INTO AFRICA

A publication from Capital Markets in Africa

FEBRUARY 2017

AFRICA'S ECONOMIC PATH IN 2017

FEATURED ARTICLES

AFRICA: TOP FIVE PREDICTIONS FOR 2017

ANGOLA ECONOMIC OUTLOOK FOR 2017: GROWTH PROSPECTS & THREATS

EGYPT TIDES ARE CHANGING, OR IS HISTORY REPEATING ITSELF?

A PROGNOSIS OF GHANA'S MACROECONOMIC PROSPECTS IN 2017

KENYA'S 2017 MACROECONOMIC FUNDAMENTALS

PAN-AFRICAN BANKING: BALANCING RISK AND REWARD

INSIGHT INTO NIGERIA MACROECONOMIC CLIMATE IN 2017

MOROCCO FAVOURABLE PROSPECTS WITH STRONG FUNDAMENTS IN 2017

SOUTH AFRICA'S MACROECONOMIC PROSPECTS AND RISKS IN 2017

AFRICAN MARKET OUTLOOK FOR 2017 OPPORTUNITIES AND CHALLENGES

www.capitalmarketsinafrica.com

NKC AFRICAN ECONOMICS
AN OXFORD ECONOMICS COMPANY

Reliable and comparable forecasts and analysis for Africa

Oxford Economics and NKC African Economics together provide a comprehensive view of national and city economies with event-driven commentary on economic and political events, that will benefit organisations monitoring risks or opportunities to their investments or operations in Africa.

Africa monitoring services

- In-depth country reports providing analysis and forecasts through 2040 for 30 African countries.
- Events-driven analysis on Africa's important economic and political events.
- Insight into key economic and political events which could influence trading in African markets.

Deep forecast databanks

- Comprehensive forecast data and history for all African countries.
- Consistent annual historic data and forecasts for total GDP and employment, as well as for industries, population, income distribution, consumer spending, and retail sales for 102 cities across 49 countries.

Custom Africa Capabilities

Our economists are skilled at applying our advanced economic tools—from economic impact analysis to cost-benefit modelling and social return on investment—to provide valuable insights to inform both development strategies for policymakers and investment strategies for corporations.

Contact us

For more information, contact Noelani King Conradie at research@nkc.za or +27 (0) 21 863 6200.

www.africaneconomics.com

EDITORIAL TEAM

Editor
Tunde Akodu

Associate Editor
Michael Osu

Advertising & Sales
Tola Ketiku

CONTENTS

FEATURED ARTICLES

Africa: Top Five Predictions for 2017

Angola Economic Outlook for 2017: Growth, Prospects & Threats

Egypt Tides are Changing, or is History Repeating itself?

A Prognosis of Ghana's Macroeconomic Prospects in 2017

Kenya's 2017 Macroeconomic Fundamentals

Insight into Nigeria's Macroeconomic climate in 2017

Morocco's Favourable Prospects with Strong Fundaments in 2017

South Africa's Macroeconomic Prospects and Risks in 2017

African market outlook for 2017 Opportunities and challenges

African sovereign Eurobonds: Recap and Prospects

Pan-African Banking: Balancing risk and reward

Popular delusions and the madness of crowds

How African equities and currencies fared in 2016

Cover Image : Landscape with wooden bridge. Image by Bedney images.

DISCLAIMER:
The contents of this publication are general discussions reflecting the authors' opinions of the typical issues involved in the respective subject areas and should not be relied upon as detailed or specific advice, or as professional advice of any kind. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (expressed or implied) is given and no responsibility or liability is accepted by CAPITAL MARKETS IN AFRICA or the authors or authors' organisations as to the accuracy of the information contained and opinions expressed therein.

Welcome to the 2017's first edition of INTO AFRICA, the publication with fresh insight into Africa's emerging capital markets. In this edition, we bring you a selection of insights on Africa's economic prospects in 2017.

The collapse of oil prices has had far-reaching effects on African economies in 2016. For commodity exporters, the implications are glaring - weaker revenues have dampened growth and it will take time for those economies to adjust to the new normal. For instance, growth in Sub-Saharan Africa is estimated to have decelerated to 1.5 percent in 2016, the lowest level in over two decades, according to the World Bank Group.

Africa is a continent with varied potentials and risks as well as less inter-dependence, hence growth rates will continue to vary widely across the continent. From a negative growth perspective, in 2016, Nigeria contracted by 1.7 percent (first full-year recession in 20 years), Chad tapered by 3.5 percent, Equatorial Guinea shrunk by 5.7 percent, Burundi trimmed by 0.5% and Swaziland deflated by 0.9 percent, the World Bank estimated.

Looking deeper, there are some countries living up to their promise within the continent, such as Cote d'Ivoire which expanded by 7.8 percent, Ethiopia which grew by 8.4 percent, Egypt which accelerated by 4.2 percent and Kenya which inflated by 5.9 percent. Amidst this positive growth, growth slowed to 0.4 percent in South Africa, 2.7 percent in the Democratic Republic of Congo and to 3.6 percent in Mozambique in 2016. Furthermore, growth in Morocco eased by 3 percentage points in 2016 to an estimated 1.5 percent, due largely to a drought-related contraction in the agricultural sector. While Tunisia's grew from 0.8 percent to an estimated 2.0 percent reflecting rising investment and government spending.

Looking into the future, based on World Bank estimates, Africa is expected to grow by 3.9 percent in 2017, and rise above 4.6 percent by 2018, as policies in oil exporters continue to adjust to the new reality. However, the key downside risks to the continent's prospects continue to be a weaker-than- expected rise in oil prices, as well as spill overs from the severe conflicts in several countries and an additional tightening of global financial conditions.

As the year ahead is full of uncertainties, we bring you views from economists, analysts and policymakers on what path Africa's economic will take in 2017. **NKC African Economics, South Africa** provides *Africa's top five predictions for 2017* and **TIAGO DIONISIO** (Chief Economist, Eaglestone Securities) gives highlights on *Angola's macroeconomic fundamental under the new world*.

In the article *Egypt: Tides are changing or is history repeating itself?*, **AHMED SHAMS EL DIN** (Head of Research, EFG Hermes Holding, Egypt) delves into fundamentals of the Egyptian economy. While **COURAGE KINGSLEY MARTEY** (Economist, Databank Group, Ghana), **JOHN NDUA**, (Investment Analyst, Cytonn Investments Management Limited, Kenya) and **MICHAEL FAMOROTI** (Investment Analyst & Economist, Vetiva Capital Management Nigeria) look at Ghanaian, Kenyan and Nigerian economic prospects for 2017.

On South Africa's growth outlook, **SIZWE NXEDLANA** (Chief Economist, First National Bank, South Africa) gives his verdict in *South Africa Macroeconomic Prospects and Risks in 2017*. **CFG Capital Markets Research Team** provides a bespoke overview of *Morocco's macroeconomic prospects in 2017*.

SAMIR GADIO (Head of Africa Strategy, Standard Chartered Bank) explores the opportunities and threats in African fixed income and foreign exchange markets. He suggests that tighter valuations of African Eurobonds and the uncertain global risk environment will probably push investors to be more selective in 2017 and may support the case for shorter duration.

To round off **EUGENE BEMPONG NYANTAKYI** (Private Sector Development Specialist, World Bank Group) and **MOUHAMADOU SY** (Economist, African Development Bank Group) evaluate the pan-African banking model in the article: *Pan African Banking: Balancing Risk and Reward*.

Editor
Tunde Akodu

Connect with The Editor on Linkedin. Follow us on twitter @capitaMKTafrica. To subscribe to INTO AFRICA, please send an email to *intoafrica@capitalmarketsinafrica.com.*

Please visit our website at www.capitalmarketsinafrica.com for the latest news, bespoke analysis, investment events and outlooks.

ENJOY!

AFRICA: TOP FIVE PREDICTIONS FOR 2017

At the start of 2017, the year ahead looks uncertain. This paper constitutes a brief look at NKC African Economics' top five predictions for Africa for 2017.

1. President Trump will have a negligible impact

The word that appears to sum up Donald Trump's effect on the international economy, and other areas like security, is 'uncertainty'. However, there has been some consistency in his views expressed during the campaign and those held for decades preceding it. His most salient recurrent views are: isolationism, mercantilism, and a disquieting admiration for authoritarian leadership.

Looking at the implications of these first two factors on Africa, worries arise that the favourable policies put in place by bipartisan support in Congress over the past three administrations to boost African development may be rolled back. The US is the world's biggest source of aid flows to Africa – in 2013 it provided $9.3bn, more than twice as much as the next biggest aid funder (Britain). *We think these programmes will fall under Mr Trump's radar or that he will deem that they are not worth the fight on Capitol Hill to scrap.*

The bigger worry for Africans, however, is the future of the African Growth and Opportunity Act (Agoa), which, by removing import tariffs on qualifying countries' exports to the US, boosts those countries' exports and helps their local industries grow. While scrapping the act would require Congress's approval, the US president chooses which countries are eligible to benefit from it and reviews beneficiaries on an annual basis. *Mr Trump's antipathy towards such deals could mean that fewer countries qualify. Agoa risks being lumped together with all the other international trade agreements as counter US interests.* As can be seen in the accompanying graph, exports to the US from non-oil exporting countries that benefit from Agoa access have increased steadily since 2000. However, oil exporters have seen a significant decline since 2011 due to the falling oil price and increase in domestic oil production in the US.

The final factor, a tolerance of authoritarian leaders, is epitomised by Mr Trump's admiration for Russian President Vladimir Putin and was also evidenced by comments he made in 1990 after Chinese security forces massacred protestors in Tiananmen Square. *Africa has its unfair share of authoritarian leaders, and they may look forward to a more lenient approach from Mr Trump.* Sudan, under sanctions since 1997, springs to mind as a possible example of where this factor could have an effect. *The US has been warming to Khartoum already, and, despite ongoing conflict, 2017 could be the year that economic sanctions are lifted.*

2. Incumbents will win re-election in East Africa, and the hydrocarbons sector will disappoint many

Rwanda and Kenya both head to the polls in August this year. Both presidential races have clear favourites: in Rwanda President Paul Kagame is standing virtually unopposed, while President Uhuru Kenyatta in Kenya will have stiffer competition but should return for a final term. Predictability in elections is ordinarily a support to investment and thus a boon for economic development.

Ongoing political stability and the strong development momentum that has characterised the region in recent years are expected to *allow East Africa to maintain its title as the fastest growing region on the continent in 2017.* That being said, one aspect of progress that is expected to disappoint this year, relative to official expectations, is the development of the region's hydrocarbons sector.

The sector's development made progress last year with the decision in April that Uganda's oil export pipeline would extend from oil fields in Hoima and pass through Tanzania, while the Ugandan government also issued eight oil production licences at the end of August. According to official projections, between 200,000 and 230,000 barrels of crude will be produced daily by 2021, with up to 60,000 barrels of that oil refined within Uganda. However, *we predict that this year will see further extensions of these production timelines as the technical and economic hurdles associated with the development of the sector come to the fore.*

The government has more to lose than oil companies from delayed oil production, because it plans to finance a lot of its planned infrastructure investment from revenues raised on the oil sector. By contrast, energy companies are in no rush as a more measured approach to regional investment will allow them to better assess their own balance sheets as energy prices slowly increase over the medium term. Total and Tullow Oil are expected to make final investment decisions this year, but making an investment decision should not be confused with a decision to commence investment. The multitude of projects increases the chances of development bottlenecks, where some projects cannot start before the completion of others. Mismanagement – which has become commonplace in Ugandan public investment – will extend completion dates considerably, while the complexities of cross-border infrastructure development will strain capacity.

3. Zimbabwe's bond notes will be inflationary

On 28 November 2016, the Reserve Bank of Zimbabwe (RBZ) introduced bond notes into the market.

Zimbabweans are sceptical: they fear that the notes, likethe increasingly ridiculous denominations of notes in 'Zim dollars' that the RBZ printed in the 2000s, will lead to rampant inflation. It does not help expectations that the new bond notes seem to have been printed on the plates previously used for Zimbabwean dollars, with the same image of the Chiremba balancing rocks.

Our prediction is that the bond notes will have exactly that effect. Officially, the notes are backed by a $200m facility backed by the African Export-Import Bank (Afreximbank), and fully redeemable in dollars. There are signals, however, that the government and senior government officials are trying to pay in bond notes to hang on to hard currency, and these perceptions of manipulation have speeded up the inexorable working of Gresham's Law – the rule that 'bad money drives out good'. Expectations of a cash crunch led the government to offer incentives for the use of bond notes ahead of their introduction. Later measures were more aggressive, with government resorting to threatening the use of force to artificially preserve the notes' value.

In the first week of January, just over five weeks after the first notes were introduced, the RBZ announced that $73m in bond notes was in circulation. The rapid growth in the supply of the notes, against the $200m facility supposed to guarantee them, makes us expect that the supply of notes will surpass the size of the guarantee in short order. Then there will be nothing to back the notes except public confidence in the RBZ, which is no higher now than it was in 2007. We think measures to force people to use the notes will fail and that traders (who need hard currency to pay their suppliers) will charge ever-increasing premiums to buyers who want to pay in bond notes, resulting in the notes' depreciation against the dollar. Government, which is short of hard currency owing to corruption and the shrinking of the tax base, will be led to keep issuing more notes, accelerating the process. *The resulting impact to living standards, on top of deep existing discontent will probably play a role in hastening political change in Zimbabwe.*

4. Oil producers will still be plagued by forex shortages

The Nigerian naira depreciated sharply after the implementation of the flexible exchange rate regime in mid-June 2016, falling from NGN198/US$ to roughly NGN320/US$ by end-July. It has stabilised around the NGN305/US$ level in recent months. *This does however not signal that the foreign exchange market has reached equilibrium.* Forex liquidity conditions remain extremely tight as evidenced by the weak parallel market exchange rate – the naira traded at roughly NGN480/US$ on the black market early in December.

We predict a more liberal stance on the naira this year once inflationary pressures start to ease. We do however not expect the CBN to allow the currency to depreciate sufficiently to bring the forex market back to equilibrium. *Tight forex liquidity conditions will thus continue to act as a drag on GDP growth, but less so than was the case last year.*

In Africa's other main oil producer, the Bank of Angola has kept the kwanza pegged at roughly AOA165/US$ since April last year, and through 2016 forex liquidity conditions continued to tighten, evidenced by the currency changing hands at AOA570/US$ on the black market during mid-2016. Despite the BNA sticking to this strategy, forex supply has improved slightly in recent months in line with higher oil prices: the black market exchange rate has reportedly appreciated to AOA485/US$ in January 2017.

Regardless, a substantial forex market imbalance remains, and we predict further kwanza devaluations this year. Once inflationary pressures start to dissipate, the central bank might turn its attentions to supporting GDP growth through adjusting the value of the local unit to ease tight forex liquidity conditions. A more liberal stance on the currency will also support Luanda's efforts in raising external debt. Should the central bank indeed revert to a periodic devaluation strategy, we do not foresee a particularly aggressive approach as the BNA will remain cognisant of the impact of a weaker kwanza on inflation. *As such, forex liquidity conditions will remain tight.*

5. Sporadic violence will be felt in the DRC, posing a regional stability risk

There is a risk of conflict igniting in the Democratic Republic of Congo (DRC) in 2017. The risk flows from President Joseph Kabila's determination to remain in power, although his final term in office is supposed to have ended. There is opposition to the plan by rival politicians, civil society and a large swathe of the Congolese population. This opposition has already resulted in violence and some deaths, most lately in September 2016, when as many as 50 people died when police cracked down on demonstrations. After that Mr Kabila made some concessions to the opposition in two separate rounds of negotiation, and as of December 31 the deal was that he would name a prime minister and a head of the National Transition Council from the opposition, and that presidential, parliamentary and provincial elections would be held by December 2017.

