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A $75 BILLION DOLLAR QUESTION: DO AFRICAN COUNTRIES SUFFER A SYSTEMATIC SOVEREIGN CREDIT RATINGS BIAS?

ABSTRACT

In this paper, we investigate whether we can detect a systematic ratings bias against African countries based on the ratings provided by the major credit ratings agencies using data for 132 economies from 2000 to 2023. This is not a trivial question as estimates of the costs of this potential subjectivity are in excess of over $75 billion dollars. Following the COVID-19 pandemic and the Russian/Ukraine war, African countries argued that the major credit ratings were very quick to downgrade them. The COVID-19 pandemic and the Russian/Ukraine war put fiscal strain on African governments as many had to borrow to cope with the crisis. Our empirical analysis, offers some credence to the arguments by African countries. We find that during this period, African countries received more adverse ratings compared to other countries. Further, the ratings of African countries were less stable as more non-African countries did not experience changes in their ratings. Indeed our findings show that the difference or gap in the credit ratings of African countries compared to non-African countries widened after 2015. In terms of the top predictors of credit ratings, the quality of institutions, energy usage, financial development, the labour force participation rate, central bank independence, and the level of reserves were some of the top predictors. Interestingly, though Africa is not a top predictor, it ranks above COVID-19, HIPC countries, the Russian/Ukraine war and fragile and conflict countries as predictors of the credit rating.