101% of reserves in 2004, is higher than the 'B' median level of 86.3%. The reserves-to-imports ratio is expected to remain at 2.65 months in 2004 (down from about 4.30 months in 2002), although this remains at a comparable level to the 'B' median and peers.

		Madagascar (Republic of)						
Selected Indicators	**Unit**	**2006f**	**2005f**	**2004f**	**2003**	**2002**	**2001**	**'B' median 2004f**
GDP per capita	US$	316.0	293.0	271.0	314.0	270.0	276.0	1,066.0
Real GDP	% change	6.0	6.0	5.3	9.7	(12.7)	6.0	4.4
Real GDP per capita	% change	2.9	3.1	3.0	6.6	(15.1)	3.0	2.4
General government balance/GDP	%	(3.0)	(3.1)	(2.8)	(3.9)	(5.5)	(4.3)	(3.5)
General government debt/GDP	%	93.2	103.3	113.3	98.1	107.5	94.9	72.4
Net general government debt/GDP	%	88.7	99.5	109.8	94.9	104.4	90.8	62.2
General government interest expenditures/revenues	%	9.8	11.1	13.8	16.3	21.6	14.1	16.3
Consumer price index (average)	% change	5.0	5.0	10.8	0.4	16.5	6.9	4.2
Domestic credit to private sector and NFPEs/GDP	%	10.0	9.5	9.4	8.6	9.5	9.3	27.9
Gross external financing requirement/reserves	%	66.7	78.5	101.6	95.8	N.A.	N.A.	86.3
Net general government external debt/CARs	%	184.3	214.9	253.7	313.6	467.8	236.8	79.1
Financial sector net external debt/CARs	%	4.0	3.9	3.9	3.1	3.2	2.6	(3.9)
Nonfinancial private sector net external debt/CARs	%	0.0	0.0	0.0	0.0	0.0	0.0	11.0

NFPE--nonfinancial public enterprise. CARs--current account receipts. f--Forecast. N.A.--Not available.

MALI (REPUBLIC OF)

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Publication date:
Sept. 28, 2004
Extracted from RatingsDirect

Credit Ratings:
Local currency B/Stable/B

Foreign currency B/Stable/B

Ratings history:
Long- and short -term local and foreign currency ratings assigned May 2004.

Default history since 1975:
Cumulative rescheduling of $294 million with the Paris Club (1988-2003).

Population:
13.4 million

Per capita GDP:
$348

Head of State:
President Amadou Tomani Touré

Head of government:
Usmane Issufi Maiga, appointed by the president, has been head of government since April 30, 2004.

Next parliamentary elections:
July 2007

Next presidential election:
April 2007

Major Rating Factors

Strengths:

- Strong donor support.
- The country's membership of the West African Economic and Monetary Union (WAEMU).

Weaknesses:

- Poor economic structure.
- Weak public finances.
- Ineffective public governance.

Rationale

In 2003, Mali ranked 172 out of 175 countries according to the United Nations Development Programme's human development indicators, in particular due to its low per capita GDP ($348 in 2004), high levels of illiteracy (65%) and infant mortality (113.4 per 100,000 births), and scarce access to sanitation (44% of the population within five kilometers of facilities). Moreover, banking intermediation is low, the private sector is underdeveloped, and exports rely heavily on gold, cotton, and livestock.

Grants, at 4.4% of GDP in 2003, represent 21.0% of total government revenues. Including grants, Mali's fiscal deficits are projected to run to 4.0%-4.5% of GDP for the foreseeable future. Even with these deficits being financed by concessional funding, Mali's net general government debt should continue to remain high, at an estimated 58.7% of GDP in 2004.

Mali's political landscape is fractured, being divided among more than 80 parties. In 2003, the government was obliged to yield to union pressure and raise public sector wages, which have grown twofold since 1996, well above the rate of inflation.

Mali reached the completion point under the Highly Indebted Poor Country (HIPC) initiative in March 2003 and is expected to continue to meet the conditions set by donors and to pursue economic reform in order to continue to obtain official direct assistance.

WAEMU has an autonomous central bank, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), which is responsible for monetary policy and issuance of the Communauté Financière Africaine (CFA) franc, the zone's local currency. The CFA franc is pegged to the euro and enjoys a guarantee of convertibility (although not of the exchange rate) from the Republic of France (foreign currency AAA/Stable/A-1+; all references to ratings hereafter are to foreign currency sovereign credit ratings). These institutional arrangements have had several benefits for the zone--which besides Mali comprises Benin (B+/Stable/B), Burkina Faso (B/Stable/B), Côte d'Ivoire (not rated), Niger (not rated), Senegal (B+/Stable/B), Guinea-Bissau (not rated), and Togo (not rated)--including low inflation, estimated at 2.5% in 2003. These institutions have also rendered the zone less vulnerable to capital account pressures.

Outlook

The stable outlook assumes that Mali will continue to receive donor support and will implement economic and fiscal reforms within the framework of the policies and targets of the HIPC initiative.

The ratings could come under pressure, however, should Mali's medium-term growth prospects falter. Mali's economy remains vulnerable to prolonged external shocks linked to cotton or gold demand and prices. Wavering donor support or fiscal slippage from current projections--particularly due to expenditures that do not directly alleviate poverty--could also put downward pressure on the ratings. Conversely, should Mali's economic indicators come more quickly into line with those of its more prosperous neighbors, the ratings could be raised.

Comparative Analysis

Mali's peer group comprises the other rated sovereigns that are participating in the HIPC initiative, as well as Mongolia (B/Stable/B), the Independent State of Papua New Guinea (B/Stable/C), and The Republic of Suriname (B-/Stable/--). Although it became a democracy in 1992, Mali's institutions remain weak and untested. Similar challenges face a number of its peer countries in the 'B' rating category. In 1992, former interim president Amadou Touré stood for election and won. Although the first round of voting went less smoothly than in some West African states (27% of votes cast were invalidated), Mali can point to a successful transition of power between political parties, similar to that observed in Benin in 1991, Senegal in 2001, and the Republic of Ghana (B+/Stable/B) in 2000. Governance is relatively poor, but improving--Mali ranks 78 out of 133 on Transparency International's 2003 list of perceived corruption, trailing Ghana (70) and Senegal (76), but ahead of The Russian Federation (86; BB+/Stable/B), the Republic of Kazakhstan (100; BBB-/Stable/A-3), and Ukraine (106; B+/Stable/B).

Mali's level of development and its economic structure compare unfavorably with peers, and alongside Burkina Faso, it is the poorest country rated by Standard & Poor's. Mali's per capita GDP, estimated at $348 for 2004, similar to that

of Burkina Faso, is well below the 'B' median of $1,116. Mali (along with Burkina Faso) also has by far one of the highest levels of illiteracy among rated sovereigns, at 65% of the adult population.

Mali trails most of its peers in terms of delivery of government services, such school enrollment rates, access to sanitation, and infant mortality. Like Burkina Faso, the economy depends on few primary sectors (cotton, livestock, and in Mali's case, gold) and remittances, all of which are vulnerable to shocks.

As in most HIPC countries, grants and debt relief finance large fiscal imbalances. Mali is fiscally weaker than many peers and is struggling to fight poverty. Grants, at 4.4% of GDP in 2003, represent 21.0% of total government revenues, which is comparable with Papua New Guinea (20.0%), but less than in Burkina Faso (30.7%), and more than for other peers. Mali also benefits from concessional lending, which permits it to run fiscal deficits of 4.5% of GDP, which is higher than most of its peers. Like rated sovereigns the Republic of Bolivia (B-/Stable/C), Burkina Faso, and more recently Senegal, Mali has achieved the completion point in the HIPC initiative. Like other HIPC countries, Mali's debt had become unsustainable and a portion of the government's debt had to be forgiven. Given the concessional nature of most of its debt, the Malian government's interest-to-revenues ratio is a modest 3.3%, which is better than the 'B' median of 17.7% and comparable with its rated HIPC peers.

As for other WAEMU members, the monetary zone has permitted a stable macroeconomic environment in Mali with a relatively stable exchange rate and low inflation. It also partly balances external vulnerability.

				Mali (Republic of)				
Selected Indicators	**Unit**	**2005f**	**2004f**	**2003**	**2002**	**2001**	**2000**	**'B' median 2004f**
GDP per capita	US$	367.7	347.6	336.7	264.9	246.0	224.2	1,116.0
Real GDP	% change	6.7	4.7	6.0	4.3	12.1	(3.2)	4.9
Real GDP per capita	% change	3.7	1.8	3.0	1.3	8.8	(5.9)	2.9
General government balance/GDP	%	(4.5)	(4.3)	(0.3)	(3.7)	(3.2)	(2.8)	(3.2)
General government debt/GDP	%	61.7	65.9	69.3	78.2	85.4	94.1	69.6
Net general government debt/GDP	%	55.1	58.7	61.7	70.6	77.4	85.4	62.2
General government interest/revenues	%	3.4	3.3	3.5	4.0	3.7	4.5	15.3
Domestic credit to private sector and NFPEs/GDP	%	19.4	19.3	18.8	17.7	15.5	15.1	27.9
CPI	% change	2.5	2.5	2.5	(1.3)	5.0	5.2	6.9

f--Forecast. NFPE--Nonfinancial public enterprise.

