

INTO AFRICA

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AFRICA IN 2016: THE JOURNEY SO FAR

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Cover Image : At the 2016 Half Year point African Economies face stiff challenges of uncertainty and falling prices intercepted with revised ratings and stalling giants, yet there remains a hint of optimism. Our image invites us to assess how African Economies have fared so far and take a look at the road ahead.

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Welcome to the September edition of **INTO AFRICA**, a publication with fresh insight into Africa's emerging capital markets. This edition reviews Africa's economies in the first half of 2016, and is aptly timed as it coincides with a slump in fortunes for an African Giant, South Africa regaining the position of Africa's largest economy and China, one of Africa's major Trade partners, hosting World Economies at the G20 Summit hence its title: **Africa in 2016: The Journey So far!**

After a prolonged period of strong economic growth, Sub-Saharan Africa (SSA) is set to experience a second difficult year as the region is hit by multiple shocks, the IMF said in its latest Regional Economic Outlook for Sub-Saharan Africa. The IMF report shows that growth fell to 3.5 percent in 2015, the lowest level in 15 years. Growth for 2016 is expected to slow further to 3 percent, well below the 6 percent average over the last decade, and barely above population growth.

The commodity price slump has hit many of the African economies hard. While oil prices have recovered somewhat compared to the beginning of the year, they are still more than 60 percent below 2013 peak levels—a shock of unprecedented magnitude. As a result, South Africa, Nigeria, Egypt and Angola, as well as Ghana and Zambia, continue to face particularly difficult economic conditions.

How have Sub-Saharan African (SSA) countries weathered the storm so far in 2016? For answers read **Celeste Fauconnier**, **Nema Ramkhelawan-Bhana** and **Neville Mandimika** (Africa Analysts, Rand Merchant Bank, South Africa) who provide a review of African economies. They highlight both endogenous and exogenous factors as well as state that the SSA is swimming against a tide of rising debt.

In the article, *The State of South Africa's Economy: Half-Year Review and Prospects*, **Hanns Spangenberg**, Senior Economist, NKC African Economics, South Africa, gives an overview of the South African economy in 2016. In the same context, **Andrea Masia**, Economist, RMB Morgan Stanley, South Africa, analyses South Africa's economic performance from a different angle in *South Africa's Economy Diagnosis: welcome to Stall Speed*.

As many African countries are experiencing budget and fiscal deficits, **Christine Asiiimwe Namany**, Macroeconomic Policy Analysis Division, Bank of Uganda furnishes us with how funds can be raised to finance budget deficits in Uganda. Her article titled: *Raising Capital to Balance Budget Deficits in Uganda: Issues, Options, and Strategies* is extremely insightful.

Looking at Nigeria, **Pabina Yinkere**, Head of Research, Vetiva Capital Management Nigeria provides an economic review of policy action in time of uncertainty in the article: *Nigeria: Policy Action in a Time of Stagflation*. While **Tiago Dionisio**, Chief Economist, Eaglestone Securities, assesses Angola's fiscal and budget deficit amidst falling Oil price in his write-up: *Angola: Funding the Budget Deficit Amidst the Oil Price Slump*.

In a Q&A session, we asked **Samir Gadio**, Head of Africa Strategy, Standard Chartered Bank and **Alan Cameron**, Economist, Exotix Partner, London to give their views on the performance of African economies in the first half of 2016 and their outlook for the rest of the year.

To find out what the opportunities and challenges are in Ivory Coast and Ghana read articles by **Gaimin Nonyaye**, Head of Economic Research, Ecobank and Courage **Kingsley Martey**, Economist, Databank Group.

Kind regards,

Michael Osu,

Associate Editor

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SUB-SAHARAN AFRICA: WEATHERING THE STORM

By **Neville Mandimika, Celeste Fauconnier** and **Nema Ramkhelawan Bhana**
Africa Analysts, Rand Merchant Bank



An uneven recovery in commodity prices, stricter financing conditions and adverse weather patterns have forced many economies in sub-Saharan Africa (SSA) to reassess their structural underpinnings. Faced with rapidly depleting fiscal and foreign exchange reserves, constrained international financing and an understanding that resource prices could remain lower for longer, commodity exporters are at pains to initiate timely and coordinated policy responses to ensure quick, durable and more inclusive levels of growth. The IMF believes that fiscal consolidation, improved domestic revenue mobilisation, careful public investment and sharper governance are necessary preconditions to prevent disorderly adjustments.

However, the slump in commodities prices is as much a boon as it is a burden to SSA. A host of non-resource reliant economies, particularly in East Africa, are primed for growth on account of a strengthening in their respective terms of trade. Kenya's medium term economic performance is rooted in its diversified economic base which has cushioned it from the vagaries plaguing the regions mineral and hydrocarbon exporters. Much like Kenya, Tanzania does not have a high export concentration ratio. This has allowed policymakers to focus their efforts on enacting policies that will cushion the economies from a sudden worsening in the economic climate.

Exogenous and endogenous shocks

The global environment is fraught with challenges that could potentially derail SSA's economic growth path. Key risks worth noting are:

- The potential of a hard-landing in China. A sharp slowdown in China will very likely be accompanied by substantial yuan devaluation. Similar to August last year and January this year, commodity prices will probably take another leg downwards, severely constraining export growth in resource-rich economies like Angola and Zambia.
- The quicker-than-anticipated normalisation of the Fed's monetary policy and an attendant reversal in yields and/or a resumption of the great dollar rally will be of grave concern to SSA economies with liquid capital markets. Currency volatility is likely to ensue in the event of sharp reversals in portfolio flows in jurisdictions such as Kenya, Zambia and Nigeria.
- The fear of wider exit referenda, following Britain's departure from the EU, will cause jitters in global markets, dulling the appeal of SSA assets, thereby restricting capital inflows.

Alongside these global risks, idiosyncratic factors such

as the political climate, security concerns and weather related events could create a drag on economic performance. For example:-

- Election related disruptions and fiscal slippage present palpable risks to economic growth and financial market stability. At the time of writing, Zambia was in the process of tallying presidential votes. The election was one of the most highly-contested in years and will have a considerable impact on the broader economy. New electoral processes, shifts in political loyalties, the extent of politicking, incidences of intimidation, and a weak economy have raised the stakes. Regardless of the outcome, the successful candidate will need to take a hard line with regard to economic policy reforms to safeguard the economy. Ghanaians are off to the polls in November but the risk of fiscal slippage is minimal given that the government will conduct the elections under the watchful eye of the IMF.
- Security concerns, especially apparent in West and East Africa, could create economic uncertainty. In Nigeria, sporadic militant attacks on petroleum facilities in the Delta have crippled upstream production. In Kenya the danger posed by al-Shabaab has been aggravated by long-running ethnic rivalries over land and the government's disjointed strategy regarding to the radicalisation of Kenyan youths.
- Certain regions in SSA are vulnerable to the alteration of seasonal climate conditions. La Niña (the cooling of oceanic waters cool below normal) has resulted in wetter-than-normal conditions in Southern Africa and drier-than-normal conditions over equatorial East Africa, disrupting agricultural processes.

Inflation Spiralling Out of Control

Over the past two years, Inflation in most African countries, has taken a turn for the worse on the back of weakening currencies, the continued dependence on imported goods and large cuts in price subsidies as part of fiscal consolidation. For example, Angola's extreme import-dependence (34% of GDP), and a rapidly weakening currency on the parallel market have resulted in inflation rising to 31.8% in June, the highest level since November 2004. Significant utility price hikes have pushed Ghana's inflation to a high of 19.2% in 1H16 and it is only. It is only the Southern and East African economies that are expected to have single-digit inflation over the medium term. The rest of our focus economies (Angola, Mozambique, Nigeria, Tanzania and Zambia) won't see single digits until at least 2019, especially as currencies continue to take a hit.

Currency woes – Dollar liquidity low

Currency weakness has increased significantly over the last two years, driven mostly by the decline in commodity

prices that have affected the overall dollar supply in commodity-export dependent nations. Currencies that are highly dependent on the FX earnings from commodities have felt the pain over the last few years, in particular Angola, Nigeria and Zambia. Countries that have come off relatively unscathed have been Kenya and Tanzania as a result of their diversified economies and the low level of dependency on just one type of commodity. Currencies from these countries are mainly driven by seasonal factors for example, in our portfolio of countries, the following reason (the countries are listed in the order of the currency with the most weakness to that with the least weakness taken from 2014 onwards):

- Ghana: Major budget imbalances
- Mozambique: Debt crisis and dollar strength
- Zambia: Budget imbalances
- Nigeria: Oil price dependence; moved from a peg to a managed float
- Angola: Oil price dependence
- Tanzania: Seasonal factors
- Kenya: Seasonal factors

(The policy responses of the central banks of Ghana, Mozambique and Zambia have erred on the side of minimum direct intervention in the currency markets. This has resulted in their respective currencies being some of the most volatile in the region in 2014 and 2015).

Monetary policy reaction to rising inflation

The monetary policy reaction of our portfolio of economies has differed. Policy tightening has been the name of the game for all our countries except Kenya. The biggest hiking cycle we have seen is Ghana's with a 1250bp rate increase since 2012 due to inflation spiralling out of control on the back of a weak cedi, together with the IMF's conditions including a continued tight economic policy. Other countries like Mozambique had to make quick and significant hikes in the last few months due to the significant currency weakness feeding into prices. Kenya's receding inflationary pressures, a strong first quarter GDP growth print and relative calm in the domestic foreign exchange market have provided ample justification for the central bank to lower its policy rate.

We expect the following policy movements over the next year.

- Angola: Hikes
- Ghana: Unchanged
- Kenya: Cuts
- Mozambique: Hikes
- Nigeria: Hikes
- Zambia: Hikes

General government budgets are under pressure

The burden on monetary policy has in many cases been aggravated by a lack of fiscal consolidation. This has been evident in most resource-rich countries where fiscal balances have deteriorated, despite expenditure adjustments, owing to persistent revenue shortfalls. Of our 10 focus economies, 5 are expected to post budget

deficits in excess of 5% of GDP in the 2016 fiscal year. The ability to fund these budget deficits are often hindered by shallow domestic capital markets forcing many sovereigns to seek funding offshore.

SSA is swimming against a tide of rising debt

African sovereigns have borrowed freely from international markets over the last eight years, spurred by a global search for yield. Economies boasting favourable growth prospects amassed considerable external debt to support ambitious spending plans, often at prices that insufficiently captured the enormity of sovereign risk.

The region's US dollar-denominated debt binge might have persisted had the collapse in commodity prices not exposed structural vulnerabilities in a number of economies. Ambitious development plans have been thwarted by a lack of sustainable revenue streams and reduced fiscal space, compelling a host of countries to take on additional external debt. The added burden has amplified refinancing risks, especially in highly-leveraged economies like Ghana and Zambia.

Faced with elevated real interest rates, modest levels of GDP growth and diminishing investor interest, many sovereigns are swimming against a rising tide of debt, similar to the torrent experienced in the 2000s. Talk of IMF led structural-adjustment austerity programmes for embattled nations, similar to those adopted in the 1980s, is increasingly being bandied about. Zambian authorities and the IMF are likely to conclude negotiations between 4Q16 and 1Q17.

Although public debt levels are well below their peak, the ability of African sovereigns to fulfil debt obligations without having to draw down on international reserves has roused concern among private creditors.

Offshore financing less forthcoming as funding conditions tighten globally.

Investors have become far more circumspect with regard to Africa credit as evidenced by the widening in yield spreads between SSA Eurobonds and comparable US treasuries since May 2015. Yields on sovereign bonds (outside of South Africa) are trading well above their historical averages, reflecting a seismic shift in investor behaviour. Relative-value trades are few and far between as markets battle weakening fundamentals.

In a less severe global environment, elevated yields might entice foreign investors on a purely tactical basis. Yet, Africa's macroeconomic landscape has become less conducive to Eurobond trade on account of domestic constraints, poor governance and rising US Treasury yields.

Despite these conditions, sovereigns will continue to favour Eurobond funding over concessional debt due to the sizable loan amounts and the less stringent nature of agreements.

THE STATE OF SOUTH AFRICA'S ECONOMY: HALF-YEAR REVIEW AND PROSPECTS



By **Hanns Spangenberg**, Senior Economist, NKC African Economics

Although there have been some positive developments of late – a stronger trade performance in Q2, another reasonable score in the purchasing managers' index (PMI) survey in July, and a rally in the rand – many of the South African economy's fundamentals remain very poor. Indeed, NKC African Economics has recently lowered its real GDP growth forecast for 2016 to zero although we still expect the economy to grow modestly in the quarters following the sharp contraction in Q1.

Brexit takes the world by surprise

A recent development that received considerable media attention was the so-called Brexit vote in June. With regards to the impact on the South African economy, the immediate effects following the vote were mostly negative, with the rand knee-jerking weaker by over 8% during Asian trade on June 24, before recovering again during European trade. A larger negative effect was seen on the South African bourse, with all sectors on the Johannesburg Stock Exchange (JSE) All Share trading in negative territory, except the gold mining sector, which climbed sharply as investors sought safe-haven destinations.

In the weeks following the referendum, the rand, along with the JSE, has strengthened on the back of positive emerging market sentiment. In turn, emerging markets have benefitted from a more dovish US Federal Reserve (US Fed) and easing monetary policy stances of several developed economy central banks, as low returns in these economies have prompted investors to look towards economies like South Africa for higher yields.

Over the medium term, we expect to see some deterioration in demand from the UK for South African exports, which accounted for just over 4.1% of South Africa's total exports last year, according to Trade Map.

Monetary policy, inflation pressure

With regard to monetary policy, the South African Reserve Bank (SARB) decided to hold interest rates steady again at its most recent meeting in July. SARB Governor Lesetja Kganyago noted that although the central bank's consumer price inflation outlook moderated slightly from the previous MPC meeting in May, the SARB still expects price pressures from food to intensify due to repercussions from the worst drought on record still filtering through to the economy. The SARB's concern about the state of the economy was reflected in the fact that it cut its 2016 real GDP growth forecast from 0.6% to zero (in line with NKC's most recent projection). Overall, the tone of the last MPC statement was considerably less hawkish than in previous meetings,

although the MPC did note that its decision in July to keep rates on hold was merely a pause in the central bank's tightening cycle.

Recovery in mining and manufacturing

On a more positive note, the volume of domestic mining production increased by 1.9% m-o-m on a seasonally-adjusted basis in June, compared to the upwardly revised 2.7% m-o-m increase recorded in May. While the monthly increase was not enough to see mining production emerge from negative y-o-y territory, the latest data implies a rebound from the very poor readings in Q1. Seasonally-adjusted mining production increased by 4.1% q-o-q in the second quarter, compared to the sharp 68.3% q-o-q contraction during the first three months of 2016. As such, we expect the positive mining production numbers in Q2 to help the economy avoid a technical recession, which is defined as two consecutive q-o-q contractions.

