Debt Sustainability of Poor Sub-Saharan African Countries: a Rating Agency Perspective

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Fitch's assessment of debt sustainability relies upon:

- Estimate of debt burden and capacity to service debt on a near term horizon
  - No attempt to produce debt forecast over long term horizon, in particular for countries vulnerable to external shocks
- Identification of factors susceptible of impairing debt repayment capacity or increasing debt burden

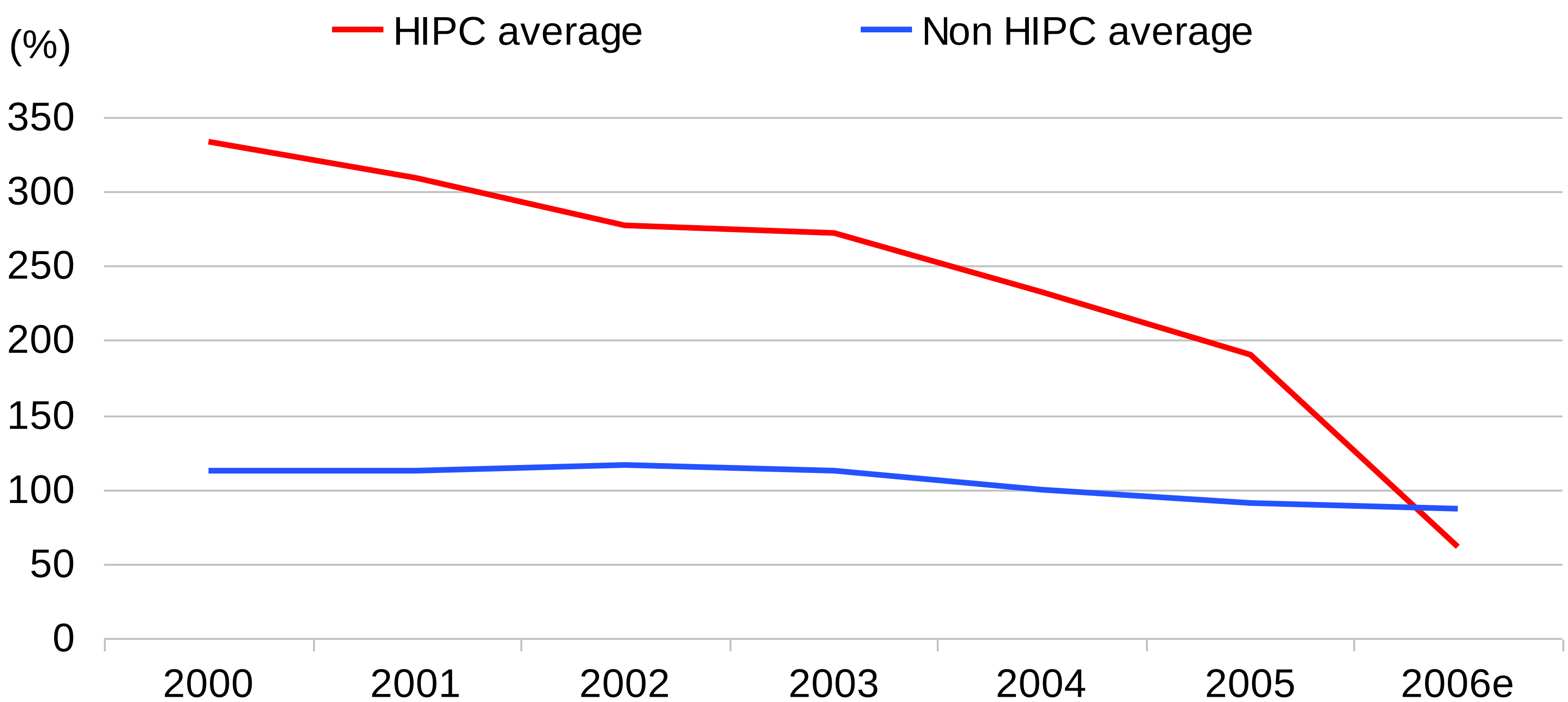
14 SSA countries rated by Fitch

	Foreign Currency Rating (IDR)	Perspective
South Africa	BBB+	Stable
Namibia	BBB-	Stable
Lesotho	BB-	Stable
Nigeria	BB-	Stable
Cape Verde	B+	Stable
Ghana	B+	Positive
Benin	B	Stable
Cameroon	B	Stable
Mozambique	B	Stable
Uganda	B	Stable
Malawi	B-	Stable
Mali	B-	Stable
Rwanda	B-	Positive
The Gambia	CCC	Stable