Our expectation is that the deal will be broken, that will prompt protests and a violent response, and that political violence may begin to overlap with the paramilitary violence that has plagued the DRC since the end of the Mobutu era. The way in which Mr Kabila has pushed back elections, making sporadic concessions to calm the situation when necessary, but always avoiding personally making any promises, and the lucrative economic interests he, his family and friends have in the DRC, make us think that the latest deal he has made with the opposition is a stalling tactic. We think he bought some time in the hope that Donald Trump and the new French president (we expect the Gaullist François Fillon to win) will be less interventionist abroad than their predecessors. At some point, we think, the president's scheming will become explicit, an opposition figure will call for protests, and the situation will again begin to deteriorate.

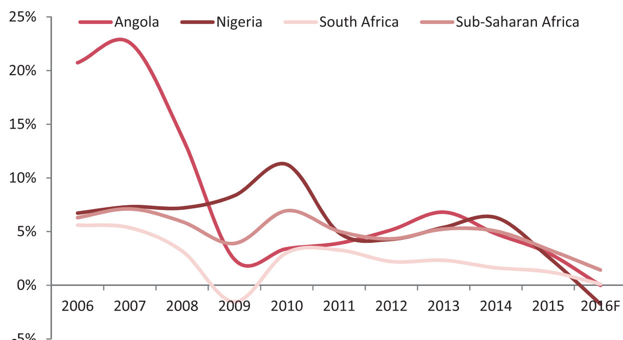
Once the violence begins, it could escalate rapidly. There is a deep reservoir of resentment against the president in the DRC, and many opposition members who are ready to draw on it. The constant, low-level conflict in the east of the country between militias from the Tutsi, Hutu and Nande ethnic groups will tend to be exacerbated if the army becomes more involved in politics. More intense conflict in the east would be risk-negative for the situation in Burundi, and the potential for involvement by other countries, especially Rwanda and Angola (by far the region's biggest military power), is there.

ANGOLA ECONOMIC OUTLOOK FOR 2017: GROWTH PROSPECTS & THREATS

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

Angola is facing a tough macroeconomic environment, in line with other countries in Sub-Saharan Africa such as Nigeria and South Africa that saw economic growth come to a halt or even turn into negative territory during 2016. Similar to what happened in the oil crisis of 2008-09, the current downturn in Angola has been the result of the sharp and prolonged decline in oil prices that started in the second half of 2014. Economic growth slowed to 4.8% in 2014, 3% in 2015 and is expected to come to a near standstill in 2016, as global economic conditions also became less supportive in recent months. This compares with double-digit average annual growth witnessed during the previous decade that made Angola one of the fastest expanding countries in the world.

REAL GDP GROWTH (2010-16F)



Source: IMF and Eaglestone Securities

Growth has also been hindered by tighter monetary conditions to contain rising inflation levels not seen in over a decade. This largely reflects the pass through effects of the depreciation of the kwanza, but also the reduction in fuel subsidies and higher food costs. The BNA, the country's central bank, raised interest rates five times in 2015 and two times last year for a combined increase of 700bps, lifting its benchmark interest rate to 16%, an all-time high. Overall, the current long-lasting low oil price environment has also led to increased imbalances, with a widening of the fiscal and external deficits in recent years.

The government assumes that growth will recover somewhat in 2017 based on an improved contribution from both the oil and non-oil sectors. Agriculture, manufacturing and energy are all expected to be the main drivers of economic activity. The budget proposal recently approved by Parliament includes a real GDP growth forecast estimate of 2.1%, well above the IMF's latest projection of 1.25% for 2017 as the Fund sees risks from potential delays in the implementation of the needed structural reforms to promote economic diversification.

Despite the recovery, growth in 2017 is expected to remain below population growth of around 3%, which means that GDP per capita is once again anticipated to decline this year.

The 2017 budget proposal also incorporates an average oil price assumption of US$ 46 per barrel, 12% higher than in the US$ 40.9 projected in the 2016 revised budget, while oil production is expected to recover to 1.82 million barrels per day (bpd), up from 1.79 million (bpd) in 2016.

Consumer prices are expected to remain elevated in 2017, but they should gradually trend downwards due to continued tight monetary conditions and the introduction of price control measures on some goods. That said, the decline in prices is unlikely to be rapid since the local currency's expected continued weakness against the dollar will push up the cost of imported goods. On the other hand, the months leading up to the next general elections (scheduled for August 2017) are likely to see increased government spending while a partial recovery of global food and non-food commodity prices could also lead to further inflationary pressures. All in all, the inflation rate is expected to drop to 15.8% from 38.5% in 2016.

BUDGET PROPOSAL - 2017

Forecasts	2012	2013	2014	2015	2016 (1)	2016 (2)	2017 (3)
Inflation	9.0%	7.7%	7.5%	14.3%	11.0%	38.5%	15.8%
Annual oil production (mn barrels)	631.9	626.3	610.2	649.5	689.4	654.6	664.7
Daily oil production (million bpd)	1.73	1.72	1.67	1.78	1.89	1.79	1.82
Average oil price (US$ per barrel)	111.6	107.7	96.9	50.0	45.0	40.9	46.0
Gross domestic product:							
Nominal value (AOA billion)	10,876	12,056	12,462	12,321	14,218	16,880	19,746
Oil sector	4,981	4,818	4,304	2,884	3,302	3,659	3,753
% of total	45.8%	40.0%	34.5%	23.4%	23.2%	21.7%	19.0%
Non-oil sector	5,895	7,239	8,158	9,436	10,916	13,220	15,993
% of total	54.2%	60.0%	65.5%	76.6%	76.8%	78.3%	81.0%
Real GDP growth	5.2%	6.8%	4.8%	3.0%	3.4%	1.1%	2.1%
Oil sector	4.3%	-0.9%	-2.6%	6.5%	4.8%	0.8%	1.8%
Non-oil sector	5.6%	10.9%	8.2%	1.5%	2.7%	1.2%	2.3%
Exchange rate (US$/AOA)	95.4	96.6	98.3	120.1	143.8	-	-

(1) Initial Budget; (2) Revised Budget; (3) Budget Proposal.

Source: Angolan authorities.

Meanwhile, in terms of fiscal accounts, higher oil prices are expected to support oil related revenue growth in 2017 and help offset a lower contribution from income taxes and non-tax revenues. The government will need to continue to intensify its efforts to broaden the tax base, including the planned introduction of a VAT scheduled to take place in 2019. Regarding expenditures, the anticipated rise in spending levels will be driven by higher current expenditures such as wages and spending on goods and services, as they still account for nearly 80% of total spending. The local authorities also plan to increase investment levels, but only moderately, and continue to cut fuel related subsidies.

Overall, total revenues and expenditures are projected to increase 5.3% and 7.2%, respectively, from the 2016 revised budget estimates. They are also expected to represent 18.6% and 24.3% of GDP, respectively. This puts the 2017 budget deficit forecast at 5.8% of GDP, slightly below the 5.9% estimated by the government for 2016. However, we believe that the executed figure for 2016 may turn out to be lower than the 5.9% due to the strong increase in oil prices in the last few months of the year. Indeed, the average price turned out to be around US$ 45 per barrel in 2016, well above the US$ 40.9 projected in the 2016 revised budget. Still, public debt levels are anticipated to remain relatively high, reflecting the depreciation of the exchange rate in addition to the fiscal deficit.

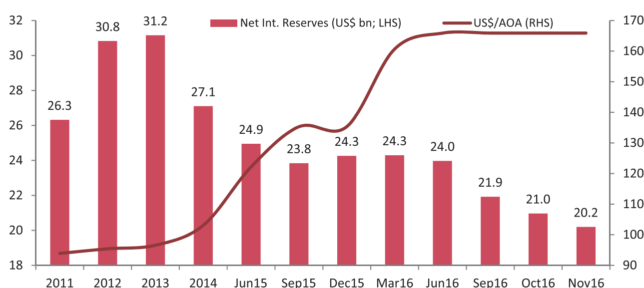
GOVERNMENT ACCOUNTS

	% of GDP						
	2012	2013	2014	2015 (1)	2016 (2)	2016 (3)	2017 (4)
Revenues	**46.5%**	**40.2%**	**35.3%**	**27.3%**	**24.7%**	**20.6%**	**18.6%**
Tax Revenues	44.4%	38.2%	32.9%	24.7%	22.8%	18.3%	17.2%
Oil Revenues	37.7%	30.1%	23.8%	15.4%	11.9%	9.1%	8.6%
Non-oil Revenues	6.6%	8.1%	9.1%	9.3%	10.9%	9.2%	8.7%
Of which: Income Taxes	3.0%	4.2%	4.4%	5.4%	4.9%	5.4%	4.4%
Non-tax Revenues	2.1%	2.0%	2.4%	2.6%	2.0%	2.3%	1.3%
Expenditures	**39.8%**	**39.9%**	**41.9%**	**30.6%**	**30.2%**	**26.6%**	**24.3%**
Current Expenditures	29.3%	28.5%	29.4%	24.7%	24.5%	20.9%	19.3%
Wages	9.5%	9.6%	10.6%	11.3%	10.5%	9.3%	8.2%
Goods and Services	11.9%	10.2%	10.0%	6.4%	7.0%	5.0%	5.2%
Interests	1.0%	0.8%	1.2%	2.0%	2.2%	2.6%	2.5%
Transfers	6.9%	7.9%	7.6%	5.0%	4.8%	4.0%	3.4%
Subsidies	5.0%	5.9%	5.4%	2.3%	2.6%	2.1%	1.5%
Capital Expenditure	10.5%	11.4%	12.5%	6.0%	5.7%	5.7%	5.0%
Public Investment	10.5%	11.4%	12.4%	5.8%	5.7%	5.7%	5.0%
Primary Fiscal Balance	**17.2%**	**11.7%**	**5.9%**	**2.7%**	**0.2%**	**-0.2%**	**-0.7%**
Overall Fiscal Balance	**6.7%**	**0.3%**	**-6.6%**	**-3.3%**	**-5.5%**	**-5.9%**	**-5.8%**

(1) Preliminary; (2) Initial Budget; (3) Revised Budget and (4) Budget Proposal.
Sources: Angolan authorities and Eaglestone Securities.

We expect the kwanza to continue to depreciate against the dollar in 2017, although at a slower pace than recently witnessed. Larger export receipts, namely from the oil sector, are expected to ease some of the near-term pressure on the local currency. However, the ability of the BNA to defend the kwanza through market interventions going forward will depend on the level of foreign exchange reserves. We note that these stood at nearly US$ 20.2 billion in November 2016 (the latest available data), which is equivalent to about eight months of imports. Although this is considered to be a relatively comfortable level, international reserves currently stand well below the US$ 31 billion level recorded at the end of 2013.

NET INTERNATIONAL RESERVES AND EXCHANGE RATE



Source: BNA

The BNA will also continue to have a critical role in not only improving bank regulation and supervision, but also in strengthening the country's financial system, which has recently been under increased pressure largely due to the tougher economic backdrop. We believe the Angolan banking sector could see some M&A activity this year, as the nearly 30 banks with a license to operate in the country is likely to prove to be unsustainable over the medium-term in an increasingly competitive and tougher regulatory business environment.

Moreover, the central bank is expected to maintain its efforts to attenuate the negative impacts from the loss of correspondent banking relations and its effects on the local economy, something that has affected many other countries. The BNA has stopped selling dollars to the commercial banks, selling only euros throughout most of 2016. The persistently large and volatile spread between the official and parallel market exchange rates is evidence that a large imbalance in the foreign exchange market still exists and needs to be resolved.

"Growth has also been hindered by tighter monetary conditions to contain rising inflation levels not seen in over a decade"

In sum, 2017 should prove to be another challenging year for Angola. After recently coming to a near standstill, economic activity is likely to recover on the back of an improved performance in both the oil and non-oil sectors. A moderate increase in oil prices should also help support both private and public consumption levels as well as partly reduce macroeconomic imbalances. Still, real GDP growth this year should once again remain below projected population growth of about 3%.

We think the government's oil price assumption of US$ 46 per barrel currently looks to be conservative bearing in mind the impact that the latest oil output cut agreements by OPEC and non-OPEC members has recently had on oil prices. As an example, according to our calculations, if Brent prices remain at the current level of around US$ 55 and assuming all else equal, then total revenues would increase 9% (or US$ 2 billion at the current exchange rate) from the government's current budget forecast. That said, Angola's long-term growth prospects remain largely dependent on the local authorities' implementation of structural reforms to diversify the economy as well as improve the business environment and competitiveness.

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.

EGYPT: TIDES ARE CHANGING, OR IS HISTORY REPEATING ITSELF?

By **Ahmed Shams El Din**, Head of Research, EFG Hermes Holding, Egypt

Egypt is flashing once again at the centre of emerging markets' radar screen after a long recede, ever since the outbreak of the 2011 revolution and the years of political and economic instability that followed. The Government has just embarked upon a long-awaited and badly-needed structural reforms, including, but not limited to, a shift to a flexible exchange rate regime that aims to tackle the currency shortage and attract investments, a higher degree of fiscal discipline and a fresh batch of external financial support from international organizations to close the existing funding gap.

On 3 November 2016, Egypt announced a full floatation of the Egyptian Pound (EGP), which had lost about 56% of its value since then. In parallel, the Central Bank of Egypt hiked interest rates by 300bps, aiming to fend off inflation, while the Government raised fuel prices to ease off some of the fiscal burden (subsidies comprise 25% of the total budget, of which fuel subsidies represent 68%). Earlier, the Government had adopted a value added tax (VAT), which it estimates would save an equivalent of 1.5% of the GDP.

Foreign and domestic investors have welcomed these reform measures, with EGX (the local bourse) surging by almost 60% in the past couple of months (+10% in dollar terms). Foreign investors, in particular, have been consistently net buyers in the Egyptian market, with recent reports suggesting an almost USD400 million of foreign inflows into the equity market and more than USD1 billion of inflows into the Egyptian treasuries by fixed-income investors, attracted by the combination of both i) exceptionally high yields (Egypt's gross 3M treasury yield stands at 19.8%); and ii) lower currency risk post floatation. Today, Egypt treasuries stand out as the most attractive against their counterparts in emerging and frontier markets on a combination of both price (yield) and risk (credit default swap is currently 440bps).

On 11 November 2016, Egypt signed a three-year USD12 billion loan with the IMF and received an initial payment of USD2.75 billion. Egypt's agreement with the IMF was an important milestone in promoting its reform programme for investors and other lenders such as the World Bank, which approved a USD3 billion support facility for Egypt (of which USD2 billion have been disbursed) and the African Development Bank (USD1 billion). Egypt reserves have improved to approximately USD25 billion (at the end of 2016) compared to USD15 billion in mid-2016.

Nevertheless, the road to recovery is bumpy, at best. Egyptians will have to endure a significant rise in price levels and an inevitable cut in 'real' income as the economy rebalances toward more investments and less consumption. This will be so burdensome, indeed, particularly for the middle class, which will typically pay the lion's share of the economic reform bill.

Years of overvalued currency have artificially stimulated high levels of consumption in the economy at the expense of investments, despite the deteriorating budget deficit (13% of GDP in 2016, from 8% in 2010) and severe pressure on the balance of payment. Egypt's imports have risen by approximately 15% since 2011, while its exports have fallen by 22% during the same period. Egypt's public wage bill has more than doubled after 2011 revolution (26% of the total budget).

