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Congo-Brazzaville Upgraded To 'B-/B' On Improved Liquidity Conditions; Outlook Stable

Overview

- The approval of the current IMF program's third review in July points to improving reform momentum in Congo-Brazzaville, which should help ease liquidity by facilitating additional support from official creditors.
- This, alongside prospects for increased oil production volumes and a nascent recovery in the non-oil sector, should benefit the country's economy and liquidity conditions, although they remain vulnerable to possible oil price and production shocks given Congo-Brazzaville's high reliance on the oil sector.
- Congo-Brazzaville's timely servicing of its sole Eurobond, despite tight liquidity conditions during 2020 due to the pandemic and oil price shock, demonstrates the government's willingness to service debt since the defaults on its Eurobond in 2016 and 2017.
- We are raising our sovereign credit ratings on Congo-Brazzaville to 'B-/B' from 'CCC+/C' and assigning a stable outlook to the long-term ratings.

Rating Action

On July 28, 2023, S&P Global Ratings raised its long- and short-term local and foreign currency sovereign ratings on Congo-Brazzaville to 'B-/B' from 'CCC+/C'. The outlook is stable.

Outlook

The outlook is stable because we believe decreasing external and fiscal pressure, thanks to ongoing reform and the support of official partners, should balance Congo-Brazzaville's high economic and fiscal risks and general government debt.

Downside scenario

We could lower the ratings if Congo-Brazzaville fails to provide full and timely payment to investors, or if economic growth is weaker than our forecasts, for example, following lower oil production than targeted or a drop in oil prices, and impairs the country's ability to service its commercial debt.

Upside scenario

We could raise the ratings if Congo-Brazzaville strengthened its fiscal and external position significantly beyond our current expectations, and if institutional risks abate.

Rationale

The upgrade reflects improved liquidity conditions in Congo-Brazzaville, amid enhanced prospects for the oil and non-oil sectors, as well as better funding conditions following approval of the IMF program's third review. The latter should also facilitate additional funding from other official donors. We also expect oil production to gradually increase to about 300,000 barrels per day (bpd) by 2026 from 263,000 bpd in 2022 as technical and investment issues that impaired production ease, while oil prices remain reasonably strong.

Congo-Brazzaville's recent track record of servicing its Eurobond on time, during tight liquidity conditions triggered by the pandemic and the 2020 oil price shock, supports our view of the government's increased willingness to service commercial debt since the defaults in 2016 and 2017.

However, the ratings on remain constrained by Congo-Brazzaville's high reliance on the oil sector, which could weigh on economic prospects, and external and fiscal balances. Also, the country's institutions remain weak, in our view and risks to the implementation of the IMF program persist.

Institutional and economic profile: Economic growth will gain traction but continues to rely on volatile oil production.

— Implementation risks related to the IMF program have decreased and reforms have gained momentum, but institutions remain weak.

— Oil production should boost economic activity as production volumes improve and oil prices remain reasonably strong.

— The non-oil sector will benefit from the easing liquidity conditions, supporting growth in the medium term.

The third review of the $455 million Extended Credit Facility, first signed in January 2022, was approved by the IMF on July 19, 2023. Congo-Brazzaville has undertaken a series of reforms to correct performance criteria it missed in the previous review. For instance, it has pledged to significantly cut subsidies to the oil company SNPC, and has increased petroleum prices at petrol pumps. Although implementation risks remain elevated, we believe they have decreased, and Congo-Brazzaville should be able to secure funding through 2023 and 2024.