10 countries eligible for debt relief

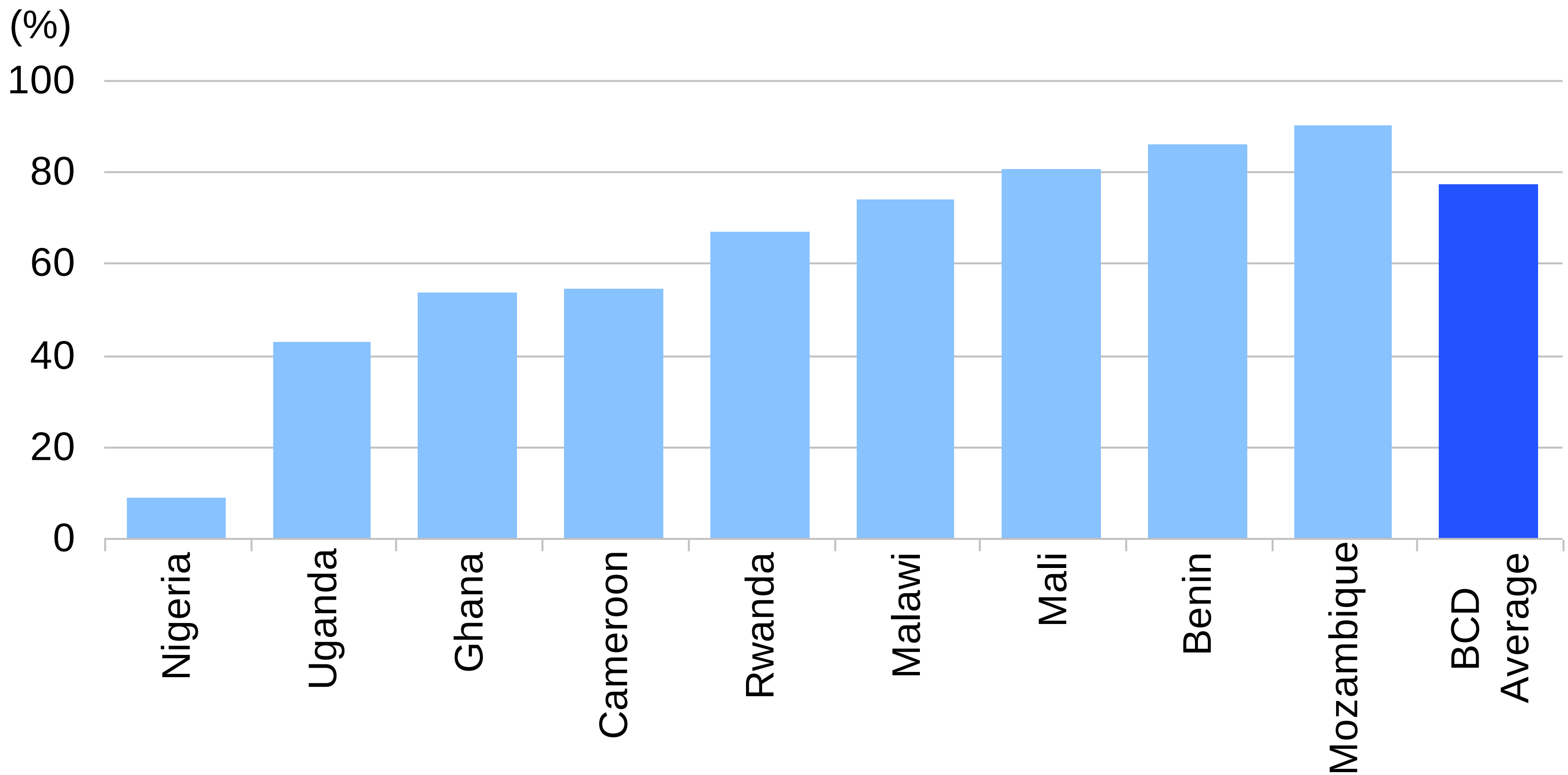
	GDP/head (2006e)	Debt relief obtained
Malawi	169	HIPC/MDRI completed
Rwanda	260	HIPC/MDRI completed
Uganda	309	HIPC/MDRI completed
Mozambique	367	HIPC/MDRI completed
Mali	399	HIPC/MDRI completed
Benin	544	HIPC/MDRI completed
Ghana	554	HIPC/MDRI completed
Cameroon	1 114	HIPC/MDRI completed
Nigeria	844	Non HIPC debt relief
Gambia	310	HIPC decision point
Lesotho	630	Not eligible
Cape Verde	2 219	Not eligible
Namibia	3 083	Not eligible
South Africa	5 215	Not eligible

