Africa: Reap what you sow

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AFRICA:
THE RESOURCE CURSE IS BINDING IN THE SHORT-RUN

01

AFRICA: GROWTH AMID DIVERGENCE AND RISKS

Regional divergences

- West and East Africa exhibit high growth: Ethiopia, Kenya, Rwanda, Côte d'Ivoire, Ghana mainly
- Central and Southern Africa are suffering from a protracted low growth period: South Africa, Nigeria, Angola
- North Africa still divided between good performers (Egypt, Morocco) and bad performers (Algeria, Tunisia, Libya)

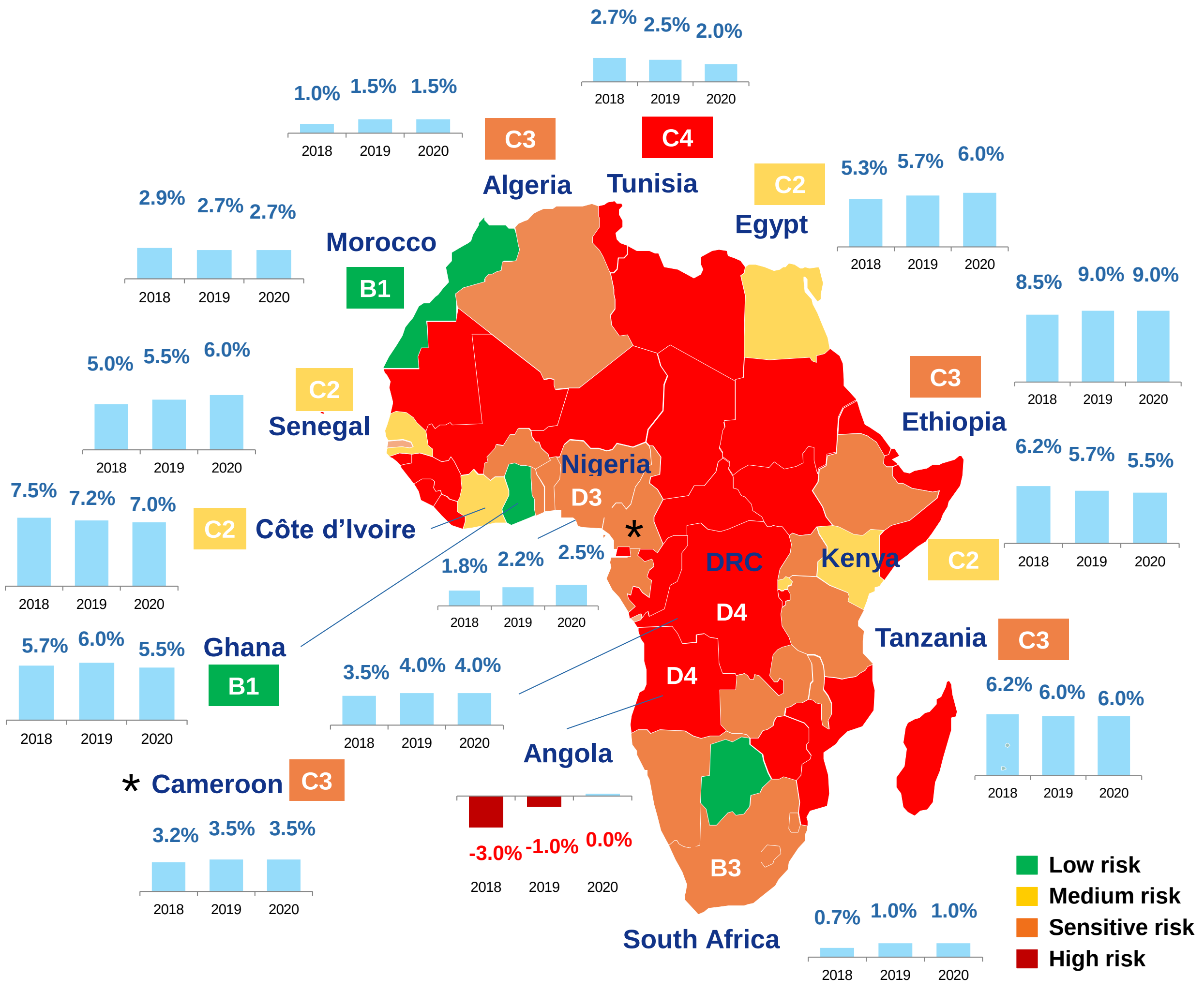
Risk#1: A busy political calendar

- Main polls: Nigeria and Senegal (February), Algeria (April), South Africa (May), Tunisia (December)
- Geopolitical troubles and violence are on the rise: Boko Haram (Nigeria, Cameroon, Chad, Niger)
- Country specific divides: DRC, Cameroon, Ethiopia, Mali

Risk#2: The resource curse

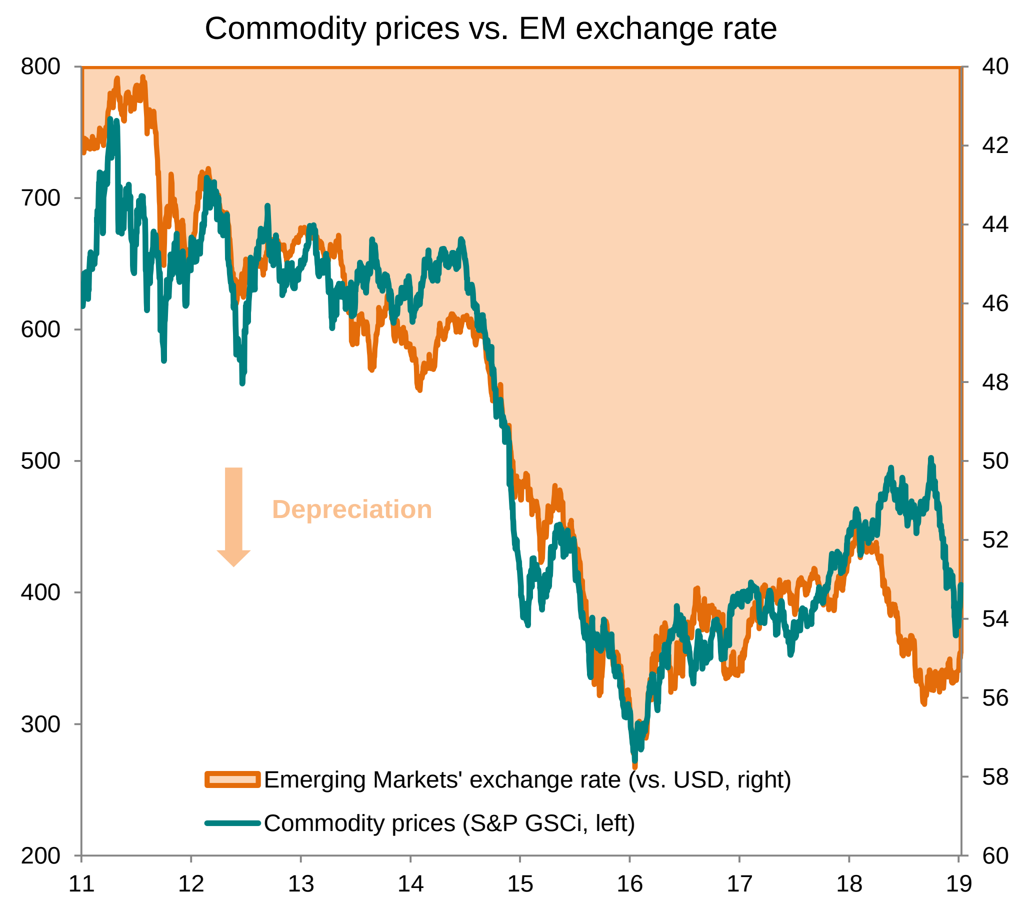
- Oil and metal exporters are suffering from a new price decrease. Some key economies stuck in a low growth regime, resulting from commodity output capacity depletion: Nigeria (for security reasons), South Africa, Algeria, Angola,
- Liquidity pressures are again increasing in countries with low or decreasing reserves (Zambia, Tunisia, Angola)
- Low for longer commodity prices are exerting pressure on public finance, particularly in economies with large subsidies and high debt, nurturing social protests: Zimbabwe, Sudan, Tunisia
- Exchange rate policy: Floating exchange rates acted as shock absorbers (South Africa, Egypt) but FX reform remains difficult particularly in CFA Franc zones (CEMAC mainly)