MOROCCO (KINGDOM OF)

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Publication date:
Sept. 28, 2004
Extracted from RatingsDirect

Credit Ratings:
Foreign currency BB/Positive/B

Local currency BBB/Stable/A-3

Rating history:
Long- and short-term foreign and local currency ratings assigned March 1998.

Default history since 1975:
Cumulative rescheduling of $6.9 billion with Paris Club creditors between 1983 and 1992.

Cancellation of $2.7 billion debt owed to Saudi Arabia in 1990.

Cumulative restructuring of $6.7 billion with London Club creditors between 1985 and 1990.

Population:
30.6 million

Per capita GDP:
$1,520

Major Rating Factors

Strengths:

- Good external indicators.
- Ongoing political liberalization.
- Strong commitment to economic reform.

Weaknesses:

- High, albeit gradually decreasing, fiscal deficit and debt burden.
- Narrow economic base, partially balanced by good growth prospects.

Rationale

The general government deficit (including grants, and expenditures from the Hassan II fund) is expected to be about 4.1% of GDP in 2004, compared with 4.3% in 2003 and 3.2% in 2002. This decline in the deficit is primarily due to reduced subsidies, limits on wage increases and capital outlays, and improved tax collection. Nevertheless, the decrease in the deficit is smaller than originally expected, because of a lower economic growth forecast for 2004.

Standard & Poor's estimates government primary balances (balances excluding interest payments) at close to zero, which is sufficient to reduce the debt burden. The general government debt burden is expected to continue to decrease slowly, to 74.3% of GDP in 2004, from 82.6% in 2000. Nevertheless, it remains much higher than the 'BB' median of 57.1%.

Morocco's per capita income, estimated at $1,520 in 2004, is lower than that of most 'BB' rated peers. Although nonagricultural growth has increased to about 3.1% per year, total growth remains vulnerable to climatic vagaries and is insufficient to reduce the high unemployment rate and fulfill rapidly increasing development needs. To attract more private domestic and green field foreign direct investment (FDI), the country still needs to improve the institutional framework and business environment, accelerate economic liberalization, and reinforce the financial sector. Going forward, fiscal consolidation, progress in restructuring key industries, and the maintenance of price and exchange rate stability will allow an increase in trend growth to about 5.0% per year, from the 2.6% expected in 2004.

Declining external debt stocks and the significant boost to international reserves from FDI and current account surpluses in 2000-2003, have greatly improved external liquidity. In 2004, this position is likely to remain high despite the decrease in the current account surplus to about 1.8% of GDP caused by the rise in both the volume and price of oil imports. The ratio of international reserves to the gross external financing gap is expected to record a high of 660% in 2004, compared with a 'BB' median of 106%. The current account surpluses and an active government policy aimed at cutting external debt have reduced public sector net external debt. The general government sector now records a net asset position of about 37.5% of current account receipts in 2004, compared with a net debt position of 24.4% for the 'BB' median.

Despite the terrorist bomb attacks on Casablanca in May 2003, the authorities have continued the social and political liberalization process. Most political forces, including Islamist parties, participated in both the parliamentary elections in September 2002 and the local elections in November 2003 and unanimously adopted the family code, which strengthens social institutions. Along with improved social indicators and education, political liberalization will, over time, limit the risk of social and political unrest.

Given the considerable economic and social challenges facing Morocco, policymakers have accelerated structural reforms gradually and steadily, and their policies have been stable and predictable. Recent successes in privatization, the liberalization of key industrial sectors, and increased labor flexibility (through the adoption of a new labor code) should enable Morocco to maintain its external competitiveness. This remains crucial in order to balance increased competition from the EU (with which Morocco has signed an Association Agreement) and from the U.S. (with which Morocco signed a free trade agreement this year).

Outlook

The positive foreign currency outlook reflects the prospects for a further decrease in public external debt, improved public sector expenditure control, and faster public sector reforms, which will accelerate fiscal consolidation and growth prospects. The expected loss of tax revenues due to the implementation of the EU Association Agreement will need to be offset by equivalent spending cuts (notably to fixed expenditures), improved tax collection, reduced subsidies, and accelerated privatization.

Standard & Poor's expects these policies to reduce the debt burden over the next few years. An upgrade is possible if proposed reforms significantly increase growth prospects and effectively reduce the still-high proportion of fixed expenditures in the budget--in particular, the wage bill.

Comparative Analysis

Morocco enjoys a relatively good position among peer sovereigns regarding its policy respons-

Head of State:
King Mohammed VI

Head of government:
Prime Minister Driss Jettou

Next parliamentary elections:
by September 2007

es to external shocks, commitment to reforms, and maintenance of price and exchange rate stability.

Morocco has a high level of political stability, similar to the Hashemite Kingdom of Jordan (foreign currency BB/Stable/B; all references to ratings hereafter are to foreign currency sovereign credit ratings), another country in which the monarchy is widely supported by the population. In turn, this stability ensures smooth transition mechanisms and permits easier implementation of reforms. Political stability in Morocco is higher than in the Arab Republic of Egypt (BB+/Negative/B), and the Republics of Peru, the Philippines, and Colombia (all rated BB/Stable/B).

Like Tunisia, Morocco's external finances have proved resilient to external shocks such as the events of Sept. 11, 2001, and the bomb attacks in both countries. External liquidity improved to a level that compares very favorably with peers. Central bank reserves in 2004 are expected to cover 930% of the total gross financing gap, which compares with an expected 105% for the 'BB' median.

Despite a decrease in its budget deficits and a stabilized debt burden, Morocco still compares unfavorably with peers in terms of fiscal flexibility. As in Jordan and the Republic of Tunisia (BBB/Stable/A-3), expenditure reduction remains challenging in view of the narrowing tax base implied by the decrease of customs tariff barriers under the country's Association Agreement with the EU. Morocco's general government deficit is expected to decrease to 4.1% in 2004 from 4.3% in 2003, due to one-time extra expenditures following the May 2003 bomb attacks in Casablanca.This deficit remains higher than the 'BB' median of 3.5%. Taking into account one-half of the expected privatization receipts in 2004, the general government debt burden, which was a high 74.3% of GDP in 2003, is likely to stay stable in 2004 and to decrease slowly to about 73.0% in 2005. This figure remains at the high end of the 'BB' category, which has a median of 57.1% of GDP.

Morocco's economic structure and social indicators will continue to compare unfavorably with those of most 'BB' peers, and consequently to constrain the ratings. This position is, however, partially balanced by revived structural reforms and the liberalization policies of the current government. Estimated at $1,520 in 2004, Morocco's per capita income is lower than that of most 'BB' rated peers. Although nonagricultural growth has increased to about 3.1% per year, total growth remains vulnerable to climatic vagaries. It is also insufficient to reduce Morocco's high unemployment rate (11.6% of the workforce compared with 9.8% for the 'BB' median) and fulfill rapidly increasing development needs. Morocco's social indicators also lag those of other rated countries in the region.

Morocco (Kingdom of)								
Selected Indicators	**Unit**	**2005f**	**2004f**	**2003**	**2002**	**2001**	**2000**	**'BB' median 2004f**
GDP per capita	US$	1,601.0	1,519.0	1,477.0	1,218.0	1,162.0	1,161.0	1,957.0
Real GDP	% change	4.8	2.6	5.5	3.2	6.3	1.0	4.2
Real GDP per capita	% change	3.2	1.0	3.9	1.6	4.6	(0.7)	2.5
General government balance/GDP	%	(3.8)	(4.1)	(4.3)	(3.2)	(4.8)	(4.5)	(3.5)
General government debt/GDP	%	73.0	74.3	74.3	75.2	78.8	82.6	57.1
Net general government debt/GDP	%	67.7	68.1	68.0	69.8	73.3	82.4	44.7
General government interest/revenues	%	14.1	14.4	14.5	15.2	17.2	18.7	13.9
Domestic credit to private sector and NFPEs/GDP	%	57.2	57.2	57.8	56.9	56.6	58.7	38.2
CPI	% change	2.0	2.2	1.2	2.8	0.6	1.9	5.2
Gross financing requirement/reserves	%	12.7	14.5	18.7	18.9	19.4	90.4	83.1
Net general government debt /CARs	%	(46.4)	(37.5)	(27.0)	(7.5)	6.5	46.8	24.4
Net banking sector external debt/CARs	%	3.5	4.2	5.1	4.9	6.7	9.5	2.1
Net nonbank private debt/CARs	%	3.6	2.9	1.9	5.0	5.8	8.8	2.4

f--Forecast. NFPE--Nonfinancial public enterprise. CARs--Current account receipts.

MOZAMBIQUE (REPUBLIC OF)

Credit Analysts:
David T. Beers, London (44) 20-7176-7101; Konrad Reuss, London (44) 20-7176-7102

Publication date:
Sept. 28, 2004
Extracted from RatingsDirect

Credit Ratings:
Foreign currency B/Positive/B

Local currency B/Positive/B

Rating history:
Long and short-term foreign and local currency ratings assigned July 2004.

Default history since 1975:
London Club rescheduling (1987).

International Development Association buyback of $143.6 million of commercial debt (1991).

Cumulative reschedulings with the Paris Club (1984-2001).