Private consumption has averaged 81% of the entire GDP in the preceding five years (2011-16), compared to 71% during 2005-10. Simultaneously, investments' share in the economy has fallen to 15% on average since 2011 (down from 20% during 2005-10). Expectedly, therefore, official unemployment rate had risen from 9% in 2010 to 13% in 2016 and is a candidate for a further increase in 2017 as the corporate sector struggles with higher cost structure and a temporary demand stagnation. The devaluation of the currency sparked a surge in cost of imports (Egypt's imports bill is about USD60 billion annually, of which 75% are classified as essential goods). This, together with the implementation of the value-added tax and the hike in fuel prices, has spurred a high inflationary cycle that Egyptians will have to endure in the short term. Egypt's urban consumer prices skyrocketed to 28% year-on-year in December.

Like it or not, this shall weigh on growth, at least in 2017. The Government's growth target of almost 5% will be challenged by local demand stagnation and a typical time lag for private sector investments to normalise once again. High interest rates will slow down credit growth in the economy, with many companies planning to limit their borrowing activities to working capital management only. While exporters and commodity producers should benefit immediately from a weaker EGP, the majority of companies will take time to adapt to the new cost structure as the economy rebalances over time.

"Egypt is flashing once again at the centre of emerging markets' radar screen after a long recede, ever since the outbreak of the 2011 revolution."

Yet, the picture is anything but bleak. The removal of foreign currency overhang, in the medium term, will unleash some economic activities that have been severely constrained by the chronic dollar shortage. The industrial sector, which has been operating below 70% of its capacity since 2011, should be able to improve utilisation rates gradually and improve efficiency levels as the energy shortages fade. Similarly, recent signs of improved liquidity in the financial sector will help lower interest rates, which will support investments.

Foreign capital is key to Egypt at this critical juncture, given the structural imbalances in its balance of payment. So, the recent foreign buying into Egyptian equities and debt markets is definitely good news. After all, Egypt's foreign debt stands at 22% of GDP, a more than manageable level should the reform measures bear fruit.

Egypt has always covered its negative trade balance by a positive contribution from services, namely tourism and Suez Canal revenues, in addition to remittances from Egyptians working abroad. Tourism revenues have been declining since 2011 on concerns over political and security situation until they were severely hit by the fall of the Russian Metrojet flight over Sinai last year. Suez Canal revenues flattened on weaker global trade, while remittances have deserted the official sector, as the official exchange rate was at some 40% discount to the parallel market. Today, remittances should flow back normally following the EGP floatation, which remove the economic incentive from dealing with the unofficial channels. A weaker EGP should also reduce imports and help exports, leading to a natural improvement in the current account, whose deficit today stands at 6% of GDP (from 2% in 2010). Recent data suggest imports have already started to fall off significantly after November 3rd decisions.

> *"While banking sector indicators remain sound in Egypt, reliance on banks to finance growing government budget deficits and the foreign currency shortage is restraining business and household borrowing"*

In fact, it is not the first time for Egypt to make such a significant economic adjustment. In the 1990s, Egypt signed a deal with the IMF and adopted the Economic Reform and Structural Adjustment Program (ERSAP), after which it managed to achieve an impressive large fiscal adjustment, bringing down its deficit of 15% of GDP in 1991 to only 1.2% in 1995. During that time, Egypt grew by an average of 4.5% almost double its anemic growth rate that prevailed during the preceding five years (1985-91). In 2003, a similar (albeit not identical) currency adjustment was made to address the shortage in foreign currency, after which growth rates surged to the average of 6% and peaked at 7% in 2007 right before the global financial crisis. Most importantly, both periods were followed by a significant rise in foreign capital inflows that improved productivity gains and fostered growth and job creation.

> *"Growth in Egypt dipped slightly, to 4.3 percent, in 2016 and expect to grow by 4.0 percent and 4.7 percent in 2017 and 2018 respectively, World Bank Group estimates"*

Indeed, it is different this time around, given the geopolitical challenges and the global economic outlook, particularly in the EU, to which Egypt is leveraged, albeit, there is still no reason to believe Egypt's economy would not return to growth soon after the economic adjustments take place. Yet, if policy makers learn the lessons from the past, it is not just a matter of growth; Egypt needs an inclusive growth that targets labour-intensive industries, strong productivity gains via sustainable foreign direct investments, education and vocational training and a new socioeconomic contract with an effective social safety net for the unprivileged.

> *"Egypt growth is highly dependent on two issues: how quickly the economy can adjust to the adoption of a floating exchange rate regime that occurred in November 2016, and how rapidly the government applies fiscal consolidation."*

Contributor's Profile

Ahmed Shams El Din is a Managing Director and Head of Research at EFG Hermes, the largest investment bank in the Middle East and North Africa, with a rich and vast hands-on experience in the financial services and advisory fields. Shams El Din led EFG Hermes's research coverage in different economic sectors, where he assessed and valued some of the largest listed companies in the MENA and international (LSE, Euronext Amsterdam) exchanges. He is a top-ranked analyst by international institutional investors in global surveys (including the Euromoney Middle East Best Research Management, Thomson Reuters Extel and Institutional Investors (II), in which he won the third place amongst chemicals analysts in Europe, Middle East and Africa, EMEA, in 2016). Shams El Din is also a volunteer finance trainer, and a business writer with interest in financial markets, political and economic development affairs.

A PROGNOSIS OF GHANA'S MACROECONOMIC PROSPECTS IN 2017

By **Courage Kingsley Martey,** Senior Economic Analyst, Databank Limited, Ghana

A Snapshot of 2016

Ghana's much anticipated return to macroeconomic stability started to materialize in 2016, on the back of the ongoing fiscal adjustment program with the IMF and its associated front-loaded fiscal measures implemented since April 2015. The most notable indication of emerging macroeconomic stability in 2016 was observed in the foreign exchange market where the Ghana Cedi recorded a relatively more stable outturn against the major international trading currencies. The Cedi's improved performance was anchored on continued tight monetary stance, sustained fiscal consolidation, eliminating deficit financing from the central bank, and improved offshore demand for treasury debt securities. Notwithstanding the threat of a relapse in Q4-2016 (due to heightened import demand for the yuletide and political uncertainty), the Cedi closed 2016 with an annual depreciation of 9.65%, the lowest rate since 2011.

The elevated cost-push pressures in Q1-2016 (and associated inflation uncertainty) resulted in dramatic swings in consumer price inflation rate for the most part of 2016 before easing in Q4-2016, supported by improved food harvest and diminishing cost pressures. Ghana commenced 2016 with a surge in headline inflation rate to 19% in Jan-2016 (Dec-2015: 17.7%) with volatility during the year before easing to 15.4% in Dec-2016.

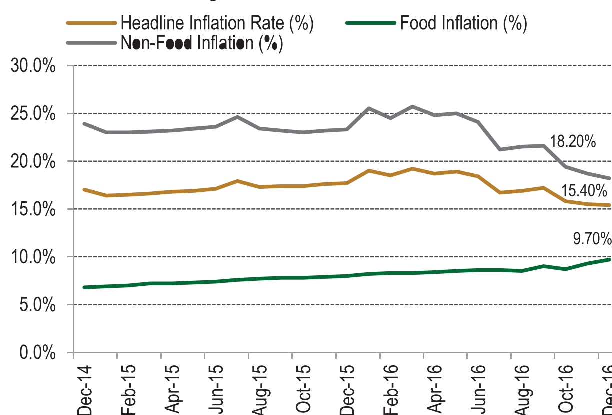
The observed inflation trend in 2016 indicates that future inflation path would be largely determined by non-food inflation (which is affected by cost dynamics) and an appropriate monetary policy stance.

Following nine months of elevated yields for treasury bills, a downturn in yields was observed in Q4-2016 as inflationary pressures diminished and government borrowing appetite eased amidst heightened Ghana Cedi (GHS) liquidity.

Asset quality in the Ghanaian banking industry deteriorated in 2016 as reflected by a 550bps year-on-year increase in the Non-Performing Loans (NPLs) ratio to 19% as at the end of Sep-2016. The surge in the NPLs ratio was partly due to the challenging macroeconomic environment endured by businesses over the past 3 years which weighed down on their bottom line and debt repayment capacity. Aside the fundamental rise in the NPL ratio, a stricter reporting standard instituted by the central bank partially contributed to the high NPLs. The stricter reporting standard ensured that a substantial amount of overdue debts owed the banking sector by State-Owned Enterprises in the energy sector was subsequently added to the NPLs, hence elevating the risk to banks capital buffer. Consequently, we observed a substantial reduction in the risk appetite as growth in loan portfolio slowed down while investment portfolio (treasury bills and bonds) grew by 47.3% year-on-year to GH¢16.1 billion ($3.98 billion).

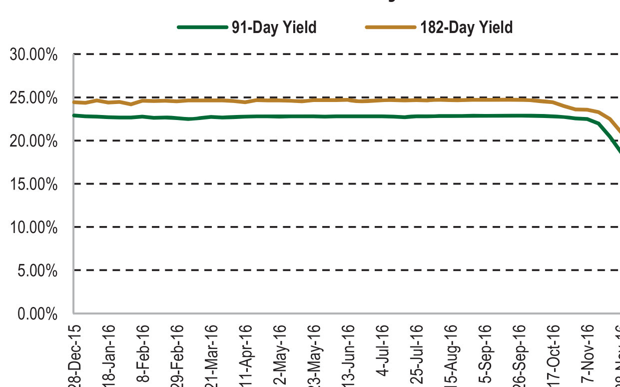
Overall, the emerging macroeconomic stability in 2016 (on account of FX stability, diminishing inflation pressures and stabilizing debt-to-GDP ratio) requires sustained consolidation measures to firmly anchor investor and market confidence in 2017. Real GDP Growth momentum over the past four (4) years have remained weak and below desired trend on account of constrained credit expansion, fiscal consolidation and unanticipated shocks to crude oil production at Ghana's Jubilee oil field. While

Ghana: Inflation Dynamics 2015 - 2016



Source: Databank Research, Ghana Statistical Service

Ghana: Trend in Yields for Treasury Bills in 2016



Source: Databank Research, Ghana Statistical Service

sustaining the consolidation of the emerging macroeconomic stability is crucial, a recovery in GDP growth is also necessary in 2017.

> *"Ghana is excepted to grow by 7.5 percent and 8.4 percent in 2017 and 2018 respectively, due to improving fiscal and external positions, says the World Bank Group"*

New Administration: The Macroeconomic Prospects in 2017

The year 2016 was concluded with political activities aimed at electing 275 Legislators and an Executive president to oversee Ghana's macroeconomic prospects over the next four (4) years. Ghana's keenly contested but generally peaceful elections in December 2016 resulted in a first round decisive victory for the New Patriotic Party (NPP) both at the Legislative and Executive levels. As declared by Ghana's Electoral Commission on 9th December 2016, the NPP's Nana Addo Dankwa Akufo-Addo obtained 53.85% of valid votes cast as against the 44.40% garnered by the then incumbent President John Dramani Mahama.

While the new NPP-led administration is yet to present a fiscal policy statement for the 2017 fiscal year, we expect the broad framework of macroeconomic policies to be anchored on the party's manifesto for the 2016 elections. Ghana's new government expects to build a "business-friendly and people-friendly" economy which hinges on diversified economic growth through value-addition. Ghana's macroeconomic outlook for 2017 therefore hinges on the IMF's policy prescriptions and a gradual roll out of the new government's fiscal plans, which is underpinned by the following:

Consolidating Macroeconomic Stability: As earlier observed, the emerging macroeconomic stability (from 2016) requires consolidation measures to ensure an entrenched macroeconomic stability that support a rebound in economic activity. The new administration expects to anchor macroeconomic stability on three main pillars: monetary discipline, fiscal discipline and financial sector stability. While monetary discipline would be based on the amended Bank of Ghana Act (which grants autonomy to the central bank), a fiscal council and financial stability council is expected to be established. These two bodies are expected to anchor fiscal responsibility and accountability as well as financial sector stability. We expect Acts of Parliament to be passed in support of the mandates of these fiscal and financial stability councils. We view the proposed enactment of Acts as laudable and key to sustaining macroeconomic stability in the medium term.

While we expect that the watchdog role of these councils would ultimately support the institutionalization of macroeconomic stability over the medium to long term, the short term macroeconomic outlook (especially in 2017) would remain anchored on the ongoing IMF program. Consequently, we expect the new administration to continue with the IMF program until official expiration in Apr-2018 as the proposals for fiscal and financial sector stability should substitute the IMF anchor post Apr-2018.

From Taxation to Production: A major constraint to business activity (beside the weak credit expansion) is the stringent tax regime under the front-loaded fiscal adjustment program since 2015. Following a vigorous political campaign in the 2016 elections which highlighted the increased tax burden on the private sector, the new administration is expected to recalibrate the tax regime in order to provide incentives for productivity and investment. In broad terms, the fiscal policy direction is expected to follow a cautious path with expenditure prioritization that is consistent with the new regime of tax administration. In specific terms, the new government expects to: reduce the corporate tax rate by 500bps to 20%, abolish the 17.5% VAT on fee-based financial services, abolish the 5% VAT on Real Estate sale, abolish the special import levy, review withholding taxes imposed on various sectors (including the mining sector) which has constrained business liquidity and remove import duties on raw materials and machinery for production within the context of the ECOWAS Common External Tariff (CET) protocol.

While we expect these tax incentives to stimulate business productivity and investment with a resultant boost to direct taxes in the medium term, we do not expect an implementation framework which would jeopardize the fiscal outlook. Consequently, we do not anticipate a wholesale implementation of the proposed tax cuts in a single financial year, much less in 2017 when the IMF measures remain operational and the new administration conducts its sensitivity analysis. The budget deficit outturn for 2016 would also be crucial in determining available scope for tax cuts in 2017. Given the historical fiscal pressures in election years, a wider-than expected fiscal deficit in 2016 would limit the scope for significant tax cuts in 2017 as government would have to minimize fiscal risks in the short term. Ghana's fiscal deficit as at Sep-2016 was 5.9%, exceeding the 5.0% year-end target agreed with the IMF for 2016, raising the risk of a wider-than expected fiscal deficit by close of 2016.

Amongst the list of measures to finance the tax cuts is the anticipated fiscal space from a reduction in interest rates paid on the country's debt stock. As observed in Q4-2016, the interest rates on Ghana's Treasury debts securities (maturities from 91-day to 2-year Notes) have declined consistently as inflation expectations moderate amidst elevated liquidity on the interbank market. The sustained decline in the yields for T-Bills should help contain the debt service cost for short term domestic debts in 2017 and would afford the fiscal space to implement some tax incentives in 2017.

Another proposed financing source for the tax cuts is the expected increase in oil and gas revenue from the TEN and SANKOFA oil fields. The Tweneboa-Enyenra-Notmme (TEN) oil field which commenced production in Aug-2016 with an average daily output of 14,600 is expected to hit 50,000 barrel per day in 2017. The revenues to be accrued from this new oil field in addition to the existing Jubilee oil and expected SANKOFA oil (by Aug-2017) raises the cash flow prospects for 2017 especially with average Brent price expected above $50pb in 2017. While these positive outlook for crude oil cash flow could support the effort to implement some tax cuts in 2017, we are however cautious of some downside risks to crude oil output.

The optimization of the TEN field (beyond the 11 wells already drilled) would depend on a favourable verdict in the maritime border dispute with La Cote d'Ivoire which is expected to be settled in late-2017. While crude oil production on the SANKOFA filed would commence in 2017, gas extraction would be in 2018. Given that gas is the major deposit in the SANKOFA field, the 2018 commencement date for gas production indicates a potential for gradual implementation of the tax cuts in order to avert significant fiscal risk.