Growth and risks in Africa

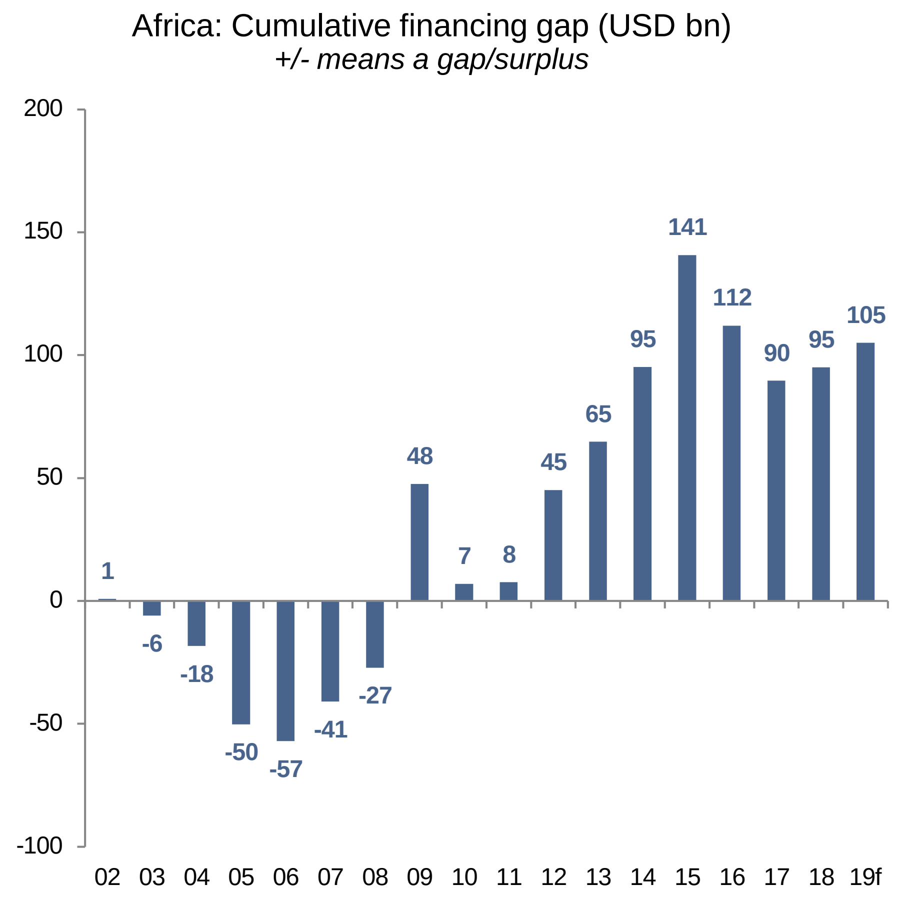


Sources: Allianz Research

AFRICA: LOWER COMMODITY PRICES TO HAVE AN IMPACT



Sources: IHS Global Insight. Allianz Research

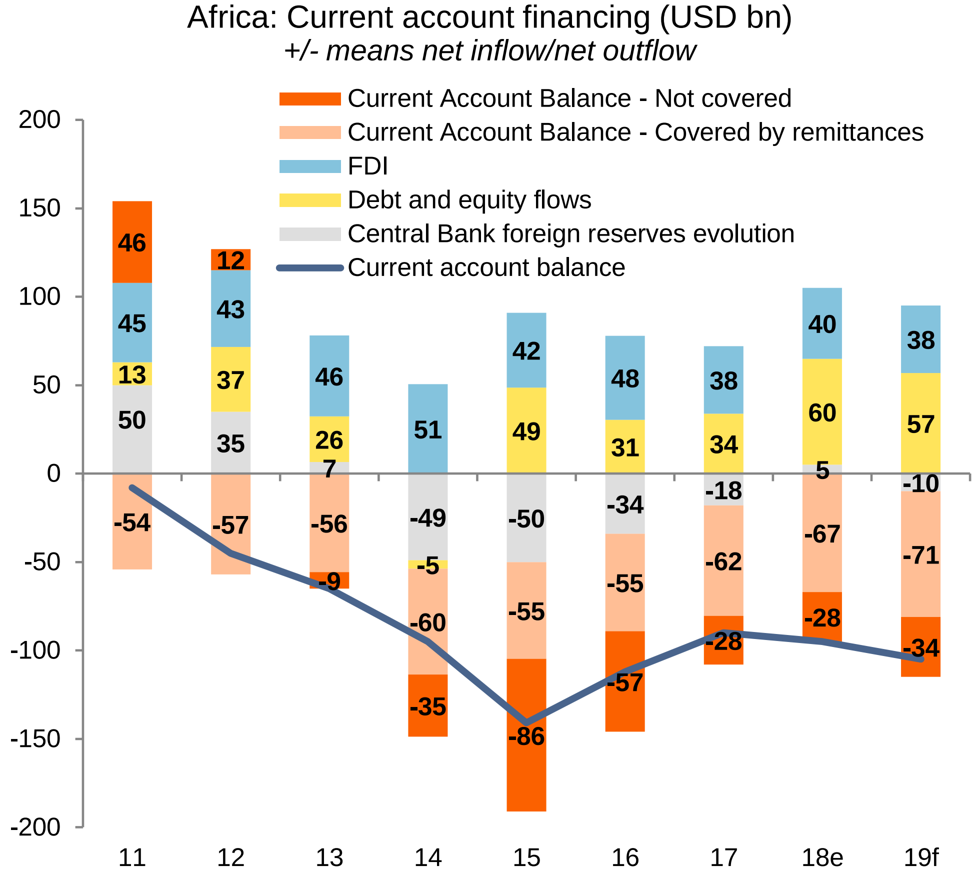


Sources: Allianz Research

Exchange rate pressure is back, as a result of lower commodity prices. Low for longer commodity prices weigh on external deficits, public finance and FX reserves.

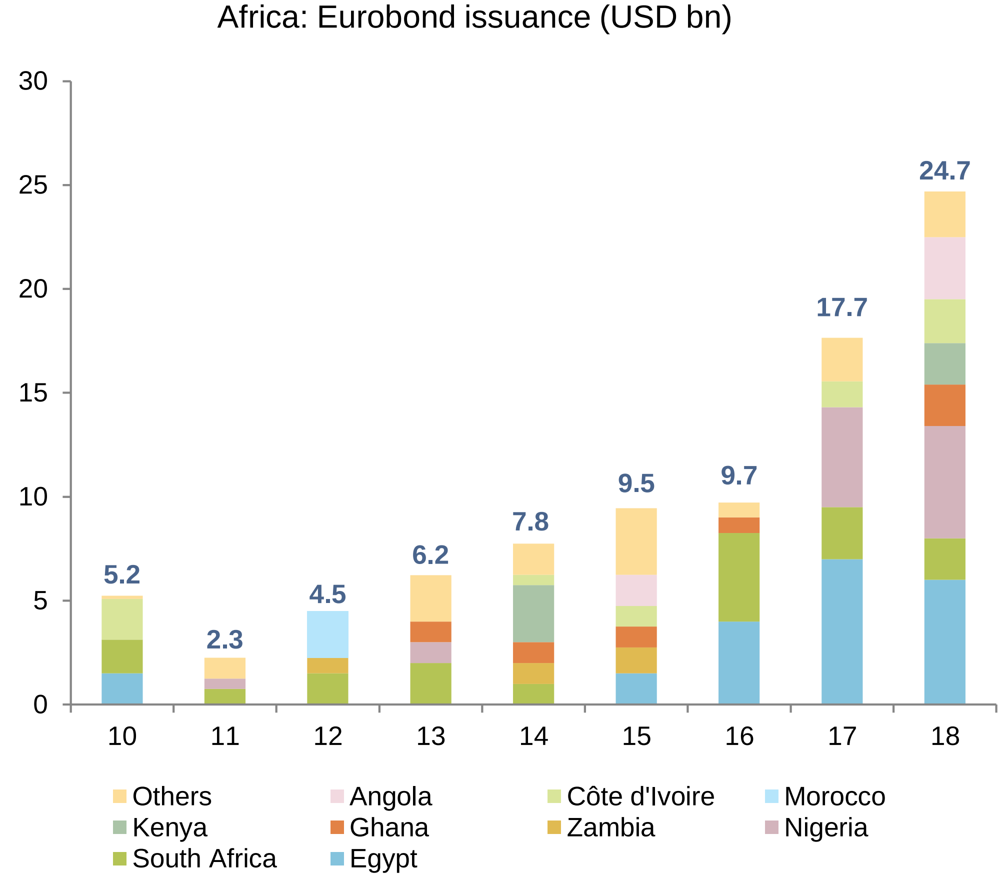
As a result, financing needs will remain higher for longer and the rebalancing of deficit economies should be postponed