Gross external debt/current external receipts 2000 - 2006



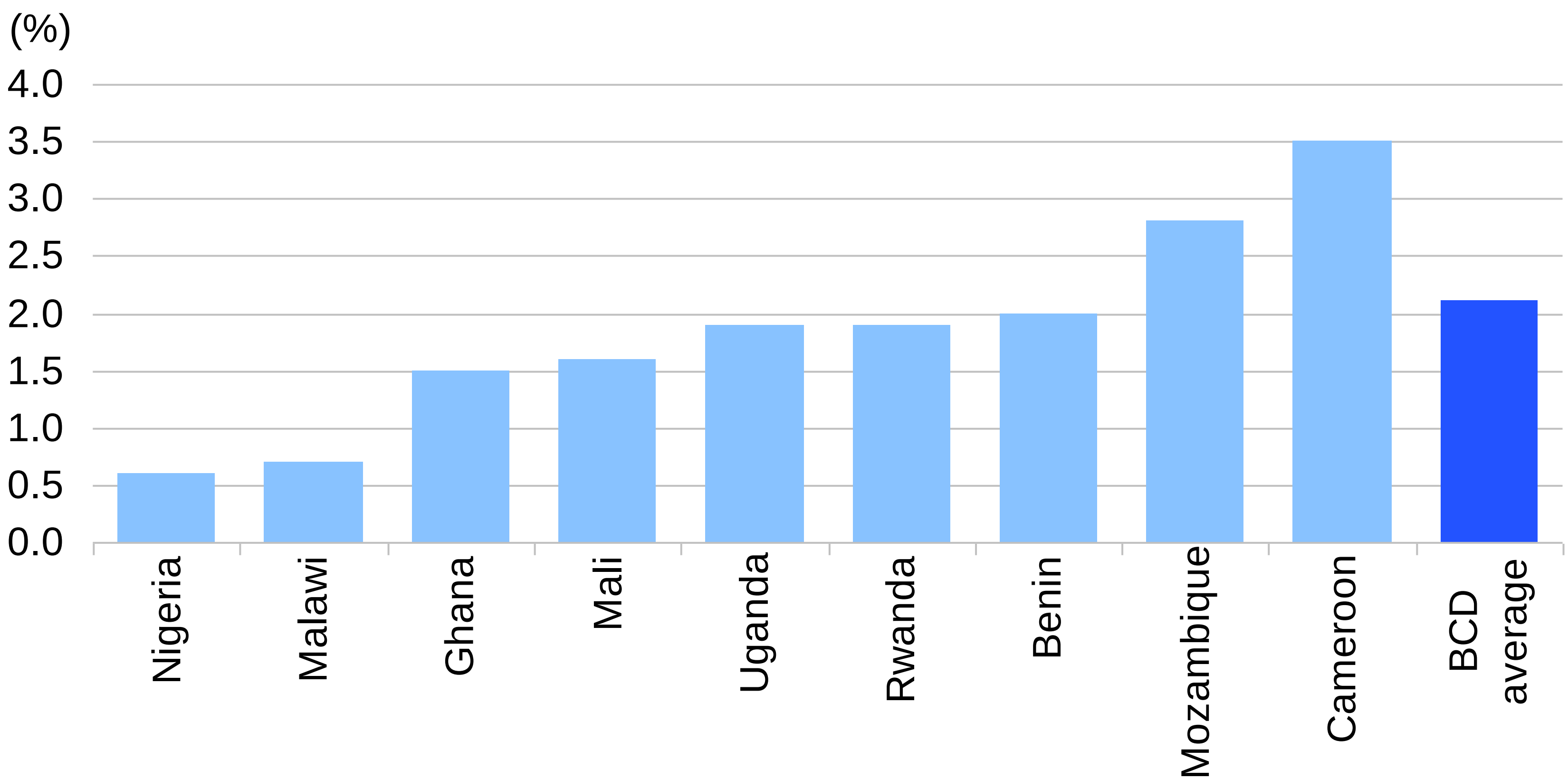
Source: Fitch

SSA poor countries: Gross external debt to current external receipts 2006



Source: Fitch

External interest service/Current external receipts 2006



Source: Fitch

Fitch Ratings KNOW YOUR RISK

Debt relief a limited impact on poor countries' sovereign rating

- Ratings of poor SSA countries remain in B range, except Nigeria

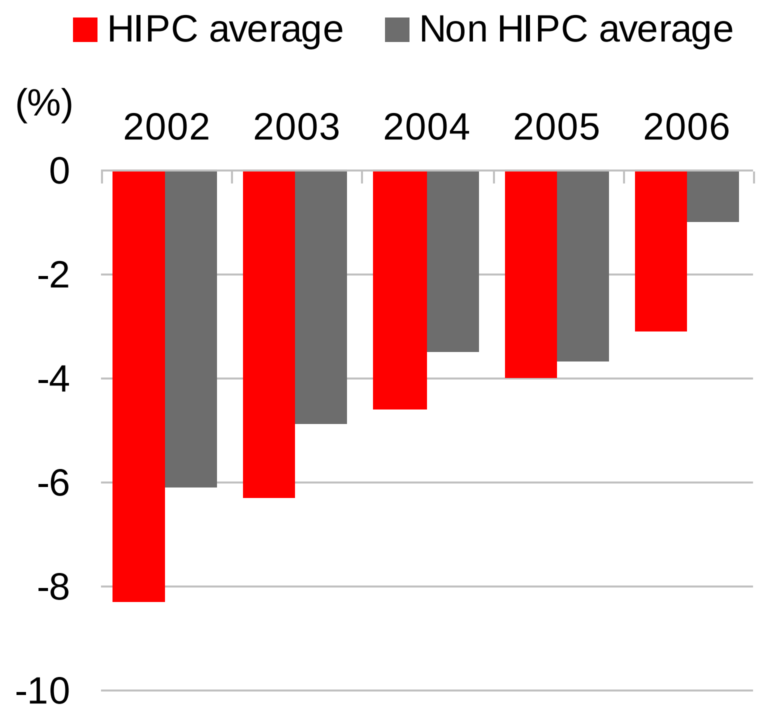
- Rating was upgraded for 3 countries only:
  - Cameroon (2006): to B from B-
  - Ghana (2005): to B+ from B
  - Malawi (2006): to B- from CCC