We forecast GDP growth at 3.7% for 2023, the third consecutive year of growth following a recessionary period. The economy should benefit from solid momentum in the oil and non-oil sectors. Oil production, which accounts for about 45% of the country's total output, will gradually pick up to 300,000 bpd by 2026 from 260,000 bpd in 2022 and 2021. Production remained constrained by sluggish investments in the sector triggered by depressed oil prices in 2014-2020, but investment has started to rise. Although oil prices are forecast to average $83 per barrel (/bbl) in 2023 and $85/bbl in 2024-2026, output, while improving, will

likely stay below the 2019 level of 337,000 bpd. Also, we note Congo-Brazzaville has a track record of below-target production, often owing to technical difficulties, which adds uncertainty to our projections.
Nevertheless, a broadly brighter outlook for the oil sector should have positive spillover effects on the country's non-oil sector. Large oil revenue helped the government reduce domestic arrears accumulated during the recession, easing financing conditions and supporting private investments in the broader economy. Although the recovery remains fragile, we anticipate growth of the non-oil sector should average 3.5% over 2023-2026, and overall GDP growth will average 3.3%. That said, GDP per capita growth will remain weak at 0.6% on average, lower than that of many peers with similar wealth levels.

Risks to our assumptions remain substantial. Congo-Brazzaville is reliant on oil production and highly vulnerable to an oil price shock. The oil sector contributes about 60% of the government's revenue and 80% of exports. Therefore, as shown by the oil price decline in 2014, adverse developments in the sector would lead to lower investments and significantly lower liquidity flows into the economy. Therefore, we believe another oil price shock could dampen economic prospects. Also, maturing oil fields could pose long-term risks because, without significant additional investment, production will decrease by the end of the decade.

Congo-Brazzaville's institutional framework remains weak, in our view. The creation of an anti-corruption agency, simplification of tax codes, and approval of a new anti-corruption law have been implemented in recent years in the context of the IMF negotiations and program. Further efforts in these areas are likely. However, persisting shortcomings in the control of corruption, transparency, and business environment weigh on policy effectiveness and the private sector. Furthermore, there are material gaps in the dissemination of macroeconomic data, as well as reporting delays, and debt management remains a weakness, in our view. The country has accumulated significant arrears, which represented 28% of total debt at year-end 2022. While total arrears have decreased, we note Congo-Brazzaville has recently accumulated external arrears because of the late securing of funding.

Security risks currently appear largely contained. The political environment is characterized by a high concentration of power, with President Denis Sassou leading the country since 1997 and being re-elected in 2021; the ruling party also retained its majority in parliament following the July 2022 elections. Social unrest could erupt amid rising inflation, but we expect it will be contained given the government's strong grip on power. Following years of instability, the situation in the volatile "Pool" region has been stable since the 2017 ceasefire agreement between the government and the former civil war (1997-1998) militia groups.

Flexibility and performance profile: Congo-Brazzaville's fiscal position will benefit from steady oil volumes and prices, but the country faces a steep amortization schedule.

- We believe Congo-Brazzaville will exhibit large budget surpluses, thanks to elevated oil revenue and contained expenditure, but surpluses remain insufficient to cover debt repayments.
- The country should benefit from the support of external creditors to fund its financing gap in 2023 and 2024.
- The country's membership of Economic and Monetary Community of Central Africa (CEMAC) limits exposure to foreign exchange volatility and provides access to larger foreign currency reserves.

We expect Congo-Brazzaville to post a 4.6% budgetary surplus in 2023 on the back of resilient oil receipts and increased taxation of the broader economy. Also, current expenditure growth should remain contained since the country is in the process of phasing out subsidies, amounting to about 15% of total expenditure in 2022, to the state-owned oil company SNPC. Nevertheless, surpluses will likely gradually narrow to 1.6% in 2026. As the country's fiscal space recovers and liquidity conditions ease, we expect government capital investment will increase by 20% per year over 2023-2026. In the meantime, oil receipts, which represent about 60% of total government revenue, should remain broadly stable. Oil production is likely to be about 300,000 bpd, while we forecast Brent prices at $83/bbl in 2023 and $85/bbl over 2024-2026.

We forecast debt amortization will outweigh the country's ability to generate surpluses in 2023-2026. Debt repayment averaging 7.6% of GDP will likely result in a funding gap representing 4.6% of GDP. Half of the amortization payments are due to external creditors, notably to oil traders (20% of commercial debt repayments). Our domestic amortization estimate includes the repayment of Treasury bills on the regional market and arrears to local providers serviced via an escrow account to domestic banks. Eurobond amortization is small at 0.2% of GDP annually.