AFRICA: DEBT ACCUMULATION IS ON THE RISE



Sources: Worldbank, Allianz Research calculations

FDI inflows are no longer the main financing scheme. They should not be back to past levels in 2019. So, any debt inflows weakness should reverberate on FX reserves.

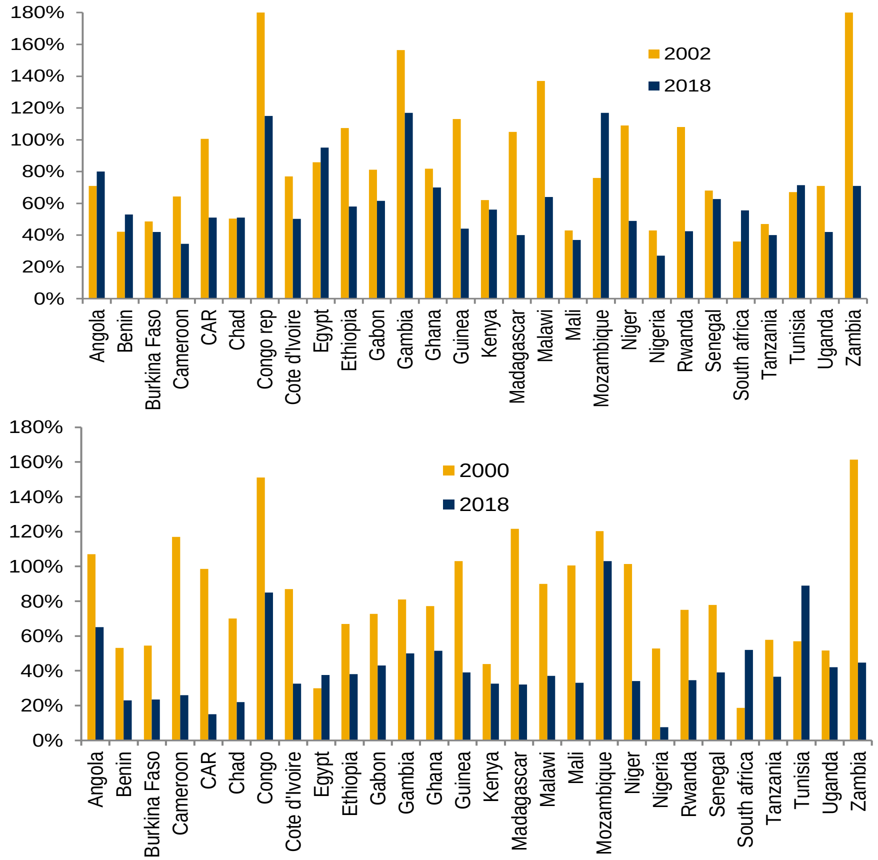


Sources: Euler Hermes

The ‘Frontier Markets’ story is alive and kicking. 2018 to be the strongest year despite EMs woes. Is this financing well-suited to address the long-term needs?