Outlook for Monetary Policy Stance

Given the easing inflationary pressure and the moderating inflation expectations, the path of monetary policy is expected to be more accommodative in 2017 to support a rebound in economic activity. The tight monetary stance maintained in 2016, which was underpinned by the cost-push inflationary pressure, was necessary to minimize the second-round effect of the cost-side pressures. The diminishing cost-push pressures supported by a firmly anchored demand resulted in lowering actual and expected inflation, prompting a 50bps cut in the policy rate to 25.5% in Nov-2016 to signal the prospect of monetary easing in 2017. In light of our expected decline in headline inflation to 10.1% by FY-2017, we anticipated a gradual reduction in Ghana's monetary policy rate to between 19.5% ± 50bps by end of the year.

Not all guarantees are the same
even with Treasury Bills

If you're an investor looking for a guaranteed rate of return, there's no better investment option than Treasury Bills. Backed by the Government of Ghana, your returns are 100% guaranteed. So where is the best place to buy your treasury bills? We say Databank!!! **Databank does not charge any commissions on Treasury Bills and the full amount of money you deposit will be used to purchase the Treasury Bills on your behalf.** That means over the short and long-term, your money will grow more quickly with Databank.

Invest wisely. Invest in Treasury Bills with Databank!

Mutual Funds | Treasury Bills | Shares | Pensions | Research | Wealth Management | Private Equity | Institutional Funds

Accra Tel: 0302 610610 | Tema Tel: 0303 213240
Kumasi Tel: 0322 080077 | Takoradi Tel: 0312 023628
Website: www.databankgroup.com | Email: info@databankgroup.com
Facebook: Databank Group | Twitter: Databankgroupgh

Partner locations (GTBank branches)
Accra (Airport: 0577 702012 . East Legon: 0577 702013
Lapaz: 0577 739461 . Madina: 0577 739462 . Osu: 0577 702014)
Ashaiman: 0577 702015 . Cape Coast: 0577 702016
Tamale: 0577 702017 . Tarkwa: 0577 702010

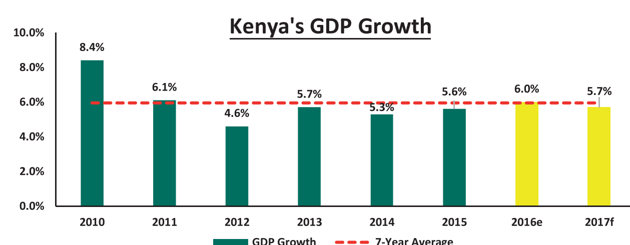
Databank
Leadership

KENYA'S 2017 MACROECONOMIC FUNDAMENTALS

By **John Ndua,** Investment Analyst, Cytonn Investments Management Limited, Kenya

The year 2017 is shaping up to be a year of stable growth, despite being an election year in the country. In this article, we highlight and discuss the macroeconomic fundamentals in Kenya, the key opportunities in different sectors of the economy, and finally discuss the key challenges facing the growth prospects of the country.

Kenya is one of the fastest growing economies in the Sub-Saharan Africa region, with an expected growth of 6.0% in 2016, an increase of 0.4% points from the 5.6% GDP growth recorded in 2015; and 5.7% in 2017 as per the projections of Cytonn Investments. The chart below indicates the country's GDP growth over years, having achieved an average GDP growth of 6.0 % over the last seven years:



Source: Cytonn Investments

Kenya is currently, as it did in 2016, is experiencing a stable macroeconomic environment, supported by (i) a stable inflation rates, which remained within the target of 2.5% - 7.5% set by the government to average 6.3% in 2016, (ii) a stable interest rates environment after enactment of the Banking (Amendment) Act, 2015 and (iii) recovery of tourism sector.

Most importantly, Kenya has established itself as one of the most diversified economies in the region, with a number of key sectors driving growth, including construction, tourism and agriculture. Over the recent decade, the sectoral contribution to GDP by the top five sectors has been on a decline, which indicates diversification of the economy by boosting contribution to economic growth across different sectors. The table below indicates changes in the top five sectors contribution to the GDP over the last sixteen years:

Sector	% Contribution to GDP			
	2000	2010	2015	Q3'2016
Agriculture	31.3%	23.7%	23.1%	19.3%
Manufacturing	17.0%	11.5%	10.4%	10.2%
Wholesale & Retail Trade	16.5%	7.1%	7.4%	8.7%
Financial Services	13.8%	6.0%	6.0%	6.3%
Real Estate & Construction	10.5%	12.6%	13.8%	14.5%
Total	**89.1%**	**60.9%**	**60.7%**	**59.0%**

Source: Cytonn Investments

Kenya's attractiveness as an investment destination has been affirmed by Moody's, which improved the country's credit rating outlook in 2016 from stable to positive while S&P improved the country's credit rating outlook from negative to stable. Despite the upcoming elections in August this year, the country maintains its attractiveness to foreign investors, supported by improved ease of doing business. In the most recent Ease of Doing Business Rankings, Kenya was the most improved country recording an improvement of 16 places to rank position 92 out of 190, which is a build-up from last year's improvement of 28 places to position 108 from 136 in 2015. This improvement is attributed to improved (i) ease of accessing electricity, (ii) ease of registering property, (iii) protection of minority investors, and (iv) ease of resolving insolvency.

In addition to the ease of doing business, Kenya has underlying potential and immense opportunities driven by strong demographic trends, which include rapid urbanization and a growing middle class, financial services penetration and improved market regulation.

> *"Kenya has established itself as one of the most diversified economies in the region, with a number of key sectors driving growth, including construction, tourism and agriculture."*

Potential sectors on our radar

Given the positive factors driving the economy, the following are the sectors which we believe will drive growth in 2017:

- *Real Estate:* The sector has proven to possess great potential, having delivered high returns averaging 25.8% in 2016 across all themes, with the best performing themes being retail and offices with average yields of 10.0% and 9.4%, respectively. In 2017, we expect key drivers of real estate to be (i) supporting demographic trends such as the rising middle class, rapid urbanization and population growth, (ii) an effective housing deficit of over 200,000 units per annum for the low to middle income market, and (iii) competitively high returns of above 25.0% over the last 5-years.

- *Energy:* The Kenyan Government remains optimistic with regards to turning Kenya around from an oil importing country to an oil exporting country by year 2020. The groundbreaking events already carried out in the oil reserve areas indicates that investment in this sector remains on the upside. Kenya's renewable energy sector also presents numerous opportunities as it continues to attract private equity investments with

growth being driven by: (i) increased demand, with the peak demand in 2015 being 1,512 MW coupled by an annual growth of 7.0%, (ii) investor friendly regulations put in place by the industry regulators, and (iii) high potential for wind, solar and geothermal energy generation in the country.

- *Infrastructural Development:* Kenya is undertaking multiple projects geared towards the achievement of Vision 2030 such as the (i) Standard Gauge Railway (SGR) connecting through Kenya to Uganda, (ii) redevelopment of the Northern Corridor linking the land locked countries such as Uganda, Rwanda and Burundi with Kenya's maritime port of Mombasa, and (iii) Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) Corridor Project, which are all set to strengthen Kenya's position as a gateway, and a transport and logistics hub to the East African sub-region.

- *ICT:* Technology continues to drive growth in the country with Kenya being the lead on Fintech solutions in the region with over 70.0% of the country's population having access to financial services. The sector will remain attractive to investors as it is supported by (i) government's support for innovation, (ii) increased exposure of Kenya's tech products to the global market and foreign investors, and (iii) relative ease of entry into the sector.

> *"The year 2017 is shaping up to be a year of stable growth, despite being an election year in the country"*

Threats on our watch list

As indicated above, there are a number of factors driving growth in 2017, and a number of sectors that are set to benefit from that growth. Below we look at the risks and challenges that may hinder the development opportunities in Kenya. These challenges include:

Political Tension: Given 2017 is an election year, the rising political heat may result into lapses in security, which may negatively affect tourism sector.

Sluggish Demand for Exports: The country has been experiencing a declining value of exports especially tea and coffee as the current account deficit continues to widen and with oil prices set for a resurgence in the global markets, Kenya sets in for a huge imports bill as a result of a widening the current account deficit. This is likely to worsen the strength of local currency against other global currencies.

Global Markets Stabilization: The global strengthening of the markets such as the US and improving Eurozone is set attract investors out of the frontier markets such as Kenya thus reducing the level of foreign participation in public markets coupled with a depreciating local currency as a result of the dollar strengthening globally.

Rising Government Debt to GDP: The country debt to GDP ratio currently stands at 53.0% just above the IMF threshold of 50.0%, and is expected to rise with an expansionary fiscal policy, thus affecting Kenya's sovereign credit rating and attractiveness to foreign investors due to an unfavorable outlook in reference to debt sustainability.

Slowdown in Private Sector Credit Growth: The private sector credit growth has been growing at a low of 4.6% as at October 2016, the slowest growth in over eight years from a high of 25.8% in May 2014. This remains a key challenge to development in the country with the capped interest rates set to have a profound effect on the sector moving forward thus slowing down economic growth.

Corruption: The country continues to experience numerous cases of misappropriation of public funds both at the county and national government levels and this presents numerous risks to economic development as it limits the capacity of the government in utilizing the tax payers' funds towards the improvement living standards of citizens.

Kenya's to grow at most by 5.7% in 2017

Despite the above challenges, Kenya remains resilient to economic shocks prevailing in the region to put forth a positive economic growth and to remain an attractive destination for investments supported by current macroeconomic stability and a positive outlook in the long-term. Given Kenya's diversified economy, when one sector fails to deliver, there is always one that steps and supports the strong growth. It is due to this that we are of the view that in 2017 Kenya will deliver a GDP growth of between 5.4% - 5.7%.

> *"World Bank Group estimates Kenya to grow by 5.9 percent in 2016 and forecasts 6.0 percent and 6.1 percent growth for 2017 and 2018 respectively."*

Contributor's Profile

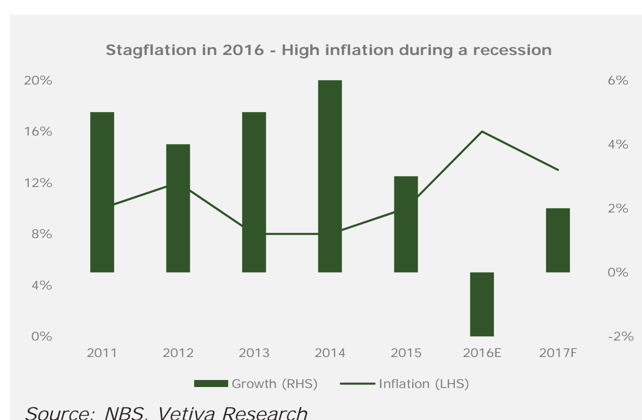
John Ndua serves as an Investment Analyst at Cytonn Investments Management Limited, having graduate of Cytonn Young Leaders Program (CYLP). He has 2 years experience, focussing largely on the Public Markets segment, within the Sub Saharan Africa (SSA) Financial Services Sector and Countries Macro Economic analysis. John holds a BSc. in Actuarial Science from the Jomo Kenyatta University of Agriculture and Technology (JKUAT) and is a candidate in the CFA Programme.

INSIGHT INTO NIGERIA'S MACROECONOMIC CLIMATE IN 2017

By **Michael Famoroti,** Research Analyst & Economist, Vetiva Capital Management Limited, Nigeria

Another Roll of the Policy Dice

The novelty has worn off by now. Barring a minor miracle, the Nigerian economy entered a full-year recession in 2016, its first in two decades. Added to this, the simultaneous rise in unemployment (up to 13.9% according to most recent data) and inflation (18.6% in December) tilted the country into stagflation. A slump in oil export earnings on the back of major disruptions in oil production significantly contributed to this economic reversal as current account deficit reached 1.1% of GDP in the nine months through September while the naira shed over a third of its value during the year, in spite of or perhaps as a result of, a hesitant move towards a floating exchange rate system.

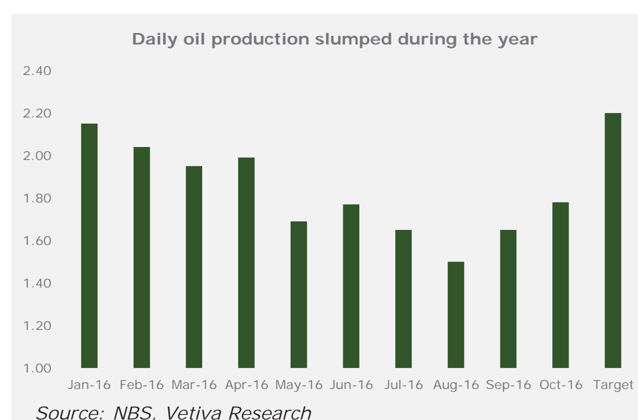


Source: NBS, Vetiva Research

To understand the scale and surprise of Nigeria's current economic woes, one must look at the recent past. Despite its mixed international reputation, Nigeria averaged over 5% annual GDP growth between 2010 and 2014 and inflation moderated significantly in the last few years. Although Nigeria finds itself in a slightly unusual economic position, there is little time to lick our wounds as 2016 already represents a missed opportunity to address both fleeting and chronic economic concerns. On the plus side, the recent rebound in global oil prices following the ratification of the OPEC output curb agreement permits a more favourable global economic environment. The result of this has already started to trickle through – external foreign exchange reserves held by the Central Bank of Nigeria (CBN) rose to $26 billion at the start of 2017. Against this backdrop, the key question is whether recent missteps can be atoned for in 2017 as Nigeria battles its way to economic recovery.

Policy in the Limelight

One thing is clear: Policy will once again play a determining role. As the economy descended into choppy waters in 2016, policy action was slow, conflicting, or ineffective. Specifically, delays in the passage and implementation of the Federal Budget blunted the impact of the largest proposed budget in Nigeria's history and capital expenditure was the biggest loser with barely half of the pro-rated allocation released as at September 2016. Meanwhile, attempts to deter full-blown crises in both the Niger Delta region and the foreign exchange (FX) market failed to pay off. On the first issue, a potential military counterattack to stop oil production infrastructure vandalism made way for protracted negotiations between the Federal Government (FG) and primary militant groups but not before production shut-ins at key terminals including Forcados and Qua Iboe. Meanwhile, the naira was floated in June to a considerable furore. Subsequently, the CBN imposed a series of soft pegs (N305/$1 as at year-end) as it sought to ration FX in the economy. Finally, a switch to tighter monetary policy failed to halt the surge in inflation as a number of supply-side factors drove national prices to decade-highs.



Source: NBS, Vetiva Research

However, 2017 presents another opportunity to get policy right. The main challenges remain – fiscal policy is still uncertain, oil production levels are still relatively low, and depreciation pressure remains on the naira. The efficiency of policy response will be the defining feature of 2017. In normal times, policy retains an outsized influence on Nigeria's economy. This year, it acquires extra importance because the private sector is under serious strain. FX scarcity continues to weigh on manufacturing and services firms while diminishing real incomes and an uncertain outlook will keep consumers and investors cautious through the year. Therefore, policy should shape Nigeria's economic climate in 2017.

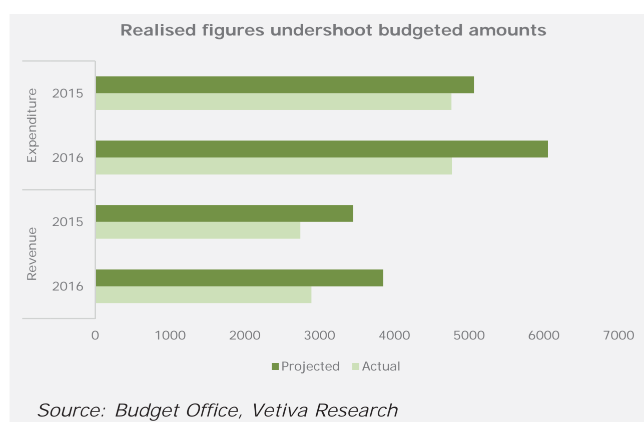
Implementation key to unlocking Budget potential

The 2017 Budget offers reasonable encouragement.

