Africa - Economic Outlook

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Low growth, low inflation: The world economy is “Japananizing”

World: global growth and commodities prices

Equity markets

Source: Datastream

100 = Jan. 2015
Country risk according to Coface

• **Country assessment**
  - Assesses the average risk of payment defaults by companies in a given country
  - This evaluation combines economic and political prospects of the country, Coface payment experience and business climate assessment
  - This evaluation has 7 grades: A1, A2, A3, A4, B, C, D and can be watch listed

• **Business climate assessment**
  - Assesses overall business environment and more precisely whether corporate information is available and reliable and whether the legal system provides fair and efficient creditor protection.
  - This evaluation has 7 grades: A1, A2, A3, A4, B, C, D and can be watch listed.
Global Country Risk level hits a record high

Niveau mondial moyen de risque pays
(1 = risque très faible ; 7 = risque très élevé, source : Coface)
Coface Country Risk Assessments

160 COUNTRIES UNDER THE MAGNIFYING GLASS

A UNIQUE METHODOLOGY
- Macroeconomic expertise in assessing country risk
- Comprehension of the business environment
- Macroeconomic data collected over 70 years of payment experience

RISK OF BUSINESSES DEFAULTING

<table>
<thead>
<tr>
<th>A1</th>
<th>A2</th>
<th>A3</th>
<th>A4</th>
<th>B</th>
<th>C</th>
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<tbody>
<tr>
<td>VERY LOW</td>
<td>LOW</td>
<td>QUITE ACCEPTABLE</td>
<td>ACCEPTABLE</td>
<td>SIGNIFICANT</td>
<td>HIGH</td>
<td>VERY HIGH</td>
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POSITIVE WATCH | NEGATIVE WATCH

coface
Sub-Saharan Africa: Long-term Strength but Short-term Turbulence

Sub-Saharan Africa: IMF GDP Growth Forecasts in 2016 and 2020 (%, source: IMF)
Lower commodity prices are dragging down exports in the region

Share of fuel in total good exports (% , 2013, source: CNUCED)

Share of metals in total good exports (% , 2013, source: CNUCED)

Share of agri and food in total good exports (% , 2013, source: CNUCED)
Exposure to commodities is very different from one country to another.

Natural resources contribution to GDP, 17 key top markets (% 2013, source: World Bank)

Natural resources contribution to GDP, Most resource dependent countries (% 2013, source: World Bank)
Exposure to commodities is very different from one country to another (2)
What countries are diversifying through the manufacturing sector?

Source: UNCTAD
What countries are betting on services?

**Share of communication and transport services in GDP**

- Nigeria
- Madagascar
- Cabo Verde
- Ghana
- Sao Tome
- Gambia
- Uganda
- Mauritius
- Eritrea
- Kenya
- Mozambique
- Côte d'Ivoire
- Tanzania

**Share of financial services in GDP**

- Botswana
- Mauritius
- South Af.
- Lesotho
- Malawi
- Namibia
- Kenya
- Ghana

Source: UNCTAD

Source: BMI
And the winners are… Kenya, Ethiopia and Uganda

13 countries are not affected by the fall in commodity prices

- **Ethiopia** – Sao Tome
- **Uganda** – Malawi
- Cabo Verde – **Kenya**
- Burundi – Seychelles
- Centrafrique – Maurice
- Tanzania – Swaziland
- Togo

**Diversification strategy via the manufacturing sector**
- **Ethiopia** - **Uganda** - Rwanda

**Diversification strategy via services**
- **Kenya**

**Winners**: Diversified economies and not impacted by the fall in non-renewable commodity prices

**Losers**: Poorly diversified economies and much exposed to the recent fall in commodity prices
Twin deficits are a growing concern…

Twin deficits in Africa (% of GDP, source: IMF)

Twin deficits in Africa (% of GDP, source: IMF)

- Budget balance
- Current account

Angola (2007)
Cameroon (2007)
Angola (2014)
Cameroon (2014)
especially when public debt is denominated in foreign currency.
# Coface Country Risk Assessments

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## Business Climate

- **A4**
- **A3**
- **A2**
- **A1**
- **B**
- **C**
- **D**
- **E**

The table shows the risk assessment for different countries over the years 2013 to 2016, with a focus on the business climate assessment provided by Coface.
Main points

1. Attractiveness of Africa in the TOP 5 regions
2. Investors perception is positive for the next 3 Years

Principaux points

1. 52 African cities over one million inhabitants in 2010 and potentially 65 city end of 2016
2. Intensive Urbanization. 40% of the population is Urban. Proportion could reach 50% in 2030
Main points