AFRICA: RISING DEBT COMPLICATES THE FISCAL EQUATION

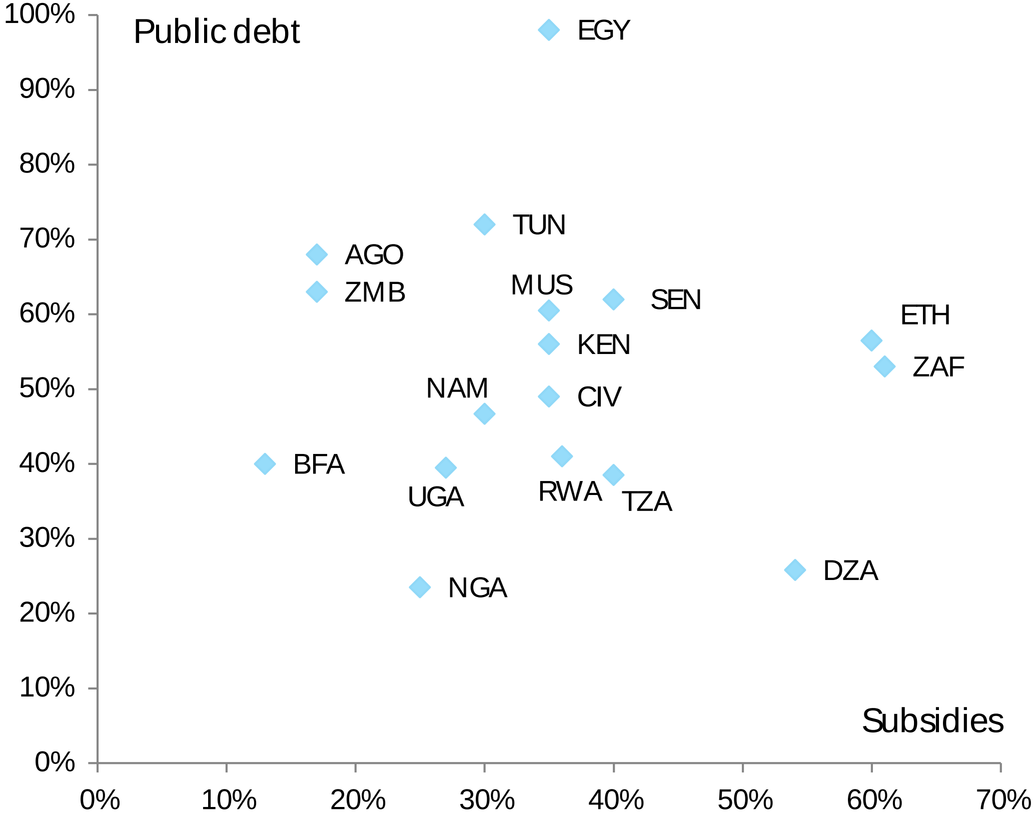
Debt in % of GDP: Public (1st panel) vs. external (2nd panel)



Sources: Euler Hermes

Public debt increased, particularly in some oil exporters, but debt levels are not back to past highs, except in some specific cases

Africa: Subsidies (% of public spending) vs. public debt (% of



Sources: Euler Hermes

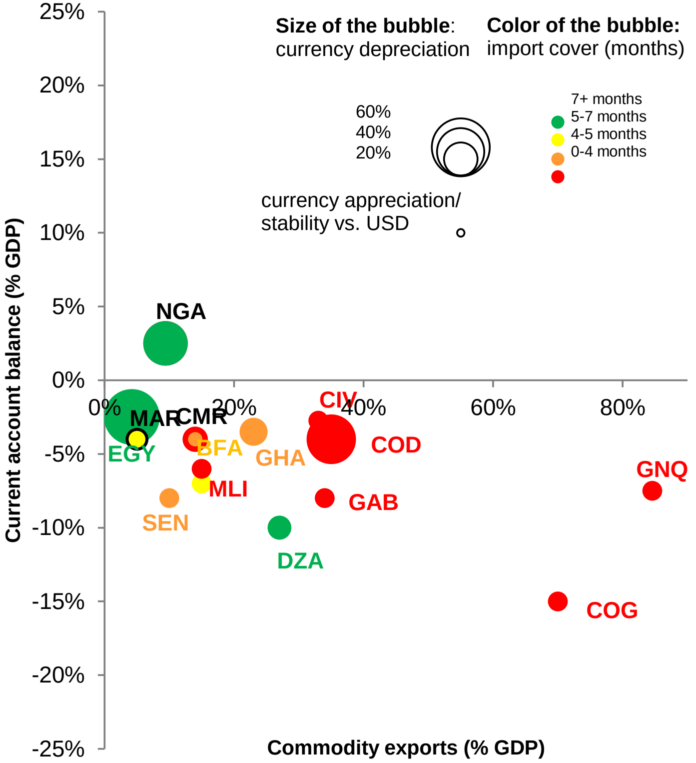
The double dip observed on commodity prices will test public finance probably more strongly this time. Countries with high subsidies to be the more challenged, as subsidies cut can exacerbate protests (e.g. Zimbabwe).

AFRICA: THE ADJUSTMENT DILEMMA, INFLATION OR DEFLATION?

Exchange rate vulnerability

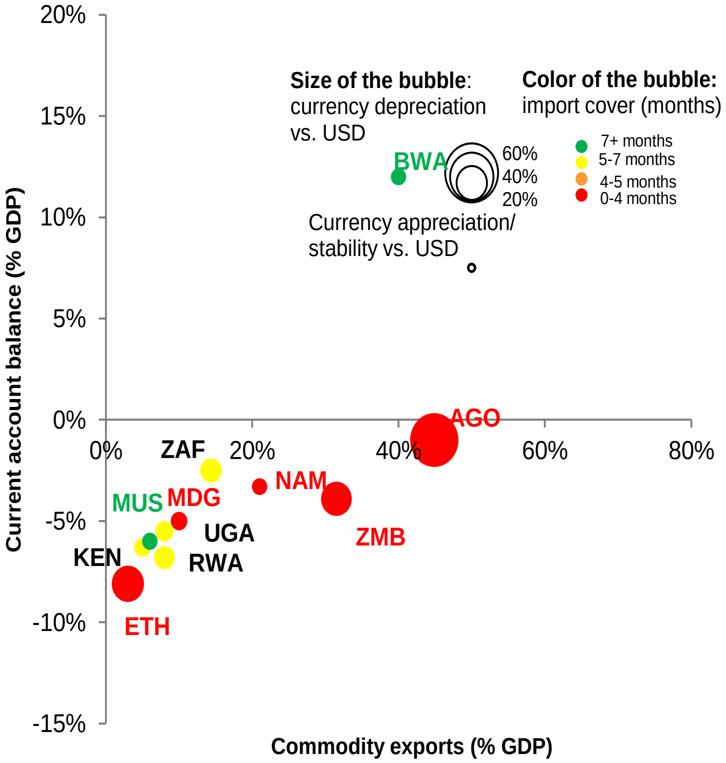
Commodity exposure, current account balance, exchange rates and import cover of FX reserves

