GCR RATINGS

Research

Credit Spotlight: West African Economic Monetary Union Country Risk Scores

The Country Risk assessment, which is a key part of the operating environment score, interacts with GCR ratings in four ways. Firstly, the country risk scores create the foundation for the Anchor Credit Evaluator (the mapping table, see the Criteria for the GCR Ratings Framework and the interactive online map at GCRratings.com/criteria). Secondly, the country risk score/ assessment acts as an anchor to the GCR Risk Score and therefore ultimately to the GCR issuer ratings. Thirdly, the country risk assessment acts as a hurdle (or more accurately as a series of hurdles, differing according to industry) that limits uplift away from an entity's financial sector operating environment (the combination of the country risk score and the financial sector risk score). Lastly, the country risk score provides a level from which government support can be applied for each industry.

Regional Score

West African Economic Monetary Union (WAEMU), Regional Score 3.5; mapping table 3.5 to 4.

GCRs first and only regional score is the West African Economic and Monetary Union ("WAEMU") region. It is created by weighting the country risk scores of each of the underlying member countries. The suffix for the WAEMU regional scale is (WU).

Members of the WAEMU (also known by its French acronym, UEMOA) are Benin, Burkina Faso, Côte D'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. The WAEMU zone was created to promote economic integration among countries that share the CFA franc as a common currency.

After nearly 10 years of robust growth, the WAEMU region is facing various challenges in health, economy and security, although the risks are not evenly spread across the countries. Due to relatively sound lockdown measures, the health impact of Covid-19 virus seems to be moderate in comparison to the Sub-Saharan Africa average. Conversely, economic activity was hit hard and fiscal/monetary policies were relaxed significantly in 2020 to contain the pandemic impact and support the economy. The negative security elements are concentrated on the borders of Niger, Mali and Burkina Faso, where armed groups have been carrying out attacks against the security forces and civilians.

Positively, the International Monetary Fund (IMF) expects regional growth of around 5.4 percent in 2021, but this depends on the shape of the recovery, security risks, return of foreign direct investment, and the control of COVID-19. The IMF also expects a gradual fiscal consolidation to start in 2021 and bring the aggregate fiscal deficit to 3 percent of GDP by 2023.

Country Risk Scores (public)

Republic of Cote D'Ivoire, Country Risk Score 4.5, Mapping Table 4.5 to 5.0 (unchanged).

Cote d'Ivoire's country risk score of '4.5' was maintained because of its economic growth remaining resilient relative to its peers and the regional average, despite impact from the COVID-19 pandemic. GCR expects the country's economic growth to recover well over the medium term, albeit below the pre-pandemic average of 8% per year, driven by among other factors, higher commodity prices and government expenditure supplementing COVID-19 financial assistance from the IMF. As such, Cote d'Ivoire is likely to remain as one of the fastest growing economies in West Africa and the regional hub, despite threats from increasing debt levels, a larger fiscal deficit, as well as increased political tensions.

Republic of Benin, Country Risk Score 3.5, increased from 3.0, Mapping Table 3.5 to 4.0 (increased).

Benin's country risk score of '3,5' reflects its low wealth levels and its reliance on the informal sector which contributes an estimated 70% to GDP and 90% to employment. The country should benefit from projected growth levels over 5.0%, with the GDP per Capita projected at USD1,400 for 2021. The trade impact of the closure of the border with Nigeria was a blow to the economy as a result of Nigeria being the country's biggest export partner (c.50%). Even though the borders were reopened in December 2020, quite a number of restrictions still remain in place. The triple whammy of the compromised trade relationship with Nigeria, the COVID Pandemic and volatile commodity prices, leaves the economy susceptible to shocks and hence our negative outlook in the short to medium term.

Republic of Burkina Faso, Country Risk Score lowered to 2.5 from 2.75, Mapping Table 2.5 to 3.0 (unchanged).

Burkina Faso's country's risk score of '2.50' reflects a lowering in governance indicators due to increased terrorist attacks, paring the country's key strength relative to peers. We believe lower governance further reduces the country's attractiveness, pressurising longer term growth projections and a sound fiscal position. Nonetheless, the combination of relatively low economic impact from the COVID-19 pandemic, firm commodity prices, as well as a good working relationship with the IMF, could limit further downward pressure from relatively recent security concerns which are containable.

Republic of Senegal, Country Risk Score 4.00, increased from 3.75, Mapping Table 4.0 to 4,5 (increased).

GCR noted the GDP per capita of USD1,440 which qualifies for a '2' score. A peaceful pollical environment helps the regional stability on the back of neighbouring country security concerns. Robust historic economic growth is expected to continue from 2021 onwards albeit a slight negative in 2020. Economic activities are geared towards agriculture and future development of oil and gas would further diversify the economy - tourism and transport sectors will continue to be impacted by the pandemic. The Institutional score of '2.25' measures '-0.08' of the average World Bank Governance Indicators and a '50' overall score (114th) on the World Economic Forum Global Competitiveness Index globally. GCR assigned a negative '0.25' adjustment considering the currently restrained fiscal position.

Togolese Republic, Country Risk Score of 1.75, Mapping Table 1.0 to 2.0 (unchanged).

The Togolese country risk score of '1.75' balances the low wealth levels and modest expected economic growth of the country into 2021 of 3%, alongside the strained government fiscal position and moderately weak institutional scores.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2019

GCR Country Risk Scores, August 2021