The tight amortization schedule results from a series of debt restructurings that we have not classified as a sovereign default, since the debt is either non-sovereign or non-commercial in nature. Nevertheless, the debt restructuring should still improve Congo-Brazzaville's ability to service its debt in the medium term. The country restructured liabilities stemming from oil prepurchase agreements between the national oil company and large oil traders (Glencore, Trafigura, and Orion) in 2019-2022 and part of its accumulated domestic arrears totaling 14.5% of GDP in 2021.

We expect the government should be able to contract funding from official lenders in 2023 and 2024 to cover its financing gap. Following the approval of the third review of the IMF program, Congo-Brazzaville got immediate access to funding of about CFA franc (XAF) 25 billion (about $43 million). We regard this as a promising sign that the World Bank would agree to provide a $50 million loan to the country in the second half of the year. In our view, the government could also get funding through issuances in the narrow regional market.

We forecast debt will gradually decline as a percentage of GDP, but remain elevated compared with that of peers in CEMAC. Our net debt-to-GDP ratio looks set to decrease to 82% in 2026 from 100% in 2022. Although Congo-Brazzaville generates surpluses, some of them are allocated to the reduction of accumulated arrears, notably to commercial suppliers and social security. Audited arrears (XAF1,358 billion or about 16% of GDP) halved in 2022 compared to 2021. Moreover, the amount of Congo-Brazzaville's debt is sensitive to foreign exchange movements, given about 60% of general government debt was issued in foreign currency (50% excluding debt denominated in euros). Contingent liabilities are high and represent about 30% of GDP.

We expect the current account balance will remain significant, averaging 11% of GDP in 2023-2026, but below the record 21% posted in 2022. Elevated oil prices have supported the current account balance in recent years. Looking ahead, we expect the rise in exports resulting from higher production and steady oil prices will be partly offset by rising imports on the back of increased domestic consumption. However, our forecasts remain highly sensitive to the evolution of oil prices.

We view Congo-Brazzaville's membership of CEMAC as positive, since it reduces most external risks. The country gets access to CEMAC's pooled stock of international reserves, which limits country-specific balance-of-payment risks, especially given Congo-Brazzaville's very low imputed reserves. In addition, the CFA franc's peg to the euro, supported by the French government's guarantee of convertibility (at a rate of XAF655.957 to €1), limits devaluation and inflation risks. Amid stubborn inflation, the regional central bank has gradually tightened monetary policy and raised its main policy rate to 5.0% from 4.5% in March 2023. We expect inflation in Congo-Brazzaville to gradually slow toward 3% by 2026.

Key Statistics

Table 1

Congo-Brazzaville--Selected Indicators

	2017	2018	2019	2020	2021	2022	2023	2
ECONOMIC INDICATORS (%)								
Nominal GDP (bil. LC)	6,442	7,593	7,564	6,036	6,723	7,799	8,071	8
Nominal GDP (bil. $)	11	14	13	10	12	13	13	1
GDP per capita (000s $)	2.2	2.6	2.4	1.9	2.1	2.2	2.2	2
Real GDP growth	(4.4)	(4.8)	1.0	(6.2)	1.5	2.8	3.5	3

Real GDP per capita growth	(6.8)	(7.2)	(1.5)	(8.5)	(1.0)	0.3	1.0	0
Real investment growth	(49.3)	(25.2)	(2.3)	(37.9)	33.6	7.3	(4)	(9
Investment/GDP	37.3	25.2	23.8	17.7	21.8	26.9	37.3	3
Savings/GDP	34.4	31.3	24.2	17.6	36.6	48.3	50.8	4
Exports/GDP	58.1	71.0	72.9	57.0	72.9	89.8	82.9	8
Real exports growth	14.4	11.4	7.4	(11.1)	13.8	2.4	9.4	1.
Unemployment rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N
EXTERNAL INDICATORS (%)								
Current account balance/GDP	(2.9)	6.2	0.4	(0.1)	14.8	21.4	13.5	1
Current account balance/CARs	(5.2)	9.0	0.6	(0.2)	21.5	25.3	17.3	1
CARs/GDP	55.2	68.4	64.9	53.0	69.1	84.6	78.1	7