North & West



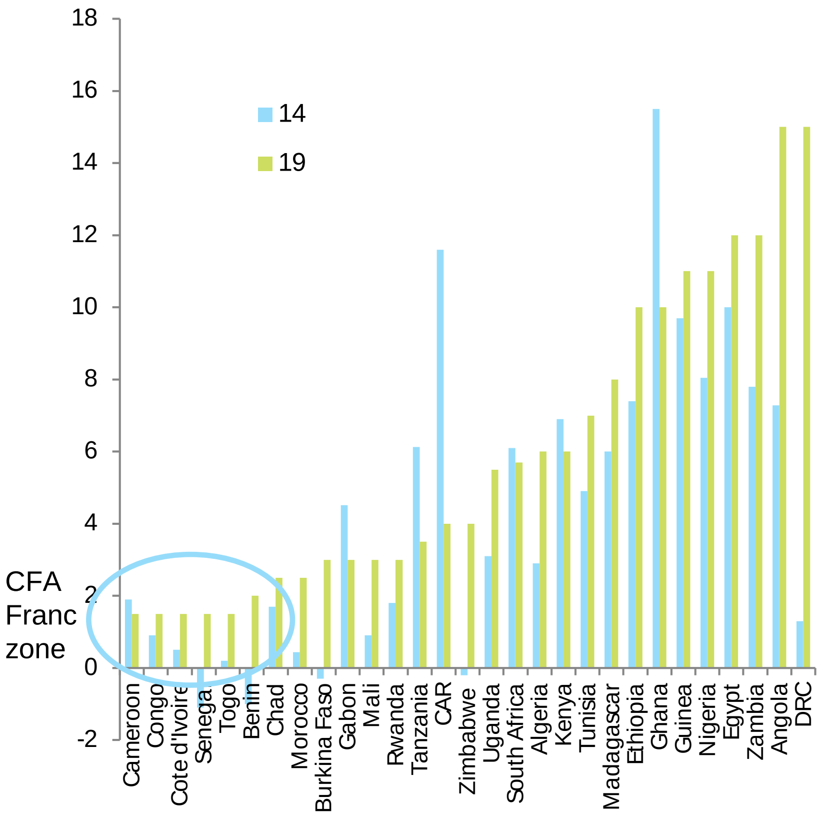
Sources: IHS Global insight, Allianz Research

East & South



Sources: IHS Global insight, Allianz Research

Inflation in %: 2019 vs 2014



Sources: IHS Global insight, Allianz Research

Countries with the poorest liquidity levels are vulnerable to capital flows reversals. The main weaknesses arise from high commodity exposure (Central Africa mainly), low reserves amid high exchange rate pressure (Southern Africa). East Africa has more buffers (except Ethiopia).

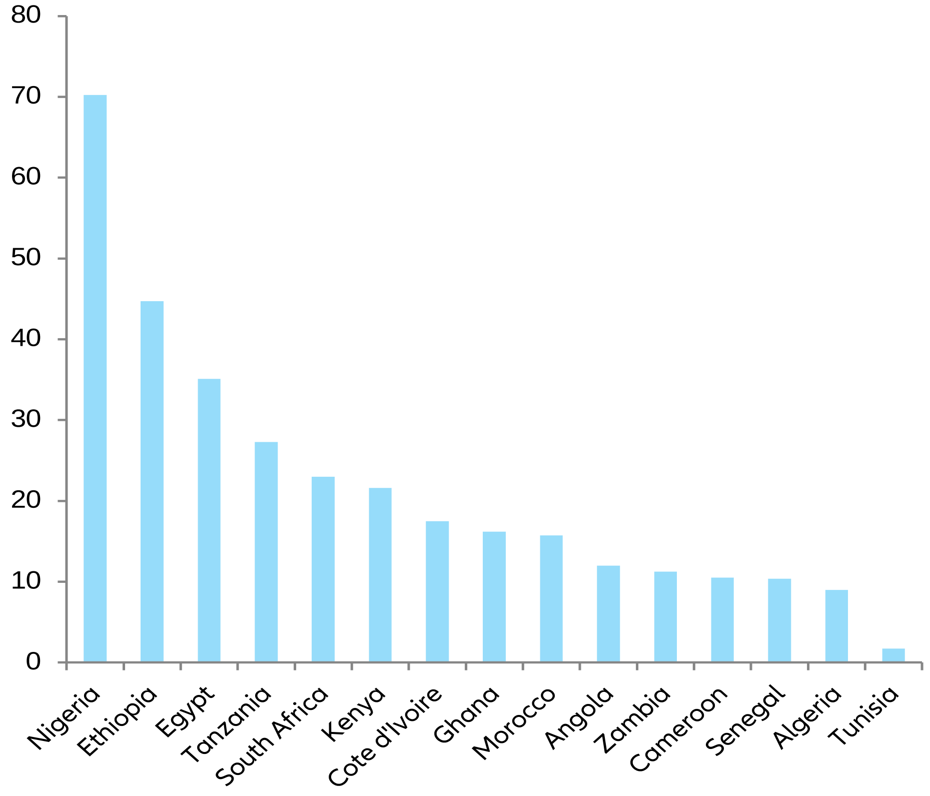
Economic woes were led by inflation in some regions (FX depreciation consequences). Now, the pain is deflation (lower income) for Central Africa CFA zone.