Population:
19.4 million

Per capita GDP:
$267

Major Rating Factors

Strengths:

- High export-led GDP growth, although from a low base.
- Strong donor support, including debt relief, grants and concessional loans.

Weaknesses:

- High government debt.
- Large fiscal imbalances, with weak revenue and expenditure flexibility and high reliance on foreign grants.
- Weak, albeit improving, external liquidity.

Rationale

The ratings on Mozambique balance the constraints of low economic development, high government debt, large fiscal imbalances, and weak--although improving--external liquidity against the strength gained from high export-led GDP growth and strong donor support.

The ratings are constrained by high, albeit declining, general government debt, estimated at 82.2% of GDP in 2004 (down from 155.8% in 2000). Mozambique reached the completion point under the Heavily Indebted Poor Countries (HIPC) initiative in September 2001. Progress on bilateral negotiations with certain creditors, however, has been slow.

General government deficits are also high, averaging 6.2% in 1999-2003. Mozambique's revenue-raising capacity and expenditure flexibility are weak and the government budget is highly reliant on grants, which averaged 45.9% of total revenues in 1999-2003.

The ratings on Mozambique are underpinned by high export-led GDP growth--albeit from a low base--and strong donor support. Buoyant exports and debt relief mean that external liquidity is expected to continue improving in the medium term. Moreover, following the completion of "megaprojects", current account deficits are expected to narrow to 2.1% of GDP in 2004, from 15.0% in 2003. Meanwhile, Mozambique is expected to continue to meet donor conditionalities in order to receive further external assistance.

With GDP per capita estimated at $267 in 2004, Mozambique is a low-income economy. That said, the country has received strong foreign direct investment (FDI) inflows in the past decade, mainly due to its large and diversified resource base. Consequently, the growth in GDP per capita has been strong, averaging 7.3% per year in 1999-2003. With continued investment in industry and expansion in the services sector, GDP growth is expected to remain robust, at 7.2% per year on average in 2004-2006, athough. the economy remains vulnerable to natural disasters including drought and floods.

Outlook

The positive outlook reflects the expectation that Mozambique's government will be able to reduce fiscal deficits while continuing to improve social indicators and infrastructure. Mozambique should continue to benefit from strong external support in the form of grants and debt relief, while the government is expected to pursue the structural reforms needed to favor private sector development and promote growth--even after the impact of the "megaprojects" abates. The ratings could therefore improve as a result of fiscal strengthening and a reduction in external vulnerability. The ratings could come under downward pressure in the event of fiscal laxity or if political developments lead to a reduction in foreign assistance.

Comparative Analysis

Mozambique is a low-income but rapidly growing economy.

Mozambique can be compared to the Republics of Ghana and Senegal (both rated foreign currency B+/Stable/B; all references to ratings hereafter are to foreign currency sovereign credit ratings), the Republic of Bolivia (B-/Stable/C), Burkina Faso (B/Stable/B), Belize (B-/Negative/C), the Independent State of Papua New Guinea (PNG; B/Stable/C), Mongolia (B/Stable/B), and the Republic of Indonesia (B/Positive/B).

Mozambique's GDP per capita, at $267 in 2003, is the lowest of all rated sovereigns, about one-third the per capita income in Senegal ($635), and one-quarter of the 'B' median of $948. In the United Nations Development Programme's (UNDP) 2003 human development report, Mozambique ranks 170 out of 175 countries, comparable to the Republic of Mali (172; B/Stable/B) and Burkina Faso (173) and behind Indonesia (112), Ghana (129), PNG (132), the Republic of Cameroon (142; B/Stable/B), Senegal (156) and the Republic of Benin (159; B+/Stable/B). The HIV/AIDS infection rate is estimated to have reached 13.0% of the adult population in 2001. This is higher than in Benin (3.6%), Senegal (0.5%), Ghana (3.0%), Burkina Faso (6.5%), and Cameroon (11.8%).

Notwithstanding these low social indicators, Mozambique's economy is more diversified than that of most of its peers. Consequently, real GDP per capita growth averaged 5.2% in 1999-2003, much higher than the 'B' median (0.9%), Indonesia (2.3%), Senegal (1.9%), and Ghana (1.8%). Likewise, gross domestic investment, at an expected 23.3% in 2004, is higher than in

Head of State:
President Joaquim Chissano

Head of government:
Prime Minister Luisa Diogo

Next parliamentary elections:
December 2004

Next presidential elections:
December 2004

most of its peers and the 'B' median (18.3%).

Political stability in line with peers. Since the end of the civil war in 1992, Mozambique has experienced two democratic elections. In Transparency International's 2003 corruption perceptions index, Mozambique ranks 86 out of 133 countries, before Bolivia (106), PNG (118), and Cameroon (124) but behind Ghana (70) and Senegal (76).

Fiscal imbalances are larger than those of peers. The general government deficit averaged 5.8% of GDP in 1999-2003. This is higher than the 'B' median (4.3%), Burkina Faso (4.8%), Ghana (5.6%), Senegal (1.0%), and Indonesia (2.8%), but lower than in Mongolia (7.2%) and Belize (6.9%). As a result of these high deficits and the war, and despite significant debt relief already obtained under HIPC, Mozambique's general government debt also exceeds that of peers. At an estimated 96.1% of GDP in 2003, it is comparable to Ghana (104.2%), Indonesia (91.2%), Mongolia (92.9%), and Bolivia (80.7%), and much higher than in Senegal (62.2%) and Burkina Faso (49.0%). That said, much of this debt has a highly favorable structure and concessional terms. As a result, the ratio of general government interest payments to revenues, at an estimated 4.2% in 2004, is comparable with Mongolia (3.6%), Burkina Faso (4.0%), and Senegal (5.3%) and much lower than in Ghana (16.3%), Indonesia (18.8%), Bolivia (11.6%), Belize (14.2%), and the 'B' median (16.3%). Mozambique's dependence on foreign grants is also the highest of all rated sovereigns. Grants accounted for 42.4% of total revenues in 2003, compared with 30.7% in Burkina Faso, 20.0% in PNG, 13.0% in Ghana and Benin, 11.0% in Senegal, and 3.0% in Cameroon.

External flexibility is comparable with peers. Mozambique has high export growth but also high current account deficits. The latter are declining, however, to an expected 2.1% of GDP in 2004 from 6.6% in 2003, thanks to the end of "megaproject"-related imports. Debt service (excluding short term debt) should decline to 17.2% of current account receipts in 2004 from 39.9% in 1999, but it remains higher in all other peers, except for Bolivia and Belize.

Mozambique receives substantial flows of net FDI, comparable with Belize and Mongolia, and exceeding those of other peers and the 'B' median. This has allowed the build-up of foreign exchange reserves, estimated at 5.1 months of imports of goods and services in 2004, which is higher than the 'B' median (2.5) and all of its peers except Indonesia (6.4). The gross external financing requirement, at an expected 84.9% of usable reserves in 2004, is comparable with the 'B' median of 91.8%.

				Mozambique (Republic of)				
Selected Indicators	**Unit**	**2006f**	**2005f**	**2004f**	**2003**	**2002**	**2001**	**'B' median 2004f**
GDP per capita	US$	303.0	287.0	267.0	228.0	194.0	189.0	1,066.0
Real GDP	% change	6.5	6.8	8.4	7.1	7.3	13.0	4.4
Real GDP per capita	% change	4.0	4.3	5.9	4.6	5.3	10.9	2.4
General government balance/GDP	%	(3.0)	(3.1)	(3.7)	(4.9)	(9.7)	(5.4)	(3.5)
General government debt/GDP	%	73.0	77.6	82.2	96.1	109.1	170.1	72.4
Net general government debt/GDP	%	67.8	71.7	75.4	87.6	101.9	161.1	62.2
General government interest/revenues	%	2.8	3.3	4.2	5.2	6.0	2.4	16.3
Domestic credit to private sector and NFPEs/GDP	%	7.3	7.9	12.9	13.4	16.8	9.1	4.2
CPI	% change	11.2	11.8	12.6	14.0	17.1	19.6	27.9
Gross financing requirement/reserves	%	126.7	114.5	84.9	120.0	151.8	184.0	86.3
Net general government debt /CARs	%	144.7	142.9	142.5	154.7	180.1	298.6	79.1
Net banking sector external debt/CARs	%	(14.4)	(14.5)	(14.6)	(16.2)	(20.9)	(17.4)	(3.9)
Net nonbank private debt/CARs	%	14.6	14.0	13.4	15.7	11.0	12.5	11.0

f--Forecast. NFPE--Nonfinancial public enterprise. CARs--Current account receipts.

SENEGAL (REPUBLIC OF)

Credit Analysts:
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Publication date:
Sept. 28, 2004
Extracted from RatingsDirect

Credit Ratings:
Foreign currency B+/Stable/B

Local currency B+/Stable/B

Ratings history:
Long- and short-term foreign and local currency ratings assigned December 2000.

Default history since 1975:
Cumulative rescheduling of $1.46 billion with Paris Club creditors between 1981 and 1998.

Cumulative restructuring of $154.5 million with London Club creditors between 1981 and 1989.

Population:
10.3 million

Per capita GDP:
$752.5

Head of State:
President Abdoulaye Wade.

