Technical Note

STRENGTHENING SOVEREIGN CREDIT RATINGS

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Abstract

This technical note examines how African governments can strengthen sovereign creditworthiness through reforms addressing the institutional, economic, external, fiscal and monetary pillars of credit rating assessments. Drawing on continental diagnostics, it identifies persistent constraints, including debt vulnerabilities, high borrowing costs, shallow domestic markets, incomplete debt disclosure and limited economic diversification. It outlines priority reforms to strengthen fiscal credibility, manage refinancing risks and contingent liabilities, improve debt transparency, and direct borrowing towards productive investment. The note proposes reform sequencing tailored to countries' binding constraints and a monitoring dashboard for tracking progress over 12–24 months. It argues that durable improvements in creditworthiness depend on credible implementation, stronger institutions and greater macroeconomic resilience, supporting more stable market access and lower financing costs.

[1] Prepared for the AUC/OECD report Africa's Development Dynamics 2026: Debt, Capital and Transformation.

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INTRODUCTION

Sovereign credit rating assesses a country's creditworthiness, indicating the level of risk associated with lending. The rating methodology serves as a policy diagnostic, informing reform priorities that improve sovereign's foreign currency and local-currency credit profile over time. For example, under the Standard & Poor's (S&P) public framework, ratings are anchored in five pillars - institutional, economic, external, fiscal and monetary performance, and foreign-currency ratings usually sit within one notch of the indicative rating level (S&P Global, 2019)), while local-currency uplift is typically capped at one notch and may be zero in monetary unions. This document focuses on three policy tasks: diagnosing the main weaknesses that continue to hold back African sovereign ratings, identifying the highest-priority reforms under each pillar, and showing how governments can sequence those reforms to improve market access, borrowing costs and resilience.

CREDIT RATING PILLARS

Pillar	What the pillar is really asking	Core Policy Question for Governments
Institutional	Are policy decisions credible, predictable and transparent	Can markets see a rules-based fiscal and debt management regime, with full disclosure of debt and fiscal risks?
Economic	Can the economy grow, diversify and absorb shocks	Is borrowing being turned into productive transformation, export capacity and a broader tax base?
External	Can the country reliably secure foreign exchange and manage refinancing pressure?	Are international reserves, export earnings and amortization profiles strong enough to service external debt without crisis?
Fiscal	Are deficits, debt and contingent liabilities under control	Is the government moving toward a debt-stabilizing primary balance and credible medium-term debt path?
Monetary	Is inflation contained and is the domestic financial system deep enough to fund the sovereign safely?	Can the central bank preserve price stability while the debt office lengthens maturities and deepens the local market?

Table 1: Credit Rating Pillars, Source: S&P Rating (2019)

CONTINENTAL DIAGNOSTICS: WHERE AFRICAN SOVEREIGN RATINGS ARE BEING HELD BACK

Debt vulnerabilities remain widespread. The first constraint is straightforward: a large share of African sovereigns remains exposed to debt distress or to debt dynamics that are too fragile to support durable rating improvement. As of September 2025, among African countries covered by the Low Income Countries Debt Sustainability (LIC-DSA) framework and with a current published DSA, 17 were assessed at moderate risk of debt distress, 14 at high risk, and 7 were already in debt distress; none of the African countries on the list were assessed at low risk (IMF-World Bank, 2025).This directly impacts the external assessments because high debt service relative to exports and government revenue compresses policy flexibility, while distress episodes weaken market access and credibility. The broader continental picture is also tight: The International Monetary Fund (IMF) noted in October 2025 that African public debt had stabilized only around 65% of gross domestic product (GDP) and that, in many low-income countries, interest rate payments were absorbing about 15% of government revenues (IMF, 2025).

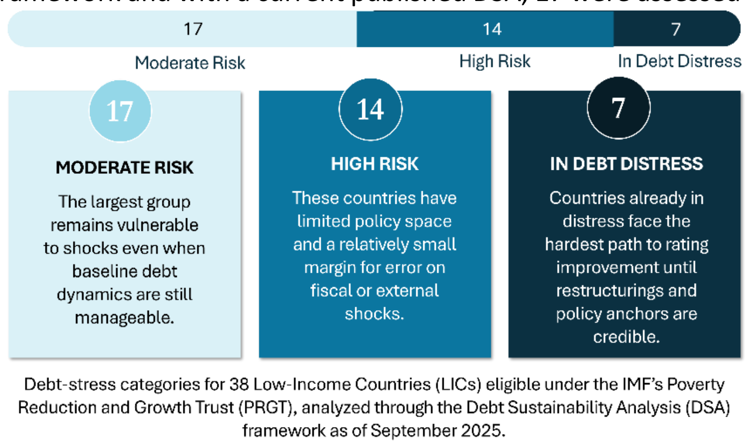

Figure 1: Debt Stress Risks in African PRGT-Eligible LIC-DSA Countries, IMF DSF LIC, 2025