AFRICA: CONFIDENCE IN TOMORROW

02

AFRICA: SHAPE OF THE FUTURE, INFRASTRUCTURE 1/2

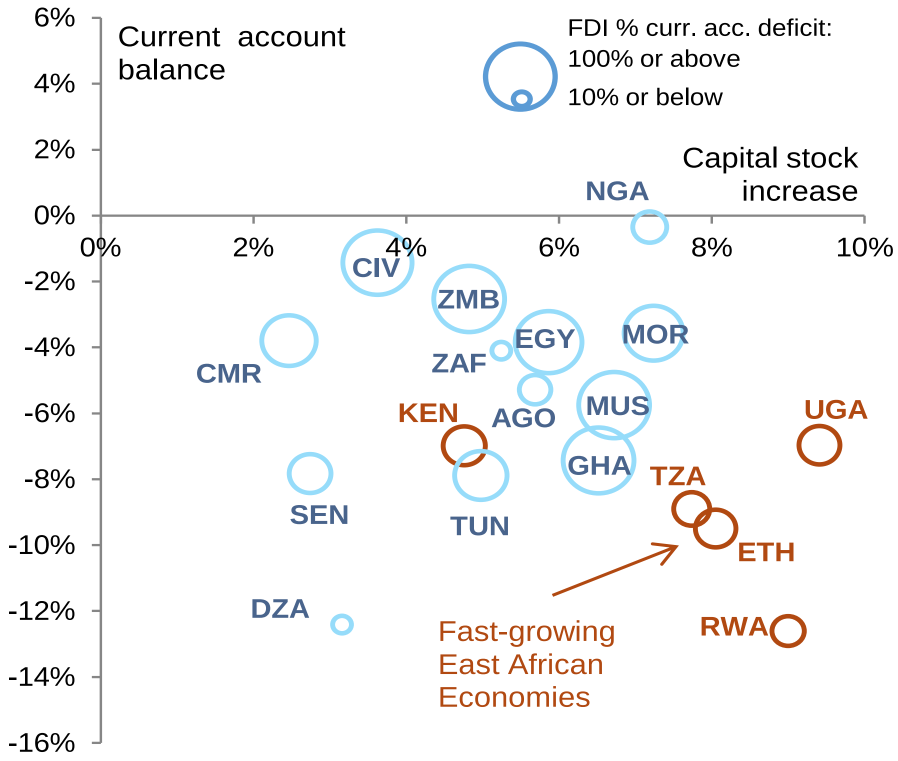
Africa: Power generation, expected spending through 2030 (USD bn)



Sources: Euler Hermes

Basic infrastructure needs are strong, about USD 1000bn for power generation only in the 15 main African economies: assuming that about one third will be matched still make a USD 330bn opportunity.

Africa: Capital stock increase (annual average growth, last 10 years), current account balance (% of GDP, 5-year average), and share of the deficit financed through FDI

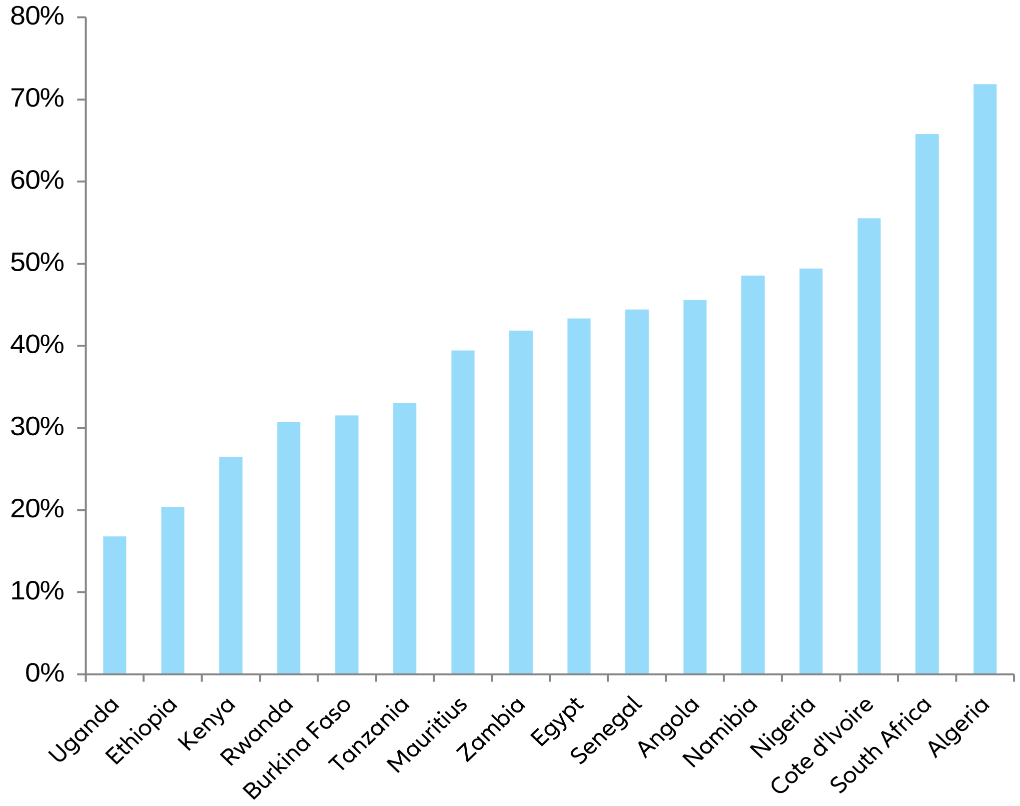


Sources: Euler Hermes

Upgrading infrastructure level requires the adequate financing. Too high external deficits and/or too low FDI are endangering East African rapid capital stock accumulation path.

AFRICA: SHAPE OF THE FUTURE, INFRASTRUCTURE 2/2

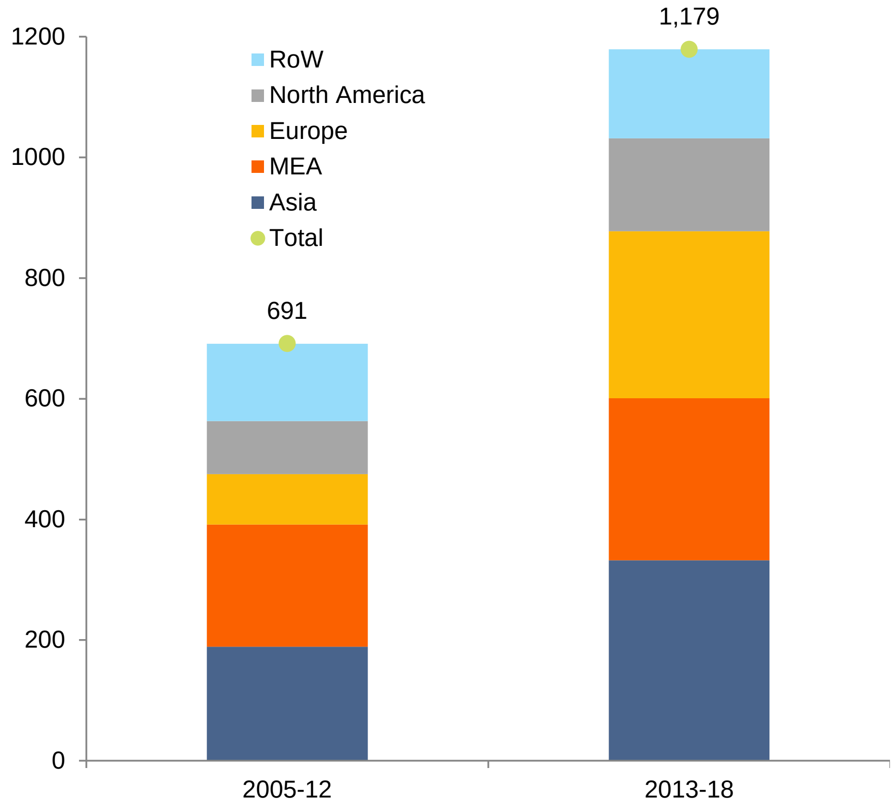
Africa: Urban population (% of total population)