Furthermore, local manufacturing production increased for a third consecutive month in June. According to Statistics South Africa (StatsSA), overall manufacturing production increased by a seasonally-adjusted 0.7% m-o-m in June, following the 1.3% m-o-m expansion recorded in the preceding month. On an annual basis, the monthly expansion saw manufacturing production increase by 4.5% y-o-y in June, compared to a 3.9% y-o-y rise in May.

The improved headline reading in June, which marked the highest y-o-y rate since July 2015, provides further evidence of a nascent recovery in the South African manufacturing sector, in line with our baseline view. Similar to mining production, the manufacturing sector is set to help the overall economy avoid a technical recession, with manufacturing production increasing by a seasonally-adjusted 2% q-o-q in Q2, compared to the lacklustre 0.3% q-o-q increase in Q1.

Low business and consumer confidence

That said, most measures of domestic business and consumer confidence remain downbeat. Even the forecast recovery in the manufacturing and mining sectors is set to be greatly constrained by soft demand from China, generally sluggish global trade and low commodity prices. At the same time, inflation is likely to move further above target in H2 2016 because of rising food prices, and this will undermine consumers' purchasing power. As a result, the recent decision of the central bank to keep interest rates on hold is likely to be a temporary development, and we expect one more rate hike of 25bps this year.

At the same time South Africa's economic fundamentals remain dismal – illustrated by the unemployment statistics for Q2. According to the latest Quarterly Labour Force Survey (QLFS), total employment dropped by 129,000 to 15.663 million during the second quarter of this year – representing a decrease of 0.8% q-o-q. Overall unemployment declined by 90,000 in Q2 – seeing the unemployment rate tick marginally lower to 26.6%, compared to 26.7% in Q1 – but this is purely because of an increase in inactivity. When looking at the expanded unemployment numbers, which include those that were available for work but had ceased looking for a job, the unemployment rate increased from 36.3% in Q1 to 36.4% in the second quarter. Extremely high unemployment remains a salient feature of the South African economy, and with real GDP growth grinding to a standstill, it is unlikely that the situation will improve anytime soon.

South Africa's outlook

Looking ahead, South Africa's economy, and consequently its sovereign debt rating, is set to continue to face several hurdles over the medium term, including: fiscal consolidation efforts, monetary tightening, a rigid labour market with a high rate of unemployment, poor industrial relations, very sluggish economic growth, a sizeable current account deficit and a shifting political climate. Nevertheless, the major international rating agencies granted South Africa a reprieve during their most recent reviews of the country, based on its prudent debt repayment history, sound fiscal and monetary

policies, and adequate portfolio inflows helping to finance the current account deficit. However, much will need to be done, particularly in the area of structural reforms, before there is any chance of positive adjustments to South Africa's sovereign debt rating. Indeed, a downgrade to sub-investment grade status by S&P Global Ratings before the end of the year is still very much on the cards, particularly if the outlook for GDP growth remains so weak.

Contributors Profile

Hanns Spangenberg is a Senior Economist at NKC African Economics. He received an undergraduate degree in finance and economics from the University of Alabama at Birmingham (UAB) in the US in May 2009 while attending under a Division One collegiate tennis scholarship. A Master of Commerce degree in Economics, with research focusing on a behavioural finance perspective analysis of the Financial Crisis and Basel II regulations, was awarded by the University of Stellenbosch in South Africa in December 2012.

Experience: Hanns joined NKC African Economics in January 2013, after returning from an academic exchange programme to Maastricht University in the Netherlands. Currently focusing on macroeconomic coverage of South Africa, Botswana and Mozambique Hanns has previously covered other Sovereigns such as Mauritius, Malawi, Namibia, South Sudan and Sudan.

News on South Africa

South Africa's ANC Leans to 'Fiscal Populism'

South Africa's ruling African National Congress (ANC) is leaning toward more populist economic policies to win back support after its worst performance in an election since Nelson Mandela led the party to victory in a vote that ended apartheid in 1994.

The ANC will press the government to prioritize creating jobs and alleviating poverty in the national budget. The party also mandated the government to speed up the process of implementing a national minimum wage and said the nation's universities shouldn't announce any fee increases. The shift in policy is an attempt to secure support from the 27 percent of the workforce without jobs and to dim the appeal of the leftist Economic Freedom Fighters party that's winning voters over in traditional ANC strongholds.

South Africa's Economy Regains Rank as Africa's Biggest

South Africa's economy regained the position of Africa's largest in dollar terms more than two years after losing it to Nigeria as the value of the nations' currencies moved in opposite directions. Based on gross domestic product at the end of 2015

published by the International Monetary Fund, the size of South Africa's economy is \$301 billion at the rand's current exchange rate, while Nigeria's GDP is \$296 billion. That's after the rand gained more than 16 percent against the dollar since the start of 2016, and Nigeria's naira lost more than a third of its value after the central bank removed a currency peg in June.

South Africa Local-Currency Debt Rating Downgraded by Fitch

Fitch Ratings downgraded South Africa's local-currency debt one level to move it into line with the foreign-currency rating, bringing the nation's 1.7 trillion rand (\$118 billion) of domestic debt a step closer to junk level.

The one-step cut to BBB-, the lowest investment grade, was part of a review of Fitch's local-currency assessments, applying new criteria that resulted in downgrades for 23 issuers, the company said in a report that was first published on July 22. The outlook for South Africa's rating was kept at stable.

South Africa GDP Growth Too Slow to Improve Conditions, IMF Says

Economic growth in South Africa is too slow to improve living standards in a country

where a third of the population is excluded from the economy, according to the International Monetary Fund.

The IMF cut its 2016 growth forecast for Africa's most-industrialized economy to 0.1 percent from 0.6 percent two weeks ago, and said the economy isn't keeping up with population growth of 1.7 percent. The jobless rate increased to 26.7 percent in the three months through March, the highest in at least eight years.

Chinese to Invest \$2.8 Billion in South Africa Economic Zone

A group of Chinese investors will invest more than 40 billion rand (\$2.8 billion) in an energy and metals-related industrial park in South Africa, giving a boost to the country's government as it seeks to grow the manufacturing industry and ease unemployment.

The consortium, led by Hong Kong Mining Exchange Co., will develop and manage the park, which will house plants to process minerals including chrome, manganese, coking coal and lime and is expected to create almost 21,000 jobs. The park will be located inside a new Special Economic Zone in the north of Limpopo, a largely rural province.

RAISING CAPITAL TO BALANCE BUDGET DEFICITS IN UGANDA: ISSUES, OPTIONS AND STRATEGY



By **Christine Asiiwe Namany**, Macroeconomic Policy Analysis Division, Bank of Uganda

Uganda's fiscal deficit has widened sharply in the recent past increasing from 2.5 percent of GDP in 2011/12 to 6.2 percent of GDP in 2015/16 driven mainly by an increase in public investment in infrastructure, in particular roads and hydro-power projects. At the same time, due to the global financial and economic crisis of 2008, foreign aid to developing economies like Uganda declined significantly as advanced economies adopted austerity measures. The sharp increase in financing needs meant that the Ugandan Government had to look beyond the declining concessional loans to finance fiscal deficits. Indeed, the share of concessional loans as a percent of total stock of external debt has reduced from 96.6 percent in 2003 to 83.2 percent as at end-June 2016. Government had to consider a wider array of avenues to finance the budget deficit including recourse to domestic borrowing and considerations of commercial external debt, which carry a heavier repayment burden.

Starting July 2012, Uganda resorted to explicit domestic borrowing to finance the budget deficit through the issuance of Treasury Securities. Since the reforms were made to the domestic debt policy, Government has managed to raise close to 2 percent of GDP annually through Treasury bills and bonds. The success of domestic borrowing is attributable to a developing financial market, notably the expansion of the banking system and the emergence of the non-bank sector, specifically pension and provident funds such as the National Social Security Fund (NSSF) which contribute about 35.3 percent of the total holdings of domestic debt. The banking sector holds about 44 percent of the total stock of domestic debt. In December 2013, Government undertook yet another measure to attract investors by extending the yield curve through the introduction of a 15-year Treasury bond. Other tenors of Treasury bonds include the 10, 5, 3 and 2 year bonds. Uganda's Capital Account is fully liberalised and therefore resident and non-resident, domestic or foreign investors can fully participate in auctions of Treasury Securities.

The interest cost of Treasury Securities, currently at an average of 17 percent per annum, however, renders Securities an expensive financing choice for Government. Moreover higher issuance of Government debt could crowd out the private sector from banking system credit. Therefore, notwithstanding the advantage of raising proceeds in local currency, Government has capped new issuances at less than 1 percent of GDP over the medium term. The stock of domestic debt to GDP currently estimated at 13 percent is still considered sustainable and Government intends to maintain it at the same levels over the medium term.

Over the past 5 years, the Government also begun to contract semi-concessional loans which include a grant element of less than 35 percent. Specifically, Government has signed contracts with the Exim bank of China on semi-concessional terms to finance infrastructure projects such as the Hydro Power Projects of Karuma and Isimba. These loans carry an estimated interest rate of LIBOR plus 3.5 percentage points – for the non-concessional portion. However, the loans are structured in such a way that the Government makes an initial deposit to cover insurance fees, management fees and other forms of commitments. This usually necessitates hefty sums of foreign exchange, which when sourced from the local foreign exchange market, lead to exchange rate volatility. The other challenge of semi-concessional loans is the likely currency mis-match at repayment time as most of the projects financed by external borrowing will not directly earn or save foreign exchange. Furthermore, given the relatively short grace period, foreign exchange requirements are bound to be significant.

Going forward, as additional options, Government is exploring Public Private Partnerships (PPPs) to mobilise investment for commercial infrastructure projects. Uganda is one of the few countries that with a PPP Act, which as passed in 2015. One of the potential advantages of PPPs is that the private sector may be able to implement projects more efficiently than Government. However, important to note, is that PPPs are not necessarily a cheap form of capital because private investors require commercial rates of return commensurate with the risks they bear. Other considerations Government could make are to float a Euro bond although this presents similar challenges of currency mis-match. In addition, the Euro Bond would require a lump sum payment at maturity.

All the above notwithstanding, concessional borrowing remains the preferred financing choice given its favourable terms. Concessional loans carry a grant element of not more than 35 percent and attract an average interest cost of 0.8 percent per annum as well as a grace period of 10 years. Non-concessional loans on the other hand, carry an average interest cost of 2 percent and a grace period of only 5 years, rendering the former a more favourable option to Uganda.

Ultimately, any benefit that will be derived from the increased public debt will largely depend on the Government's Debt Management Policy and Practices and the viability of projects financed by debt. To support this the Government established the Public Debt

Management Framework (PDMF) in 2013, a national framework to guide the issuance, contracting and management of debt in order to keep it at low and sustainable levels. Indeed according to the Debt Sustainability analysis carried out by the Ministry of Finance Planning and Economic Development of Uganda and the International Monetary Fund (IMF), Uganda's debt as at November 2015 was sustainable and was expected to remain the same over the medium term. The major risks arose from the depreciated exchange rate, which increased the debt burden but which would be mitigated by the plan to extend planned infrastructure projects over a longer period of time.

The more sustainable strategy though, would be to reduce significantly the reliance on borrowing and

minimising the debt burden. Government should therefore adopt policies to increase domestic revenue, such as implementing improved tax administration measures and broadening the tax base. Furthermore, Government should invest in productive projects that can refinance the debt during its life or at maturity.

Contributors Profile

Christine is Assistant in charge of Macroeconomic Policy Analysis in the Economic Research Department of Bank of Uganda. She holds a Master's degree in Economic Policy and Planning from Makerere University Kampala and possesses 10 years' experience in policy formulation at the central bank.

AFRICAN SOVEREIGNS CREDIT RATINGS OUTLOOK

EGYPT: Sovereign ratings affirmed, outlook 'stable'

Moody's Investors Service affirmed at 'B3' Egypt's government bond rating with a 'stable' outlook. It noted that the 'stable' outlook reflects balanced upward and downward pressures on the rating, despite the slower-than-expected implementation of fiscal and economic reforms over the past 18 months. It added that the staff-level agreement between Egypt and the International Monetary Fund is credit positive; as it considered that the deal would help alleviate the pressure on the country's external liquidity and promote reforms. In addition, it noted that foreign currency reserves have stabilized at a low level that is equivalent to less than three months of import cover.

ANGOLA: Sovereign ratings affirmed, negative outlook'

S&P Global Ratings affirmed at 'B/B' Angola's long- and short-term foreign and local currency sovereign credit ratings, and revised the outlook on the long-term ratings from 'stable' to 'negative'. It attributed the outlook revision to the slowdown in Angola's economic activity, which it expects to persist in the absence of additional government policy responses. It forecast real GDP growth to decelerate from 3% in 2015 to 1.3% in 2016, and to gradually improve to an annual average of 3.7% during the 2017-19 periods due to an anticipated increase in oil production from new oil fields. It said that the currency lost more than 50% of its

value against the US dollar over the last two years, which has exacerbated the public debt burden, given that 50% of the debt stock is denominated in foreign currency.

Moody's assigns sovereign ratings to Rwanda and Cameroon

Moody's Investors Service assigned to each of Rwanda and Cameroon local and foreign currency issuer ratings of 'B2', with a 'stable' outlook, which is five notches below investment grade. It noted that Rwanda's ratings reflect its low economic strength, moderate institutional and fiscal strength, and high vulnerability to event risk. It said that the country's strong growth prospects, with a projected real GDP growth of more than 6.5% annually over the next five years. In parallel, Moody's pointed out that Cameroon's ratings reflect its low economic strength, very low institutional strength, moderate fiscal strength and moderate vulnerability to event risk. It said that the country's economic strength reflects its improved infrastructure and higher growth potential. It considered that Cameroon's membership in the Central African Economic and Monetary Community is credit strength.

DR of CONGO: Sovereign ratings affirmed, outlook 'negative'

S&P Global Ratings affirmed at 'B-/B' the Democratic Republic of Congo's (DRC) long- and short-term sovereign credit ratings, with a 'negative' outlook on the long-term ratings. It

indicated that the ratings are constrained by weak institutions, poor governance, the continuous conflict in the eastern parts of the country, low income levels, very low level of foreign currency reserves, and high dependence on FDI inflows to finance the wide current account deficit and limited fiscal policy flexibility. But it said that the ratings are supported by a low public debt level, which it expects to decline from 16.3% of GDP in 2015 to 15.5% of GDP in 2016.