- Ratings upgrades were not driven by debt relief only.

Debt servicing capacity of poor SSA countries is affected by:

- > Dependency of commodities export
- > Exposure to external shocks
- > Persistence of large current account deficit
- > Delays in implementing structural reforms
- > Governance problems

Current account balance/GDP

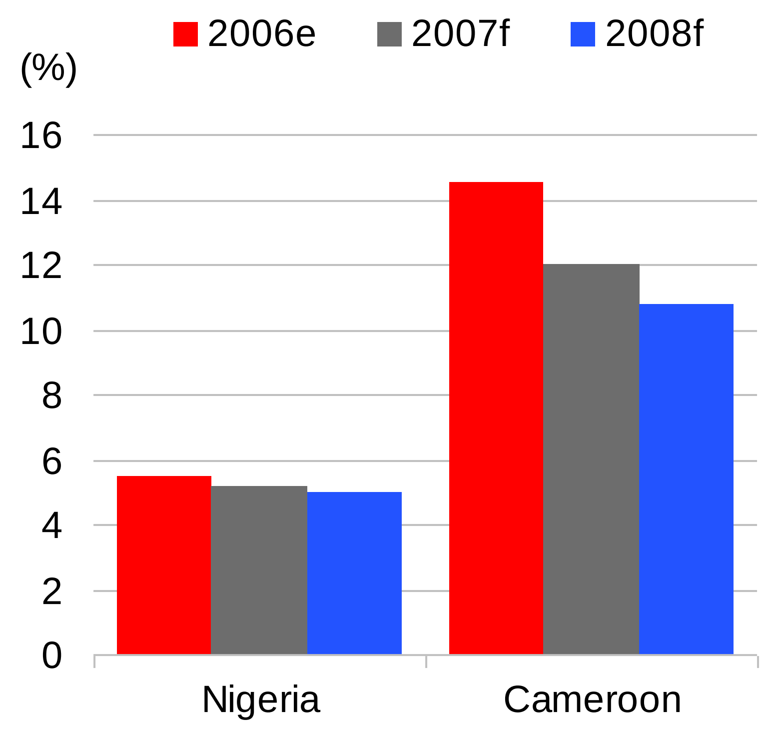


Source: Fitch

Oil producing countries: moderate decline in debt

- \+ Improvement in debt repayment capacity due to large FX inflows from oil exports
- \+ Structural reforms undertaken
- – Weak governance remains a threat