Sources: Euler Hermes

Africa will be the land of urbanization: From those already there to those who will come, many opportunities to make in utilities

China's overseas investment and construction activity by region (USD bn)

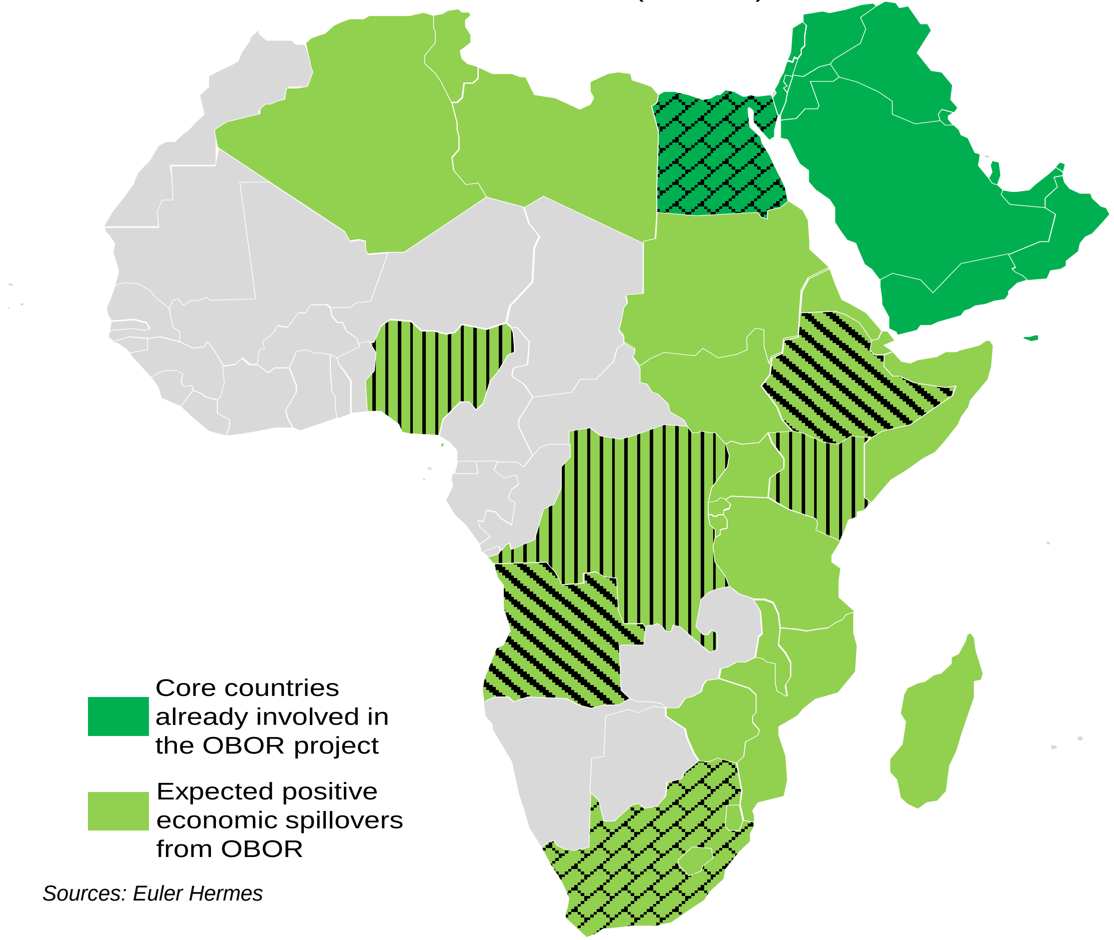


Sources: Euler Hermes

The Belt and Road Initiative drove USD 280bn to the region since 2013 (2^{nd} destination behind Asia). Infrastructure to remain one of its main drivers.

AFRICA: CHINA OBORTUNITIES

Africa: Eurobond issuance (USD bn)



Sources: Euler Hermes

Selective partnership through the OBOR projects (for infrastructure hungers)…

Selected list of agreements

Infrastructure agreements

- **Kenya**: Standard Gauge Railway connecting Monbasa to Nairobi (approx. USD3.8bn)
- **Nigeria**: Coastal railway to link Lagos with Calabar, passing through 10 states (USD12bn)
- **Congo DRC**: Infrastructure for Mines barter deal (USD6bn)

Swap contracts

- **Egypt**: currency swap agreement valued at USD2.7bn
- **South Africa**: exchange of local currencies of up to R57bn, valued at USD4.75bn

Loans (from 2011 onwards)

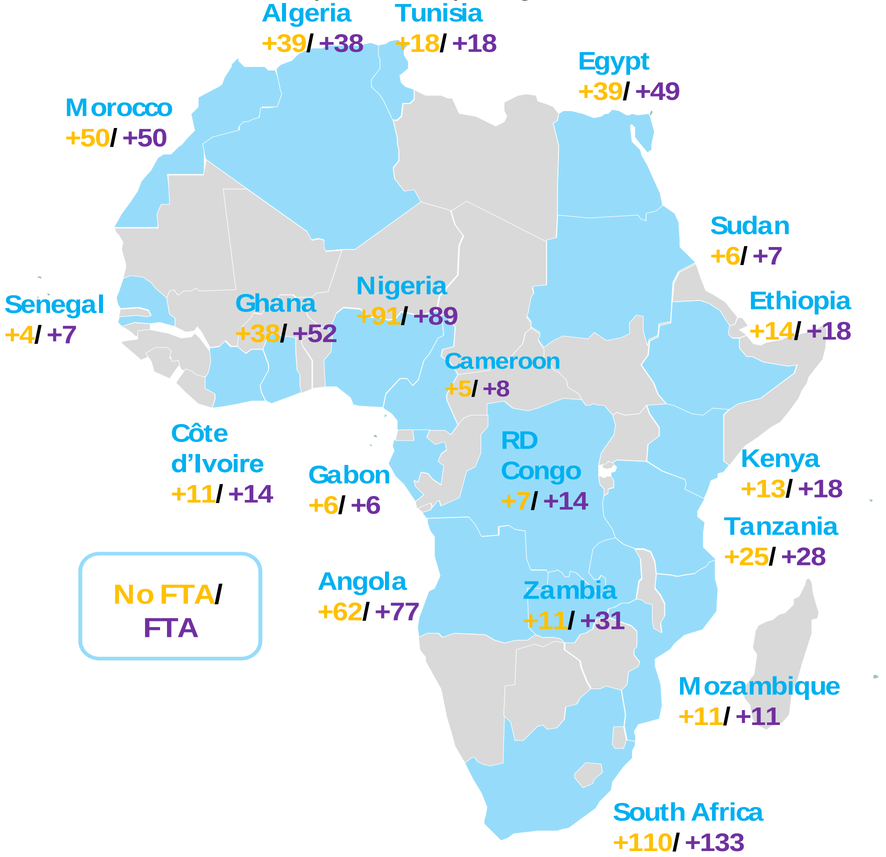
- **Angola:** USD21.2bn
- **Ethiopia:** USD12.3bn