Firstly, 31% of proposed budget spending is committed to capital expenditure (capex) with a significant dose for transport and power infrastructure. Secondly, there is a stronger focus on expanding special economic zones (SEZ) and export zones to accelerate industrialisation and stimulate trade. This is typified by a N20 billion Export Expansion Grant (EEG) tax credit scheme. Thirdly, the provision for special intervention schemes is retained from the 2016 Budget as the FG seeks to stimulate aggregate demand and address dire poverty in the country.

Despite all this, the Budget has come under a fair dose of criticism, mainly centred about perceived unrealistic projections for spending – up to 4% in inflation-adjusted terms, and oil revenues – up to a whopping 140%. Allowing for justified criticism over these numbers, the core issue remains implementation. In 2016, ambitious fiscal plans were let down by average implementation. Even with the fiscal year extended to May 2017 (a year from the passage of the 2016 Budget), it is unlikely that spending and revenue goals will be met.

How do we avoid a similar fate this year? The imperative starting point would be a speedy passage of the budget which is still being reviewed by Nigerian lawmakers. Following this, regular payments to contractors will be key to keeping vital projects on track whilst efficient rollout of special intervention schemes and SEZ projects would enhance the value of the fiscal multiplier. Given recent experience, and considering Nigeria's history, these will be a challenging task to achieve. On the revenue front, a quick resolution to the Niger Delta impasse and a return to at least 2.2 million barrels per day output are required to achieve the revenue targets, even in light of expected oil prices during the year. Meanwhile, external funding efforts – necessary to plug a projected budget deficit of N2.4 trillion – must be accelerated to avoid a recurrence of the 2016 experience where just under N200 billion was raised through an AfDB loan, with another N300 billion expected through a Eurobond sale in Q1'17.

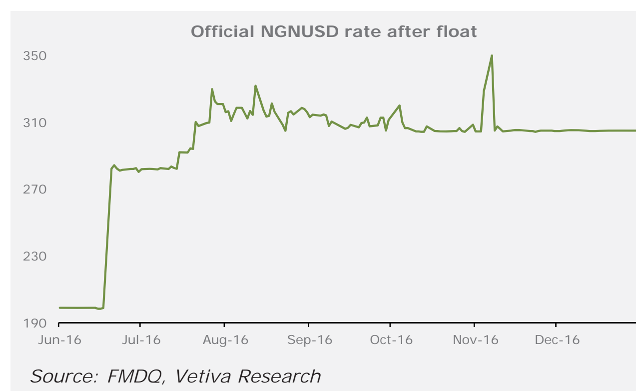


Source: Budget Office, Vetiva Research

Monetary policy at its limit?

For monetary policy, there are two issues that must be resolved. The first – and perhaps most important – is the FX market. Attempts to defend the value of the currency by rationing FX have led to severe market illiquidity. This FX scarcity has had a real impact on the economy, especially on manufacturing firms reliant on imported raw materials and capital equipment. The chosen FX management methods during the year drove the black market premium up to 60% as well as a slump in capital inflows to $1.8 billion in Q3'16, down 34% year-on-year.

Capital markets suffered as a result, with a turnover in the Nigerian Stock Exchange down 41% at the end of November 2016, driven mainly by reduced foreign participation – 51% less than in 2015. The importance of the FX market cannot be over-stressed. The monetary authorities have three broad options – hold, devalue, or float (again). Holding would mean maintaining the status quo of a relatively strong currency (officially) and lower inflationary pressures but persistent FX scarcity would almost certainly strangle the economy. Devaluing would ease some pressure on the naira without solving the underlying issues of price discovery and illiquidity in the market. A free float – the least likely option at present – would induce higher inflation in the event of a sharp depreciation but it would also gradually restore confidence – and FX inflows – into the market. None of these options is particularly appealing but that is a consequence of the effective breakdown of the official FX market.



Source: FMDQ, Vetiva Research

The other relevant issue is the direction of monetary policy during the year. With the current recession, it is hoped that the hawkish trend of 2016 is reversed to spur investment and reduce borrowing costs. This view is complicated by expected double-digit inflation (not including sharp currency depreciation) which would precipitate tight monetary policy. Perhaps more significantly, the efficacy of monetary policy in tackling inflation or stimulating growth is doubtful. Current inflation is driven by rising business costs and a weaker currency and traditional monetary tools are limited in addressing these (even through the currency as the FX policy is a stronger determinant).

Meanwhile, monetary policy transmission to lending and growth remains weak in Nigeria. This is a sentiment echoed by Suleiman Barau, a member of the CBN Monetary Policy Committee who said, "In view of the

oligopolistic structure of the country's banking system, pricing of credit is more of supply than demand driven, and as a consequence, a reduction in the policy rate may not necessarily translate into reduction in lending rate." In a way, these doubts reinforce the importance of FX policy as part of monetary policy in 2017.

Firm grip needed to steer ship in 2017

The policy decisions to be made this year vary in nature and complexity. Though the political aspect of fiscal policy remains frustrating, the economics is straightforward. In this regard, decisive action is needed. Similarly, oil production is a vital parameter for the country so efforts to assuage the militant uprising must bear fruit. The most complex issue of all – FX policy – could be the most decisive. All these issues are likely to play off each other. For example, higher oil production could provide the dollar earnings needed to support the currency and finance government expenditure whilst FX scarcity is likely to squeeze aggregate supply and discourage private sector investment. 2016 was an extremely tough year for Nigerians but despite this, this year, they remain hopeful as and observe another roll of the policy dice.

The future doesn't just happen.
It has to be built...

The Vetiva Sector Series Exchange Traded Funds
Banking ETF | Industrials ETF | Consumer Goods ETF

For further information, please contact the Fund Manager

VETIVA

Vetiva Fund Managers Limited
Plot 266B, Kofo Abayomi Street
P.O. Box 73530 Victoria Island
Lagos, NIGERIA

Tel: +234 1 2700657 8; +234 1 4530697
Fax: +234 1 4617524
Website: www.vetiva.com
Email: funds@vetiva.com

The Nigerian Stock Exchange, its affiliates and any global index partner of NSE notified to Vetiva with rights to license the Index to third parties are not affiliated with Vetiva Fund Managers Limited or its affiliates (collectively, "Vetiva") and do not approve, endorse, review or recommend Vetiva or any of the aforementioned ETFs. The Nigerian Stock Exchange and its affiliates make no warranty, express or implied, as to results to be obtained by any person or entity from the use of the ETFs, the relevant benchmark indices, or any data or values included therein or in connection therewith, and expressly disclaim all warranties of merchantability or fitness for a particular purpose with respect thereto. The Nigerian Stock Exchange and its affiliates and their respective partners, employees, subcontractors, agents, suppliers, and vendors shall have no liability or responsibility, contingent or otherwise, for any injury or damages, whether caused by any such party's negligence or otherwise, arising in connection with the ETFs, the relevant benchmark indices, or any data or values included therein or in connection therewith and shall not be liable for any lost profits, losses, punitive, incidental or consequential damages.

We strongly advise that you consider, independently, the suitability of the recommendation with your personal profile and objectives. Carefully consider the funds' investment objectives, risk, and charges and expenses. This and other information can be found in the funds' prospectus. You are advised to read and understand the contents of this prospectus. If you are in doubt about its contents or the action to take, please consult your stockbroker, solicitor, banker or an independent investment adviser for guidance. This information is not an offer to sell or a solicitation of an offer to buy shares of any Fund to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction.

MOROCCO'S FAVOURABLE PROSPECTS WITH STRONG FUNDAMENTS IN 2017

CFG BANK
CAPITAL MARKETS

By **CFG Bank Capital Market Research Team**

Prospects for Moroccan economy in 2017 are favourable with stronger economic growth on the one hand and, on the other, an on-going contraction in the twin deficits, which will help restore the long-term health of the country's public finances and balance of payments.

As far as the growth outlook is concerned, expectations of GDP growth in 2017 should once again highlight the economy's sensitivity to the agricultural sector. In addition to the volatile character of the country's GDP, the fact that non-agricultural GDP has registered only moderate growth has undoubtedly been the stand-out factor since 2013. This is likely to remain so in 2017 economic outlook.

Non-agricultural GDP is expected to grow by about 3% in 2017, well below the growth rate registered between 2004 and 2012. This slowdown can partially be explained by the prevailing global economic situation which remains hesitant, particularly among the country's main trading partners as well as a less expansionary fiscal policy. Such a slowdown is particularly symptomatic of Morocco's economy entering a transition phase, resulting in the gradual emergence of new high value-added industries as drivers of the country's economic development, at the expense of a number of 'traditional' sectors. The rapid development of the latter over the past decade has provided a strong boost to non-agricultural activity but the slowdown seen in recent years has been particularly marked.

The future flagship sectors of the Moroccan economy have been broadly identified as automobiles, aeronautics, food-processing and renewable energy while more 'traditional' sectors include tourism and phosphates. These sectors have performed remarkably well in recent years. However, their contribution to GDP growth and the knock-on effects on the country's productive capacity are still inadequate to raise the general level of non-agricultural GDP. Given the likelihood that this situation will continue for a few more years, the scenario of persistently moderate growth of the non-agricultural component is the most likely one for the domestic economy over the coming years.

Growth is likely to be between 4.0% and 4.5% with the top end of the range only achievable if the global economy were to show signs of a much more robust pick-up and if fiscal policy were to become more expansionary. This scenario would seem to be highly unlikely over the short to medium term given the government's current priorities. Another factor likely to provide an additional stimulus to GDP growth is if monetary policy were to be relaxed further. This is more likely given that the general level of consumer prices has registered only weak growth in recent years with inflation averaging 1.6% between 2010 and 2015.

While the 2017 and medium-term economic growth forecasts will be combined to a significant contraction in the country's twin deficits, after reaching worrying levels in 2012. This positive trend towards restoring equilibrium on the budgetary and external trade fronts paves the way for a number of major reforms. It enables the government to focus on bringing about further reform in sensitive areas such as pensions reform, particularly with regard to civil servant and state corporation employee pensions with concerns growing over their viability.

Furthermore, it provides the Central Bank with the conditions needed to make a gradual and successful transition towards a floating exchange rate system. This would enable Morocco to become even more integrated within the global economy and adjust more easily to external shocks. The decision taken in April 2015 to revise the composition of the basket of currencies constituting the dirham (euro 60% and dollar 40% versus the previous 80% and 20% respectively) in order to reflect more accurately the country's overseas trade can be regarded as simply a first step in this direction. The various declarations made by the Central Bank, which has been benefiting from technical support from the IMF in this regard, clearly favour a gradual transition towards a more flexible exchange rate system.

Given the relatively sluggish state of the domestic economy, it is essential that Morocco tackles the shortcomings of its existing growth model and undertakes the structural reforms required to move towards a development model based on productivity growth rather than one governed by accumulating factors of production. Despite the relatively high level of investment in recent years, as illustrated by Gross fixed capital formation (GFCF) of around 30% of GDP, economic growth has averaged only 4.3% annually (3.3% from 2000 to 2013). By comparison, Asian economies, which also enjoy high levels of GFCF, but, have registered economic growth of 6-7% annually. This situation is particularly symptomatic of the structural weaknesses inherent in the Moroccan economy which is over-reliant on public sector investment (public administration and state enterprises have accounted for almost 43% of total GFCF in recent years) with investment being also dominated by the construction sector (more than 50% of GFCF).

SOUTH AFRICA'S MACROECONOMIC PROSPECTS AND RISKS IN 2017

By **Sizwe Nxedlana,** Chief Economist, First National Bank, South Africa

The South African macroeconomic landscape is expected to gradually improve this year following the weak growth performance recorded last year. In essence growth should lift, inflation should fall and policy rates should remain stable. This view is underpinned by several developments.

Importantly we expect global growth to continue to rise gradually in the period ahead as the recent increase in commodity prices boost growth in commodity-exporting EMs, improved household (and corporate fixed investment) spending, buoyed by Trump inspired tax cuts, drive growth in the US higher, and on-going policy stimulus keeps the Chinese economy relatively vibrant. A consequence of higher global growth, steadily rising inflation and more fiscal stimulus is that the Fed will continue its process of measured policy normalisation. All these developments suggest that risk-free bond yields should continue to climb, but not rise aggressively further. Moderately faster global growth should be supportive of South African exporters.

The mere absence of negative shocks will also prove beneficial to the domestic economy. The negative impact of the severe drought on agricultural output (directly) and food price inflation (indirectly) is fading, the terms of trade (rand export prices relative to import prices) has improved (giving miners a much needed earnings boost), and severe electricity outages appear increasingly unlikely over our forecast horizon.

Additionally falling food price inflation, a relatively stable rand and excess production capacity will see inflation fall this year. In turn, this should not only prevent policy rates from rising further, but it should also provide a boost to real disposable income growth, and so consumer spending.

These are all favourable developments supportive of a growth recovery this year. Still, the degree of the prospective domestic upswing will be constrained. Estimated potential growth rates have fallen across the globe (including in the US, Europe and China – all key trading partners of SA. This will limit the extent to which the global recovery look set to propel the economy upwards. Additionally, the country still suffers from major supply-side constraints which will restrain the strength of any potential upswing locally: labour productivity continues to ease, the poor financial health of most SOEs means much needed infrastructure investment is slow to evolve (or doesn't happen at all), the cost of doing business in SA remains too high while uncertainly around government policy continues to dent business sentiment (and thus the private sector's willingness to aggressively raise fixed investment). We doubt much of these constraints will be lifted in the current political environment. We therefore anticipate potential growth to remain limited to a 1.5% - 2% range, which will also result in further sovereign ratings downgrades.

The risks to our cautiously optimistic outlook remain meaningful. Global concerns include:

(1) a faster acceleration in inflation in the US that forces the Fed to hike interest rates more aggressively than currently assumed. This will weigh on the rand, domestic inflation and growth;

(2) rising anti-globalisation sentiment which, if manifested in policy action, could usher in a period of global stagflation and;

(3) a deflationary shock triggered by debt default in a systemically important country or sector. In this regard it's worth remembering global indebtedness, already at unprecedented levels, continues to increase at a rapid rate. We remain particularly concerned about China's debt dynamics.

On the domestic front, political developments pose the biggest risk to our outlook. The ANC will choose its new leadership on 16 – 20 December. No doubt the run-up to the elective conference will be characterised by significant political and policy noise which, in turn, stand to hamper much needed economic reform efforts. In a bad scenario, policy mistakes might even be made as certain factions in the ruling party try to secure support in the run-up to the conference. Efforts from certain parts of the political spectrum to secure patronage networks and access to state resources pose further risks. Importantly, these political event risks are all evolving against the backdrop of growing socio-economic pressures that could easily reach boiling point and so force policy makers to implement ill-advised policies with negative repercussions for financial markets and the broader economy.

"We therefore anticipate potential growth to remain limited to a 1.5% - 2% range, which will also result in further sovereign ratings downgrades."