Market-based financing remains narrow, concentrated and expensive. A second constraint is the structure of sovereign financing itself. OECD data show that Africa accounts for only 1% of global sovereign bonds despite representing 3% of global GDP, that around 60% of the 54 African countries analyzed had sovereign bonds outstanding by end-2024 (OECD, 2025). At the same time, borrowing costs remain elevated across both external and domestic markets, but comparisons must be made carefully. The OECD reports that Africa's USD denominated bond yields reached about 9% in 2024, while real yields on local currency bonds were around 5% - their highest level since at least 2007 (OECD, 2025). Since USD yields are expressed in nominal terms while local-currency yields are reported in real (inflation-adjusted) terms, these figures are not directly comparable. In nominal terms, local-currency yields are typically significantly higher, reflecting inflation expectations and currency risk premia, including depreciation risk. What data nonetheless shows is that both external and domestic borrowing costs are elevated in real terms, indicating tight financial conditions and high-risk premia across markets. The OECD further notes that refinancing existing debt at prevailing market rates would require a substantial improvement in fiscal balances, with primary balances needing to strengthen by over 2 percentage points of GDP on average to stabilize debt dynamics (OECD, 2025).

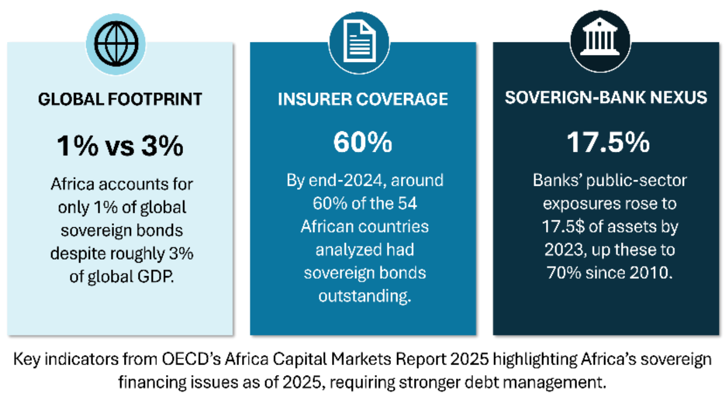

Figure 2: Africa's sovereign financing challenges, OECD, 2025

Domestic markets are too shallow in many jurisdictions and the sovereign-bank nexus is binding. In many countries, the fallback from external markets to domestic borrowing has not yet produced a deep, stable, local-currency market. OECD finds that banks' public-sector exposures across the region increase by close to 70% between 2010 and 2023, reaching 17.5% of assets, alongside a decline in private-sector lending. The same report points to limited institutional investor depth: insurance penetration in Africa is only 3.5% of GDP, roughly half the global average, while pension fund assets amount to about 23% of GDP versus 34% globally (OECD, 2025). This weakness affects both the monetary pillar, because shallow financial systems reduce market-based monetary transmission, and the fiscal pillar, because a narrow investor base shortens maturities, raises rollover risk and intensifies the sovereign-bank nexus.

Debt transparency and debt-perimeter credibility remain uneven. A third weakness is institutional rather than macroeconomic. The World Bank's debt-statistics architecture has become much stronger, but participation in the more granular Quarterly External Debt Statistics (QEDS) and Quarterly Public Sector Debt Statistics(QPSD) databases remains voluntary, meaning that cross-country disclosure of maturity, currency, instrument and broader public-sector debt data is still incomplete (World Bank, 2025). In June 2025, the World bank argued that developing economies need a 'radical' upgrade in debt transparency because governments are increasingly using off-budget or complex instruments, while only 25% of low-income countries disclose loan-level information on newly contracted debt even though more than 75% now disclose public some debt data. For sovereign ratings, this is critical. Hidden liabilities, weak State Owned Enterprises (SOE) reporting, undisclosed guarantees or opaque restructuring terms all weaken institutional assessment and can also trigger negative supplemental adjustment factors if they reveal a much larger debt burden or refinancing need than markets had assumed.