ETHIOPIA: Strong growth prospects and low debt burden to support ratings

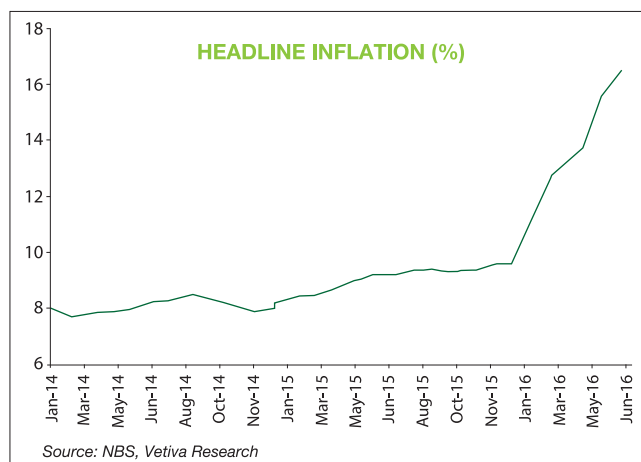
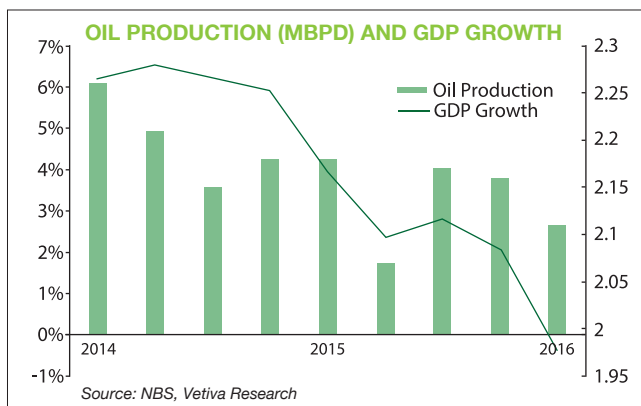
Moody's Investors Service indicated that Ethiopia's 'B1' government bond rating is supported by the country's strong growth prospects, low public debt burden, limited government liquidity risks, as well as large and stable donor inflows. It noted that the rating is constrained by the country's relatively small economy, vulnerability to weather conditions, low per capita income, weak institutions and exposure to geopolitical events. It noted that debt relief has supported the government's financial profile by keeping the debt burden and servicing costs at low levels, as well as by yielding a favorable debt structure. However, it said that state-owned enterprises that are involved in large infrastructure and power-generating projects could result in sizable contingent liabilities for public finances.

NIGERIA: POLICY ACTION IN A TIME OF STAGFLATION

By **Pabina Yinkere**, Head of Research, Vetiva Capital Management



The Nigerian economy is currently between a rock and a hard place as policymakers grapple with stagflation i.e. the simultaneous emergence of negative economic growth and high inflation. Inflation has accelerated in 2016, outstripping all expectations to hit a decade-long high of 16.5% in June. GDP growth, meanwhile, turned negative in the first quarter of the year as the economy contracted by 0.36% year-on-year. With a recession looming, the International Monetary Fund (IMF) slashed its 2016 growth forecast for Nigeria to -1.8% (Vetiva estimate: -1.3%), a huge deterioration from the 4.1% growth forecast it set at the start of the year. The confluence of these two threats create a policy conundrum for the Central Bank of Nigeria (CBN) and Federal Government (FG) as they try and reverse the economic malaise.



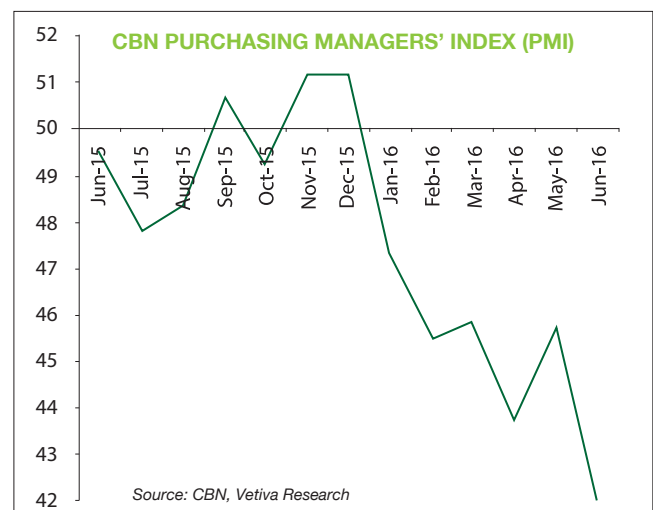
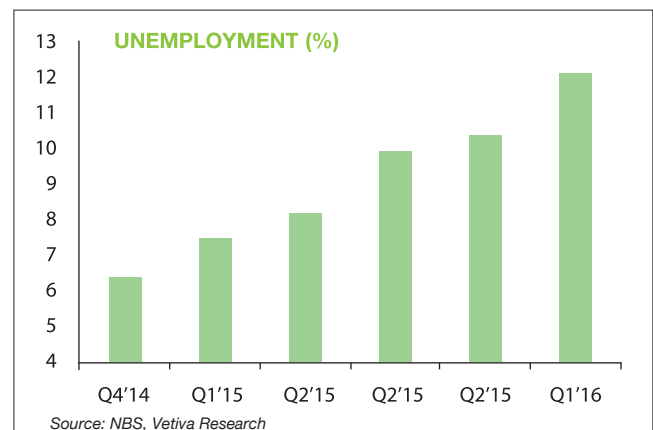
Supply-side distortions

Runaway inflation has been caused primarily by rigidities in the FX policy that have led to supply-side disruptions throughout the economy. Stringent restrictions on dollar supply for much of the past 16 months pushed up import

prices, with imported food inflation at a high of 20% in June. Dollar scarcity further fed into the downstream petroleum market, leading to shortages of petroleum products that spurred higher energy costs; Premium Motor Spirit (Petrol) retailed at a national average of N163 in April against the prescribed price of N87 at that time. The depreciation of the naira as a result of factors such as the much-vaunted introduction of a flexible FX regime, liberalization of the downstream petroleum market and higher electricity tariffs contributed further to the sharp rise in prices this year. Financial implications have also materialized as spiraling inflation pushed down the real rate of return and exerts upward pressure on government bond yields.

Economic rut spreads through key sectors

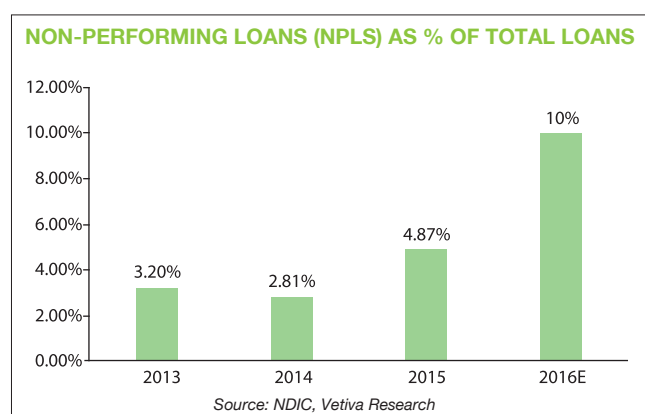
Yet, monetary tightening is likely to further depress a private sector struggling to achieve growth (non-oil sector Q1'16 growth was -0.18%). Industry is suffering from higher costs of energy and raw materials as the power situation in the country continues to suffer from militant attacks on oil & gas infrastructure.



Meanwhile, consumption remains sluggish as high inflation is accompanied by volatile earnings, with a number of states failing to pay workers consistently in 2016.

Furthermore, unemployment is on a similar upward trend – Q1'16 unemployment rose to 12.1% from 10.4% in Q4'15 whilst Q1'16 underemployment rose to 19.1% from 18.7% in Q4'15. These higher numbers depict an economy failing to create enough jobs to accommodate an expanding labor force.

The finance sector is creaking under the strain. Banks' significant exposure to Oil & Gas firms, who continue to struggle in an unforgiving oil market, and the NGN/USD rate (about 45% of bank loans in the country are foreign currency-denominated) have tightened liquidity at a time when they need to recapitalize due to the naira depreciation. Particularly, lending appetite has been tepid as banks have run to safe assets like government bonds. The sector is in better shape than in the last crisis (2008/9) but remains hamstrung by legacy debt from previous boom era.



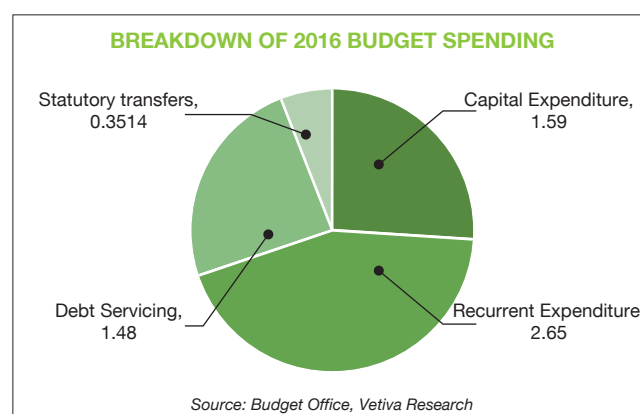
The economic situation is further complicated by a sharp decline in government revenues during the year. The primary driver has been lower oil production as resurgent militancy in the oil producing Niger Delta region has adversely affected production levels. According to the NNPC, oil production slumped to a 2-decade low of 1.6 million bpd in June. Borrowing becomes key in this situation but international appetite remains weak despite roadshows conducted by the CBN Governor and Minister of Finance.

A tonic of guns and spending

So far, fiscal response has been slow in the face of severe challenges to the Nigerian economy. Opacity and controversy over altered capital spending items led to delays in the budget before it was finally passed in May but implementation of the many infrastructure and welfare projects outlined in the budget is yet to really kick off. Welfare policies targeted at the very poor will be an important cushion in the current economic climate but urgency is tempered by the need to ensure efficacy and avoid the leakages that plagued previous welfare schemes. On infrastructure, it could be a case of too little too late this year as the fiscal lag and bureaucratic

process mean that economic effects of spending are unlikely to manifest until 2017. Furthermore, deficit financing becomes more important in the longer term as the 2016 budget estimated a deficit of N2.2 trillion even before recent revenue shortfalls.

A quicker fix could be addressing the present state of insecurity gripping the nation. So far, the Government has been unconvincing in its efforts to rein in marauding Fulani Herdsmen in the Middle-Belt and South-West. Agriculture, one of the cornerstones of the FG's economic policy, can only thrive in conditions of security and output has already taken a hit, with Q1'16 growth in the sector at 3.09%, the lowest since 2013. The return of militancy in the Niger Delta is a more acute problem. The previous amnesty program, criticized for creating perverse incentives and rewarding violence, had been successful at maintaining peace within the region albeit unsustainably. The FG is likely to adopt a different, less lenient approach to tackling the insurgency. A protracted conflict in the Niger Delta would be disastrous for oil production, Nigeria's fortunes and investor confidence.

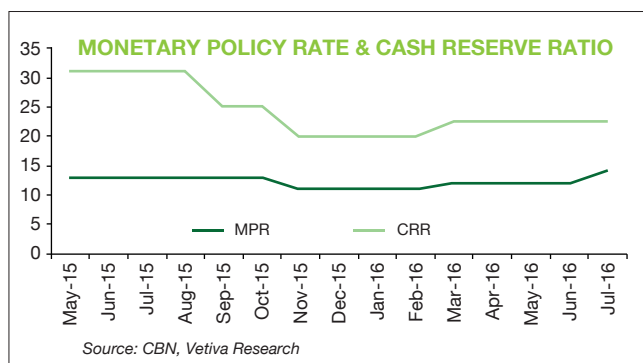


Monetary policy and stagflation

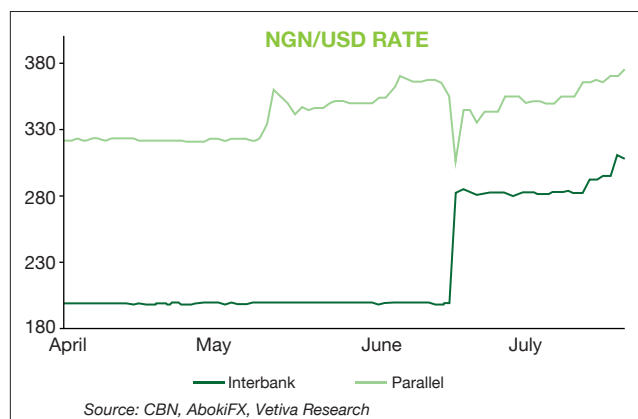
The awkward choices confronting the nation's policymakers is best reflected in the monetary policy situation. Following a 200 bps Monetary Policy Rate (MPR) cut to 11% at the end of 2015, the MPC raised the rate to 12% in March and then to 14% in July, citing the limited pass-through effect of the rate cut to the real economy, the growing threat of inflation and the need to sustain the recent free-float currency policy. Yet, tighter monetary policy has been impotent in the face of cost-push inflation. Now the MPC is between a rock and a hard place – if it loosens, it needs to ensure that the effects feed through to real economy but there is the risk of a bigger currency rout and squeezing bank margins.

If it tightens, it might just choke the economy even further and put more pressure on bond yields and counteract the effects of expected fiscal stimulus.

The genesis of this dilemma can be partly traced to the botched handling of foreign exchange policy. Until recently, the CBN kept a firm grip on the NGN/USD rate. Following the oil price decline and falling foreign currency reserves, the central bank sharply cut dollar



supply in the official market. Compounded by dollar illiquidity and worsening macro picture, capital flows reversed sharply and a wide spread emerged between the parallel market and official rates – close to 100% as at February. The recent shift to a floating exchange rate regime and introduction of naira settled futures-trading (to discourage frontloading) has exposed the wretched state of the market. Trading volumes in the spot market remain small even as the CBN demonstrates its willingness to let the naira freely float. Attracting investors to an illiquid market is a hard sell as pressure on the naira persists. Wooing investors with dollars is critical in the short run as dollar earnings from oil sales bottom out. To do this, the CBN must convince market participants that it is willing to let the naira freely trade above 300 NGN/USD mark, an important psychological breach. The final weeks of July give credence to this view as the NGN/USD fell more than 10% in just 5 trading sessions. Barring further CBN intervention, it is likely the NGN/USD will trade above 300 for the rest of the year. Longer term, there is a need to diversify FX earnings to stimulate liquidity in the FX market.



2016: Lessons learned?