AFRICAN MARKET OUTLOOK FOR 2017: OPPORTUNITIES AND CHALLENGES

By **Samir Gadio,** Head, Africa Strategy, FICC Research, Standard Chartered Bank

The global risk backdrop has been relatively supportive for emerging market (EM) FX and fixed income in early January 2017, as investors downplayed previous concerns about fiscal stimulus in the US under a Trump administration. This has underpinned the South African rand and local bonds, and reinforced a receiving bias in swaps. However, there is a risk that upward pressure on UST yields and a bull USD cycle may re-emerge, for example on renewed worries about fiscal expansion in the US, expectations of further Fed interest-rate normalisation and threats to global trade. In this case, the stronger USD could erode local market bond returns, which may possibly push fixed income investors to opportunistically increase hedge ratios in their mostly unhedged GBI-EM fixed income holdings. A paying bias in long-dated South African swaps may potentially offer value in the medium term, if the FX and external risk backdrop deteriorate, while short-dated swaps could be supported by a neutral policy rate stance, weak growth and subdued inflation.

In the frontier Sub-Saharan African countries, market stakeholders will be on the lookout for investment opportunities likely to deliver significant value in 2017. Given the high base in fixed income yields, improving interbank liquidity, the prospects of an IMF programme and likely monetary policy easing, Zambia's bonds may offer large duration gains this year. Portfolio flows into Zambian debt have picked up in recent months, as investors position for future bond price appreciation. Although the Zambian kwacha (ZMW) has so far been supported by corporate left-hand side FX flows and portfolio inflows, foreign investors will be closely monitoring any signs of renewed ZMW weakness, especially if the IMF pushes for greater FX flexibility.

Foreign investors remain constructive on Ghana's local bonds, as evidenced by a significant pick-up in foreign participation in local debt over the past year. Given the magnitude of the rally in long-dated bonds since Q3-2016 in expectation of further formal monetary easing and a downtrend in inflation, it is likely that bond carry – rather than duration gains – will now be the main driver of fixed income returns. The authorities have managed to stabilise the USD-Ghanaian cedi (GHS) rate following moderate upward pressure around the December 2016 elections. Yet renewed fiscal consolidation efforts and commitment to IMF reforms will be key to managing market expectations and preventing a build-up of USD-GHS longs.

Elsewhere in West Africa, limited portfolio flows into T-bills, hedged in Nigerian naira (NGN) futures, have largely dried up in recent months, given limited visibility on the potential for a more liquid FX market. The wide parallel market premium reflects significant FX shortages, while investors generally perceive the current FX regime as unsustainable in the medium term in the absence of much higher oil prices and a rebound in production. However, the authorities have indicated that they would not devalue the NGN. Thus, foreign flows into Nigerian debt look unlikely in the foreseeable future. Foreign investors will probably continue to express their views on the currency via the offshore non-deliverable forward (NDF) market. NDF outrights have compressed in recent weeks, but the long end of the NDF curve may prove vulnerable to a wider parallel market premium.

Meanwhile, a heavily-managed FX regime in Nigeria makes it less relevant to maintain elevated domestic fixed income rates via high-yielding open market operations and tight liquidity conditions. The sovereign yield curve is still inverted, but bond yields have backed up to historical highs over the past month, mainly on supply concerns. Yet, a partial relaxation of liquidity conditions and slowdown in inflation on high base effects would contribute to duration gains for onshore institutional investors, at least until FX market flexibility is back in focus later this year.

In East Africa, investors will probably be waiting for more attractive entry points into local debt to reassess the investment case for Kenyan bonds. So far the yield curve has remained relatively sticky despite recent FX re-pricing. A still-supportive interbank liquidity environment has anchored low Treasury yields, as a more broad-based tightening of liquidity conditions is constrained by a weaker backdrop for selected small financial institutions. But we think some upside risks for Kenyan fixed income yields will likely materialise from current levels.

Uganda's fixed income yields shifted higher in late 2016, albeit moderately, as the currency came under pressure; increased domestic demand has pushed bond rates marginally lower lately. The yield curve re-pricing in Q4-2016 may have been insufficient to trigger renewed portfolio inflows or compensate foreign investors for the perceived sensitivity of the Ugandan shilling to global risk factors. Yet, if UST yields and the USD eventually find new levels that look better anchored, the investment case for a carry trade in Ugandan rates may turn more appealing. In Tanzania, foreign investors are still awaiting the delayed opening of the debt market to non-East African residents; should global offshore investors be allowed to purchase local bonds, portfolio inflows will likely pick up, but their scale could be constrained by limited secondary market liquidity.

On the credit side, African Eurobonds performed strongly in 2016 supported by attractive entry points early last year, a broadly favourable risk profile in EM and limited issuance in

the SSA region. The tighter valuations of African Eurobonds and the uncertain global risk environment will probably push investors to be more selective in 2017 and may support the case for shorter duration. Eurobond investors will likely still reward issuers that have seen an improvement in fundamentals and displayed good policy-making such as Cote d'Ivoire and Senegal. They could also remain constructive on credits offering a mix of robust carry and idiosyncratic catalysts for outperformance, including IMF-sponsored reform programmes.

AFRICAN SOVEREIGN EUROBOND: RECAP AND PROSPECTS

Eurobond issuance by African sovereigns was recorded at US$9.726 billion by four countries (South Africa, Ghana, Egypt and Mozambique) in 2016 compare to US$6.750 billion issued by eight countries (Egypt, Ghana, Gabon, Ivory Coast, Namibia, Zambia, Cameroon and Angola) in 2015.

In April, the Republic of South Africa successfully priced and issued a US$1.25 billion 10-year Eurobond. The US dollar bond was priced at a coupon (interest rate) of 4.875 per cent, which represents a spread of 335 basis points above the 10-year US Treasury's benchmark bond. The transaction was more than two times oversubscribed and the proceeds of the bond will partially finance the government's foreign currency commitments of US$6.4 billion over the medium-term.

Also in April, Mozambique came to the market to restructure US$850 million debt, which was issued in 2013 to finance Tuna Fishing but used by government to buy military equipment instead. The new bond US$727 million was issued at 10.50 percent with principal repayment at maturity date of 2023. Recently, Mozambique failed to pay US$59.8 million interest on the Eurobond in January 2017, hence technically in default (Fitch ratings had downgraded Mozambique to 'RD' in November).

In September, Ghana raised $750 million sinkable Eurobond at a yield of 9.25 percent in an auction that was more than five times oversubscribed (which in excess of US$4 billion). The bond will be repaid in three equal installments between September 2020 and the same month in 2022. The proceeds will be used to refinance existing debt and fund capital investments. The Eurobond settled with a yield of 7.619 percent at the end of December 2016.

Furthermore, the Republic of South Africa placed US$3 billion in new notes maturing in 2028 (12 year) and 2046 (30 year) via an innovative one-day new issue and tender switch transaction in September. The amount was made up of approximately US$700 million in a switch and tender offer and approximately US$1.3 billion in new cash on the 12 year tranche bringing it to US$2 billion while US$1 billion in new cash was raised in the 2046. The 12 year bond was priced at a coupon rate of 4.3 percent while the 30 year bond was priced at a coupon rate of 5 percent. The transactions were more than two and a half times oversubscribed.

Egypt issued $4 billion international bonds to plug budget deficit and boosting foreign reserves in November 2016. The US$4 billion issuance included a $1.360 billion bond with 4.62 percent interest maturing in December 2017, a $1.320 billion bond with 6.75 percent interest maturing in November 2024, and $1.320 billion bond with 7 percent interest maturing in November 2028. As at 31 December 2016, the yield on the Egypt's 2017, Egypt's 2024 and Egypt's 2028 Eurobonds were at 3.795 percent, 7.061 percent and 7.602 percent respectively.

Looking at debt level, the total amount outstanding of Eurobond issued by African sovereign entities was recorded at US$45.51 billion at the end of December 2016, out of which US$2.25 billion (Egypt: US$1.36 billion, Morocco: EUR 500 million, Ghana: US$199 million and Gabon: US$161 million) will mature in 2017. The African Eurobond market value weighted average yield settled at 6.1 percent at the end of December 2016 against 7.90 percent at the end of 2015.

What is the Prospect for 2017? African countries are sitting on a large funding gap and there are more questions about how these governments are going to raise the money to plug the gap. The funding gap can theoretically be filled from domestic as well as international sources. *Can it be locally funded?* Africa's ability to finance rising fiscal and current account deficits locally is limited by its mainly small and illiquid domestic debt markets. In many countries, an exclusive reliance on domestic markets for financing large deficits would quickly crowd out credit extension to the private sector and further cloud the growth outlook. Additionally, most African currencies are pegged or under a controlled currency regime, hence foreign investors are unwilling to invest in local bonds even at a higher premium.

So, most African countries will have to tap into the Eurobond markets as a result of its unregulated nature but these countries will have to demonstrate to investors how the fund will be used and offer at a higher premium. Egypt had already sold US$4 billion international bond in January 2017. Zambia plans to refinance Eurobonds totalling around $2.8 billion that it issued between 2012 and 2015 in 2017. Also, Tanzania aims to issue its first Eurobond in fiscal 2017/18 to fund new infrastructure. Nigeria may sell debt for the first time since 2013 to fund a record spending plan and Tunisia also plans to raise EUR1 billion.

AFRICAN GOVERNMENT EUROBONDS YIELDS AT THE END OF December 2016

	Yield to maturity		Changes in yield				
	31-Dec-16	31-Dec-15	1m chg (bps)	3m chg (bps)	6m chg (bps)	12m chg (bps)	YTD chg (bps)
ANGOLA 9.5% 11/12/25	9.97	10.63	↓ -71.3	44.8	32.2	-66.8	0.0
CAMEROON 9.5 11/19/25	8.21	10.62	↓ -47.1	45.0	-107.0	-241.1	0.0
CONGO 3.00% 30/06/2029	11.27	8.29	↑ 21.4	112.7	180.3	298.4	298.4
Namibia 9.50 11/19/2025	8.21	10.62	↓ -47.1	45.0	-107.0	-241.1	0.0
EGYPT 5.875 06/11/25	7.27	7.85	↑ 6.1	71.5	-48.3	-57.9	-57.9
ETHOPIA 6.625% 11/12/2024	7.90	8.43	↓ -56	114.5	32.3	-53.5	-53.5
GABON 6.95% 06/16/2025	7.90	10.32	↓ -104.4	-30.3	-105.2	-242.7	-242.7
GHANA 7.875% 07/08/2023	8.05	12.10	↓ -125.2	-105.3	-223.2	-404.3	-404.3
GHANA 10.75% 10/14/2030	8.41	10.50	↓ -69.6	-20.3	-150.2	-209.3	-209.3
IVORY COAST 6.375 03/03/28	6.66	7.48	↓ -3.1	89.3	-0.8	-82.2	-82.2
IVORY COAST 5.75% 31/12/2032	6.86	7.38	↓ -6.7	92.4	15.3	-52.0	-52.0
KENYA 6.875% 24/06/24	7.78	8.94	↑ 9.6	65.0	-29.9	-116.4	-116.4
MOROCCO 5.50% 11/12/2042	5.35	5.74	↓ -2.2	81.5	36.7	-39.1	-39.1
MOZAMBIQUE 10.50 01/18/2023	26.51	18.89	↑ 260.6	1031.5	762.1	762.1	0.0
NAMIBIA 5.25% 10/29/2025	5.48	6.13	↑ 5.1	103.7	53.3	-65.1	-65.1
NGERIA 6.375% 12/07/2023	6.93	8.56	↓ -75.8	32.6	-7.2	-162.9	-162.9
RWANDA 6.625% 02/05/2023	6.69	7.36	↓ -28.6	34.4	-44.7	-67.2	-67.2
SENEGAL 6.25% 30/07/2024	6.22	7.93	↓ -5.6	56.6	-70.6	-171.0	-171.0
SEYCHELLES 7.00% 01/01/2026	7.91	8.69	↑ 17.4	29.7	-18.5	-78.5	-78.5
SOUTH AFRICA 5.875% 16/09/2025	4.87	5.52	↑ 2.7	81.3	51.4	-65.3	-65.3
SOUTH AFRICA 6.25% 08/04/2041	5.51	6.05	↓ -1.5	71.1	42.4	-53.6	-53.6
SOUTH AFRICA 5.375% 24/07/2044	5.47	6.08	↓ -6.2	67.9	40.8	-60.7	-60.7
TANZANIA 6.3289% 09/03/2020	5.53	8.33	↓ -49.4	-20.7	-66.1	-280.6	-280.6
TUNISIA 8.25% 19/09/2027	7.39	7.74	↓ -1.5	40.4	-47.6	-34.3	-34.3
ZAMBIA 8.5 14/04/2024	8.82	12.49	↓ -79.9	3.2	-184.9	-367.3	-367.3
ZAMBIA 8.97% 30/07/2027	9.09	12.38	↓ -72.3	-2.9	-172.3	-328.9	-328.9

Complied by Capital Markets in Africa

PAN AFRICAN BANKING: BALANCING RISK AND REWARD

By **Eugene Bempong Nyantakyi,** World Bank Group and **Mouhamadou Sy,** African Development Bank Group

Africa-originated banks are increasingly becoming dominated players across the financial landscape in Africa. This is happening at a time when some western-based banks are scaling back their activities in the region. For the most part, these pan-African banks originate from large African economies (based on income) such as Nigeria (United Bank of Africa), South Africa (Standard Bank), Morocco (Attijariwafa Bank) but also small economies such as Togo where Ecobank is headquartered. Fueled by recent economic prospects, and rising middle class across the region, these banks have more than double their operations in Sub-Saharan Africa within a decade (IMF, 2014[1]). On the positive side, they are contributing to providing access to finance to a large share of the region's population that would otherwise not have access to financial services as well as providing both the technical support and in some cases filling the financing gaps that African governments need to finance infrastructure development. However if such banks are not properly regulated, they may pose significant challenge to the regions financial system going forward.

How did pan-African bank emerge?

The answer in part lies in the geopolitical landscape that prevailed in Africa in the mid-1990s to early 2000s. In South Africa, the end of apartheid brought new opportunities for South African banks with excess capacity to take advantage of new opportunities abroad. Indeed Standard Bank South Africa started its expansion in the region by acquiring operations in 8 African countries in 1992, followed by further strategic acquisitions in Tanzania and Uganda in 1995 and 2002 respectively. For many pan-African banks, the end of numerous civil wars in Africa and the rise of more democratic regimes meant that political risks were low. From early 2000 the continent also registered strong economic growth, averaging 5% and increasing cross-border trade. Indeed, intra-African trade went from 10% in 2000 to 15% in 2015. These resulted in new markets and with them opportunities for banks that were financially and strategically ripped to take advantage of the new economic prospects elsewhere on the continent. But the biggest wave of cross-border expansion took place following the global financial crises. As some large western based banks scaled back their global ambitions (FT, 2014[2]) including in Africa, pan-African bank's expanded to take their place. This has further been bolstered by the recent oil crises that started in mid-2014 and the scaling back of unconventional monetary policy in the west. Falling commodity prices have curtailed growth opportunities in emerging and developing markets and the prospect of significant rise in treasury yields in many developed markets has also reduced the need to reach for higher yield in developing countries. Hence most global banks continue to scale back their activities across Africa. Early this year, Barclays bank, a bank that has maintained a presence in Africa for over a century, announced its decision to pull its operations out of Africa, citing the difficult economic conditions in Africa, potentially providing further opportunities for pan African banks to fill the gap.

What are the expansion strategies?

A number of strategies are helping pan-African banks to expand. To minimize entry cost and risks, in some cases, they have partnered, through merger and acquisitions, with long established local counterparts (either foreign or locally owned) with local knowledge of the business environment to take advantage of existing local customer base and networks in difficult markets, such as Eco bank's acquisition of Trust Bank in Ghana and Standard bank's acquisition of ANZ Grindlays Bank in eight African countries. In others, they have also partnered with those from other emerging markets willing to inject new capital to establish a presence in Africa. These partnerships help infuse new technology, capital, as well as governance strategies that are aiding pan-African banks to compete successfully across Africa.