1. A population of 1.2 B. inhabitants, comparable to India (Pop. 1.3 B)

2. Middle Class of 355 millions: 34% of the African population in 2010 and 1.1 B in 2060.

Main points

1. Changing in consumption habits: **Transformed products**

2. Changing in term of **food safety** and **basic services**: Water and sanitation

3. Emerging needs in term of **services**: transport, urbanism, education, healthcare, telecoms….
1. A GDP of **34 B USD**, most important in the region

2. High power purchase

3. A regular GDP growth after a period of crisis between 2005 and 2011

4. A business climate assessment relatively positive in comparison with the other African countries.

5. In addition to the domestic market size, importance of regional exchanges.

6. Integrated in the **l’UEMOA** (95 M inHabts) and other regional organisations **CEDEAO – OHADA**

### MAJOR MACRO ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015 (f)</th>
<th>2016 (f)</th>
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<tr>
<td>GDP growth (%)</td>
<td>8.7</td>
<td>7.9</td>
<td>8.2</td>
<td>7.6</td>
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<tr>
<td>Inflation (yearly average) (%)</td>
<td>2.6</td>
<td>0.4</td>
<td>1.6</td>
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<tr>
<td>Budget balance (% GDP)</td>
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<tr>
<td>Current account balance (% GDP)</td>
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<td>1.0</td>
<td>-1.9</td>
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<tr>
<td>Public debt (% GDP)</td>
<td>39.9</td>
<td>36.6</td>
<td>34.7</td>
<td>33.4</td>
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</tbody>
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(e) Estimate (f) Forecast
IVORY COAST

**STRENGTHS**

- Diversification: hydrocarbons, ores and agricultural wealth (world's leading cocoa producer)
- Port, road and energy infrastructure undergoing modernisation
- Further debt relief obtained in 2012 under the HIPC and MDRI initiatives
- Normalisation of the political situation

**WEAKNESSES**

- Economy dependent on climatic conditions and movements in the prices of cocoa, the country's main export product
- Gaps to be filled in the management of public finances, infrastructure and governance, despite progress recorded in recent years
- Slow progress on national reconciliation
**KENYA**

**Population**: 42.9 million

**GDP per capita**: 1,420 USD

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**Major Macro Economic Indicators**

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<td>Public debt (% GDP)</td>
<td>44.2</td>
<td>52.6</td>
<td>56.2</td>
<td>55.9</td>
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</table>

(f) Forecast

1. A GDP of **60,94 B USD**, Most important in the region
2. A purchase power over African average
3. Positive prospective. Political stability
4. Central point in West Africa
5. Economic diversification – resilience to external shocks (Currency – raw material exportations)
KENYA

STRENGTHS

- Leading East African economy
- Pivotal role within the East African Community, the leading African common market
- Diversified agriculture
- Performance of telecommunication and financial services
- Dynamic demographics and emerging middle class

WEAKNESSES

- Agriculture production highly dependent on climate conditions
- Lack of sufficient infrastructure
- Significant terrorist risk
- Improving governance, but persistent corruption

Source EY
1. Economy still driven by agriculture and construction

2. A slow GDP growth expected for 2016

3. Hub to French speaking Africa


5. Positive impact of low commodity prices

### Major Macro Economic Indicators

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<td>Public debt (% GDP)</td>
<td>61.5</td>
<td>63.4</td>
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(e) Estimate (f) Forecast
**STRENGTHS**

- Favourable geographic position, close to the European market
- Strategy to move upmarket and diversify production in automobiles, aerospace, electronics, offshoring, chemicals, pharmaceuticals, textiles/leather, and agri-food
- Policy of macro-economic stability
- Political stability and commitment to reforms

**WEAKNESSES**

- Economy very dependent on performance of the agricultural sector
- Considerable social and regional disparities. Although declining, poverty rates remain high
- Weak productivity and competitiveness and significant unemployment rate
1. A remained low GDP growth in 2016 mostly due to low investments, power supply problems and droughts

2. A low private consumption (main GDP driver)

3. Africa is the second export destination

4. An increasing trend in insolvencies in most of the sectors
SOUTH AFRICA

**STRENGTHS**

- Economic and political power
- Natural resources (gold, platinum, coal, chromium, etc.)
- Developed services sector (in particular financial)
- Legal system provides protection for investors

**WEAKNESSES**

- Poverty, inequalities, sources of social risks (crime, demonstrations)
- High level of unemployment and shortages of skilled labour
- Infrastructure shortcomings (transport, energy)
- Dependence on volatile foreign capital flows