Gross external debt/GDP

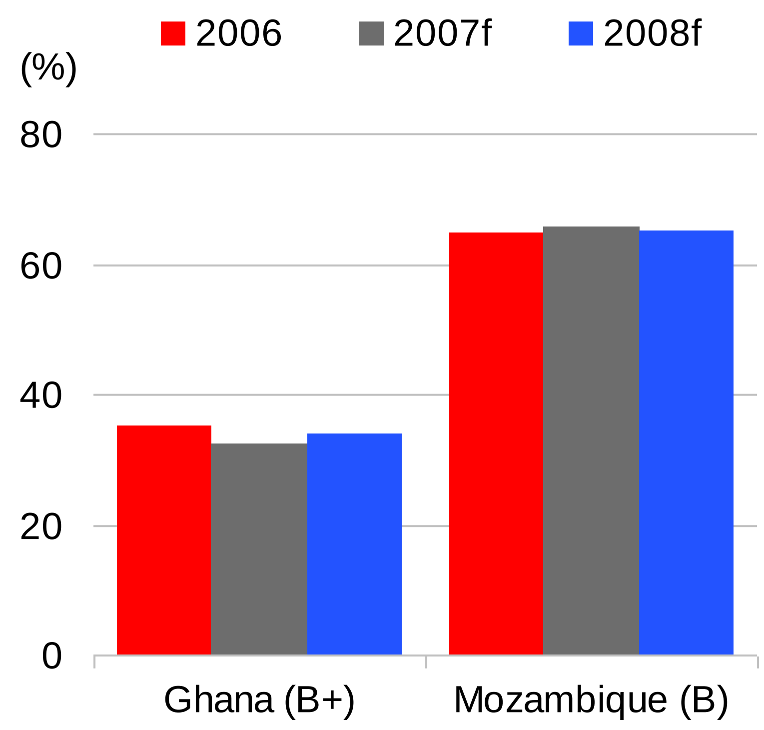


Source: Fitch

Exporters of large FX generating commodities: stabilisation of debt

- + Increase in exports
- + Sustained economic growth
- + Reforms successfully introduced in Ghana
- – Over the long term, remain vulnerable to shocks remain

Gross external debt/GDP

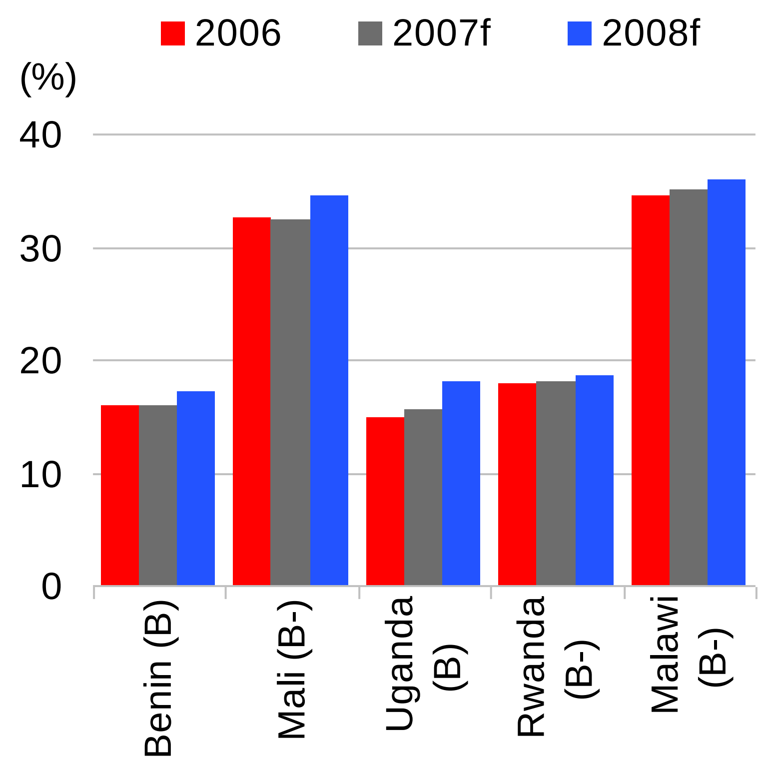


Source: Fitch

Countries with low export potential: debt is expected to increase

- \+ Economic reforms have been launched
- \+ Current account in structural deficit:
  - > Decrease in price of main export products
  - > Negative impact of oil price increase
- – Dependence on development aid

Gross external debt/GDP



Source: Fitch

Concluding remarks

- No major changes in sovereign ratings expected in near term
- Potential threats to debt sustainability: increase in debt resulting from easier access to market (Ghana) or lending from non-Paris club bilaterals (China)

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