Trade balance/GDP	21.6	38.5	36.0	24.9	41.2	50.8	43.2	4
Net FDI/GDP	3.0	2.5	3.5	2.6	1.8	4.7	4.7	4
Net portfolio equity inflow/GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
Gross external financing needs/CARs plus usable reserves	129.6	114.9	126.2	125.2	95.5	89.7	99.3	9
Narrow net external debt/CARs	170.2	102.7	109.3	158.0	104.6	94.0	85.7	8
Narrow net external debt/CAPs	161.9	112.9	109.9	157.7	133.2	125.8	103.6	9
Net external liabilities/CARs	606.7	394.0	440.8	664.6	443.5	368.5	348.5	3
Net external liabilities/CAPs	576.8	432.9	443.6	663.4	564.8	493.5	421.4	3

Short-term external debt by remaining maturity/CARs	41.8	29.9	34.3	48.4	29.7	22.9	25.1	1
Usable reserves/CAPs (months)	1.5	0.7	0.7	2.2	2.0	1.4	1.2	1.
Usable reserves (mil. $)	491	494	1,041	1,110	931	887	887	8
FISCAL INDICATORS (GENERAL GOVERNMENT; %)								
Balance/GDP	(3.7)	5.4	2.7	(0.7)	1.8	11.0	4.6	3
Change in net debt/GDP	12.7	(3.7)	0.4	12.8	18.4	0.0	(2.1)	(1
Primary balance/GDP	(2.3)	7.6	6.0	0.6	4.1	13.9	7.4	6
Revenue/GDP	17.7	24.9	26.5	21.9	24.9	35.5	31.0	3
Expenditures/GDP	21.5	19.4	23.7	22.6	23.1	24.5	26.4	2
Interest/revenues	8.3	8.6	12.1	6.1	9.1	8.3	9.0	8
Debt/GDP	98.3	77.7	80.7	112.1	120.9	104.3	98.6	9

Debt/revenues	554.1	312.6	304.7	512.2	485.7	293.7	318.5	3
Net debt/GDP	94.3	76.3	77.0	109.3	116.5	100.4	94.9	9
Liquid assets/GDP	4.0	1.5	3.7	2.8	4.5	3.8	3.7	3
MONETARY INDICATORS (%)								
CPI growth	0.5	1.2	2.2	1.8	1.7	3.0	3.3	3
GDP deflator growth	11.3	23.8	(1.4)	(14.9)	9.7	12.9	0.0	0
Exchange rate, year-end (LC/$)	546.95	572.89	583.90	534.56	579.16	615.00	607.42	5
Banks' claims on resident non-gov't sector growth	(6.8)	(1.6)	(3.0)	(0.8)	11.4	4.0	4.0	4
Banks' claims on resident non-gov't sector/GDP	16.7	14.0	13.6	16.9	16.9	15.2	15.2	1
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N

Foreign currency share of residents' bank deposits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N
Real effective exchange rate growth	(0.8)	1.3	(3.5)	2.3	0.5	(5.9)	N/A	N

Sources: Ministry of Finance (economic indicators); IMF (monetary indicators); Ministry of Finance, General Directorate of the Treasury, and General Directorate of Public Debt of the Congo (fiscal indicators); Central Bank of the Congo and Bank for International Settlements (external indicators).

Adjustments: Guaranteed debt to Sicomines is not included in general government debt.