Productive transformation and climate resilience still shape medium term credit quality. Although the S&P methodology does not maintain a separate 'transformation' pillar, its economic and external assessments explicitly reward economies that are wealthier, more diversified, more resilient, and more adaptable. This is particularly important in Africa, where export concentration and climate vulnerability can quickly become rating constraints through lower growth, weaker current accounts, higher fiscal costs and more volatile inflation. Africa's climate-transition financing gaps remain large and that clean-energy investment will need to rise sharply across the continent, including in North and other African regions, particularly West, East, Central and Southern Africa, where financing constraints and pronounced. The policy implication is that sovereign borrowing improves ratings only when it finances assets that widen the tax base, strengthen exports, or reduce recurring external and fiscal shocks (UNDP, 2025)[2].

[2] UNDP Sovereign Credit Ratings: Perspectives for Africa's Development: https://www.undp.org/sites/g/files/zskgke326/files/2025-09/en-sovereign_credit_ratings-africa_development.pdf

WHAT COUNTRIES IN THE REGION NEED TO DO: A REFORM AGENDA:

INSTITUTIONAL ASSESSMENT: MAKE THE POLICY FRAMEWORK VISIBLE, RULES-BASED AND AUDITABLE.

The most immediate institutional gap in many African sovereigns is not the absence of reform plans but the implementation limited credibility. Governments improve this pillar when they can show that fiscal and debt decisions are governed by published rules, timely data and functioning oversight rather than by ad hoc interventions. The priority reforms are therefore practical: publish a quarterly debt bulletin that covers central government debt, guaranteed debt, SOE debt, Public Private Partnership (PPP) obligations and arrears, treasury bond issuance planning; align reporting templates to QEDS and QPSD categories where possible; publish annual fiscal risks statements; reconcile debt stocks with creditor data; and make post-restructuring terms public once agreements are completed. Countries should also strengthen commitment controls, treasury single-account discipline, procurement transparency and the independence of fiscal councils or equivalent watchdog institutions. These steps improve the institutional pillar because they reduce uncertainty around the debt perimeter, make slippage easier to detect early, and give investors confidence that published debt trajectories can be trusted.

ECONOMIC ASSESSMENT: USE DEBT TO WIDEN THE TAX BASE AND REDUCE VOLATILITY

The economic pillar improves when borrowing is visibly linked to productivity, diversification and resilience rather than to recurrent spending. In practical terms, this means hardwiring public investment decisions to productive-transformation priorities: transport and logistics links that lower trade costs, reliable power, digital infrastructure, irrigation and storage for agri-food value chains, industrial zones tied to export capacity, and human-capital investments that support labor-productivity gains. Governments should require rigorous project appraisal, ex-post evaluation and publication of value-for-money assessments for large debt-financed projects. Equally important is broadening the non-resource tax base; economies that can translate growth into stable and diversified revenues are assessed more favorably (OECD, 2025).

EXTERNAL ASSESSMENT: SMOOTH THE AMORTIZATION WALL, REBUILD RESERVES AND REDUCE FOREIGN-CURRENCY DEPENDENCE

In today's market environment, the external pillar is often the decisive constraint for African "frontier/lower-middle-income Market Issuers". [3] The priority is to reduce the probability that a temporary external shock becomes a market-access event. That requires a published medium-term external financing strategy that identifies the next three years of bond amortization, bilateral repayments, IMF obligations and other large external payments, and then sets out how those obligations will be met

[3] OECD Africa Capital Markets Report 2025 defines "frontier market issuers" in its report as lower- and upper-middle-income countries with emerging access to capital markets: [Africa Capital Markets Report 2025 | OECD]

through reserve accumulation, liability-management operations, concessional financial or terming-out of maturities. Countries should use windfall export earnings to rebuild reserve buffers rather than to finance recurrent spending, cap the share of new non-concessional external borrowing where reserve coverage is thin, and shift incrementally toward local-currency issuance when market conditions permit. Export diversification is also rating-relevant policy: reducing reliance on one or two commodities strengthens the current account and foreign-exchange generation (OECD, 2025).

FISCAL ASSESSMENT: RESTORE DEBT-STABILIZING PRIMARY BALANCES AND CONTROL CONTINGENT LIABILITIES:

Fiscal improvement is the most visible route to rating improvement because it affects the debt burden directly and signals policy discipline and credibility to markets. The action agenda has four parts: First, governments need a credible medium-term revenue strategy focused on broadening the tax base, improving tax compliance, and rationalizing exemptions (IMF, 2025). Second, expenditure reform must focus on commitment controls, improving cash and treasury management, rationalizing subsidies, and strengthening the link between capital budgeting and actual implementation capacity. Third, debt management offices should publish annual medium term debt management strategies with explicit cost-risk targets, including maturity lengthening, refinancing profiles, currency composition and the role of concessional finance. Fourth, countries need a harder grip on contingent liabilities: guaranteed debt, SOE borrowing, arrears and PPP exposures should be disclosed, capped and stress-tested centrally rather than left to line ministries.