Whereas it took fiscal policy half the year to kick off, the CBN tried a cocktail of initiatives before succumbing to pressure to float the naira. Without a doubt, the impotency of current policy has accelerated Nigeria's descent to stagflation. Now, no easy remedies exist. Tackling negative growth must be priority. To do this, easing the pressure on the naira by attracting investors (to boost supply) will be crucial, perhaps necessitating the need to keep monetary policy tight. Meanwhile, the budget still holds the promise of a substantial fiscal multiplier – if it is implemented efficiently. Following a string of questionable policy choices, precision is required to turn the economy around.

Contributors Profile

Mr. Pabina Yinkere is Head of Research at Vetiva Capital Management, a Lagos based investment bank. He possesses vast experience in investment analysis and market research. Pabina's valuation and investment strategy supports over N40 billion (USD 125 million) Assets Under Management and a broad clientele base of domestic and international investors.

NEWS & COMMENTARY ON NIGERIA

Nigerian Economy to contract by 1% in 2016

The Institute of International Finance indicates that the Nigerian economy will continue to face challenges from lower oil export receipts and repeated disruptions to its oil production. It added that the scarcity of foreign currency, disruptions to trade, delays in budget execution and lower oil production continue to weigh on economic activity. As such, it forecast real GDP to contract by 1% in 2016. However, it noted that the recent stabilization in global oil prices, the shift to a more flexible exchange rate regime, the gradual execution of the budget, along with the implementation of other reforms, would help economic activity to recover modestly going forward.

Nigerian Naira to remain under pressure

Research and analytics provider IHS Markit indicated that the Central Bank of Nigeria's (CBN) interventions in the interbank, spot and forward markets show a strong bias toward a managed float exchange rate system rather than a fully flexible one. It noted that the CBN has been reluctant to adopt a complete liberalization of the local foreign currency market. It highlighted that the CBN's decision to remove the cap on the spread between bids and asks in the foreign exchange interbank market has led to strong volatility in the forward market. It added that this reflects the underlying sentiment that the naira's exchange rate still needs to depreciate against major foreign currencies before it reaches an equilibrium that is in line with current market fundamentals. IHS expected the

naira to further depreciate in the interbank market, in case the CBN does not intervene to prevent the market from determining a credible exchange rate based on prevailing liquidity conditions. It said that the naira could trade as low as NGN360 against the US dollar in the interbank market compared to about NGN310 currently.

Nigeria's Government approves 2017-2019 budget framework

The Nigerian Government approved the Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) for 2017-2019, estimating that the nation's economy will grow at an average of 3.73% in the next three years. The economy is projected to grow by 3% in 2017, 4.26% in 2018 and 4.04% in 2019, according to the Minister of Budget and National Planning, Udo Udoma.

ANGOLA: FUNDING THE BUDGET DEFICIT AMIDST THE OIL PRICE SLUMP

By **Tiago Bossa Dionisio**, Chief Economist, Eaglestone Advisory, S.A.



Government revises macro scenario for 2016

Economic activity in Angola has slowed considerably in recent years. Real GDP advanced by only 4.8% in 2014 (from 6.8% in the previous year) and 3% in 2015. This is considerably slower than the 10.4% average recorded in the previous decade. The deceleration was particularly reflected in the oil sector, which saw a contraction in activity in 2014 after a strong decline in production and oil prices started their free fall in the second half of the year. The year 2015 saw an improved performance in the oil sector (despite the continued decline in prices), but a sharp slowdown in other sectors like manufacturing, construction, retail and agriculture resulted in a modest economic expansion.

Angola continues to face a rather challenging economic environment in 2016. In its initial budget proposal for 2016 presented at the end of last year, the government predicted that real GDP would expand at a rate of 3.3% this year based on higher oil production and stronger growth in the non-oil sector. However, these assumptions have proved to be too optimistic. The local authorities have recently presented to the country's Parliament a revised budget proposal for 2016 whereby they include an amended macroeconomic scenario.

In this new macroeconomic scenario, the forecast for average daily oil production was cut to 1.79 million barrels per day (bpd) this year from a previous estimate of 1.89 million bpd (and 1.72 million bpd in 2015). On the other hand, the government lowered its average oil price assumption to US\$ 40.9 per barrel (from US\$ 45 previously), as prices remain at multi-year lows. This is lower than the average oil price of US\$ 50 recorded last year and US\$ 96.9 in 2014.

Overall, growth in the oil sector is now only expected to

reach 0.8% in 2016 (vs. 6.3% in 2015) and activity in the non-oil sector to advance 1.2% after an already depressed increase of 1.5% last year. These figures compare with previous forecasts of 4.8% in the oil sector and 2.7% in the non-oil sector in the initial budget proposal. This means that the government now expects economic activity to expand at only 1.1% in 2016, a rate that is unseen in the post-civil war period.

Moreover, inflation has picked up in recent months mostly as a result of the reduction in fuel subsidies earlier in January as well as the pass-through effects of the continued depreciation of the kwanza this year. We note that Angola continues to import a very large part of the food that it consumes while the ongoing investments in infrastructure mean that about 40% of its imports are related to machinery and metals. This lifted the inflation rate to 31.8% in June, a multi-year high and well above the government's initial target of 11% for the year.

Consumer prices are expected to remain under pressure in the foreseeable future as the local authorities are reportedly expected to announce two additional depreciation moves of the local currency before the end of the year. Specifically, the local press suggests that the kwanza could depreciate to 199 kwanzas to the dollar in Q3 and to 215.5 in Q4, which represents a further devaluation of 23% until year-end. Overall, the government now expects inflation to reach 38.5% in December, a level not seen in over 12 years.

Lower prices continue to hit oil export receipts...

The latest figures for the Angolan oil market show that oil exports have slightly increased in the first half of this year when compared with the same period of 2015. Total exports reached 322.5 million barrels during this period, representing an increase of 1.3% YoY. In other words,

MACRO FORECASTS						
	2012	2013	2014	2015	2016(1)	2016(2)
Inflation	9.0%	7.7%	7.5%	14.3%	11.0%	38.5%
Annual oil production (million barrels)	631.9	626.3	610.2	628.3	689.4	654.6
Daily oil production (million bpd)	1.73	1.72	1.67	1.72	1.89	1.79
A verage oil price (US\$ per barrel)	111.6	107.7	96.9	50.0	45.0	40.9
Gross domestic prouct:						
Nominal value (AOA billion)	10,876	12,056	12,462	12,537	14,218	16,880
Oil sector	4,981	4,818	4,304	3,098	3,302	3,659
% of total	45.8%	40.0%	34.5%	24.7%	23.2%	21.7%
Non-oil sector	5,895	7,239	8,158	9,439	10,916	13,220
% of total	54.2%	60.0%	65.5%	75.3%	76.8%	78.3%
Real GDP growth	5.2%	6.8%	4.8%	3.0%	3.3%	1.1%
Oil sector	4.3%	-0.9%	-2.6%	6.3%	4.8%	0.8%
Non-oil sector	5.6%	10.9%	8.2%	1.5%	2.7%	1.2%
Exchange rate (US\$/AOA)	95.4	96.6	98.3	120.1	143.8	n.a

(1) Initial budget; (2) Revised budget;
Source: Angolan authorities.

ANGOLAN OIL MARKET						
	Exports (mn BBLs)	Avg.Price (US\$/BBL)	Receipts (mnUS\$)	YoY Change		
				Exports	Average Price	Export Receipts
2015						
January	52.6	63.2	3,320	6.7%	-42.2%	-38.3%
February	57.0	49.2	2,808	18.4%	-53.8%	-45.3%
March	47.6	55.0	2,619	4.5%	-47.9%	-45.6%
April	53.1	50.3	2,671	8.5%	-48.4%	-44.0%
May	53.5	57.4	3,072	17.6%	-45.3%	-35.7%
June	54.5	61.9	3,375	-2.9%	-41.9%	-43.6%
Accumulated	318.4	56.2	17,864	8.4%	-46.5%	-42.1%
2016						
January	54.7	35.2	1,924	4.1%	-44.3%	-42.1%
February	57.2	30.9	1,765	0.3%	-37.3%	-37.1%
March	48.2	30.4	1,467	1.2%	-44.6%	-44.0%
April	56.3	36.6	2,060	6.0%	-27.2%	-22.9%
May	52.0	37.6	1,952	-2.8%	-34.6%	-36.5%
June	54.1	45.3	2,448	-0.8%	-26.9%	-27.5%
Accumulated	322.5	36.0	11,616	1.3%	-35.9%	-35.0%

Source: Angolan authorities and Eaglestone Securities

Angola exported an average of 1.79 million bpd until June of 2016 compared with 1.77 million bpd exported in the same period of 2015. Meanwhile, oil prices averaged US\$ 36 per barrel in the first six months of 2016. This is nearly 36% lower than the average price of US\$ 56.2 recorded in the homologous period. All in all, this means that export receipts stood at US\$ 11.6 billion year-to-date, falling 35% YoY. It also means that when looking at the newly revised figures for the whole of 2016 the government is foreseeing a recovery in oil prices in the second half of the year, but it expects oil production to remain at the same levels of around 1.79 million bpd.

...and also fiscal revenues

The lower oil price environment has unsurprisingly had a major impact on the government's fiscal accounts in the last couple of years. The latest figures show that total taxes fell 13.3% YoY to AOA 586,483 million in the first half of 2016. The biggest decline occurred in income

taxes (-17.7% YoY), which represented 28.5% of the total taxes collected from the oil sector. The largest share of oil revenues came from concessionary taxes. These accounted for 62.5% of the total oil proceeds and fell 12.9% YoY.

Government presents revised budget for 2016

Against this backdrop, the Angolan government recently presented a revised budget for the current year to the country's Parliament. According to the new budget, total revenues are expected to amount to AOA 3,485 billion in 2016. This is a modest reduction of 0.9% from the initial estimate of AOA 3,515 billion. This was largely due to a reduction of 9.1% in expected oil revenues, which are expected to account for less than half of tax revenues (vs. 62.1% in 2015).

However, in terms of expenditures, the government now expects to spend 4.4% more than initially planned, with

OIL REVENUES								
Million AOA	Taxes				YoY Change			
	Income (IRP)	Production (IPP)	Conces- sionary	Total	Income Tax (IRP)	Production Tax (IPP)	Concessio- nary Tax	Total Taxes
2015								
January	48,460	10,529	80,527	139,515	-0.1%	-57.0%	-65.3%	-57.1%
February	18,954	2,479	78,943	100,377	-69.1%	-68.4%	-43.8%	-53.7%
March	24,980	6,364	69,938	101,282	-52.8%	-73.0%	-51.9%	-57.2%
April	33,331	10,031	47,175	90,537	-43.9%	-46.2%	-73.4%	-66.3%
May	37,222	10,835	43,640	91,697	-36.6%	26.0%	-65.0%	-53.9%
June	40,094	11,738	100,993	152,825	-37.6%	-37.6%	-45.5%	-46.0%
Accumulated	203,041	51,976	421,216	676,232	-41.2%	-49.0%	-58.1%	-55.8%
% of the Total	30.0%	7.7%	62.3%	100.0%				
2016								
January	39,979	8,550	54,039	102,568	-17.5%	-18.8%	-32.9%	-26.5%
February	18,722	8,861	59,014	86,596	-1.2%	257.4%	-25.2%	-13.7%
March	18,516	7,096	45,723	71,334	-25.9%	11.5%	-34.6%	-29.6%
April	29,249	7,983	65,016	102,247	-12.2%	-20.4%	37.8%	12.9%
May	28,699	9,553	58,393	96,645	-22.9%	-11.8%	33.8%	5.4%
June	31,984	10,448	84,659	127,091	-20.2%	-11.0%	-16.2%	-16.8%
Accumulated	167,149	52,490	366,844	586,483	-17.7%	1.0%	-12.9%	-13.3%
% of the Total	28.5%	9.0%	62.5%	100.0%				

Source: Angolan authorities and Eaglestone Securities

GOVERNMENT ACCOUNTS						
AOA BILLION	2015	2016 (Initial)	2016 (Revised)	Change		
				2016(Init.) / 2015	2016(Rev.) / 2015	2016(Rev.) / 2016(Init.)
Revenues	3,381	3,515	3,485	3.9%	3.1%	-0.9%
% of GDP	27.4%	24.7%	20.6%			
Tax Revenues	3,056	3,235	3,092	5.9%	1.2%	-4.4%
Oil Revenues	1,898	1,690	1,536	-11.0%	-19.1%	-9.1%
% of Total Tax Revenues	62.1%	52.2%	49.7%			
Concessionary Rights	1,306	1,163	968	-10.9%	-25.9%	-16.8%
Non - Tax Revenues	326	279	393	-14.2%	20.5%	40.5%
Expenditures	3,858	4,296	4,485	11.3%	16.2%	4.4%
% of GDP	31.3%	30.2%	26.6%			
Current Expenditure	3,045	3,480	3,524	14.3%	15.7%	1.2%
Capital Expenditure	813	816	961	0.3%	18.2%	17.8%
Primary Fiscal Balance	337	34	-39	-89.8%	-111.6%	-213.1%
% of GDP	2.7%	0.2%	-0.2%			
Overall Fiscal Balance	-477	-78.1	-1,000	63.9%	109.8%	28.0%
% of GDP	-3.9%	-5.5%	-5.9%			

Source: Angolan authorities and Eaglestone Securities

total expenditures forecasted to amount to AOA 4,485 billion. This came after a slight increase in expected current expenditures, namely on wages and interest payments, but more importantly a significant 17.8% increase in capital spending. The local authorities stated that they hope to use the proceeds from external financing already secured to increase public investment levels for the remainder of the year in the hope of restarting economic activity to more robust growth levels. Overall, this means that the budget deficit forecast was revised upwards to 5.9% of GDP this year from an initial forecast of 5.5%.

Angola has relied mostly on international funding sources. From a funding perspective, Angola continues to show that it has access to diversified sources of international funding. According to the government, the country has raised US\$ 11.46 billion in international markets since the successful issue of its US\$ 1.5 billion Eurobond in November 2015. The external funding facilities raised since then and until June 2016 include funding from (1) the China Development Bank (US\$ 5 billion); (2) the Industrial and Commercial Bank of China, China Development Bank and Exim Bank (US\$ 1.98 billion); (3) various international export credit agencies already concluded or to be concluded before year-end (US\$ 1.18 billion) and (4) framework agreement and budget support concluded and to be concluded before year-end (US\$ 3.3 billion). The local authorities have also issued securities in the domestic market amounting to AOA 512.6 billion so far in 2016.

All in all, government debt (excluding debt at state-owned enterprises) amounted to US\$ 47.9 billion at the end of June, of which US\$ 25.5 billion was external debt (or 53% of the total). This means that government debt is expected to increase to about 50% of GDP this

year from 46.6% in 2015 and 32.8% in 2014. Moreover, external debt payments foreseen in the next 12 months amount to US\$ 4.4 billion, which represents around 22% of the total government revenues budgeted for 2016.