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private-sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Congo-Brazzaville--Ratings Score Snapshot

KEY RATING FACTORS	SCORE	EXPLANATION
Institutional assessment	6	Weak political institutions, resulting in an uncertain policy environment in periods of stress, including diminished capability and willingness to maintain timely debt service.
		Weak enforcement of contracts and respect for rule of law. Impaired transparency owing to lack of data and information flows and high levels of perceived corruption of political institutions.
		Congo-Brazzaville has a track-record of default, but its commitment to service commercial debt obligations has improved slightly. The country has accumulated arrears to domestic providers and official creditors.

Economic assessment	6	Based on GDP per capita ($) as per the Selected Indicators table above
		Weighted-average real GDP per capita trend growth over a 10-year period is below that of peers.
		Shortcomings and gaps in macroeconomic data remain, in addition to reporting delays and revisions
External assessment	6	Based on narrow net external debt and gross external financing needs as per the Selected Indicators table above.
		Congo-Brazzaville has a much weaker net external position than narrow net external debt indicates.
		The country is exposed to significant volatility in terms of trade due to its high dependence on the oil sector.
		Debt issuance constraint exist from the 2016 and 2017 defaults and the possibility of new litigation with Commisimpex in case of a new issuance.
		Congo-Brazzaville's external data are incomplete, lack consistency and clarity, and are frequently revised.

Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per the Selected Indicators table above.
		Volatile revenue base. Over 60% of general government revenue is based on oil production.
		The general government's ability to raise revenue in the near-term is limited. The country has a significant shortfall in basic services to the population and infrastructure that is likely to result in spending pressures for an extended period.
Fiscal assessment: debt burden	6	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenue) as per Selected Indicators in Table 1.
		About 60% of gross government debt is denominated in foreign currency.
		Non-residents hold about 60% of government commercial debt.
		Congo-Brazzaville faces contingent liabilities risk due to a legal dispute with Commisimpex, as well as rejected domestic arrears and SOE debt.

Monetary assessment	5	In line with the rest of the Central African Monetary and Economic Community (CEMAC) members. On our key measure of credibility – inflation – the zone does very well (especially compared with other Sub-Saharan African countries).
		The regional central bank's (BEAC) primary objective is to ensure price stability, its second objective is to support economic policies in CEMAC. Although governance is typically very poor in CEMAC countries where political interference is frequent, we believe BEAC remains independent.
Indicative rating	b-	As per table 1 "Sovereign Rating Methodology".
Notches of supplemental adjustments and flexibility	0	
Final rating		
Foreign currency	B-	
Notches of uplift	0	We do not believe that default risks apply differently to foreign and local currency.
Local currency	B-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology , Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments , May 18, 2009

Related Research

- Sovereign Risk Indicators, July 10, 2023. An interactive version is available at www.spratings.com/sri
- Sovereign Ratings List, July 10, 2023
- Sovereign Ratings History, July 10, 2023

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

UPGRADED		

	TO	FROM
CONGO-BRAZZAVILLE		
Sovereign Credit Rating	B-/Stable/B	CCC+/Stable/C
UNCHANGED		
Transfer & Convertibility Assessment	BBB-	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

Regulatory Disclosures For Each Credit Rating Including Ratings List Table

Disclosures include requirements relating to press releases or reports published in accordance with Article 10(1), 10(2), and 10(5), and Annex I, Section D, I, 1, 2, 2a, 4, and 5. These requirements are available by rating via the link titled "Regulatory Disclosure" and include, but are not limited to:

- Key Elements Underlying The Credit Rating
- ESG Credit Factors
- Solicited Or Unsolicited Status
- Analysts Primarily Responsible For The Credit Rating
- Office Responsible For The Credit Rating
- Materials Used In The Credit Rating Process
- Criteria Applied
- Models Applied, Loss, And Cash Flow Analysis Performed
- Scenario Analysis
- Sensitivity Analysis
- Risk Warning, Understanding Credit Rating Categorizations, And Criteria
- Rated Entity Notification
- Ancillary And Additional Services
- Attributes And Limitations Of The Credit Rating
- Information Specific To Structured Finance And Securitization Instruments

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