Pan African banks have also benefit from a strategic combination of using brick and mortar expansion as well as modern banking and communication technology. First banks often need to time markets and enter when it is profitable to do so. Brick and mortar banks require significant investments and branching. Hence in more populated areas where businesses and jobs are expanding, these banks are willing to sink the initial cost of entry to have a physical presence. In others where markets are thin, a combination of mobile banking and networks of agents are used to source customers from otherwise unattractive and underserved markets.

Move towards infrastructure finance and technical support

A major benefit for African governments with the emergence of large pan-African is the technical and financial support they provide in the finance of large

1 IMF (2014), "Pan-African Banks: Opportunities and Challenges for Cross-Border Oversight", International Monetary Funds, Washington DC.
2 Financial Times (2014), "Big banks giving up on their global ambitions" by M. Arnold and C. Hall.

investment and infrastructure projects. Increasingly, Africa-originated banks are playing significant roles in filling the financing and technical needs, of various governments, including the financing of large infrastructure projects that are in most cases co-financed with multilateral banks. There is evidence that large pan-African banks such as Standard bank, Attijariwafa and Ecobank are increasing playing mandated lead arranger and syndicating roles in major investment and infrastructure finance projects across Africa. Few examples include the international airport in Mali and the highways in Senegal.

Challenges for pan-African Banks

While the recent economic slowdown in Africa has contributed to the expansion of Africa originated banks across the region, it has also brought significant challenges for those that succeeded in penetrating other regional markets. One of the biggest challenges is the concentration of assets in commodity and minerals sectors. This is not surprising since in most economies, these sectors account for a larger share of economic activity. However, volatility in commodity and mineral prices means that pan-African banks with significant assets in these sectors, can face sudden crises as was recently the case in Nigeria, Angola and Ghana with non-performing loans in some cases reaching as high as 16%. In Nigeria alone some estimates suggest that oil assets account for close to 25% of total bank loans. For those that provide direct support to governments or public sector entities, fiscal challenges by these governments as a result of falling commodity prices means that these public sector entities may find it difficult to honor repayment obligations with potential negative effects on the banks' balance sheets.

Regulations of the Banking Sector:

As banks begin to spread beyond their home country, there is the need for a concerted effort to harmonize banking laws to avoid systemic risk. Since the mid-nineties the continent has registered a single systemic risk (Bempong and Sy, 2015[3]), yet the expansion of pan-African banks calls for more scrutiny. More efficient coordinated regulations will be a win-win situation for both banks and regulators alike. On one hand, it will make it easy for banks to do business across countries and minimize their political risk, while allowing regulators to enforce banking rules and share information more effectively. Not doing so could allow pan-African banks to take on excessive risk elsewhere on the continent and could pose risks to regional financial stability.

Yet in most African countries this has not happened and banking regulation continues to lag behind global best practices. Already most African countries continue to rely on Basel I supervision frameworks while the rest of the world has moved on to more modernized frameworks of Basel III and IV (exception include South Africa, Morocco and Mauritius). But as banks emerge and conduct more complex regional transactions, countries need to be able to harmonize and coordinate supervision frameworks.

Regulating Pan African banks at the regional level is a significant challenge. The recent difficulty by regulators across the developed world in mobilizing cross-country support for reforms to minimize excessive risk taking by global banks after the global financial crises only highlight the challenges ahead. Regionally enforced regulations can face significant backlash from banks themselves, as well as political elements in countries that stand to disproportionately gain from lax rules but may bear only a small share of the risk the system implodes. Further, regulations are not only supposed to be robust in terms of the legal framework and content, there is also the need to have the resources to enforce them. But an often unorganized difficulty is that the expansion of regional banks has come along with the birth of small banks as well. This means that regulatory resources are being stretched thin within countries, making it difficult to focus resources on cross border reforms even in cases where the political will to do so exists.

But pockets of bold reforms are emerging to control large regional banks in some countries albeit at a slow pace. Just this year, Nigeria has labelled 8 large banks systematically important banks. These banks, including Ecobank Nigeria, United Bank of Africa, and Skye Bank are required to maintain a minimum of 16 per cent capital adequacy ratio relative to the 8 percent required banks under Basel III. While this may be a small step in the broad scheme of things, the recognition that large banks have to face more stringent oversight is a step in the right direction, and in the medium to long-term, could encourage other countries to move towards regional best practices.

Contributor Profiles

Eugene Bempong Nyantakyi is a Private Sector Development Specialist at the World Bank Group (WBG). Prior to joining the WBG in July 2016, he worked as an Economist at the African Development Bank and before then, was an assistant professor of economics at Whitworth University in Spokane, Washington. He holds a Ph.D in Economics from West Virginia University

Mouhamadou Sy is an Economist at the African Development Bank (AfDB). Prior to joining the AfDB, he worked as an Economist in the French Prime Minister's Economic Policy Planning Office (CGSP) in Paris. He holds a Ph.D. from the Paris School of Economics (PSE), which won him a prize for the best PhD thesis on "Monetary, Financial and Banking Economics" awarded by the Banque de France Foundation jointly with the French Economic Association in June 2014.

3 Bempong E. and Sy M. (2015), "The Banking System in Africa: Main Facts and Challenges", African Development Bank, Africa Economic Brief, Volume 6, Issues 5.

POPULAR DELUSIONS AND THE MADNESS OF CROWDS

THE MOST SUCCINCT RULE OF GOOD INVESTING IS WONDERFULLY SIMPLE: "BUY LOW, SELL HIGH.

An excerpt from: Compass: Q2 2016 from Barclays Wealth and Investment Management

We all know this, and most of us think it is so obvious as not to be worth saying at all. And yet… and yet it is a rule that investors keep on breaking. In January, with sliding markets grabbing the headlines, investors sold out of equities – to the tune of around $60 billion[1]. Why is it we repeatedly give into our emotional impulses along the investment journey, despite repeatedly denying (in saner moments) that we'd do so? Why do we buy high, sell low?

The answer lies in the perennial truth that, in investing, there is usually a chasm between the financially efficient decision and the emotionally comfortable decision. And in the face of a threat, humans crave comfort more than they aspire to efficiency. There are few things more uncomfortable than going against the herd, particularly when it seems to be costing you money. The herd provides comfort, and can turn a fear-driven action into the only accessible one. And if it turns out to be wrong in the end, then at least you have the comfort of knowing that you were in good company.

Much has been made of the wisdom of crowds: the notion that the crowd often knows something that investors individually do not. But, crucially, crowds are only wise when the individual participants arrive at their opinions independently. When investors instead borrow their opinion from the crowd, the result is a feedback loop that drives the aggregate opinion ever further from reality. Ironically, as soon as a crowd is regarded as a source of wisdom, it ceases to be so. The market doesn't know anything; it is merely a reflection of the average emotional state of its participants. And since we know that individual investors typically have emotional states that are heavily influenced by myopic, often irrelevant, aspects of the immediate context – and are divorced from dispassionate assessments of long-term risk and return – we certainly shouldn't consider this average emotional state to be any guide to investment decisions. When the crowd stops weighing market fundamentals and turns to itself as a signal, it becomes an emotional amplifier rather than a knowledge aggregator.

Of course in the short-term, this madness of the crowd can be self-fulfilling and drag the market along with it – but in the long-run this merely creates a dislocation between popular perception and reality, which must, at some point, snap back into place. It feels cool to be with the in-crowd, but betting against reality must eventually be expensive.

One other aspect of the crowd is important: because crowds amplify emotion at the expense of reason, they are frequently very indiscriminate in their opinions, and impervious to facts and evidence. So not only do they push prices out of alignment with fundamental value, but they often don't differentiate between good and bad assets when doing so. Two commonly-used phrases in the financial media these days are 'risk on' and 'risk off ' – markets can fluctuate between days when everyone either seeks to buy risky assets (risk on), or tries to dump them (risk off). On these days, the herd is making blanket judgments about entire categories of assets, and investors fail to discriminate between good and bad stocks - they blindly sell everything. This effect can result from any label that becomes associated with emotional hopes or fears, but if investors can remain apart from the popular delusion there are considerable opportunities in thoughtfully evaluating assets fallen victim to it.

For example, if "Europe" is the fear du jour, investors will rush to sell anything even vaguely European, regardless of underlying quality. For thoughtful investors, it might be beneficial not just to buy in the face of such panic, but also especially to seek European stocks that are unjustifiably unpopular and therefore good value. For example, those which earn much of their revenue outside Europe: they will be.

The madness of crowds implies an unpopularity premium: unpopular assets are likely to be better value than those widely loved. This is particularly true of any that are out of favour because they're being judged by superficial emotional labels that are not truly reflective of the underlying reality.

Classical finance theory tells us that ultimately the only thing the market should reward investors for is risk: risky assets should earn better returns than safe assets because, in aggregate, investors avoid risk unless they are paid for it. However, the reality seems much more complex: small stocks earn more than they should compared to large stocks; value stocks more than they should compared to growth stocks; and low volatility stocks earn more than they should compared to high volatility stocks. All of these anomalies can be explained by popularity: in general small companies are less well known and less popular than large ones; value stocks appear more pedestrian and less exciting than growth stocks; and low volatility stocks are shunned as less likely to beat the benchmark than their volatile cousins[2].

Investors are rewarded for embracing the unpopular. So if you prefer superior returns to social validation, seek out the dull, the discarded, and the unjustly overlooked of the investment world, and run against the herd.

1 Investors pull more than $60bn from mutual funds in January, Financial Times, 28 February 2016.
2 Ibbotson & Kim, "Risk Premiums or Popularity Premiums?"

HOW AFRICAN EQUITIES AND CURRENCIES FARED IN 2016

African equity markets settled in South Pole
2016 was a difficult year for African markets, each in varying degrees. Most of the African equity index ended in negative zone at the end of 2016, with six positive growths and twelve negative returns on a local currency basis. The performance was more disheartening on a US-dollar adjusted basis, with just four equity markets produced a positive return and average return across markets remained negative due largely to the depreciation of most African currencies against the US dollar during the year. These unimpressive performances across African equities can be attributed to interlocked negative feedback loops between declining commodity prices, depreciating local currencies, and disappointing macroeconomic data in various African countries.

On a local currency basis, 2016 average return across eighteen African stock indices was 4.2 percent (relative to -6.7 percent, 9.5 percent and 29.2 percent recorded in 2015, 2014 and 2013 respectively). The 2016 returns range from –26.8 percent recorded by the Zambian equity market (measured by LSE All Share) to 76.20 percent attained by Egyptian equity (measured by EGX 30 Index). However, on a US-dollar basis, the Egyptian equity index lost 23.96 percent, due largely to Egyptian pound devaluation on 3 November 2016.

Nigerian equity market (NSE All share index) declined by 6.2 percent in 2016 (compare to -17.4 percent, -16.1 percent and +47.2 percent in 2015, 2014 and 2013 respectively on a local basis) to close the year at 26,874.62 points after peaking at 31,071.25 points in June 2016, an increase of 8.48% over the 2015 closing value. Furthermore, foreign investors were badly bashed with a loss of about 40.9 percent on a dollar-adjusted performance. Likewise, the Nigerian equity market capitalization closed 2016 at NGN 9.3 trillion after dropping NGN 635 million from market capitalization of NGN 9.9 trillion at the end of 2015 and NGN 13.2 trillion at the end of 2013. Over the course of 2016, the Nigerian All Share index ended in north zone in the months of February, May, June, September and December.

A glance at South Africa reveals that the Johannesburg All share index closed 2016 at 50,653.54 with a marginal decreased of 0.1 percent over the 2015 closing point. In the months of September and October, the equity witnessed significantly dropped by 4.1 percent due to South Africa's President maneuvering a politically-motivated attack on the integrity of its finance ministry. However, on a dollar basis, the South African equity rewarded foreign investors with a whopping return of 12.7 percent in 2016 against loss of 24.0 percent in 2015. The equity market capitalization closed 2016 at ZAR 10.2 trillion against ZAR 10.6 trillion at the end of 2015. March was a very good month with a gain of 5.7 percent, followed by May (1.8 percent), April (1.4 percent), July (1.1%) and December (0.9 percent). Whereas, January and June were worst months with 3.1 percent down.

In the positive territory, Moroccan equity market surged

African Stock Market Peformance as at 31st December 2016 and in 2016 [in Local currency]

Country	Exchange	Index Name	Index Level @ 31st Dec 16	Month-on-Month net chg	Month-on-Month % chg	3M % chg	6M % chg	9M % chg	2016 % chg	2016 % chg ($)
Botswana	Botswana Stock Exchange	BSE Domestic Composite	9,400.71	- 217.24	-2.3%	-4.0%	-6.8%	-7.9%	-11.3%	11.6%
Ivory Coast	BRVM	BRVM Composite All Share	292.17	12.12	4.3%	2.5%	-5.1%	-7.1%	-3.9%	17.8%
Egypt	Egyptian Exchange	Egypitian EGX 30 Index	12,344.89	891.64	7.8%	56.1%	77.8%	64.1%	76.20%	-21.52%
Ghana	Ghana Stock Exchange	GSE Composite	1,689.18	113.47	7.2%	-4.8%	-5.5%	-11.7%	-15.3%	-11.8%
Kenya	Nairobi Securities Exchange	NSE All Share	133.34	- 3.27	-2.4%	-2.5%	-5.2%	-9.6%	-8.5%	-10.6%
Malawi	Malawi Stock Exchange	MSE All Share	13,320.51	444.66	3.5%	-3.1%	1.5%	-0.7%	-8.5%	-2.2%
Mauritius	Stock Exchange of Mauritius	SEM All Share	1,808.37	5.73	0.3%	-1.2%	3.2%	0.6%	-0.1%	-12.7%
Morocco	Casablanca Stock Exchange	MASI Float	11,644.22	971.69	9.1%	16.0%	22.5%	24.8%	30.5%	-7.2%
Namibia	Namibia Stock Exchange	FTSE/Namibia Overall	1,068.59	- 3.98	-0.4%	4.0%	9.1%	7.7%	23.5%	-21.2%
Nigeria	Nigerian Stock Exchange	NSE All Share	26,874.62	1,632.99	6.5%	-5.2%	-9.2%	6.2%	-6.2%	-17.4%
Rwanda	Rwanda Stock Exchange	RSE All Share	127.26	- 0.09	-0.1%	-0.7%	-2.2%	-2.5%	-2.6%	-3.9%
South Africa	Johannesburg Stock Exchange	FTSE/JSE All Share	50,653.54	444.11	0.9%	-2.5%	-3.0%	-3.1%	-0.1%	1.9%
Swaziland	Swaziland Stock Exchange	SSE All Share	380.34	-	0.0%	3.3%	6.2%	13.5%	16.2%	9.8%
Tanzania	Dar es Salaam Stock Exchange	DSE All Share	2,198.40	- 99.99	-4.4%	-11.3%	-11.4%	-9.6%	-5.8%	-7.4%
Tunisia	Bourse de Tunis	Tunis All Share	5,488.77	- 32.37	-0.6%	2.8%	3.8%	1.3%	8.9%	-0.9%
Uganda	Uganda Securities Exchange	USE All Share	1,477.39	- 95.15	-6.1%	-3.8%	-13.4%	-18.0%	-16.2%	-8.5%
Zambia	Lusaka Stock Exchange	LSE All Share	4,195.95	- 1.30	0.0%	-2.9%	-11.7%	-24.2%	-26.8%	-6.7%
Zimbabwe	Zimbabwe Stock Exchange	ZSE Industrial Index	144.53	7.45	5.4%	46.0%	43.0%	48.1%	25.8%	-29.4%

Source: African Stock/Securities Exchanges and Capital Markets in Africa

by 30.5 percent to end at 11,644.22 points and Zimbabwean equity market (measured by ZSE Industrial Index) advanced by 25.8 percent to close the year at 144.53 points. Also, Namibia Overall Index ended 2016 at 1,068.59 points after gaining 23.5 percent (compared to 7.6 percent gain in 2015). Swaziland equity index and Tunisian equity index accelerated by 16.2 percent and 8.9 percent respectively.

