

# Trip Notes



Policymaker meetings in Senegal, Ivory Coast and Gabon

View from Abidjan, Ivory Coast

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# Overview

We visited three countries in French-speaking Africa: Senegal, Ivory Coast, and Gabon. Senegal and Ivory Coast are part of the Western African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS), while Gabon is part of the Central African Economic and Monetary Community (CEMAC).

All three economies share many similarities. They are part of currency unions with currencies pegged to the euro (the West African CFA franc, XOF, and the Central African CFA franc, XAF), which has kept inflation moderate. They also have hydrocarbon production, although it is only now ramping up in Senegal and Ivory Coast, and they have experienced political events in the past and/or will have elections this year year.

However, the stories for each country are different. In Senegal, the focus lies on its hidden debt crisis, where public debt was underreported by over 25 percentage points, and the fiscal deficit is at a much higher level. In Ivory Coast, election violence is the main concern for the upcoming presidential elections in autumn. In Gabon, there are questions about growth and public debt under the new regime following the military coup in 2023.

All these economies benefit from their respective monetary unions, which help keep inflation low thanks to the stable currency guaranteed by the French central bank and the pooled reserves of the regional central banks. Local bond liquidity and government market access is facilitated by well-functioning central banks, that allow for banks to use government bonds and bills for their refinancing operations. Open borders further enhance trade and economic activity.

Picture of a LNG tanker outside of Dakar



# Senegal

The first stop of the trip was in Senegal, which was also the most anticipated. In autumn, Senegal reported on discovered hidden debt by the previous administration and initiated an audit process. Initially, the reported numbers were around 10%, but as the audit concluded in February, it was revealed to be over 25%-points higher than previously reported. The fiscal deficit was also reported at over 12%, prompting a strong revaluation of the country's financial situation. Consequently, discussions in Senegal focused on the new situation and the realities of financing its debt.

According to authorities, the hidden debt problem was orchestrated by a few top ministers and technocrats, and it succeeded because data reported to the IMF was only done on an aggregate level. There is a strong signal that processes and systems will be changed to prevent this from happening again. Planned changes include having only one agency handle debt management and making the person responsible for a public project personally accountable for the financing process. Previously, many different parts of the government could run their own budgets and borrowings for public investment projects.

In 2024, Senegal finally began its long-awaited hydrocarbon production. Thanks to strong hydrocarbon production, growth numbers have been solid in the country. Additionally, non-hydrocarbon growth is around 4%. Growth forecast for 2025 is around 8.5% which is revised down from earlier expectations of around 10%. Revenue expectations from hydrocarbons are however small, at around 100 million USD, accounting for only about 0.3% of GDP,

Senegal is supported by the WAEMU and the union currency XOF, which is pegged to the euro and guaranteed by the French central bank. As a result, the currency has remained stable,

keeping inflation moderate (forecast around 2% for 2025). Senegal also has access to the pooled reserves of the union (around 4.7 months of imports and growing), which includes eight countries. The system supports domestic financing for the country, as any bank in the union can participate in domestic government bond or treasury bill auctions and use the instruments for refinancing operations with the central bank. Thus, the domestic bond market still provides a (reasonably) reliable source of funding. Although questions were raised about potential risks to changes in how Senegalese government bonds are treated in terms of repo and capital rules, those worries were dismissed. There are some signs of investors demanding higher yields on the local market, but the difference between Ivory Coast and Senegal's bonds remains small compared to the difference in fundamentals.

Much of the discussion centred on how Senegal would achieve a manageable fiscal deficit and debt level. WAEMU rules state that government debt should not exceed 70%, whereas Senegal's debt now lies at over 100%. Estimates for the debt level at the end of 2024 range between 110 and 120%, with expectations that peak debt will come in 2026. The fiscal deficit goal for the new administration, elected in 2024 with a social policy mandate, is now around 7%, and dropping to 3% by 2027. This is quite optimistic, as most proposed actions are on the revenue side, such as removing certain tax exemptions and introducing new taxes. On the cost side, they plan to review public investments and be ready to sell those deemed not to be good investments. Subsidies are also a major topic, with the administration aiming to lower all subsidies to 2% of GDP. While this might be achievable, fiscal consolidation has never been easy. A 5%-point reduction without frustrating the population, which is already feeling economic pressure, might prove to be a tall task.