In sum, Angola believes that it continues to have access to sufficient funding, which we believe is more likely to come from international sources. The government stated that this was the main reason for not requiring funding from the IMF, although the country will continue its program of technical assistance with the Fund. However, it is clear that Angola's debt level continues to rise at a very rapid pace and so careful monitoring is required. This is particularly relevant bearing in mind the growing debt levels denominated in foreign currency as well as the possibility of the kwanza depreciating further in the near-term, which could make it more challenging for the country to fulfill its debt commitments.

Contributor's Profile

Tiago joined EAGLESTONE in 2013. He has over 15 years' experience in investment banking, namely at Banco Português de Investimento (BPI) and later at Espírito Santo Investment Bank (ESIB).

Before joining EAGLESTONE, Tiago was part of ESIB's Project Finance team for two years. Prior to that, Tiago was a sell-side analyst covering the main listed Iberian banks for eight years both at ESIB and BPI. Before that, he was a macro research analyst at BPI for three years responsible for covering Portugal, Spain and several Latin America countries, including Brazil and Argentina.



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Deal Value
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Roggeveld 140 MW Wind Farm

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 **EAGLESTONE**
ADVISORY

JASPER
POWER COMPANY

96MW_{dc} Solar Photovoltaic
Power Plant in the Northern Cape

Deal Value
R2.3 Billion

Financial Advisor to Jasper Power Company

MAY 2013

 **EAGLESTONE**
ADVISORY

Lesedi
POWER COMPANY

75MW_{dc} Solar Photovoltaic
Power Plant in the Northern Cape

Deal Value
R2.6 Billion

Financial Advisor to Lesedi Power Company

NOVEMBER 2012

 **EAGLESTONE**
ADVISORY

Letsatsi
POWER COMPANY

75MW_{dc} Solar Photovoltaic
Power Plant in the Free state

Deal Value
R2.5 Billion

Financial Advisor to Letsatsi Power Company

NOVEMBER 2012

 **EAGLESTONE**
ADVISORY

African Renewables Deal of the Year

Lesedi (75 MW) & Letsatsi (75 MW)
Solar PV (South Africa)

PFI AWARDS 2012

 **EAGLESTONE**
ADVISORY


PIONEERING LUSOPHONE AFRICA

Oil & Gas Services
Joint-Venture

M&A
Advisory

2016

ANGOLA

 **EAGLESTONE**
ADVISORY

Maputo Office Building
K Center

Investment
Advisory

2015

MOZAMBIQUE

 **EAGLESTONE**
ADVISORY

Maputo Office Building
JFS Tower

Investment
Advisory

2015

MOZAMBIQUE

 **EAGLESTONE**
ADVISORY

Gigawatt
Mozambique, sa

100MW Gas Fired Power Station in
Mozambique

Deal Value
\$212 Million

Financial Advisor to Gigawatt
Mozambique, sa.

JUNE 2014

 **EAGLESTONE**
ADVISORY

AFRICAN ECONOMIC REVIEW AND OUTLOOK



SAMIR GADIO

HEADS THE AFRICA STRATEGY TEAM, BASED IN LONDON. SAMIR HOLDS A PHD AND MA IN ECONOMICS FROM FORDHAM UNIVERSITY AND A BSC. IN ECONOMICS FROM THE RUSSIAN PEOPLES' FRIENDSHIP UNIVERSITY. HE SPEAKS ENGLISH, FRENCH AND RUSSIAN.



ALAN CAMERON

IS AN ECONOMIST IN EXOTIX, AND HE IS RESPONSIBLE FOR COVERING A RANGE OF AFRICAN AND SOUTH ASIAN MARKETS INCLUDING NIGERIA, KENYA, EGYPT, SRI LANKA, BANGLADESH AND VIETNAM.

CMnAfrica: *Retrospectively, in your opinion, what are the significant changes you noticed in African economies during the first half of 2016?*

GADIO SAMIR: Market sentiment towards emerging markets and Sub-Saharan Africa was initially poor in early H1-2016. The oil price fell to new lows in Q1 which reinforced this bearish bias. African Eurobond valuations widened to record highs while foreign interest in local markets was rather subdued. However, risk conditions improved from mid-Q1 and even more in the aftermath of the Brexit vote, as the market now assumed that US and global rates would remain low for longer. Overall, African traded assets have performed well over the period.

On the FX side, the South African rand appreciated on favourable risk conditions while SSA frontier currencies generally remained resilient. The Nigerian authorities finally devalued the NGN and introduced a floating FX regime which is certainly a step forward in rebuilding investor confidence. Given the FX stability experienced over the period, a number of local debt markets (Ghana, Kenya, Uganda) offered decent value either via the carry or duration opportunities. African Eurobonds also had a strong run amid supportive risk conditions; the high-yield issuers generally outperformed more defensive names.

ALAN CAMERON: The biggest challenge for most African economies in the first half of 2016 was the combined effect of low commodity prices and a strong US dollar. After several years of relatively high commodity prices, most economies had calibrated their government spending, their imports and their bank balance sheets to an environment that was no longer close to reality.

The result is that the more commodity dependent economies have seen a significant decline in their growth rates, to the point where we see a two speed Africa. This was the major change. While some economies like Kenya and Tanzania continue to grow at twice the average rate in Sub-Saharan Africa, others like Nigeria and Angola will struggle to even avoid recession.

The difference between the fast-growing cohort and the slow is the composition of that growth: the former is driven to a much greater degree by investment, which is largely decoupled from commodities, and the latter rely much more on exports and consumption, which are linked to

commodity revenues. The challenge, therefore, is for raw material exporters to develop more investment-driven models, with participation from both domestic and foreign stakeholders.

CMnAfrica: *What do you think will be the biggest potential challenge for African economies in the second half of 2016 and what are the possible impacts on its markets?*

GADIO SAMIR: Even though SSA traded assets have been well supported by favourable risk conditions, there has often been a disconnection between this price action and weaker fundamentals. In general, the fiscal and public debt position of African issuers has deteriorated in recent years while oil exporters have also faced wider current account deficits and a slide in FX reserves. This weaker fundamental backdrop may persist in the foreseeable future, especially in the absence of key structural reforms. Another challenge is that global markets may potentially correct later this year if investors decide to take profit and lock in significant gains. But even if this correction were to happen, it is likely that it would generate new attractive re-entry points into SSA Eurobonds, local bonds and FX provided that rates in advanced economies remain low.

In terms of specific markets, further progress towards an IMF deal in Zambia may unlock medium-term duration gains in local bonds. In Nigeria, the key challenge is to restore a more actively traded FX market and ease convertibility risk; on a positive note, naira yields have re-priced significantly lately and look more attractive. We are also constructive on Ghana's local bonds as we expect the authorities to ease monetary conditions going forward. Uganda and Kenya's local rates may offer relative value provided that FX risks remain contained. On the Eurobond side, we prefer names that offer decent carry, but have limited idiosyncratic risks and display decent or even improving fundamentals.

ALAN CAMERON: The challenge for the second half of 2016, in our view, will be resisting the temptation to fall back on populist policies. Several countries under our coverage will hold elections, and we see a growing scepticism about the benefits of textbook free market policies. The exceptional strength of US dollar over the past two years has already caused several significant depreciations and devaluations in Africa, with the result

that inflation is high and policy rates have been raised in response. At the same time, governments have been under pressure to cut their budgets back as revenues have dwindled. Both monetary and fiscal policy have therefore become pro-cyclical. In many cases, this is translating into popular discontent with governments under pressure to deliver populist gestures.

The problem is that balance sheets are now much more stretched than they were in the last downturn, so the option of financing new expenditure with debt is no longer there to the same degree.

CMnAfrica: *To what extent are investors concerned about the ability of African sovereigns to service their debt in current market conditions?*

GADIO SAMIR: Even though public debt ratios have deteriorated across the region, the risk of a sovereign default remains relatively low for the time being. This is because foreign currency interest payments are still generally sustainable in most countries while borrowing at commercial terms has only really picked up in recent years.

That said, some countries have seen their public debt levels deteriorate to virtually pre-HIPC levels. In the

absence of structural reforms and/or a more supportive commodity cycle, there could be increased risk of debt distress when the African Eurobond redemption and refinancing profile steepens from 2022. FX conditions will also matter for Eurobond investors given the impact they have on public debt ratios.

ALAN CAMERON: Although headline debt/GDP ratios are not especially high for most African countries, debt servicing ratios are much more stretched. Looking at the countries under our coverage, Egypt, Nigeria and Ghana all spend more than 30% of their revenues servicing debt, and with recent shortfalls these ratios could even get worse. However in most cases the share of their debt that's held by offshore investors in securitised form is actually relatively small. To take Nigeria as an example, there's only US\$1.5bn of Eurobonds outstanding, which cost just over US\$90m annually to service. It's very hard to imagine a situation that would result in default or restructuring.

The next big maturities are Gabon's 2017 bonds, but there is only US\$161mn outstanding, and Ghana's 2017s which will likely require new issuance in order to be paid back. In the grand scheme of the African universe, these seem like fairly manageable hurdles to clear, even at a time when the economic fundamentals are weak.

AFRICAN EQUITIES: PORTFOLIO MANAGER REVIEW & OUTLOOK

ABSA Africa Equity Fund's Commentary: End of June 2016

The second quarter of 2016 saw wide dispersion of returns between African (ex-SA) equity markets. In USD terms, the Egyptian index dropped 7.78% in 2Q16; the Nigerian all share shed 17.59% largely on the back of a long awaited 30% devaluation of the Nigerian naira (the index was up 17% in local currency). Kenya declined 4.28% in the quarter while morocco was flat. in rand terms, the MSCI EMF Africa ex-South Africa price index was down 4.9% and the fund (up 2.7% in the quarter) outperformed by 7.6%.

The key driver of outperformance in the second quarter is the fund's underweight positioning in Nigeria (9% versus 30% in the benchmark). Cyclical headwinds are pervasive across the continent and will continue for the better part of 2016 with resource exporters like South Africa, Nigeria and Zambia enduring the brunt of the pain of adjustment. These countries can no longer rely on global demand tailwinds for their primary exports to drive growth. Instead they must formulate and deliver on economic policies that will foster sustainable productivity (and thus internally generated economic) growth. The fund is likely to remain underweight commodity exporters, particularly Nigeria in the next quarter. The fund's largest regional overweight positioning is East Africa.

Kenya, Uganda and Tanzania make up 32% of the portfolio versus the benchmark's 16% in Kenya only. Unlike resource/commodity dependent countries these economies continue to experience a high rate of growth in per capita income driven by public and private investment programs particularly in the rail, road, port and power sectors of the economy. the high growth economies of tomorrow are the ones investing today. More importantly, we see significant under-pricing of that growth in high quality listed companies in the consumer goods, financial and utility sectors.

BB African Equity Opportunities Fund's Commentary: End of July 2016

The current account deficit in Egypt reached a record high USD 5.5 bn in Q1 with the trade balance deteriorating due to rising non-hydrocarbon imports. The import restrictions put in place are ineffective and further weakening of the EGP is unavoidable. On the black market, the USD traded as high as EGP 13/USD, a record premium of over 40% to the official rate, and fell to around EGP 12.5/USD as the government officially entered negotiations with the IMF on a support program. Parliament ratified the public service law and is debating the VAT law while the central bank raised rates by another 100 bps, all of which are pre-conditions for IMF help. The equity

market reacted very positively to the IMF involvement and gained 15%. The Central Bank of Nigeria allowed the USD to weaken further to NGN 320/USD. Apart the CBN interventions, negligible USD amounts are supplied while the black market continues to run ahead breaching NGN 380/USD. Foreign fixed-income investors remain on the side-lines despite the CBN increasing rates by 200 bps and 1 year treasury bills yielding slightly above 20%. Results reported by corporates for Q2 reflect the poor economic situation with negative growth rates at best and losses in many cases including in the consumer sector. The capitalization of tier 2 banks is looking increasingly thin and the management of Skye Bank was abruptly replaced by the CBN. The Nigerian equity market lost 5.4%. South Africa continued to benefit from falling global bond yields as the 10 year yields fell to a current year low of 8.6%. The Rand furthermore gained 5.7% versus the USD and equity markets gains of 1.1% were mainly driven by financials and gold and platinum names.

In Kenya, the market gained 1.3% driven by Safaricom, the telecom operator which is increasingly successful in the Fintech space and looking to challenge Uber locally. Banks stocks remained flat despite the parliament passing a controversial law to cap interest rates charged to customers.

CURRENCY DEVALUATION, WHERE ARE THE OPPORTUNITIES?

By Heleen Goussard, Associate, RisCura, South Africa



Some African countries that are considered great investment opportunities have recently seen currency devaluations. Whilst this could be seen as a challenge for their economies, it could also create an opportunity for African manufacturers. Import substitution has been a significant part of Africa's economic growth during the preceding decade, as seen, for example, by Nigerian based Dangote Group, currently manufacturing cement, sugar and flour. All of these items were previously imported by Nigeria even though most of the raw materials are readily available locally. So where could other opportunities lie?

As can be expected, there are numerous products that can be examined, but our process for identifying these sectors was first to look at African countries experiencing currency devaluation of more than 20% in the last 18 months, and secondly by drawing on RisCura's Bright Africa research, which highlights the products being imported and exported by the continent.

The first quite marked observation is the prevalence of the by-products of refining and the downstream products that are manufactured from these by-products. These include items like bitumen, PET, fertilizer, petroleum coke and synthetic rubber.

Petroleum

Refining petroleum locally or in-country refining instead of exporting oil and importing the refined product, should result in many benefits. These range from reducing the margins paid on fuel to the significant industrialisation that comes from processing the by-products into finished products. This not only negates the reliance on and need for imports, but also contributes towards employment and economic independence.

The reality is, as always, more easily said than done. In order to build new refineries, even with the increased costs of imports created by currency devaluation, there would be short-term structural disadvantages that need to be overcome. Refinery projects are highly capital intensive for a start, and there has already been strong growth in the global refining capacity. The aging and inefficient infrastructure that exists in some parts of Africa, often taking strain from repeated power outages, has made it more of a challenge to compete with global 'super refineries' in trading hubs and areas such as the Gulf.

Primary agriculture

Another category that relies heavily on imported products is primary agriculture. This sector includes products such as meat, milk, palm-oil, sugar and rubber. We have seen successful private equity investments in the downstream processing of these products, illustrating the growth

potential in these industries, but it does have unique risks and rewards.

High cost of capital, low production yields and a long-term investment time horizon make this an industry that cannot react instantaneously to short- or even medium-term trends. It is also not an industry that has traditionally produced returns for foreign investors in line with their expectations given the perceived risks.