Head of Government:
Prime Minister Macky Sall

Next parliamentary elections:
2006

Next presedential election:
Spring 2007

Major Rating Factors

Strengths:

- Cautious domestic macroeconomic management and structural reform, combined with relative political stability and policy predictability.
- Membership of the West African Economic and Monetary Union (WAEMU).

Weaknesses:

- A low level of economic development and severe infrastructure deficiencies.
- A high (albeit declining) level of net general government debt.

Rationale

The ratings on the Republic of Senegal reflect a low level of economic development combined with high government debt. GDP per capita is low, estimated at US$752 in 2004. Low educational levels, high poverty, and other weak human development indicators reflect government spending inefficiencies and the subsistent nature of Senegalese agriculture, which employs about one-half of the labor force. Infrastructure deficiencies, especially in transportation and power generation, also constrain growth prospects.

The net general government debt burden remains high, albeit declining. Senegal reached the completion point of the IMF Heavily Indebted Poor Country (HIPC) initiative in April 2004. Consequently, net general government debt is expected to fall to 40.9% of GDP in 2004. Furthermore, a favorable debt structure (most government debt is concessional) mitigates both the economic burden and liquidity risk of government debt. As a result, general government interest payments amount to 5.3% of revenues.

With regard to policy, domestic macroeconomic management is cautious and the government has embarked on a program of structural reforms. Continued financial and technical support from the international community, coupled with criteria imposed by the West African Economic and Monetary Union (WAEMU), should ensure policy continuity. The general government deficit is expected to widen to 2.7% of GDP in 2004, notably owing to HIPC-induced increases in social expenditure, and some exceptional expenditure related to structural reform--namely postal services and pensions. Nevertheless, it is projected to return to 1.4% in 2005-2006.

Senegal is a member of WAEMU, which incorporates the Republic of Benin (B+/Stable/B), Burkina Faso (B/Stable/B), Guinea-Bissau, Côte d'Ivoire, the Republic of Mali (B/Stable/B), Niger, Senegal, and Togo. The zone has an independent central bank--Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)--responsible for monetary policy and issuance of the CFA franc, the zone's local currency. The CFA franc is pegged to the euro and receives a guarantee of convertibility (although not of the exchange rate) from the French Treasury. These institutional arrangements have had several benefits for the zone, including low inflation (estimated at 0.2% in 2003 for Senegal) and reduced vulnerability to external liquidity pressures.

Senegal also enjoys stable and democratic political institutions, although vested interests often slow the reform process and the administration suffers from capacity constraints, which also limit the efficiency of public spending.

Outlook

Standard & Poor's expects the government of Senegal to continue pursuing structural reform, while maintaining low fiscal deficits. An acceleration of the pace of reform, leading to higher growth and enhanced development indicators, could improve Senegal's creditworthiness. Conversely, sustained and significant loss of reform momentum or fiscal laxity would undermine the country's credit standing.

Comparative Analysis

Senegal can be usefully compared to the Republic of Ghana (foreign currency B+/Stable/B; all references to ratings hereafter are to foreign currency ratings), the Republic of Benin and Belize (B+/Stable/B), the Republic of Cameroon (B/Stable/B), and the higher-rated Republic of Guatemala and Socialist Republic of Vietnam (both BB-/Stable/B). GDP per capita, at $752.5 in 2004, is higher than in Benin ($584), Ghana ($405), and Vietnam ($513), but lower than the 'B' median ($1,012), Guatemala ($1,989), and Belize ($3,616). Human development indicators are low and compare unfavorably with peers. Nevertheless, unlike some other sub-Saharan countries, Senegal has not experienced high rates of HIV/AIDS, due to an effective prevention program.

A history of stable and liberal political institutions and a successful political transition support the ratings on Senegal. Its stable political institutions are comparable with those of Benin, although they have a longer track record than in Benin or Ghana--in contrast to these two countries, Senegal has never experienced coups or military regimes. Policies are predictable and the quality of the administration compares well with that of peers. Despite this stability, reforms have been slow. In Transparency International's 2003 cor-

ruption perceptions index, Senegal ranks 76 out of 133 countries, better than the Republics of Madagascar (88; B/Stable/B), Bolivia and Guatemala (joint 100; B-/Stable/C and BB-/Stable/B, respectively), and Cameroon (124), but behind Ghana (70) and Belize (46).

GDP growth, averaging 3.5% in 2000-2004 (with a slump to 1.1% in 2002), is higher than in Guatemala (2.4%) and the 'B' median (3.2%), but lower than in Ghana (4.4%), Belize (5.4%), Vietnam (5.6%), and Benin (5.8%). Growth is also highly vulnerable to climatic conditions, as in Ghana and Benin, although the economic base is less narrow than in Benin.

Well-contained expenditure growth and foreign grants ensure that Senegal records limited fiscal deficits, despite the demand for increased expenditure on infrastructure and social services that results from poor human development indicators and the rapid growth of the urban population. The general government deficit (including grants) averaged 1.0% in 1999-2003, higher than in Benin (negative 0.5%) but lower than Guatemala (negative 1.8%), the 'B' median (negative 4.4%), Vietnam (negative 3.7%), Ghana (negative 5.5%), and Belize (negative 6.8%). General government revenue, at 21.5% of GDP in 2004, is higher than in Guatemala (11.1%) and Benin (20.2%), although lower than the 'B' median (28.5%), Belize (28.6%), and Ghana (27.7%), due to the smaller tax base in Senegal, where the informal sector is very large. Senegal is also less reliant on grants than certain peers. Grants accounted for 11.0% of revenues in 2003, less than in Benin and Ghana (13.0%), the Independent State of Papua New Guinea (20.0%; B/Stable/C), and Burkina Faso (31.0%), although more than in Cameroon (3.0%).

Senegal's net general government debt, at an expected 40.9% of GDP in 2004, is now lower than the median for 'B+' countries (62.2%) and similar to Vietnam (39.3%) and the 'BB' median (40.5%), although higher than in Guatemala (15.2%). Due to the nature of this debt, which is concessional and favorably structured, Senegal's debt-servicing costs provide a more appropriate measure of the country's overall indebtedness. General government to revenues is about 5.3%, and will fall as the government receives debt relief through the HIPC initiative. This is lower than the debt-servicing costs incurred by most of Senegal's peers.

Overall, although Senegal has forfeited the financial flexibility that an independent monetary policy could bring, it benefits from lower levels of inflation and external liquidity stress. The tight monetary policy of the BCEAO has ensured that inflation has not exceeded 3.0% since 1997. This record compares favorably with the 'B' median (5.5% in 2004). Despite high external financing requirements and low usable reserves (excluding the monetary base), external liquidity stress is much reduced by the pooling of reserves and the guarantee of convertibility for the CFA franc provided by France.

				Senegal (Republic of)				
Selected Indicators	**Unit**	**2005f**	**2004f**	**2003**	**2002**	**2001**	**2000**	**'B' median 2004f**
GDP per capita	US$	783.0	752.0	635.0	506.0	474.0	477.0	1,116.0
Real GDP	% change	5.0	5.5	6.3	1.1	4.7	3.0	4.9
Real GDP per capita	% change	2.5	3.0	3.7	(1.2)	2.2	0.6	2.9
General government balance/GDP	%	(1.4)	(2.7)	(1.4)	(0.1)	(2.1)	0.1	(3.2)
General government debt/GDP	%	44.8	46.4	62.2	69.4	82.1	81.8	69.6
Net general government debt/GDP	%	40.2	40.9	56.1	62.3	75.4	75.8	62.2
General government interest/revenues	%	4.6	5.3	5.6	5.5	4.6	7.2	16.3
Domestic credit to private sector and NFPEs/GDP	%	21.4	21.6	21.6	22.1	22.9	24.7	28.0
CPI	% change	1.5	1.0	0.2	2.2	3.1	0.7	6.9

f--Forecast. NFPE--Nonfinancial public enterprise.

SOUTH AFRICA (REPUBLIC OF)

Credit Analysts:
Konrad Reuss, London (44) 20-7176-7102; John Chambers, CFA, New York (1) 212-438-7344

Publication date:
Sept. 28, 2004 Extracted from RatingsDirect

Credit Ratings:
Foreign currency BBB/Stable/A-3

Local currency A/Stable/A-1

Ratings history:
Long- and short-term foreign currency ratings assigned October 1994.

Default history since 1975:
Years in default on foreign currency bank debt: 1985-1987, 1989, and 1993.

Population:
47.1 million

Per capita GDP:
$4,242

Head of State:
President Thabo Mbeki

Head of government:
President Thabo Mbeki heads a majority African National Congress (ANC) government

Next national parliamentary elections:
2009

Major Rating Factors

Strengths:

- Prudent macroeconomic policies and a moderate debt burden.
- An independent central bank committed to low inflation, and well-developed domestic capital markets.
- Political stability and transparent institutions.

Weaknesses:

- Structural economic weaknesses and deep social inequalities.
- Modest, albeit improving, external liquidity.

Rationale

The ratings on South Africa reflect the sovereign's prudent macroeconomic policies, a moderate debt burden, and political stability, balanced by severe structural economic weaknesses and still modest (albeit improving) external indicators.

South Africa's fiscal policies are underpinned by budgetary and administrative reforms that have improved fiscal flexibility. This has enabled the government to conduct more expansionary policies and allocate increased resources to social expenditure, without reversing the downward trend in the public debt burden. The external debt burden is manageable and decreasing, estimated at 20.5% of GDP in 2004.