# Senegal

Senegal needs to refinance more than \$7 billion in 2025. Much of this hinges on the IMF, as an IMF package could unlock other financing sources, such as the World Bank and the Eurobond market. The IMF is currently focusing on the misreporting process, which addresses what to do when a borrower has misreported its figures. This process will conclude sometime in April, followed by talks with the authorities that might unlock a new program. The IMF's debt sustainability analysis (DSA) will be key. As it stands, Senegal is likely to breach all five DSA thresholds in 2025, leaving the IMF to determine if there is a realistic plan to bring down the numbers in the future without restructuring. But as noted earlier, access to the domestic market does support debt sustainability.

Adding to the uncertainties in the region and Senegal, ECOWAS suffered a setback as the Alliance of Sahel States (AES) left the partnership. However, AES did not leave WAEMU, and most people on the ground feel this will not be a risk, at least in the short to medium term. AES's departure from ECOWAS did not cost them much, as free trade and free movement within the ECOWAS region were maintained. By staying in WAEMU, they still benefit from the pooled reserves and pegged currency. There were, of course, discussions on the pressure on WAEMU due to both the AES situation and Senegal's situation. However, WAEMU reserves have grown from 3.3 to 4.7 months of imports. Inflation in the region has fallen, growth remains strong, and Ivory Coast continues to be a strong anchor driving the union forward.

**Our view:** Senegal has previously been one of the core positions in our Hard Currency strategy. However, since the official fiscal audit was delayed at the beginning of 2025 we started to decrease our position. We have further reduced our exposure in February after the worse-than-expected audit results were published.



Picture of the regional central bank BCEAO office

# Ivory Coast

The next stop of the trip was in Ivory Coast, which has been a solid performer in both growth and fiscal performance. Ivory Coast is also a member of the WAEMU and enjoys the same benefits that the currency and economic union bring. Compared to Senegal, the fiscal situation is on solid footing, and discussions focus more on whether the country will achieve an investment-grade rating than downgrades. However, discussions during the trip centred on the upcoming presidential elections, as Ivory Coast has a troubled history with them. The last elections in 2020 resulted in over 50 deaths, and the 2011 elections led to the second Ivorian civil war. As such, fears of election violence were the main concern.

The candidates who will run for president have not yet been officially named by most parties. The incumbent president, Alassane Ouattara, has not confirmed his participation, but expectations are that he will run for a fourth term. In the 2020 elections, violence was sparked because, by law, he should not have been able to run for a third mandate, but his candidacy was accepted, leading to violence. The main opposition candidate is Tidjane Thiam, who is running for the Democratic Party of Ivory Coast (PDCI). The situation is complicated by the fact that Thiam has not set foot in Ivory Coast in 20 years and had to renounce his French citizenship, as Ivorian law states that only Ivorian citizens can run for president. The process to renounce citizenship is not fast and can lead to issues if the election committee demands official documentation.

The expectations on the ground are that there will not be any violence, as people are afraid of a repeat of 2011 and want to avoid it. Of course, there is always a risk when it comes to ethnic differences, as Ivory Coast is split into a South/North grouping (with many ethnic groups within these divisions). However, in 2020, violence was moderate, albeit tragic, compared to the civil war of 2011, and improved living conditions over the years should support more peaceful elections. Twenty to thirty percent of people living in Ivory Coast are foreign-born, and 50% of people live in Abidjan.