Data provider, BMI, predicts that growth in demand will outstrip growth in supply in dairy and meat for the foreseeable future in key markets. The devaluation of currencies should therefore allow for the establishment of more primary dairy farmers, and ultimately present further downstream opportunities for investors.

“Import substitution has been a significant part of Africa's economic growth during the preceding decade, as seen, for example, by Nigerian based Dangote Group, currently manufacturing cement, sugar and flour.”

The margin created by currency devaluation does, however, need to be substantial enough to overcome disadvantages including investing into land, as well as attaining equipment both for farmers and processing plants, which would require importing capital goods. The international milk markets have also been oversupplied recently with imports from China and Russia remaining subdued, and the structural subsidisation of production in Europe further contributing to a depressed price. The lack of needed infrastructure in Africa makes the route to market that much more difficult and expensive, while the commodity-like nature of milk and the concentration of processors, makes farmers a price taker, threatening margins.

Contributor's Profile

Heleen Goussard works in RisCura's unlisted investment advisory division primarily managing the calculation of an independent unlisted valuation, highlighting discrepancies in value and methodology, preparing all numerical information used in quarterly reports and IRR calculations for both reporting and fund raising purposes. Heleen has performed and reviewed in excess of 50 valuations at RisCura and undertaken the valuation of Infrastructure projects at both Greenfield and Brownfield stages of development. She has developed specialised skills in the valuation of Infrastructure, including renewable energy, rail concessions, and refineries. Heleen is a chartered accountant based in Cape Town.

CÔTE D'IVOIRE: ECONOMIC REVIEW AND OUTLOOK

By **Gaimin Nonyaye**, Head of Economic Research, Ecobank



Côte d'Ivoire's fundamentals to remain strong but growing external headwinds pose downside risks

Growth to remain strong over the short term, providing businesses with opportunities

Côte d'Ivoire's short-term economic outlook appears good, reflecting successful reforms under the current administration. The country has come a long way from five years of civil war (2002-07) that damaged its infrastructure, and post-election instability in 2010 that left 3,000 people dead and thousands displaced. The economy has been growing at over 7.0% per annum since then, reaching 8.5% in 2015. This reflects the onset of stability since mid-2011, the successful presidential election that took place in October 2015 and growing efforts by the government to rehabilitate the country's infrastructure that was damaged by the civil war. The latter forms part of the government's four-year National Development Plan (NDP; 2016-20) that seeks to strengthen public institutions and governance, develop human capital; strengthen regional integration and international co-operation; and promote infrastructure development and job creation, while transforming Côte d'Ivoire into an emerging market by 2020. The government has so far been able to raise around 30% of total planned investment (USD15bn) and efforts to raise the remainder may be determined by global economic conditions and economic progress in the economy. With regard to the latter, we expect real GDP to remain in the positive growth trajectory in 2016 driven by strong public investment spending outlined under the NDP, 2016-20 and favourable export growth. Other drivers include consolidation of political stability following the successful presidential election in October, improvement in governance and institutional strength, and extensive financial support from donors/bilateral creditors. Plans to adopt a new three-year economic programme with the

IMF will also help to cement ongoing progress in Côte d'Ivoire's economic environment.

However, stronger growth is likely to increase inflationary pressures, reducing the scope of policy easing

Stronger growth will lead to a moderate acceleration of inflation to around 2.1% in 2016, up from around 1.2% in 2015; however, inflation will remain below 3.0% supported by the currency peg to the EUR that helps to anchor monetary policy and the low oil price environment. However, robust public spending plans, specifically planned investments under the 2016-20 NDP, are likely to see the budget deficit deteriorate over the short term, above the 3.0% convergence criteria for UEMOA member countries. This is despite a potential rise in corporate and trade tax revenues and lower fuel subsidies arising from the fall in global oil prices. The impact of lower oil prices on the budget will be slightly negative as direct taxes on oil and gas fall in line with lower pump prices. Reducing the budget deficit to the 3.0% target will be challenging under the government's investment plan; this will require expenditure restraint (unlikely under current planned investments) and significant rise in domestic revenue mobilisation including measures to reduce tax exemptions, broaden the tax base, improve tax administration. There are several efforts that we expect to see progress with in 2016-17: implementing a Treasury single account; strengthening the financial situation of the energy sector; finalising the clearance of domestic arrears; and strengthening procedures for the budgeting, execution and control of public expenditure with a view to avoiding above-budget spending. However, leakages are

Select Economic and Financial Indicators	2013	2014	2015	2016e	2017f
Real GDP (% change)	8.7	7.9	8.5	8.0	7.9
GDP (USD bn)	31.1	33.7	31.2	34.7	38.5
Inflation (average)	2.6	0.4	1.2	2.1	2.0
Fiscal Balance (% GDP)	-2.2	-2.3	-3.0	-3.6	-3.4
Broad Money (% change, end period)	9.7	13.8	17.3	17.7	16.9
Population (mn)	21.6	22.2	22.7	23.3	23.8
Exports (USD bn)	10.0	11.0	12.1	13.0	14.5
Imports (USD bn)	7.5	7.9	8.7	9.3	9.4
Current Account Balance (% GDP)	-1.4	-0.7	-1.7	-3.0	-3.7
FX Reserves (USD bn, end period)	3.1	3.7	4.8	4.8	5.0
Exchange Rate (average)	495.68	496.08	594.28	598.17	600.1

Sources: IMF, World Bank, Bloomberg, Ecobank Research

likely to continue undermining the country's public financial position.

Given our expectation of a potential rise in inflationary pressures we expect the regional central bank, the BCEAO, to keep its policy interest rate steady/unchanged (the Repo rate, le Taux de prêt marginal, remains at 3.5%, the rate since September 2013; le Taux minimum de soumission remains at 2.5%) in the near term. However, there is an outlier of a concern lying ahead: there is a risk that the US Federal Reserve may hike interest rates in late 2016, and an orthodox policy response from the ECB would be to raise its policy rate to help support the EUR. However, with prices in the eurozone currently too low, the ECB has boosted its original QE programme resulting in a negative interest rate environment - a trend that is likely to remain in place for months. Due to the exchange rate peg, the BCEAO may be forced to cut its policy rate in 2016 to help maintain the peg, which would undermine the XOF. Average inflation in UEMOA decelerated to 0.9% y/y in June 2016, down from 1.5% in May, and from 1.3% in December 2015. Moreover, inflation has slowed in Côte d'Ivoire, the largest economy in UEMOA (from 2.3% y/y in May, to 0.9% y/y in June), increasing the scope of policy

easing. However, we believe that the BCEAO is likely to maintain its tight policy stance in the months ahead, given growing concern over a possible US interest rate hike and uncertainty over Brexit effect on the EU.

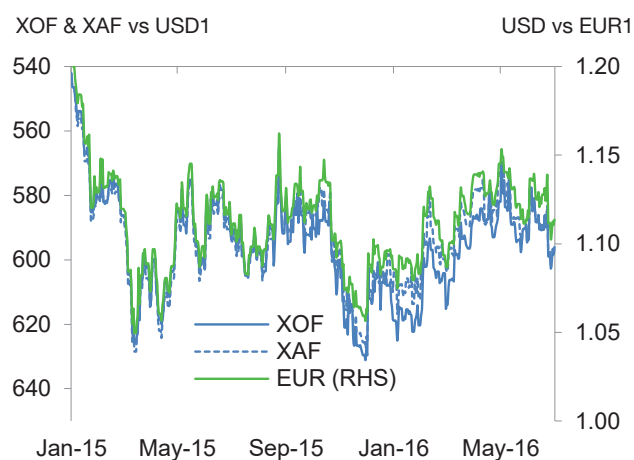
The capital market will remain relatively illiquid, and short term yields are unlikely to shift significantly

Côte d'Ivoire's capital market remains less liquid than other key markets such as South Africa and Nigeria. Developments in the primary market will continue to be influenced strongly by the monetary policy stance derived from the ECB and BCEAO liquidity management efforts. As a result, and given recent developments, yields are not expected to change significantly in the months ahead. However, money market rates have risen in recent months (the 1-month average in July was up to 5.20% from 4.60% in January 2016, and from 4.83% in May last year), reflecting the tight monetary policy stance, which has somewhat reduced liquidity in the economy.

Exchange rate risks will persist as the currency peg to the euro continues to face external headwinds

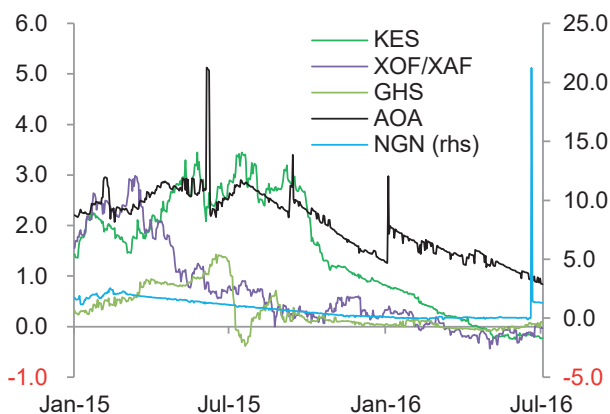
Although Côte d'Ivoire's short-term growth outlook looks positive, the recent outcome of the Brexit referendum poses major downside risks to the XOF, which is pegged to the euro. Since the result of the vote was announced on 24 June, there has been a slight rise in EUR:USD volatility and hence XOF/XAF volatility increasing uncertainty for business planning. At the same time, the EUR and hence the XOF/XAF has weakened slightly against the USD and we expect this trend to continue amid ECB's ongoing monetary stimulus and concerns over the Brexit impact on EU; this is specifically, the risk of it fuelling anti-EU sentiment and plunging the EU region into its own series of 'in-out' referenda. A possible rise in US interest rates later in the year could also undermine the value of the EUR. Better-than-expected US non-farm payrolls data in recent months increase the scope of at least one rate hike this year. If this happens, it will increase financing costs for the country, as well as bode ill for the XOF as capital flows out of the region into USD denominated assets.

Chart 1: XOF/XAF Performance



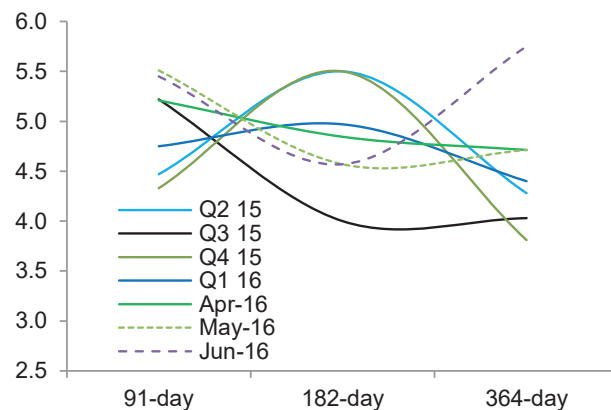
Source: Bloomberg

Chart 2: Exchange Rate Volatility



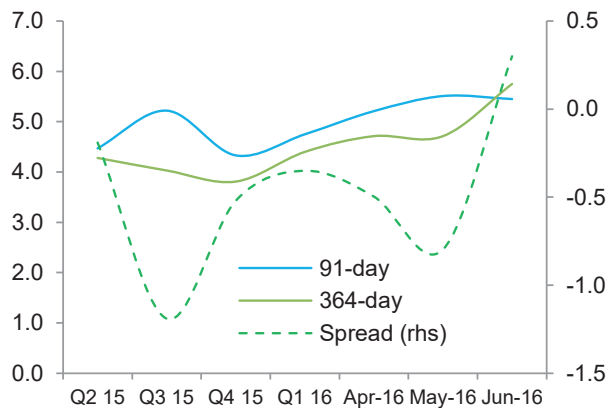
Source: Bloomberg; Ecobank Research

Chart 3: Short Term Primary Market Yield Curve, UEMOA average (%)



Source: BCEAO

Chart 4: Treasury Bill Rates, UEMOA average (%)



Sources: BCEAO; Ecobank Research

But the risk of currency devaluation is low

Despite increased global economic uncertainty, we believe that the BCEAO is likely to maintain the exchange rate peg to the euro for the foreseeable future. While export competitiveness has been undermined by a slight strengthening of the EUR against the USD year-to-date (by 3.2%; see Chart 1), there is a likelihood of a reverse in trend in the coming months given renewed concerns over a possible US interest rate hike, the Brexit effect on the Eurozone and ECB monetary policy stimulus. Moreover, EU demand for Côte d'Ivoire's exports remain weak, negating any benefit of a currency devaluation. In addition, FX reserves held jointly by the BCEAO and by the French Treasury on behalf of the ECB are at comfortable levels (nearly USD10bn) and debt stocks across UEMOA (and specifically in Côte d'Ivoire) are also within comfortable levels and do not pose any major concerns - Côte d'Ivoire's domestic debt equalled 34.7% of GDP at end 2015, while external debt equalled 31.3% of GDP, below the IMF thresholds of high debt distress.

Strong government spending to increase current account pressures but positive cocoa outlook to mitigate risks

Meanwhile, higher government spending is likely to see the current account deficit come under increasing pressure over the short term. This is in addition to weaker-than-expected production in Côte d'Ivoire's main export crop, cocoa, in the current 2015/16 season (October-September); total deliveries reached 1,428,000 tonnes by July 24th, 12% below the same point the previous season. The fall in production reflected the impact of El Niño which made the seasonal Harmattan winds the harshest in 30 years. The exceptionally dry weather stunted pod development, resulting in an unusually high proportion of small and low quality beans. This increased bean rejections at port, as well as crimping supplies to Ivorian grinders whose output is expected to have fallen. We expect the country to produce a total crop of 1.6mn tonnes in 2015/16, 9.6% lower than the record

achieved in 2014/15, but still the third strongest outturn on record.

“Côte d'Ivoire's short-term economic outlook appears good, reflecting successful reforms under the current administration. The country has come a long way from five years of civil war (2002-07) that damaged its infrastructure, and post-election instability in 2010 that left 3,000 people dead and thousands displaced.”

The outlook for the 2016/17 is mixed, given the likely switch of global patterns from El Niño to La Niña, which typically makes weather cycles more unpredictable. However, given that the last three La Niñas have driven an increase in West Africa's cocoa crop, we expect Ivorian production to rebound, reaching a forecast 1.8mn tonnes in 2016/17, which if achieved would be a record. The strong production outlook should also support a rebound in grinding activity, cementing the country's position as the world's largest cocoa grinder. This will go some way towards supporting the current account, but sustained, robust import demand will add pressure to the trade account. Moreover, although Côte d'Ivoire's status as a net oil importer should see the economy benefit overall from lower oil prices, a possible weakening of the EUR will be reflected in XOF depreciation, which will raise import prices and overall will add pressure to the current account.