A further supporting factor is the independence of the central bank, the South African Reserve Bank (SARB), which has demonstrated its commitment to low inflation. South Africa also enjoys well-developed domestic capital markets and a strong and well-regulated banking sector.

The ratings are also supported by South Africa's democratic and transparent institutions, and the government's cautious and constitutional approach to social reform. The April 2004 elections confirmed strong support for the African National Congress-led government.

Nevertheless, the economy suffers from structural weaknesses, against a background of social inequality. Although South Africa's growth performance has become more resilient to external shocks and is expected to improve gradually, this will allow only slow progress in alleviating the country's chronic unemployment and deep social problems. Factors still constraining growth include low levels of savings and investment, and labor market rigidities. The rising incidence of HIV/AIDS will also place a burden on South Africa's economy in the coming decade, straining its health care system and financial resources.

External liquidity remains relatively modest, although it has improved with the closure of SARB's negative forward position. This has allowed SARB to build international reserves, expected to increase to cover 84% of the country's external financing requirements in 2005 (from 61% in 2003). Liquidity risk is also mitigated by the gradual relaxation of exchange controls, the floating exchange rate regime, and SARB's primary reliance on a tight monetary policy to achieve its inflation target. South Africa's failure, however, to attract sustained foreign direct investment (FDI) makes it vulnerable to volatile capital flows.

Outlook

Cautious fiscal and monetary policies, coupled with growth-enhancing structural reforms, and continued delivery on the social front, will support stability and the government's creditworthiness in the next few years. Conversely, fiscal laxity and a reversal in government and external debt trends could undermine the ratings. External liquidity is expected to continue to improve, thereby reducing external vulnerability. The HIV/AIDS pandemic will place a burden on South Africa's economy in the coming decade, but is not expected to undermine the current sustainable fiscal stance. Long-term rating prospects hinge on higher growth and sustained delivery on the social front, thereby addressing unemployment and poverty, and entrenching political stability.

Comparative Analysis

Favorable management of socioeconomic challenges.

South Africa's socioeconomic problems are severe, but not unusual for countries in the 'BBB' category. Complex development pressures exist in many of South Africa's peers. For the purpose of this analysis, these include the United Mexican States (Mexico: foreign currency BBB-/Stable/A-3; all references to ratings hereafter are to foreign currency sovereign credit ratings), the Republic of Tunisia (BBB/Stable/A-3), the Kingdom of Thailand (BBB/Positive/A-2), the Sultanate of Oman (BBB/Stable/A-3), the People's Republic of China (BBB+/Positive/A-2), and the Republic of Poland (BBB+/Negative/A-2). The pressures in South Africa have the potential to jeopardize current macroeconomic achievements if they remain unsolved in the long term. These severe socioeconomic challenges are balanced, however, by prudent economic management and well-designed development policies. Policymakers' commitment to transparency, accountability, and best practice in budgeting and planning is outstanding by emerging market standards, and compares favorably with that of peers and even certain higher-rated governments.

Macroeconomic policies remain prudent.
On the fiscal front, an unwavering policy of consolidation had reduced government deficits to less than the 'BBB' median and those in many of South Africa's peers by 2003. General government deficits are now expected to increase, however, in accordance with an expansionary stance, but general government debt, at 39.1% of GDP in 2004, remains comparable to the 'BBB' median of 38.7% and less than that in Tunisia (58.4%) and Poland (56.4%). Nevertheless, it remains higher than Thailand's 37.7%, Mexico's 32.0%, and Oman's 15.3%.

On the monetary front, sustaining disinflation remains a challenge, with inflation expected to average 5.5% in 2004, which is still much higher than the 'BBB' median of 3.7%. The framework of monetary policy created in recent years, however, is stronger than in South Africa's peers. Its inflation-targeting regime reflects best practice, and its transparency and predictability compare favorably with the situation in the country's peers, as do its healthy financial system and deep, liquid capital markets.

GDP growth and external position still weak.
With regard to its growth performance and external position, South Africa continues to compare unfavorably with its peers and the 'BBB' median. Economic growth, which is crucial to alleviating South Africa's socioeconomic problems, has continued to disappoint and remains significantly less than the 'BBB' median and levels in most peers. Moreover, with domestic saving and investment rates much lower than peers, South Africa's growth prospects are significantly more constrained. Its unfolding HIV/AIDS crisis also makes the sovereign stand out unfavorably.

Net external debt has fallen to an estimated 5.2% of current account receipts (CARs) in 2004, which is now in line with the 'BBB' median (6.6%) and lower than in Mexico (28.9%), Poland (45.4%), and Tunisia (77.0%). Other peers, however, are in a net external creditor position, including Oman (net external assets of 74.9% of CARs), Thailand (8.3%), and China (78.7%). South Africa's current account deficit has historically been lower than peers but FDI inflows are weaker. Nevertheless, since the country's negative net open forward position (NOFP) was eliminated in 2003, the country's external position has already experienced substantial improvements, with the SARB taking advantage of the strong rand to build up reserves. Reserves are expected to cover 141.7% of short-term debt in 2004, which is still noticeably less than the 'BBB' median of 202.5%.

				South Africa (Republic of)				
Selected Indicators	**Unit**	**2005f**	**2004f**	**2003**	**2002**	**2001**	**2000**	**'BBB' median 2004f**
GDP per capita	US$	4,197.0	4,242.0	3,447.0	2,340.0	2,550.0	2,910.0	5,843.0
Real GDP	% change	3.0	2.7	1.9	3.6	2.7	3.5	4.3
Real GDP per capita	% change	1.5	1.2	(0.2)	2.1	0.9	2.4	4.2
General government balance/GDP	%	(3.3)	(3.3)	(2.5)	(1.1)	(1.1)	(1.6)	(1.7)
General government debt/GDP	%	39.8	39.1	40.1	42.3	47.9	48.4	38.7
Net general government debt/GDP	%	33.1	31.9	32.4	34.4	38.9	38.3	31.1
General government interest/revenues	%	14.5	15.0	15.0	16.0	16.5	18.1	6.3
Domestic credit to private sector and NFPEs/GDP	%	72.1	72.2	70.4	63.7	69.8	66.7	39.5
CPI	% change	5.0	5.5	5.9	9.1	5.7	5.4	3.7
Gross financing requirement/reserves	%	119.0	189.7	162.4	140.7	154.3	189.2	117.4
Net general government debt /CARs	%	18.1	18.5	22.1	18.4	12.0	11.2	(5.2)
Net banking sector external debt/CARs	%	(23.4)	(25.3)	(25.9)	(8.8)	4.0	11.8	(2.9)
Net nonbank private debt/CARs	%	0.0	0.0	(1.4)	(2.8)	0.9	(4.6)	11.3

f--Forecast. NFPE--Nonfinancial public enterprise. CARs--Current account receipts.

TUNISIA (REPUBLIC OF)

Credit Analysts:
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Publication date:
Sept. 28, 2004
Extracted from RatingsDirect

Credit Ratings:
Foreign currency BBB/Stable/A-3

Local currency A/Stable/A-1

Ratings history:
Long- and short-term foreign and local currency ratings assigned April 1997.

Default history since 1975:
None

Population:
9.9 million

Per capita GDP:
$2,720

Head of State:
President Zine Abedine Ben Ali

Head of government:
President Zine Abedine Ben Ali heads the Rassemblement Constitutionnel Démocratique (DCR) government

Next parliamentary elections:
October 2004

Next presidential elections:
October 2004

Major Rating Factors

Strengths:
- Continued fiscal consolidation
- Prudent monetary policy.
- Strong expected output growth.

Weaknesses:
- Highly centralized political system.
- Need for further economic liberalization.
- Relatively weak, although improving, external liquidity.

Rationale

Despite an inflexible fiscal expenditure mix, the government fiscal consolidation continues, with the general government deficit expected to be a moderate 2.2% of GDP in 2004, and to continue to trend downward thereafter. As a result, general government debt--which, at an estimated 60.8% of GDP in 2003, is still higher than in most 'BBB' peers--should decrease steadily over the next few years.

Inflationary pressures are relatively modest, with the increase in consumer prices remaining at about 2.5% per year. Moreover, an increasingly flexible exchange rate policy has helped maintain the country's competitiveness. GDP growth recovered to 6.2% in 2003, mainly due to a sharp 26.0% rebound in agricultural output, and an improvement in tourism receipts from mid-year onward. In 2004, growth is expected to remain healthy, at about 5.6%, on the back of a recovery in external demand from the EU. The economy will continue to benefit from a low inflation and interest rate environment, and an increasingly flexible exchange rate policy.

Further reforms to the political system are needed in order to devolve decision-making, and to improve governance and management of the public sector. Net public sector debt is projected to reach 69.2% of GDP in 2004, compared with a 'BBB' median of 44.3%.

The economy remains dependent on rainfall and agricultural production, merchandise exports to the EU, and tourism receipts. Tunisia has made great progress in upgrading the competitiveness of its industries through the "mise à niveau"(catch-up) program. Nevertheless, further privatization and liberalization are needed to meet increased competition as the country's Association Agreement with the EU is implemented.