Box 1. Weak Debt Transparency – Evidence from DevTech's Debt Transparency Monitor

Transparency Gap	DTM Evidence	Implication for Credit Rating
Incomplete disclosure of public debt	Countries disclose on average only 67% of required public debt information	Underestimation of debt burden and fiscal risks
Limited coverage of contingent liabilities	Weak reporting of SOE debt, guarantees, and PPP exposures	Hidden liabilities increase downgrade risk
Poor transparency on creditor composition	Gaps in reporting non-Paris Club and collateralized debt	Uncertainty on repayment hierarchy and restructuring risk
Weak publication of key fiscal documents	Low availability of MTDS, Fiscal Risk Statements, and balance sheets	Weak institutional score under rating frameworks
Fragmented debt data systems	Lack of centralized reporting and coordination	Reduced investor confidence and higher borrowing costs

MONETARY ASSESSMENT: REDUCE INFLATION VOLATILITY AND BUILD A REAL LOCAL-CURRENCY MARKET

For many African sovereigns, stronger local-currency credibility is the most durable way to reduce ratings pressure over time. Improving this pillar requires both monetary policy credibility and domestic market development. On the policy side, central bank independence, disciplined central-bank financing limits, better cash coordination between the treasury and the central bank, and clearer inflation-anchoring frameworks reduce the risk of fiscal dominance. On the market-development side, debt managers should move away from fragmented issuance toward predictable auction calendars, benchmark lines, regular reopenings, repurchase agreement (repo) eligibility, primary-dealer systems and better settlement infrastructure.

PRIORITY POLICY GAPS AND RECOMMENDED REFORMS

Prevailing Gap	How it weakens the rating	Highest-priority reform response	Core Indicators to Monitor
Weak debt transparency and incomplete debt perimeter[4]	Raises institutional risk and can lead markets to discount official debt statistics	Quarterly debt bulletin; full disclosure of guarantees, SOE debt, arrears and restructuring terms; QEDS/QPDS-compatible reporting	Publication lag' coverage of debt bulleting; loan-level disclosure; audit completion
Large external amortization walls and thin reserve cover	Weakens the external pillar and increases the risk of a market-access shock	Three-year external financing plan; reserve accumulation rule; exchanges or buybacks when feasible; can new FX borrowing where buffers are thin	Reserves/months of imports; debt bulleting; loan-level disclosure; audit completion
High interest burden and unstable primary balance	Weakens the fiscal pillar and limits rating headroom even when growth recovers	Primary-balance anchor, medium-term revenue strategy, spending controls, annual debt-management strategy	Primary balance/GDP; interest/revenue' debt/GDP; average time to maturity
Commodity concentration and weak productive transformation	Raises economic volatility and transmits directly into external and fiscal stress	Target debt-financed investment to export diversification, logistics, energy reliability and skills; publish project appraisal results.	Non-resource revenue ratio; export concentration ; growth volatility ; project execution rationale
Shallow domestic markets and strong sovereign-bank nexus	Constrains the monetary pillar and increases rollover risk and crowding out	Benchmark bond program, reopenings, repo market, pension and insurance reform, market infrastructure upgrades	Share of fixed-rate local-currency debt, domestic ATM; secondary-market turnover; bank's public sector exposure

Table 2: Priority Policy Gaps and Recommended Reforms

[4] DevTech's Debt Transparency Monitor finds that countries disclose only 67% of required public debt information. In addition, the report finds a statistically significant positive relationship between increasing debt transparency and improving on credit rating. (PDF) Debt Transparency Monitor.

REFORM SEQUENCING BY COUNTRY TYPE

Countries do not all start from the same rating bottleneck. The most effective strategy is to begin with the constraint that is currently binding, rather than trying to improve all five pillars simultaneously. In practice, four broad country types recur across Africa.