On balance, our broadly positive outlook on Côte d'Ivoire depends partly on: continued stability in the political climate, favourable terms of trade – the slowdown in China's growth and subdued demand in the EU pose a risk to Côte d'Ivoire's growth; and reforms aimed at improving the business climate. The government's ability to secure adequate external financing to boost public investment to the level envisaged in the 2016–20 NDP will also be crucial to the country's short term economic prospect.

Contributor's Profile

Gaimin Nonyane Head of Economic Research desk and Project Manager for Local Knowledge Africa (LKA; an advisory arm at Ecobank Research) at the pan-African bank, Ecobank Group, based in London. Gaimin joined the bank in November 2012, and helped to launch the bank's first ever Country Profiles, designed to give investors an insight into the operating environment in Middle Africa. Prior to that, she headed the sub-Saharan Africa desk on macroeconomic and political research at Dun & Bradstreet (D&B) UK Limited. Gaimin has an MSc in International Economics and Policy and a BA (Hons) in Economic Studies with Law

GHANA'S MONETARY AND FISCAL POLICY CHOICES IN DIFFICULT TIMES

By **Courage Kingsley Martey**, Senior Economic Analyst, Databank Research



Ghana's economic decline in the last 5 years left the sense of a "loud silence" as the investor community was stunned by the adverse turn of events in an economy recently (and probably still) perceived as Africa's rising star. While the economic downturn was triggered by domestic factors underpinned by the fiscal and monetary policy choices, the collapse in commodity prices due to weakened demand in China and the Eurozone added external pressure to the decline.

The start of hydrocarbon production in Dec-2010 coincided with a period of macroeconomic stability in Ghana (under an IMF-assisted fiscal adjustment program which expired in Jul-2012). The policy credibility attained under the IMF program culminated in a sustained decline in average annual inflation rate from 19.3% in 2009 to 8.7% in 2011, supported by a relatively stable Ghana cedi over the period. Investor confidence in Ghana's economic prospects was firmly restored as the country commenced the commercial production of crude oil from its Jubilee oil field, fueling economic activity and FDI inflow. Ghana's real GDP growth consequently raced to a peak of 14% in 2011, representing the fastest pace of economic expansion in Sub-Saharan Africa. Evidently, the fiscal and monetary policy choices between 2009 and 2012 (under the IMF-assisted fiscal adjustment program) were complementary and supportive of a stable macroeconomic environment and investor confidence. As observed in figure 1, periods of sustained macroeconomic stability (reflected by the declining inflation) are more likely to be associated with sustained economic growth (and vice versa).

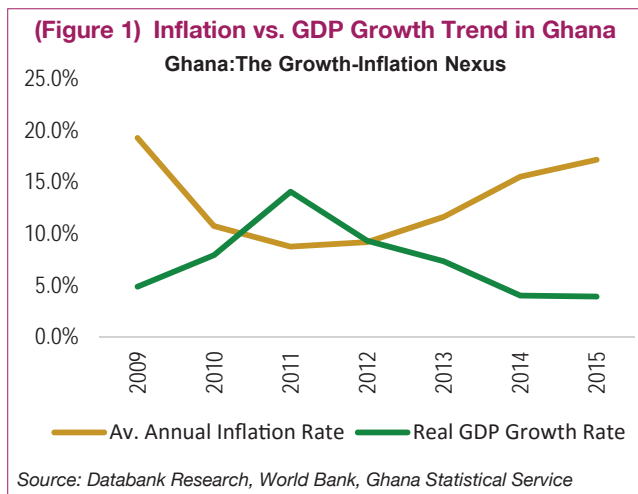
The Illusion of Crude Oil Revenue

The anticipated cash flow from crude oil liftings (including surface rentals, royalties & corporate taxes) underpinned government's bullish revenue expectations fueling the fiscal regime into overdrive. The fiscal expansion embarked upon, resulted in expenditure overruns with fiscal commitments broadly exceeding budget limits as the 2012 elections pressure exerted greater demand on the national budget.

Total government expenditure at the end of 2012 (GH¢20.56 billion) surged by 54% year-on-year (exceeding the estimated limit by 8.2%) while capital expenditure (GH¢4.62 billion) turned out 22.7% less than projected. The expenditure mix revealed an underlying problem in the structure of Ghana's fiscal deficit: The bulk of Ghana's crude oil revenue was earmarked and channeled into recurrent expenditure, undermining the country's growth prospects while exerting fiscal pressure on the budget.

The public sector wage bill (GH¢6.67 billion) was expanded by 47% year-on-year in 2012 with an 18.2% overrun relative to the budget limit for the year. The surge in the wage bill was mainly influenced by the decision to migrate more than 500,000 public sector staff unto a new pay structure (the Single Spine Salary Structure).

The re-introduction of broad-based subsidies on utilities



and petroleum products in the 2012 budget was in sharp contrast to the fiscal discipline achieved under the IMF program. The total commitment for subsidies (GH¢808.98 million) also registered a 72.1% overrun beyond its threshold, creating a substantial buildup of arrears and contributing to the prevailing energy sector challenges in Ghana.

While government embarked on a drive to boost recurrent expenditure (at the expense of growth-oriented capital expenditure), the revenue outturn from crude oil was grossly disappointing. The total benchmark crude oil revenue for the 2012 fiscal year (GH¢557.61 million) was 36.5% short of expectations, amplifying the fiscal slippages on the expenditure side.

The analysis of Ghana's fiscal data by Databank Research revealed two key findings: the revenue perception from crude oil production is an illusion while the fiscal implication of this mirage has undermined the country's growth prospects.

The start of commercial production of crude oil has created a sense of false hope underpinned by ambitious revenue expectations which motivated an expansionary fiscal policy, resulting in unsustainably high budget deficits with a risk of debt distress. While fiscal deficit surged to 12.1% in 2012 (from 4.3% in 2011) and remained in double digits for three consecutive years, the resultant growth in the public debt has increased the debt service cost over time.

Ghana's total debt service cost was GH¢9.08 billion at the close of 2015, representing a 463% surge compared to the

level in 2011 as the wide fiscal gap fueled debt accumulation which hit ~GH¢100 billion (71.6% of GDP). Essentially, the structure of Ghana's public debt (in terms of the maturity profile of the various debt securities) is a reflection of the nature of the country's fiscal deficit. The fiscal policy choices following the start of oil production was geared towards expanded recurrent expenditure with little consideration for sensitivity and sustainability analysis. Sustaining the high recurrent expenditure in the face of lower revenue outturn resulted in the sizable issue of short term debts (and central bank financing of the deficit beyond the stipulated ceiling). The government's analysis of Ghana's public debt portfolio as at Aug-2015 revealed an average maturity profile of 10 months, highlighting the vulnerability to rollover risks which contributed to the higher debt service cost.

Fiscal Dominance in Monetary Policy

Prior to the IMF-inspired amendments to the Bank of Ghana Act in Aug-2016, the initial regulation allowed central bank financing for the government budget by up to 10% of the previous year's domestic revenue. This financing window created the incentive for fiscal excesses as the government perceived the central bank as a ready and cheaper source of funding, an approach which undermined the independence and effectiveness of monetary policy.

As observed from the 2012 fiscal data, central bank net financing of the 2012 budget amounted to 18.8% of the previous year's domestic revenue, significantly breaching the 10% limit. Notwithstanding the government's attempt to embark on the path of fiscal consolidation from 2013 (post-elections), the sustained fiscal slippages have undermined these efforts while monetary policy continued to accommodate the fiscal excesses (without an IMF support).

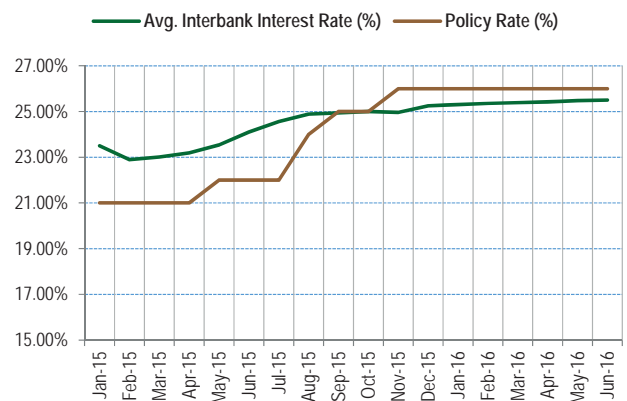
Ghana's Inflation Targeting (IT) framework was compromised by the dominant influence of fiscal authorities, reducing monetary policy decisions to a mere mop up exercise aimed at sterilizing the monetization of fiscal excesses. Against this backdrop, inflation assumed an upward trend since 2013 while exchange rate pressures consigned the Ghana cedi to sharp losses over the period to the 1HY-2015.

Restoring Policy Credibility: IMF to the Rescue

Difficult times must surely warrant tough measures and Ghana was in dire need of one as restoring policy credibility was necessary to re-engage with donor partners and trigger investor confidence. A front-loaded (3-year) fiscal adjustment program ultimately commenced with technical support and an Extended Credit Facility from the IMF in Apr-2015, with marked improvements in the fiscal deficit (6.3%) by FY-2015. Beyond the fiscal measures, the IMF program (currently in its 2nd year) also aims to strengthen the Bank of Ghana's independence and enhance the effectiveness of the IT framework.

An interest rate analysis by Databank Research revealed a misalignment of interest rates in the period before Nov-2015 (figure 2). Despite the monetary-induced inflationary pressures in the 1HY-2015, the monetary policy

(Figure 2) Ghana: Interest Rate Alignment in 2015



Source: Databank Research, Bank of Ghana

rate continued to lag other market rates (particularly, the inter-bank interest rate). We believe the situation undermined the credibility of Ghana's monetary policy regime as the policy rate (below the inter-bank interest rate) lost its punitive features and signaling tendencies as an anchor rate.

With technical assistance from the IMF, the monetary authorities implemented a number of policy measures which included a merger of the policy rate and the reverse repo rate at 24% in Aug-2015 (from 22%). The subsequent MPC meetings in September and November 2015 were concluded with hikes in the policy rate, closing 2015 at 26% and effectively correcting the perceived misalignment.

With the policy rate at 26% (a decision maintained in the four consecutive MPC meetings since Nov-2015), we reckon that demand pressures and interest rate expectations have been fairly anchored. The Bank of Ghana's decision to maintain a rate-neutral stance so far in 2016 is in line with Databank Research's expectations despite the heightened inflation expectations since the turn of the year. The inflation dynamics in 2016 is indicative of the cost-push pressures arising from the utility tariffs and energy sector levies imposed. Under this circumstance, the policy options were constrained by the ultimate goal of fiscal sustainability while the uncertainty of potential second-round effect (of the cost pressures) necessitated a rate-neutral decision given an already tight monetary stance.

Despite the delay in kick-starting the much anticipated disinflation process, there are indications of receding inflationary pressures as inflation appears to have already peaked at 19.2% in Mar-2016. While inflation should assume a downward path in the 2H-2016, the government of Ghana's target of 10.1% by close of 2016 appears unlikely given the Jun-2016 rate of 18.4% (Databank Research Projection FY-2016: 14% ± 100bps). Overall, sustaining the emerging macroeconomic stability would be necessary for a rebound in economic growth in 2017 and this requires a successful navigation of the election pressures ahead through fiscal discipline and tight monetary policy.

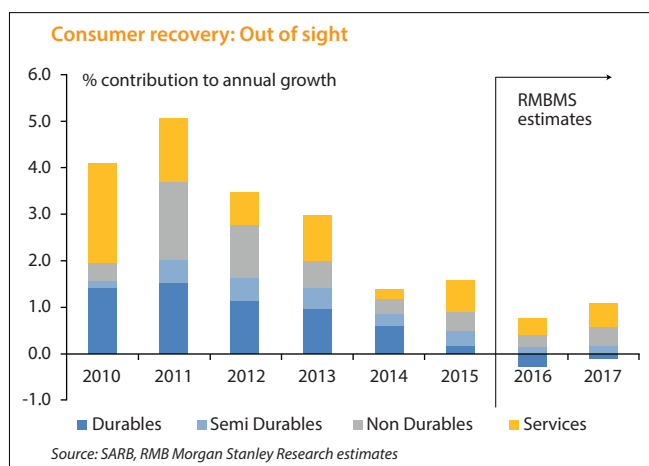
SOUTH AFRICA'S ECONOMY DIAGNOSIS: WELCOME TO STALL SPEED



By **Andrea Masia**, Economist, RMB Morgan Stanley, South Africa

Growth in South Africa is likely to hit stall speed in 2016, at a barely positive 0.3%Y, by our estimates. Yet even as a Brexit-induced global growth shock further complicates the outlook, we see currency prospects as less concerning. The SARB is on hold for the foreseeable future, in our view.

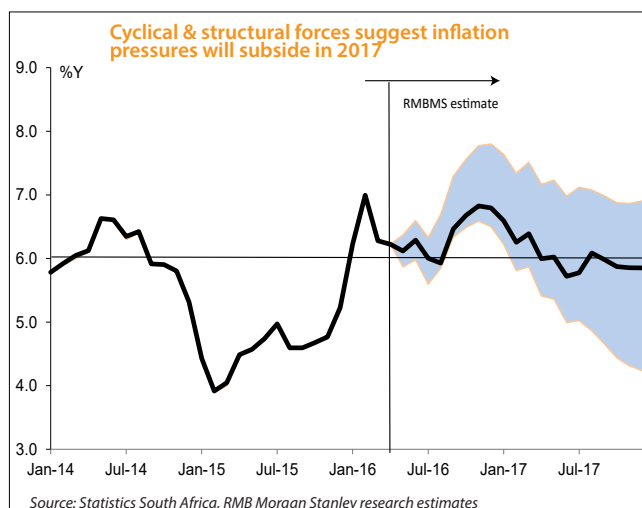
A revised GDP data series combined with our views of economic stagnation in several developed markets in 2017 drags our South African growth forecasts toward the consensus of 0.2%Y in 2016 and 1.1%Y in 2017. Our 2016 forecast drops from 0.8%Y to 0.3%Y, while our 2017 forecast moves from 1.5%Y to 0.9%Y. We would not rule out the prospect of a full-year contraction in 2016 GDP, although the prospect of a quarterly recession does appear to have subsided, with an encouraging set of high-frequency data in 2Q16.



We incorporate a weaker outlook for household consumption, investment and, of course, exports. Consumption growth is being held back by further weakness in consumer confidence and a worsening outlook for job creation. We believe some support for the consumer will emerge however, based on our more subdued inflation outlook and our call that the South Africa Reserve Bank (SARB) is done raising rates. However, fixed investment has slipped into recession, and our previous bear case of a full-year contraction for 2016 now seems the most likely outcome.