At 2.8 months of imports of goods and services, central bank reserve coverage has increased in 2004, but still compares unfavorably with the expected 2004 'BBB' median of 3.6 months. Increasing external liquidity is important in the context of the further liberalization of the capital account, and the more flexible exchange rate policy that has already been adopted.

Outlook

The stable outlook balances Tunisia's track record of prudent fiscal and monetary policies against the risk of slippage in structural reforms, which are essential to meet the challenges of increased competition and high unemployment. On the back of prudent policies, the Tunisian economy has demonstrated its resilience, despite a conjunction of external shocks in 2002, and is expected to continue doing so in the event of similar future shocks (such as a slowdown in international demand).

The ratings on Tunisia could be raised if structural reforms are accelerated, or if political and institutional liberalization is significantly advanced in the direction of a better functioning legal system and improved governance. A significant increase in external liquidity would also be positive for the ratings, as it would underpin the authorities' more flexible exchange rate policy and facilitate capital account liberalization.

Comparative Analysis

Tunisia's prospects for per capita GDP growth and social development compare favorably with most rated peers, due to its more prudent macroeconomic policies, and lower population growth.

Nevertheless, significant development challenges remain. Economic reforms have stimulated growth, with real per capita income growing at an average of 3.5% for the period 1999-2003, and forecast at 4.5% for 2004. The country has managed external shocks, such as the negative effect of the Sept. 11 2001, terror attacks and terrorist attacks on tourism receipts, more successfully than certain peers, such as the Arab Republic of Egypt (foreign currency BB+/Negative/B; all references to ratings hereafter are to foreign currency sovereign credit ratings).

Although Tunisia's GDP per capita is the highest in North Africa, it is among the lowest in the 'BBB' category, and unemployment is also above average for the category. Prudent financial policies have allowed Tunisia to keep inflation low and comparable with the peer group average (2.6% for 1999-2003, against the 'BBB' median of 2.4%).

Tunisia has higher government debt levels than peers, although this is now decreasing. The government's commitment to fiscal discipline has allowed a gradual reduction in the general government deficit to 2.2% of GDP in 2003, which compares favorably with the 'BBB' median of

2.9%. Continued fiscal discipline has resulted in a projected deficit of 2.2% in 2004, just fractionally higher than in 2003.

General government debt of 60.8% of GDP in 2003, however, remains significantly higher than the 'BBB' median of 39.0%. This burden should gradually be reduced through tight fiscal deficits and steady economic growth. Meanwhile, general government interest payments as a percentage of revenues, at 9.9% in 2004, are relatively modest, reflecting significant official financing, although they remain higher than the 'BBB' median of 6.3%.

Tunisia has a highly centralized political system, which compares unfavorably with that of peers. Its institutional organization is comparable with that of Malaysia (A-/Stable/A-2) and the Sultanate of Oman (BBB/Stable/A-3), both of which have very centralized decision-making and poor development of democracy beyond the legal parties and unions. Opposition is muted beyond the official parliamentary opposition. This compares particularly negatively with the vibrant democratic structures in the Republic of South Africa (BBB/Stable/A-3) and the Slovak Republic (BBB+/Positive/A-2).

Tunisia's external liquidity is weaker than that of peers and its net external debt burden is higher than in most 'BBB' rated countries. Significant official financing, however, keeps external debt service below the 'BBB' median. At 2.8 months of imports of goods and services, central bank reserve coverage has increased in 2004, but still compares unfavorably with the 'BBB' median (3.6 months expected for 2004). Although central bank reserve coverage of the external financing gap is increasing, it remained at about 83.0% of current account receipts (CARs) in 2003, which was below the 'BBB' median of 94.0%. Tunisia's external debt burden, at 131.6% of CARs in 2003, is far higher than that of most peers, with the 'BBB' median at 72.0%. Moreover, on a net basis, Tunisia's public external debt, at 96.4% of CARs in 2003, remains substantially higher than that of most 'BBB' peers.

		Tunisia (Republic of)						
Selected Indicators	Unit	2005f	2004f	2003	2002	2001	2000	'BBB' median 2004f
GDP per capita	US$	2,923.5	2,719.2	2,526.2	2,145.5	2,065.0	2,036.1	5,843.0
Real GDP	% change	6.3	5.6	6.2	1.7	4.9	4.7	4.3
Real GDP per capita	% change	5.2	4.5	5.1	0.4	3.7	3.5	4.2
General government balance/GDP	%	(2.0)	(2.4)	(2.2)	(3.0)	(3.0)	(3.3)	(1.7)
General government debt/GDP	%	55.3	58.9	60.8	62.1	63.1	62.7	39.1
Net general government debt/GDP	%	53.6	57.2	59.1	60.7	61.7	61.9	31.1
General government interest/revenues	%	9.8	9.9	9.9	10.2	10.4	11.4	6.3
Domestic credit to private sector and NFPEs/GDP	%	62.7	64.0	63.6	64.8	64.8	63.1	39.5
CPI	% change	2.5	2.6	2.7	2.7	1.9	3.0	3.7
Gross financing requirement/reserves	%	111.1	121.5	115.9	144.0	166.5	199.8	117.4
Net general government debt /CARs	%	43.6	47.6	59.1	59.7	52.9	57.2	(5.2)
Net banking sector external debt/CARs	%	9.3	11.2	14.5	12.9	10.4	10.8	(2.9)
Net nonbank private debt/CARs	%	(7.2)	(6.8)	(1.2)	(5.3)	(2.5)	(7.4)	11.3

f--Forecast. NFPE--Nonfinancial public enterprise. CARs--Current account receipts.

AFRICAN DEVELOPMENT BANK

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Credit Ratings:
AAA/Stable/A-1+

Rationale

The ratings on the African Development Bank (AFDB) are based on:

- Strong capital adequacy and liquidity;
- Prudent financial management and policies; and
- Strong support from its members, particularly its nonregional members.

AAFDB, a regional multilateral development finance institution (MDFI), was established in 1964 by 29 African countries. Nonregional members were admitted beginning in 1982, and its membership now includes all 53 African and 24 nonregional countries. The bank is the keystone of the AFDB Group, which also includes "soft-loan windows" African Development Fund (AFDF) and Nigeria Trust Fund (NTF), which make grants and loans at concessional rates. However, while AFDB has an equity investment in AFDF, it is not responsible for the financial obligations of either of these funds, both of which are unrated.

AFDF and NTF loans and grants accounted for 43% of AFDB Group's disbursements over the past five years and are important to maintaining support for AFDB from countries ineligible to borrow from the bank. Since 1995, AFDB has been applying a country eligibility policy that restricts borrowing from the bank to 15 countries in Africa deemed to have the highest credit standing. The remaining regional countries can borrow only from AFDF and NTF on highly concessional terms. However, at year-end 2003, more than 31% of AFDB's government and government-guaranteed loans were to countries no longer eligible to borrow from the bank, although these amounts are dropping slowly as loans amortize.

The bank's primary activity is providing medium- and long-term loans with sovereign guarantees to African governments and other public sector entities. At year-end 2003, these accounted for almost 93% of AFDB's total loans, equity investments, and guarantees--which together comprise its development-related exposure (DREs). It also lends to the private sector, makes equity investments, and has provided a few small private sector guarantees. Private sector loans totaled 4% and equity investments 3% of AFDB's DREs at year-end 2003.

AFDB's outstanding loans totaled Special Drawing Rights (SDR) 5.612 billion ($8.227 billion) at year-end 2003, 56% of its total assets. Reflecting the weak credit standing of many of its regional members, SDR823 million of these loans (almost 15%) had principal or interest payments past due by more than six months. This amount was SDR320 million higher than one year earlier, due to the Republic of Côte d'Ivoire's loans moving into arrears. Most of these arrears are owed by countries either in conflict or recently emerged from conflict.

The expected losses embedded in AFDB's loan portfolio are much smaller than they might appear. In particular, AFDB expects to receive payments on behalf of its borrowers through the Highly Indebted Poor Countries (HIPC) initiative. At year-end 2003, 23 countries with loans outstanding to AFDB were participating in the HIPC initiative, and nine more may eventually satisfy the requirements for participation. These countries accounted for more than 24% of AFDB's loans, and the HIPC Trust Fund will repay a substantial portion.

AFDB's risk-bearing capacity is strong relative to the risk in its DRE, this ratio having increased substantially in recent years. While its DREs fell to SDR5.798 billion at year-end 2003 from SDR6.962 billion at year-end 1999, AFDB's accumulated provisions for losses increased to SDR487 million from SDR399 million and its adjusted shareholders' equity to SDR3,398 million from SDR2.652 billion. Consequently, the ratio of provisions for losses and adjusted shareholders' equity to DREs was 67% at year-end 2003, up from 44% at year-end 1999. In addition, AFDB's financial strength is bolstered by callable capital, almost SDR4.981 billion of which is from countries rated 'AAA' by Standard & Poor's at year-end 2003. The ratio of provisions for losses, adjusted shareholders' equity, and 'AAA' callable capital to DREs was therefore 153%, up from 98% at year-end 1999 and one of the highest ratios among rated MDFIs. In addition, ongoing capital contributions are slated to increase shareholders' equity by SDR179 million by year-end 2008.