Country Type	Typical Binding Constraint	Immediate Reform Priority	Medium-term rating objective
Frontier Market issuers *(Ghana, Kenya, Nigeria, Egypt)*	External refinancing risk, reserve adequacy and interest burden	Term out the external amortization wall; restore a primary surplus; rebuild reserves; tighten investor communication	Move from crisis prevention to stable market access at lower spreads
Monetary-union sovereigns *(Côte d'Ivoire, Senegal, Benin (WAEMU); Cameroon, Gabon (CEMAC))*[5]	Limited monetary flexibility due to the CFA franc peg to the Euro, combined with dependence on regional reserves (held at the central bank) and regional government securities markets	Use the fiscal anchor credibly; improve debt management and debt transparency; deepen access to regional government securities markets	Maintain external stability and strengthen fiscal resilience within the CFA franc framework. Leveraging the Euro peg and reserve pooling while addressing constraints from limited independent monetary policy.
Resource rich exporters *(Angola, Nigeria, Zambia)*	Procyclical spending commodity dependence and volatile Foreign Exchange inflows	Save windfalls; adopt non-resource fiscal anchors; strengthen hedging, stabilization funds and non-resource revenue	Reduce boom-bust rating volatility and strengthen external resilience
Fragile low-capacity states *(Chad, South Sudan, Central African Republic)*	Institutional weakness, arrears risk and limited debt-management capacity	Prioritize concessional finance, debt recording, arrears management, creditor reconciliation and basic cash controls.	Move from distress prevention to a more credible and transparent debt path.
Larger diversified markets *(South Africa, Morocco, Egypt)*	SOE risks, shallow benchmark curves in parts of the market, and inflation credibility	Tackle contingent liabilities, deepen local benchmark markets, improve SOE governance and strengthen central bank credibility	Create durable local-currency funding advantages and wider rating headroom.

Table 3: Reform Sequencing by County Type

MEDIUM-TERM MONITORING DASHBOARD FOR POLICYMAKERS

The dashboard below keeps the focus on a small set of deliverables that ministries of finance, debt management offices and central banks can realistically track over 12 to 24 months.

[5] WAEMU and CEMAC countries share a common currency (CFA franc) pegged to the euro and backed by pooled foreign reserves, which supports monetary stability but limits independent monetary policy flexibility

Country Type	Typical Binding Constraint	Immediate to medium-term Reform Priority	Medium-term rating objective
Institutional	Quarterly public debt bulletin with broader debt coverage and fiscal-risk statement.	Routine QEDS/QPSD-aligned reporting and audited SOE / guarantee disclosure.	Lower uncertainty around debt perimeter; greater confidence in published debt numbers.
Economic	Debt-financed investment pipeline tied to export, productivity and revenue gains.	Evidence of higher execution quality and lower growth volatility.	Stronger medium-term growth narrative and wider tax base.
External	Published three-year external financing and amortization plan.	Higher reserve buffers and lower near-term refinancing concentration.	Improved external liquidity and lower event risk.
Fiscal	Primary-balance anchor and annual debt-management strategy adopted.	Debt-to-GDP on a declining or clearly stabilizing path; lower interest-to-revenue ratio.	More favorable fiscal-performance and debt-burden assessment.
Monetary	Regular issuance calendar and benchmark local-currency lines.	Longer domestic maturity profile, deeper secondary market and lower inflation volatility.	Greater monetary flexibility and stronger local-market resilience.

Table 4: Medium-Term Monitoring Dashboard for Policymakers

Box II: Illustrative Example: Ghana (Ghana MoF, 2025)

CRISIS AND LOSS OF MARKET CONFIDENCE

- Severe macroeconomic stress, characterized by inflation peaking above 50% in 2022, a cumulative currency depreciation of over 50% against the U.S. dollar, public debt rising to around 85-90% of GDP, and sharp increase in interest payments to over 40% of government revenues, alongside a domestic debt exchange and ongoing external debt restructuring.
- In May 2025, S&P upgraded Ghana from SD to CCC+
- The upgrade reflected progress in restructuring, declining inflation, reinstated fiscal rules, and the IMF-supported program
- The improvement came from a combined adjustment in default risk, fiscal credibility, and macroeconomic stabilization

REFORM MEASURES – COORDINATED POLICY ADJUSTMENTS

- Ghana completed a Eurobond exchange and advanced creditor negotiations, reducing refinancing risk
- Fiscal reforms included reinstating fiscal rules, amending the PFM Act, targeting a 1.5% primary surplus, and correcting slippages
- Macroeconomic conditions improved with stronger growth, higher reserves, better fiscal and external balances, and a return to single-digit inflation in 2025
- These reforms strengthened the institutional, fiscal, external, and monetary assessments

REFORMS SEQUENCING

- The key lesson is sequencing: reducing default risk, reinforcing fiscal discipline, and stabilizing macro conditions
- This distinguishes one-off restructuring from sustained improvement in debt-servicing capacity
- For African sovereigns, debt operations must be paired with fiscal anchors, reserve rebuilding, and inflation control to support durable rating upgrades

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