From a political point of view, the difference between the two parties is negligible, with a focus on education, youth unemployment, moving up the value chain, keeping growth high, and attracting foreign investors. Growth has been impressive in the country, averaging around 6.5% over the last few years, according to the IMF. The growth has also been broad-based, with cocoa, cashew nuts, gold, and now hydrocarbon production coming online. A lot of focus has been put into attracting foreign investors and moving up the value chain, which has been successful as Abidjan has become a regional hub for business, and a significant portion of exported cocoa (30%) and cashew (80%) is now refined locally.

Energy production is still an issue in meeting local demand, and the government is working on this together with the World Bank. Hydrocarbon production should help. Low literacy rates are another major obstacle, with only around 50% of the population being literate. The government has invested heavily in education, building schools in rural areas and increasing the number of universities from 3 to 9 over the last 15 years. However, youth unemployment remains high (despite official figures), putting a strain on the young population. An issue is that most of the generated wealth is created by foreign companies and then moved outside the country. Lifting Ivorian businesses is a goal, but the know-how is still low.

**Our view:** Ivory Coast is one of the high conviction positions in our Hard Currency strategy. We believe the positive credit trajectory is supported by high growth expectations as well as, a diversified and balanced economy. The rapid development of hydrocarbon production is supporting growth outlook for coming years. We expressed our interest in investing in local currency bonds issued by the government already in previous talks.

# Gabon

Gabon was the last stop of the trip. Gabon is a small country by population, with around 2 million people, but it has a relatively large land mass. Most of the land is covered by rainforest, which, according to Gabon's reports, makes it one of the few net-zero countries in the world. Ironically, the main export and product is oil, mostly extracted from old oil fields. In addition to oil, manganese and wood dominate its export production. Thanks to the oil and a low population, Gabon is relatively wealthy for a Central African country, with a GDP per capita of around \$8,000.

Gabon is part of the Central African Economic and Monetary Union (CEMAC), which consists of six countries. Like WAEMU, CEMAC has a common currency pegged to the euro and guaranteed by the French central bank, with pooled reserves. The domestic local currency market works similarly, where local banks can refinance using government bonds. The union is economically dominated by Gabon and Cameroon, both currently rated as CCC by Moody's which does increase risks for the union. The monetary union and pegged currency have helped keep inflation stable at around 3%.

Arriving in Gabon, there was a sense of waiting, as presidential elections were just four weeks away. The election is more of a formality to legitimize the military general who arranged a coup in 2023, ousting president Ali Bongo. Interestingly, the new president-to-be is a cousin of his. Due to the upcoming elections and uncertainty about who will be tasked with ministerial duties, all the offices were hesitant to discuss next steps. On a positive note, the relationship between the IMF and the government has improved recently, and officials noted their interest in working with the IMF through a technical assistance program. However, the IMF cannot have formal discussions with a transition government, so formal discussions must wait until after the election.

Gabon has been focusing on diversifying its economy away from oil. Oil is still the largest export product, accounting for around 37% of government revenue, but these numbers have decreased. Goals include growth in the extraction sector, particularly iron and manganese, agriculture with the aim of providing food for the rest of Africa, and tourism. While the plans are understandable, the long time horizon and many uncertainties make it difficult to predict their success.

Gabon still suffers from very weak institutions, e.g. problems with VAT repayments, are more due to a lack of institutional know-how than liquidity issues. At the same time, the government is constrained by fiscal tightness, with government debt over 70% in 2024, according to the IMF, which does not bode well for future public investments. As such, there is a focus on attracting foreign private investors, but due to the change in government, weak institutions, and weak infrastructure outside the capital, the country has struggled to attract new investments. This has led to slow growth of around 3% in recent years. The economy is also very reliant on manganese and oil prices, and fluctuations in these will quickly be visible in both fiscal and growth numbers.

On the positive side, Gabon has minimal refinancing needs this year, with a large Eurobond issuance at the beginning of the year and 60-70% of its domestic financing already secured. This allows the Ministry of Finance to work on new processes, solve its large arrears problem, and improve investor communication.

**Our view:** We have a small Gabon position in our Hard Currency strategy, mainly to diversify our exposures within lower rated (CCC) credits.

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