AFDB's operating income fell to SDR178 million during 2003 from SDR189 million one year earlier, as a net chargeback of nearly SDR22 million for provisions recorded in previous years more than offset lower net interest income. This left the decrease in net income to SDR117 million in 2003 from SDR226 million the previous year to be explained principally by the extraordinary costs of the temporary relocation of AFDB Group's offices to Tunis, in the Republic of Tunisia (foreign currency BBB/Stable/A-3), from Abidjan in Cote d'Ivoire. AFDB's cumulative nonaccrued income on loans at year-end 2003 was more than SDR700 million, and a portion of this may be realized from members becoming current on their loans during 2004.

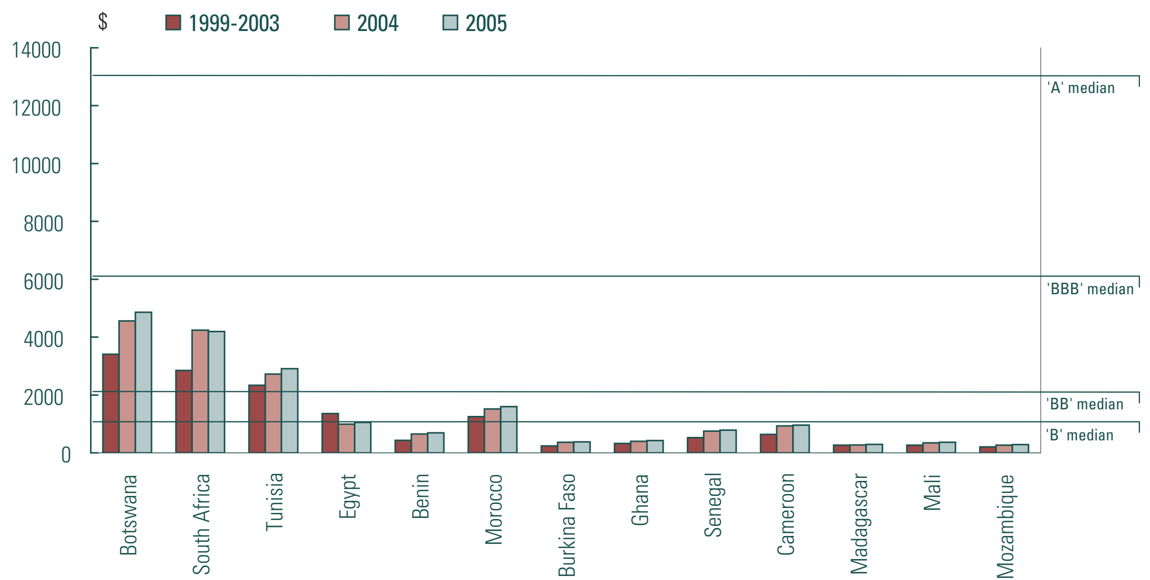
Outlook

The outlook for the ratings on AFDB is stable. The bank's capital position and liquidity should remain strong and its franchise value high. It is essential that AFDB maintain the support of its regional and nonregional shareholders over the medium term, which it will do, in part, by management's constructive administration of AFDB and AFDF and by its participation in other regional activities.

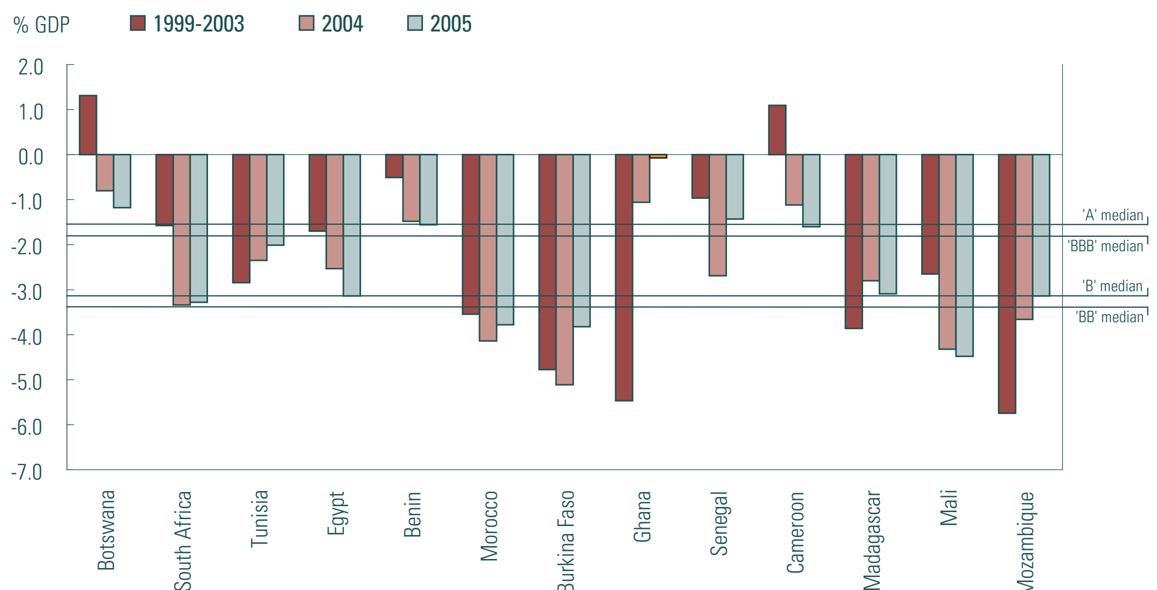
PEER COMPARISON CHARTS

Sovereign ratings in Africa are currently quite heterogeneous, ranging from Botswana's investment grade rating of 'A' to the speculative grade ratings of 'B' for several sub-Saharan African countries. Reflecting the wide rating distribution, the countries' per capita incomes and the governments' fiscal positions vary widely. In respect of external indicators, Botswana is unique in having large current account surpluses, which have allowed it to accumulate significant external assets. For member states of the two African monetary unions, country-specific external data is of lesser importance in the analysis, as the monetary unions' institutional arrangements partially attenuate the external risk that their members would otherwise face.

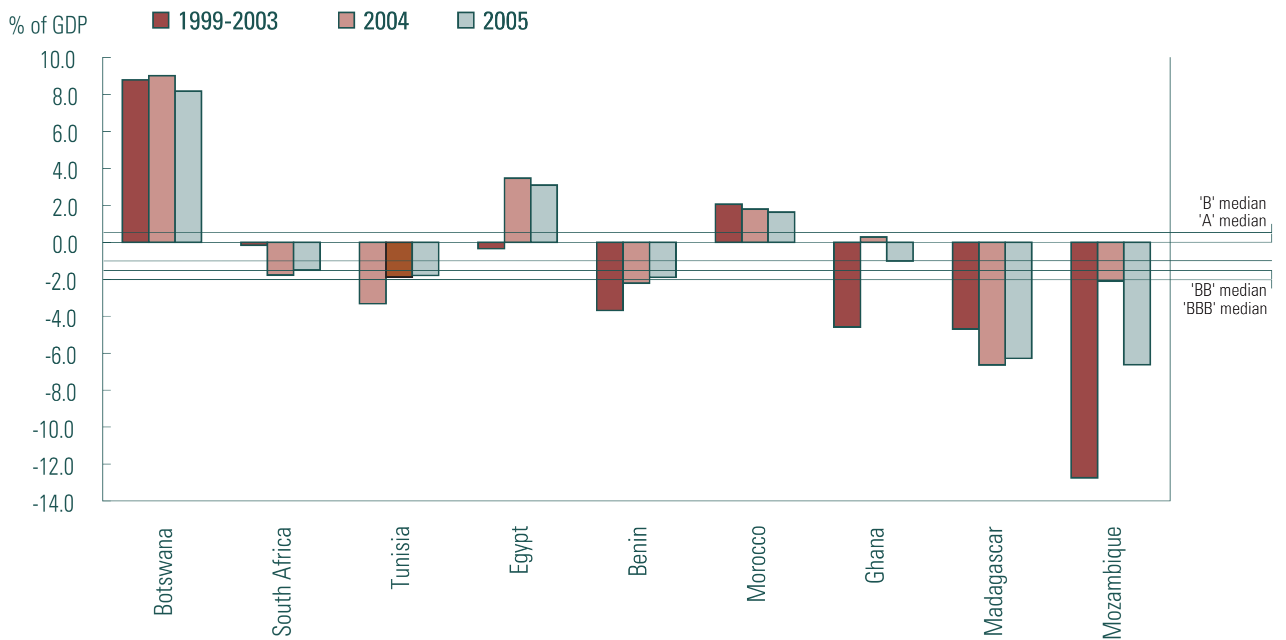
GDP Per Capita



General Government Balance



General Government Debt
% GDP
1999-2003
2004
2005
160
140
120
100
80
60
40
20
0
'B' median
'BB' median
'BBB' median
'A' median
Botswana
South Africa
Tunisia
Egypt
Benin
Morocco
Burkina Faso
Ghana
Senegal
Cameroon
Madagascar
Mali
Mozambique


Current Account Balance
% of GDP
1999-2003
2004
2005
10.0
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
-12.0
-14.0
'B' median
'A' median
'BB' median
'BBB' median
Botswana
South Africa
Tunisia
Egypt
Benin
Morocco
Ghana
Madagascar
Mozambique