It's not all bad news, however. Weakness in domestic demand is a precondition for macro rebalancing – a process which we estimate is now in its seventh year, and probably has a further 12-18 months to run. Encouragingly, we noted that, government savings swung from -0.2% to +0.3% of GDP in 1Q16, together with a much-needed build-up in household savings – to 1.1% of GDP from almost zero in 2013. Weakness in household consumption

is forcing household savings higher, in our view. However, given the deteriorating growth outlook, headwinds to the corporate gross operating surplus and savings rate are mounting. This should be partially offset by a pullback in dividend payments and employee compensation. Net-net, our current account forecast remains unchanged at -4.3% of GDP in 2016, but improves by less in 2017, to -3.7% (-3.5% previously).



Our FX strategists remain bullish on the medium-term prospects for the USD, but have acknowledged the powerful hunt for yield dynamic that is currently benefitting emerging market currencies that offer attractive returns and are past the worst point in their macro cycles. Our colleagues now have a less bearish view on the ZAR, with USD/ZAR expected to end 2016 at 14.60 (15.30 previously) and 16.40 at end-2017 (17.20 previously). This is critical for our inflation forecasts, and implies a NEER depreciation of 9.8% in 2016 and just 1.4% next year. From an inflation perspective, this helps lower our 2017 CPI estimate, which now comes in at 5.7% (core CPI of 5.5%Y), and is tracking closer to our bull case scenario that we outlined earlier in the year. Admittedly, the risk to our near term USD/ZAR profile is skewed to the upside given recent political developments.

Both cyclical and structural factors leave us constructive on inflation prospects in 2017. In fact, our forecast is significantly more bullish than the SARB's. We expect CPI to sustainably dip below 6% from 1Q17. We therefore believe the SARB is on hold for the foreseeable future. Given our view that the SARB will be marking down its inflation forecast in upcoming meetings, our terminal rate forecast now drops to 7.00% from 7.25% previously.

Does this mean the SARB will initiate an easing cycle? We

do not think so. In our view, the only compelling reason for the SARB to unwind the progress it has made at raising real interest rates would be if inflation expectations were to surprise materially to the downside, or if the outlook for GDP growth is a lot worse than what is generally perceived to be the case.

Conceptually, we view the monetary policy cycle as linked to potential GDP growth, and that there is a preference to keep the real interest rate below potential GDP growth in order for the economy to exit the downswing in the business cycle. The SARB estimates potential growth at 1.4%Y in 2016 and 1.5%Y in 2017. Implicitly, this means real rates are likely to remain below 1.5%.

The SARB has raised real rates in this cycle by hiking the nominal rate by more than the rise in inflation expectations (while one-year-ahead inflation expectations have risen by 20bp, to 6.2%Y, nominal rates have risen by 200bp, to 7.0%). Given the improvement in the inflation outlook we envisage, the SARB may opt to pause and allow (falling) inflation expectations to now do the work.

However, there are two important risks to this call: First, were inflation expectations to fall to 5.6%Y or lower, the current nominal repo rate of 7.0% would drive the real rate above potential GDP growth, and hence into contractionary territory. Second, if potential growth were to be revised lower, to say 1.2%Y, then a repo rate of 7.0% with inflation expectations of 5.7%Y would raise the real rate above potential GDP. In these scenarios, we believe the SARB could respond with mild policy easing.

Contributor's Profile

Andrea Masia is head of sub-Saharan Africa macroeconomic research at Morgan Stanley in Johannesburg. Andrea joined Morgan Stanley's fixed income division in 2007 as a junior economist covering South Africa & other Sub-Saharan African markets. Andrea is rated amongst South Africa's most accurate forecasters by Bloomberg, and has achieved a top five rating for South African Economics in the Extel and the Financial Mail surveys. Andrea also achieved a top rating for sub-Saharan Africa Economics in the Financial Mail rankings. He previously held research roles in the banking and telecommunications sectors, and holds a Master's degree in Economics from the University of the Witwatersrand.

ECONOMIC & BUSINESS NEWS AROUND THE AFRICAN CONTINENT

TUNISIA: Banking sector assessment maintained at high risk

S&P Global Ratings classified Tunisia's banking sector in 'Group 9' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '8' and an industry risk score of '9'. The BICRA framework evaluates global banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 9' include Argentina, Cambodia, Kenya, Nigeria and Vietnam. S&P indicated that Tunisia's economic risk score reflects its "extremely high" credit risks in the economy, as well as "very high risks" in its economic resilience and "intermediate risks" in its economic imbalances. It noted that the slowdown in Europe's economic activity, as well as Tunisia's domestic political and security risks, have weighed on the banks' financial performance and asset quality, and expected these challenges to persist in the next 12 to 24 months. It added that the key risks to the banking sector include the elevated unemployment level, subdued economic activity, declining real estate prices, the sharp drop in tourism receipts and the strained financial flexibility of the corporate sector. It projected the nonperforming loans ratio to stabilize at about 16% to 17% over the coming 12 to 24 months.

SUDAN: Foreign currency shortages to continue to weigh on economic activity

BMI Research projected Sudan's real GDP growth to decelerate from 3.4% in 2015 to 3.1% in 2016 and 3.3% in 2017, due to lower transit oil fees from South Sudan and weakened consumer spending power, in addition to the prevailing international

sanctions. It said that the conflict in South Sudan would weigh on its oil production, and in turn, would adversely affect Sudan's revenues from oil transit fees. It added that the governments of Sudan and South Sudan are renegotiating the current fee of \$24.5 per barrel due to the low oil price environment. It noted that this would affect Sudan's government consumption and investment. As such, it forecast government spending to expand by 2% in real terms in 2016 and 2017 compared to an estimated growth rate of 3% in 2015. In parallel, BMI expected that the international sanctions and the poor legal environment would keep investments at low levels, and would continue to weigh on economic activity over the long term.

EGYPT: Currency liberalization to be first step of reform process

Regional investment bank EFG Hermes considered that the Egyptian authorities need to fulfill several conditions to receive the final approval of the International Monetary Fund on the 36month \$12bn Extended Fund Facility. It noted that these conditions include raising about \$5bn to \$6bn from bilateral partners, mostly from GCC countries, as well as introducing the value added tax and cutting energy subsidies. It indicated that most of the economic reforms, including the transitioning toward a flexible exchange rate regime, would have to occur during the first four to six months of the IMF program. It did not expect the Central Bank of Egypt (CBE) to start floating the pound before the second half of September in order to have enough time to build a liquidity buffer. It anticipated that the CBE would need to accumulate about \$5bn to \$6bn in foreign currency reserves in order to eliminate the parallel

exchange market and stabilize the foreign currency market afterwards. It estimated that the pound could stabilize at EGP11.5 against the US dollar following the initiation of the floating process. It expected the CBE to maintain the prevailing imports and capital controls in the short term in order to prevent large currency fluctuations.

MOROCCO: Agency takes rating actions on banks

Fitch Ratings affirmed at 'BB+' the long-term foreign currency Issuer Default Ratings (IDRs) of Attijariwafa Bank (AWB) and Banque Marocaine du Commerce Extérieur (BMCE), while it downgraded their long-term local currency IDRs to 'BB+' from 'BBB-'. Also, it maintained at 'bb-' the Viability Rating of AWB and at 'b+' that of BMCE. Further, it affirmed at 'AAA (mar)' the national long-term ratings of Banque Marocaine pour le Commerce et l'Industrie (BMCI) and of Société Générale Marocaine de Banques (SGMB) and at 'AA-(mar)' those of AWB and BMCE. It maintained the 'stable' outlook on all the banks' ratings. It attributed the downgrade of AWB and BMCE's long-term local currency IDRs to a similar action on Morocco's long-term local currency IDR. The agency changed some criteria in its methodology for long-term local currency IDRs. It noted that AWB and BMCE's ratings reflect the moderate probability of support from the Moroccan authorities in case of need, given the banks' importance in the country. Further, it indicated that the national ratings on SGMB and BMCI reflect a high probability of support from their respective majority shareholder Société Générale and BNP Paribas.

AFRICAN CAPITAL MARKET UPDATES

AFRICAN EQUITY MARKET INDICATORS AS AT 26-August-2016								
Country Name	Index Name	Index at 26-Aug	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Botswana	BSE DCI	9,543	-3.78	-9.99	-12.82	9,504	10,946	3.752
BRVM	IC Comp	288	0.10	-5.31	-2.05	281	321	8.542
Egypt	EGX 30	8,131	7.84	16.06	18.30	5,526	8,481	20.355
Ghana	GSE ALSI	1,879	5.13	-5.80	-12.51	1,746	2,158	11.780
Kenya	FTSE NSE15	135	-4.23	-7.36	-3.20	135	149	21.388
Malawi	MSE ALSI	13,174	0.10	-9.53	-16.87	12,478	15,909	11.187
Mauritius	SEMDEX	1,818	3.31	0.39	-6.21	1,738	1,946	7.162
Morocco	MORALSI	9,955	0.27	11.53	7.59	8,790	10,235	6.960
Namibia	Local	1,024	-1.56	18.30	0.39	767	1,072	14.270
Nigeria	NIG ALSI	27,451	-1.77	-4.16	-2.44	22,331	31,256	11.006
Rwanda	RSEASI	129	-0.96	-1.61	-9.30	129	142	2.777
South Africa	JSE ALSI	53,507	-0.25	5.55	10.64	45,976	54,761	9.450
Swaziland	SSX ALSI	368	0.00	12.52	19.20	307	368	8.211
Tanzania	DAR ALSI	2,617	-2.46	12.13	4.67	2,173	5,005	28.237
Tunisia	TUNIS	5,436	1.67	7.81	-1.74	4,812	5,563	4.059
Uganda	USE ALSI	1,560	-3.54	-11.53	-13.88	1,560	1,959	16.601
Zambia	LuSE ALSI	4,401	-6.73	-23.25	-24.50	4,401	5,834	9.959
Zimbabwe	IDX (USD)	99.90	1.03	-13.02	-25.98	93	136	4.134

SELECTED AFRICAN CURRENCY EXCHANGE Vs. US DOLLAR AS AT 26-August-2016								
Country Name	Currency Name	Index at 26-Aug	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Algeria	Dinar	109.12	1.60	-1.85	-3.46	103.80	111.32	3.307
Angola	Kwanza	169.22	0.00	-20.09	-25.30	125.37	169.43	13.781
Botswana	Pula	0.09	0.54	4.49	-5.29	0.08	0.10	10.018
CFA Franc	CFA Franc	591.61	2.28	4.55	-2.19	567.51	633.62	8.173
Egypt	Pounds	8.88	0.03	-11.88	-11.80	7.77	8.96	3.979
Ethiopia	Birr	22.13	-0.44	-4.28	-5.56	20.36	22.21	4.798
Ghana	Cedi	3.95	0.35	-3.70	7.05	3.43	4.27	23.536
Kenya	Shillings	101.43	-0.11	0.86	2.10	100.18	106.67	1.266
Malawi	Kwacha	721.08	-0.50	-7.39	-23.44	544.80	757.03	2.464
Mauritius	Rupee	35.03	1.17	2.34	-0.09	34.61	39.86	4.435
Morocco	Dirham	9.71	1.59	2.32	-0.58	9.23	10.20	4.425
Mozambique	Metical	72.37	-7.42	-33.67	-44.10	31.28	74.96	21.700
Nigeria	Naira	314.25	-1.19	-36.58	-36.69	196.48	350.25	42.822
Rwanda	Franc	800.35	-1.65	-6.92	-8.87	630.44	820.50	0.826
South Africa	Rand	14.08	1.97	9.84	-6.77	13.01	17.92	16.545
Tanzania	Shilling	2,186.00	0.05	-1.68	-1.65	2,111.75	2,220.00	0.837
Tunisia	Dinar	2.19	2.11	-6.71	-10.46	1.92	2.25	4.859
Uganda	Shilling	3,373.00	0.21	-0.03	5.99	3,302.50	3,705.00	3.233
Zambia	Kwacha	9,760	1.4344	12.7049	-12.96	8,447	14,605	27.732

SELECTED AFRICAN GOVERNMENT INTERNATIONAL BONDS AS AT 26-August-2016								
Country Name	Maturity	Price at 26-Aug	Mid-Yield at 26-Aug	1-month Yield Chg (%)	YTD Price Change (%)	Price 1-Year Low	Price 1-Year High	Amount Outstanding (US\$ M)
Angola	12-Nov-25	100.761	9.371	-0.758	8.171	78.535	101.892	USD
Cameroon	19-Nov-25	111.384	7.746	-0.855	19.499	81.683	111.418	USD
Congo	30-Jun-29	68.477	10.247	0.838	-13.173	66.397	88.876	USD
Cameroon	19-Nov-25	111.384	7.746	-0.855	19.499	81.683	111.418	USD
Egypt	30-Apr-40	97.274	7.114	-0.732	18.497	79.322	100.290	USD
Ethiopia	11-Dec-24	99.357	6.725	-0.475	11.890	82.037	99.626	USD
Gabon	16-Jun-25	96.053	7.570	-0.656	20.149	69.735	96.664	USD
Ghana	14-Oct-30	113.600	9.025	-0.440	11.595	87.092	113.963	USD
Kenya	24-Jun-22	99.033	7.036	-0.551	12.659	83.919	99.329	USD
Ivory Coast	31-Dec-32	100.867	5.624	-0.566	13.028	83.659	101.328	USD
Morocco	11-Dec-42	118.371	4.323	-0.257	22.328	92.194	118.426	USD
Namibia	29-Oct-25	106.998	4.316	-0.259	14.341	88.524	108.052	USD
Nigeria	12-Jul-23	100.219	6.334	-0.351	13.819	84.651	100.607	USD
Rwanda	02-May-23	102.410	6.177	-0.524	6.820	92.349	102.427	USD
Senegal	30-Jul-24	102.766	5.808	-0.668	14.580	84.764	102.835	USD
South Africa	24-Jul-44	111.667	4.626	-0.190	23.371	85.773	116.008	USD
Tanzania	09-Mar-20	104.151	5.921	-0.142	9.908	92.702	104.169	USD
Zambia	30-Jul-27	99.712	9.010	-1.513	25.735	65.003	100.015	USD

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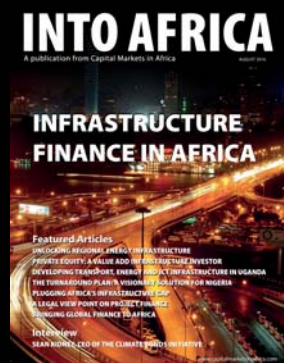
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