Still on a local currency basis, Ugandan All Share index depreciated by 16.2 percent in 2016 relative to a loss of 8.5 percent in 2015. Ghanaian equity market (measured by GSE Composite Index) plunged by 15.3 percent (24.4 percent on dollar-adjusted performance). Similarly, Botswana slide by 11.3 percent (-6.6 percent in dollar term), both Malawi equity market (the MSE All Share Index) and Kenyan equity market (NSE All Share Index) went down by 8.5 percent to close the year at 13,320.51 points and 133.34 points respectively.

Walking towards depreciation and devaluation

A key investment risk in 2016 is the currencies depreciation, shortage, and volatility as well as uncertainty of African currencies against US dollar. Out of the thirty African currencies monitored by Capital Markets in Africa, only eight currencies appreciated against the US dollar in 2016, with Zambia Kwacha appreciated the most by 9.7 percent. Other appreciating currencies are Somali Schilling (5.2 percent), South African Rand (4.9 percent), Mauritius Rupee (1.0 percent), Liberian Dollar (0.6 percent), Eritrea Nakfa (0.5 percent) and CFA (0.2 percent).

Egyptian pound and Nigerian naira are the most devalued African currencies in 2016, depreciated by 131.7 percent and 58.5 percent respectively. This is as a result of, removal of all foreign exchange restrictions and unpegged the Egyptian pound from the US dollar on 3 November 2016 by Egyptian Central Bank. Likewise, Nigeria announced the adoption of a flexible exchange rate policy and the landmark introduction of a naira-settled OTC FX futures market in June 2016.

To get a better view of how African currencies evolved over the course of 2016, the heat map below shows the end of the month returns as well as 2016 year-to-date return. The indicator's performance is shaded as red cells show the 25th percentile returns attained, yellow the 50th percentile and green denoted the 90th percentile returns attained across the 12 months for the 30 African equity markets considered.

Looking at the heat map, Egyptian pound went down by 102.0 percent in November (as a result of devaluation) while Nigerian naira cumulative depreciated by 54.9 percent in the month of June (40.9 percent) and July (14.0 percent) due to change in FX regime. The South African rand appreciated against the US dollar in seven months, with the months of March and September witnessed the most appreciation of 7.0 percent and 6.8 percent respectively.

Evolution of African Currencies Vs. US Dollar in 2016: End of Month Returns (% change)

Country	Jan-Dec	end-Dec	end-Nov	end-Oct	end-Sep	end-Aug	end-July	end-June	end-May	end-Apr	end-Mar	end-Feb	end-Jan
Algerian Dinar	-1.9%	0.5%	-1.1%	-0.1%	0.0%	0.6%	0.1%	0.2%	-1.4%	-0.6%	0.3%	-1.2%	0.8%
Angolan Kwanza	-24.4%	-1.5%	0.0%	0.7%	1.3%	0.0%	0.0%	0.0%	-1.9%	-1.4%	-3.2%	-0.1%	-17.3%
Botswana Pula	-2.0%	-0.8%	2.5%	0.2%	-3.8%	3.0%	-3.2%	-2.7%	5.0%	-2.1%	-5.0%	-0.6%	4.8%
Burundi Franc	-8.4%	-0.4%	-0.2%	0.1%	-0.2%	-0.1%	0.1%	-7.5%	-0.2%	0.0%	-0.1%	0.8%	-0.7%
CFA Franc BCEAO	0.2%	-1.5%	-2.8%	-2.0%	0.7%	-0.3%	0.6%	-0.6%	-2.2%	0.8%	4.7%	0.8%	1.7%
CFA Franc BEAC	0.2%	-1.0%	-2.7%	-2.2%	0.7%	-0.2%	0.6%	-0.5%	-3.8%	1.0%	4.0%	1.5%	2.4%
Dem. Rep Congo	-25.7%	-1.5%	-19.3%	1.7%	1.1%	-1.0%	-4.7%	-2.1%	0.8%	0.2%	-1.0%	0.3%	0.7%
Djibouti Franc	-0.8%	-0.1%	-0.2%	-0.5%	0.0%	-0.1%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%
Egyptian Pounds	-131.7%	-1.1%	-102.0%	0.0%	-1.1%	1.2%	0.0%	-0.6%	0.5%	0.0%	-13.4%	0.1%	0.0%
Eritrea Nakfa	0.5%	0.0%	1.9%	0.2%	1.0%	-2.6%	1.8%	2.6%	-0.1%	0.6%	-6.1%	5.9%	-5.2%
Ethiopian Birr	-6.9%	0.6%	-0.6%	-0.6%	-0.5%	-0.1%	-0.2%	-1.7%	-0.1%	-0.3%	-0.9%	-0.1%	-2.0%
Ghana Cedi	-11.1%	2.9%	-9.4%	-0.4%	-0.2%	-0.4%	-3.0%	0.1%	-0.7%	0.6%	0.8%	2.3%	-3.7%
Guinea Franc	-21.5%	-2.3%	-3.0%	1.6%	0.0%	0.0%	-1.1%	-22.1%	2.7%	0.3%	0.7%	1.1%	0.3%
Kenyan Shillings	-0.2%	-0.7%	-0.4%	-0.2%	0.0%	0.1%	-0.3%	-0.2%	0.2%	0.4%	0.2%	0.8%	-0.1%
Liberian Dollar	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%
Libyan Dinar	-6.6%	-1.6%	-1.4%	-2.6%	0.7%	1.6%	-1.3%	0.6%	-5.1%	1.2%	1.2%	-0.1%	0.3%
Malawi Kwacha	-19.7%	-0.3%	-0.7%	0.1%	0.0%	-0.1%	-1.0%	-0.5%	-3.2%	-0.5%	8.0%	-2.1%	-19.9%
Mauritanian Ouguiya	-14.0%	0.2%	-0.8%	0.3%	-0.3%	0.4%	-0.4%	0.8%	-1.2%	-1.7%	-0.7%	-0.5%	-9.6%
Mauritius Rupee	1.0%	0.1%	-0.4%	-1.1%	-0.8%	1.0%	0.2%	-0.6%	-0.9%	0.5%	2.1%	0.2%	0.7%
Moroccan Dirham	-0.5%	-0.4%	-2.4%	-1.2%	0.3%	-0.2%	0.5%	-0.2%	-1.7%	0.3%	2.7%	0.3%	1.5%
New Mozambique	-31.6%	3.5%	4.7%	0.5%	-7.4%	-6.5%	-7.8%	-8.6%	-9.9%	-2.7%	-6.1%	-4.8%	14.3%
Nigerian Naira	-58.5%	-0.1%	-1.3%	1.3%	-0.2%	1.7%	-14.0%	-40.9%	0.0%	0.0%	0.0%	0.0%	0.0%
Rwanda Franc	-10.2%	-1.2%	-0.4%	-0.4%	-0.5%	-1.7%	-1.3%	1.8%	-2.5%	-3.7%	-0.2%	1.0%	-0.9%
Seychelles Rupee	-6.0%	-0.5%	-0.4%	0.0%	-1.6%	1.8%	-2.7%	2.1%	2.4%	-1.2%	6.0%	-3.9%	-8.7%
Somali Schilling	5.2%	-0.3%	0.3%	0.2%	0.3%	0.3%	0.7%	0.4%	2.9%	1.0%	0.1%	-0.7%	0.0%
South African Rand	4.9%	2.5%	-4.6%	1.8%	6.8%	-6.1%	5.8%	6.3%	-10.4%	3.6%	7.0%	0.1%	-10.0%
Tanzanian Shilling	-0.7%	0.0%	0.2%	-0.1%	0.2%	0.0%	0.1%	0.0%	0.0%	-0.2%	0.1%	-0.1%	-1.0%
Tunisian Dinar	-11.9%	-0.5%	-2.4%	-2.1%	0.2%	0.3%	-0.6%	-3.6%	-6.0%	0.7%	1.7%	0.1%	0.8%
Ugandan Shilling	-7.8%	0.6%	-4.6%	-2.4%	-0.4%	0.0%	1.0%	-1.3%	-1.4%	1.6%	1.2%	1.7%	-3.6%
Zambian Kwacha	9.7%	-0.7%	-2.8%	4.5%	-5.5%	7.0%	1.4%	0.1%	-8.4%	12.3%	3.9%	-1.2%	-2.3%

Source: African Central Banks and Capital Markets in Africa

AFRICAN EQUITY MARKET INDICATORS AS AT 31-January-2017								
Country Name	Index Name	Index at 31-January	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Botswana	BSE DCI	9,249	0.03	-1.61	-11.41	9,247	10,440	3.314
BRVM	IC Comp	278	0.48	-4.97	-4.18	264	321	18.307
Egypt	EGX 30	12,672	-1.96	2.65	111.46	5,754	13,544	22.250
Ghana	GSE ALSI	1,776	0.34	5.17	-11.36	1,508	2,008	7.558
Kenya	FTSE NSE15	122	0.80	-8.33	-10.66	121	148	10.217
Malawi	MSE ALSI	13,128	-1.24	-1.45	-9.09	12,478	14,440	9.050
Mauritius	SEMDEX	1,881	0.07	4.01	2.06	1,738	1,881	4.620
Morocco	MORALSI	12,229	-1.26	5.02	37.42	8,860	12,951	22.574
Namibia	Local	1,107	0.60	3.60	30.16	800	1,137	14.845
Nigeria	NIG ALSI	26,036	-0.69	-3.12	8.86	23,354	31,073	7.910
Rwanda	RSEASI	127	0.00	0.00	-2.56	127	131	0.584
South Africa	JSE ALSI	52,788	0.24	4.21	7.42	47,275	54,704	12.273
Swaziland	SSX ALSI	382	0.00	0.37	16.45	329	382	0.776
Tanzania	DAR ALSI	2,128	-0.60	-3.21	-7.13	1,979	2,830	27.809
Tunisia	TUNIS	5,493	-0.66	0.08	1.42	5,233	5,606	4.919
Uganda	USE ALSI	1,331	-1.24	-9.92	-24.37	1,331	1,831	15.510
Zambia	LuSE ALSI	4,052	-0.52	-3.43	-27.04	4,010	5,575	10.426
Zimbabwe	IDX (USD)	140.24	-0.52	-2.97	36.10	93	150	6.282

SELECTED AFRICAN CURRENCY EXCHANGE Vs. US DOLLAR AS AT 31-Janaury-2017								
Country Name	Currency Name	Index at 31-January	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Algeria	Dinar	109.34	0.41	0.96	-2.05	103.80	112.17	4.033
Angola	Kwanza	165.07	0.99	1.94	-3.84	155.18	169.65	9.622
Botswana	Pula	0.10	0.42	1.71	8.55	0.09	0.10	8.120
CFA Franc	CFA Franc	610.81	1.46	3.13	1.02	567.51	636.39	8.311
Egypt	Pounds	18.85	-0.08	-3.76	-58.50	7.77	19.67	21.992
Ethiopia	Birr	22.61	-0.14	-0.99	-5.33	20.90	22.79	7.489
Ghana	Cedi	4.37	-0.63	-3.14	-8.75	3.48	4.40	16.163
Kenya	Shillings	103.89	0.11	-1.33	-1.50	100.18	104.18	2.460
Malawi	Kwacha	723.89	0.00	0.49	-0.03	677.50	757.03	2.660
Mauritius	Rupee	35.65	1.09	0.89	1.17	34.61	36.50	9.999
Morocco	Dirham	9.97	0.53	1.55	-0.83	9.23	10.32	4.994
Mozambique	Metical	70.47	0.40	1.29	-32.38	43.71	79.38	5.253
Nigeria	Naira	306.25	2.44	2.96	-35.00	196.50	350.25	15.289
Rwanda	Franc	822.50	-0.06	-0.06	-9.24	715.50	828.00	3.854
South Africa	Rand	13.49	0.12	1.86	17.87	13.17	16.44	14.405
Tanzania	Shilling	2,235.00	0.00	-2.42	-2.24	2,170.05	2,272.50	5.785
Tunisia	Dinar	2.29	0.59	1.29	-10.67	1.98	2.37	9.919
Uganda	Shilling	3,587.50	0.07	0.25	-3.22	3,307.35	3,634.00	4.324
Zambia	Kwacha	9,925	-0.3778	0.1259	13.35	9,110	11,410	8.583

SELECTED AFRICAN GOVERNMENT INTERNATIONAL BONDS AS AT 31-January-2017								
Country Name	Maturity	Price at 31-January	Mid-Yield at 31-January	1-month Yield Chg (%)	YTD Price Change (%)	Price 1-Year Low	Price 1-Year High	Amount Outstanding (US$ M)
Angola	12-Nov-25	95.884	10.216	0.044	-1.432	79.259	102.806	USD
Cameroon	19-Nov-25	108.300	8.156	0.039	0.289	81.972	113.384	USD
Congo	30-Jun-29	65.683	11.021	-0.017	2.337	63.766	74.637	USD
Cameroon	19-Nov-25	108.300	8.156	0.039	0.289	81.972	113.384	USD
Egypt	30-Apr-40	89.165	7.899	0.013	1.818	79.813	100.290	USD
Ethiopia	11-Dec-24	90.574	8.278	-0.019	-2.174	82.083	100.503	USD
Gabon	16-Jun-25	93.207	8.080	0.023	-1.106	71.253	96.712	USD
Ghana	14-Oct-30	118.121	8.485	0.025	-0.620	87.092	123.374	USD
Kenya	24-Jun-22	96.921	7.422	0.009	2.066	86.636	101.130	USD
Ivory Coast	31-Dec-32	93.058	6.843	0.024	0.129	84.643	101.499	USD
Morocco	11-Dec-42	105.125	5.139	0.041	2.919	96.069	118.426	USD
Namibia	29-Oct-25	99.754	5.284	0.001	1.360	90.889	108.052	USD
Nigeria	12-Jul-23	97.916	6.778	0.038	0.833	86.584	101.380	USD
Rwanda	02-May-23	99.550	6.712	-0.024	-0.105	92.349	102.978	USD
Senegal	30-Jul-24	98.999	6.420	0.012	-1.174	87.715	105.956	USD
South Africa	24-Jul-44	100.665	5.329	0.001	2.068	89.199	116.008	USD
Tanzania	09-Mar-20	105.481	5.445	0.012	0.193	94.737	105.649	USD
Tunisia	19-Sep-27	107.515	7.223	0.008	1.188	96.272	110.396	USD
Zambia	30-Jul-27	100.273	8.929	-0.036	1.106	65.297	102.284	USD

Compiled by Capital Markets in Africa

Into Africa!

Delivering Bespoke Analysis, educative Articles and Intelligent Reports **INTO AFRICA** provides you with Insightful Commentaries from the world's top Economists, Analysts, Researchers, Policymakers and Opinion Leaders.

Packed with In-depth Reviews, unbiased Opinions, views and Exclusive Interviews **INTO AFRICA** is the platform for discovering the African Markets.

Uncover Africa's hidden potential as well as emerging threats today get **INTO AFRICA!**

Capital Markets in Africa

Makes Africa's markets accessible

To subscribe to **INTO AFRICA** send an email to intoafrica@capitalmarketsinafrica.com

To place adverts, sponsored features or Commentaries in **INTO AFRICA** or on our website www.capitalmarketsinafrica.com please contact theeditor@capitalmarketsinafrica.com

IntoAfrica

a publication from

CAPITAL MARKETS in Africa