ECONOMIC DATA

		GDP per capita (US$)	Savings / GDP (%)	Investment / GDP (%)	Real GDP (% change)		Real Investment (% change)	
Country	Long-term foreign currency rating	2004	2004	2004	2000-2004	2004	2000-2004	2004
Botswana	A	4,557	34.0	25.0	5.3	4.0	2.3	4.6
South Africa	BBB	4,242	15.0	16.0	2.9	2.7	5.9	7.0
Tunisia	BBB	2,726	23.0	25.0	4.6	5.7	2.9	5.3
Egypt	BB+	990	n.a.	n.a.	3.7	3.7	1.7	n.a.
Morocco	BB	1,519	26.0	24.0	3.7	2.5	4.4	8.8
Benin	B+	653	20.0	23.0	5.9	6.9	11.7	17.1
Ghana	B+	402	23.0	23.0	4.4	5.5	7.6	8.3
Senegal	B+	752	14.0	20.0	4.1	5.5	7.0	16.5
Burkina Faso	B	365	17.0	26.0	5.0	5.5	3.2	4.3
Cameroon	B	934	13.0	18.0	4.4	4.0	4.9	4.0
Madagascar	B	271	10.0	16.0	2.7	5.3	18.4	34.8
Mali	B	348	18.0	21.0	4.8	4.7	12.7	(3.5)
Mozambique	B	267	21.0	23.0	7.5	8.4	(4.0)	(9.5)

	Unemployment (% of workforce)		CPI (average % change)		Domestic credit to private sector and NFPE (% change)	
Country	2000-2004	2004	2000-2004	2004	2002	2003
Botswana	15.7	15.5	7.9	7.0	23.0	9.0
South Africa	28.8	30.0	6.3	5.5	4.0	19.0
Tunisia	14.8	14.0	2.6	2.6	4.0	6.0
Egypt	9.7	10.5	3.5	5.5	5.0	8.0
Morocco	12.2	11.6	1.7	2.2	4.0	9.0
Benin	n.a.	n.a.	2.9	2.4	15.0	10.0
Ghana	11.2	11.2	21.9	10.0	13.0	43.0
Senegal	n.a.	n.a.	1.4	1.0	0.0	5.0
Burkina Faso	n.a.	n.a.	2.2	2.0	19.0	10.0
Cameroon	n.a.	n.a.	2.6	2.2	11.0	10.0
Madagascar	n.a.	n.a.	8.1	10.8	2.0	3.0
Mali	n.a.	n.a.	2.8	2.5	20.0	16.0
Mozambique	n.a.	n.a.	13.0	12.9	4.0	(1.0)

NFPE--Nonfinancial private enterprise. N.A.--Not available.

GENERAL GOVERNMENT DATA

		Debt (% of GDP)				
		Net		Net of Government Deposits	Gross	
Country	Long-term foreign currency rating	2000-2004	2004	2004	2000-2004	2004
Botswana	A	(45)	(15)	(15)	9	11
South Africa	BBB	35	32	34	44	39
Tunisia	BBB	60	57	57	61	59
Egypt	BB+	80	94	94	100	117
Morocco	BB	72	68	71	77	74
Benin	B+	39	29	29	48	38
Ghana	B+	90	82	84	123	89
Senegal	B+	62	41	41	68	46
Burkina Faso	B	51	41	41	57	48
Cameroon	B	79	62	62	84	66
Madagascar	B	101	110	110	104	113
Mali	B	67	45	45	74	52
Mozambique	B	114	75	75	123	82

BALANCE OF PAYMENTS DATA

		Current account receipts/GDP (%)		Real exports (% change)		Current account balance/GDP (%)		Current account balance/receipts (%)	
Country	Long-term foreign currency rating	2000-2004	2004	2000-2004	2004	2000-2004	2004	2000-2004	2004
Botswana	A	60	54	(1.3)	1.7	8.3	9.0	13.9	16.7
South Africa	BBB	31	25	2.5	2.0	(0.4)	(1.8)	(1.8)	(7.2)
Tunisia	BBB	48	50	5.9	7.7	(3.3)	(1.9)	(6.7)	(3.7)
Egypt	BB+	28	37	3.5	n.a.	0.7	3.5	1.9	9.5
Morocco	BB	43	43	4.5	10.5	2.5	1.8	5.7	4.2
Ghana	B+	60	55	0.1	6.6	(2.1)	0.3	(3.3)	0.5
Madagascar	B	29	32	7.5	(2.8)	(4.9)	(6.6)	(18.5)	(21.0)
Mozambique	B	42	42	28.8	30.0	(9.6)	(2.1)	(22.9)	(5.1)

	Fiscal performance (% of GDP)						
	Surplus (Deficit)		Primary Balance		Revenues	Expenditures	Interest
Country	**2000-2004**	**2004**	**2000-2004**	**2004**	**2004**	**2004**	**2004**
Botswana	0.0	(0.8)	0.5	0.0	43.0	44.0	1.0
South Africa	(1.9)	(3.3)	2.7	0.7	27.0	30.0	4.0
Tunisia	(2.8)	(2.4)	0.3	0.6	30.0	32.0	3.0
Egypt	(2.2)	(2.5)	3.4	4.2	31.0	34.0	7.0
Morocco	(4.4)	(4.1)	0.3	0.0	29.0	33.0	4.0
Benin	(1.2)	(1.5)	(0.4)	(0.8)	20.0	22.0	1.0
Ghana	(4.2)	(1.8)	2.3	3.5	28.0	29.0	5.0
Senegal	(1.2)	(2.7)	(0.1)	(1.5)	22.0	24.0	1.0
Burkina Faso	(4.5)	(5.1)	(3.7)	(4.4)	19.0	24.0	1.0
Cameroon	1.0	(1.1)	4.0	1.1	18.0	19.0	2.0
Madagascar	(3.9)	(2.8)	(1.6)	(0.5)	17.0	20.0	2.0
Mali	(2.9)	(4.0)	(2.1)	(3.3)	20.0	25.0	1.0
Mozambique	(5.7)	(3.7)	(4.6)	(2.7)	23.0	27.0	1.0

	Net borrowing/ current account receipts (%)		Reserves/imports (months)		Gross financing gap (% of reserves)		Net foreign direct investment/ GDP (%)	
Country	**2000-2004**	**2004**	**2000-2004**	**2004**	**2000-2004**	**2004**	**2000-2004**	**2004**
Botswana	(11.4)	(15.6)	21.4	17.1	(7.8)	(12.0)	0.4	0.6
South Africa	(6.1)	n.a.	2.1	1.8	167.3	190.0	2.6	n.a.
Tunisia	0.9	(1.2)	2.3	2.6	159.1	141.0	2.9	2.6
Egypt	(5.8)	(12.2)	7.7	7.9	36.8	25.0	0.9	0.9
Morocco	(14.3)	(11.9)	6.6	8.8	35.0	17.0	3.7	3.4
Ghana	0.6	(7.0)	0.6	2.2	200.3	44.6	1.7	3.6
Madagascar	14.9	16.3	2.7	2.7	98.7	102.0	1.2	1.5
Mozambique	9.8	(2.7)	4.4	5.1	146.0	85.0	5.6	3.2

Note: Balance of payments data has been omitted for the Republics of Benin, Senegal, and Mali, as well as for Burkina Faso as these sovereigns are members of the West African Economic and Monetary Union. Similarly, such data is omitted for The Republic of Cameroon as it is a member of the Central African Economic and Monetary Community. CARs--Current account receipts.

EXTERNAL DEBT

		Net external liabilities/CARs (%)		Gross external debt / CARs (%)		Net external debt/ CARs (%)		Narrow net external debt/CARs (%)	
Country	Long-term foreign currency rating	2000-2004	2004	2000-2004	2004	2000-2004	2004	2000-2004	2004
Botswana	A	(164)	(144)	14	14	(160)	(128)	(142)	(114)
South Africa	BBB	17	7	84	82	20	5	34	18
Tunisia	BBB	218	208	121	115	85	73	93	83
Egypt	BB+	55	56	145	140	13	11	53	53
Morocco	BB	95	60	119	92	37	(6)	51	7
Ghana	B+	158	118	190	156	150	105	176	130
Cameroon	B	365	308	339	288	291	241	345	292
Madagascar	B	322	266	346	294	299	241	299	241
Mozambique	B	302	232	298	214	214	138	228	151

	Net public sector external debt/CARs (%)		Net investment payments/CARs (%)		Net interest payments/CARs (%)	
Country	2000-2004	2004	2000-2004	2004	2000-2004	2004
Botswana	(134)	(107)	9.4	6.9	7.2	5.8
South Africa	30	31	7.9	7.3	2.7	2.2
Tunisia	77	68	9.1	8.5	3.9	3.5
Egypt	62	62	(1.4)	1.4	(2.0)	0.5
Morocco	26	(13)	4.9	4.1	4.9	4.1
Ghana	156	117	3.7	3.6	2.6	2.2
Cameroon	276	234	11.7	11.0	11.7	11.0
Madagascar	311	254	5.5	4.4	3.9	3.4
Mozambique	221	142	11.1	9.1	7.4	4.4

Note: External debt data has been omitted for the Republics of Benin, Senegal, and Mali, as well as for Burkina Faso as these sovereigns are members of the West African Economic and Monetary Union. Similarly, such data is omitted for Cameroon as it is a member of the Central African Economic and Monetary Community.
CARs--Current account receipts.

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