Sources: Euler Hermes

…deepening financial relations with largest (Nigeria, South Africa), growth leaders (Kenya, Ethiopia) and strategic countries (Angola)

AFRICA: SHAPE OF THE FUTURE, TRADE

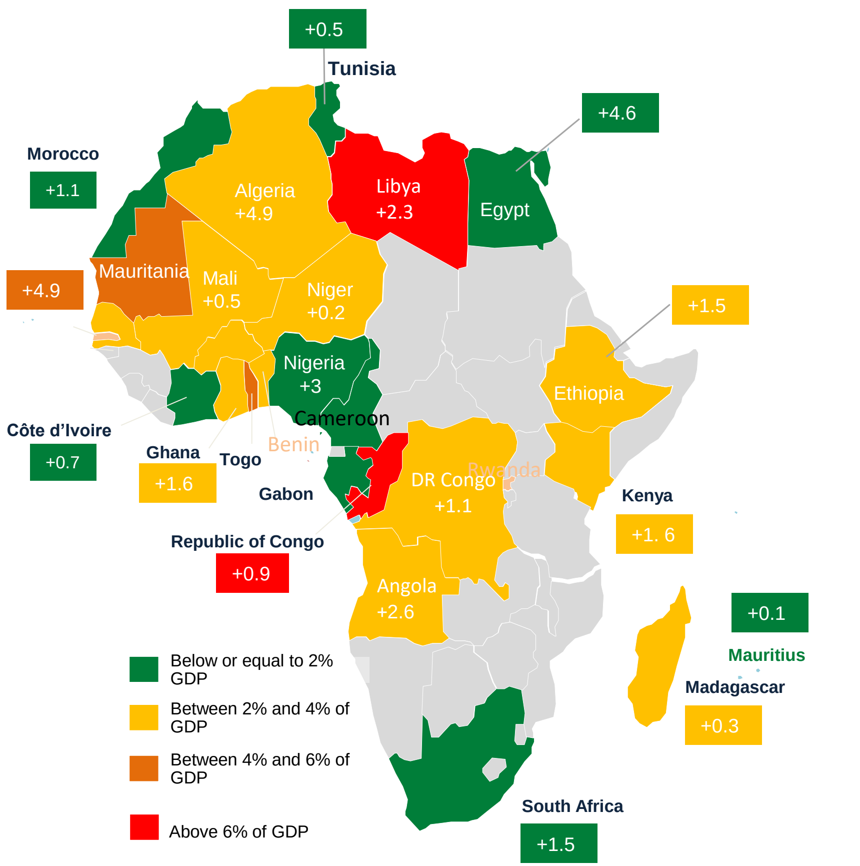
Africa: Expected export gains to 2030



Sources: Euler Hermes

The African Continental Free Trade Area should make winners and losers. Net gains expected in manufacturing, food and service exporters.

Africa: Additional Cash Flow freed with higher DSOs (USD bn)

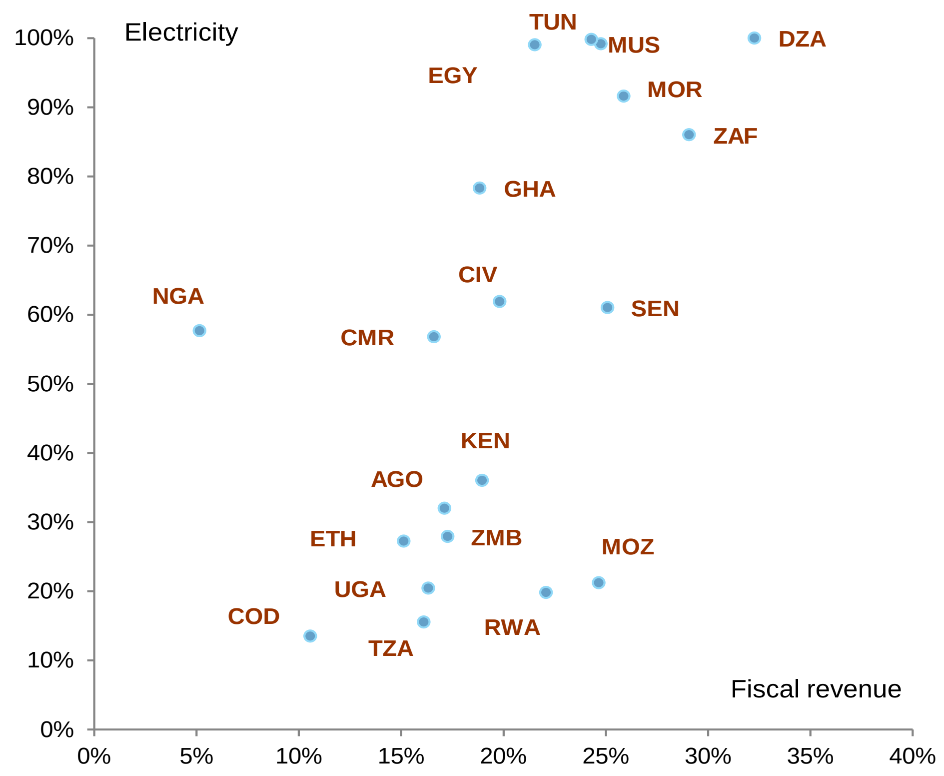


Sources: Euler Hermes

New trade opportunities to develop if supported by more manageable payment terms: going from cash payments to 30 days DSOs should free up USD 33.5bn.

AFRICA: SHAPE OF THE FUTURE, LEAPFROGGING

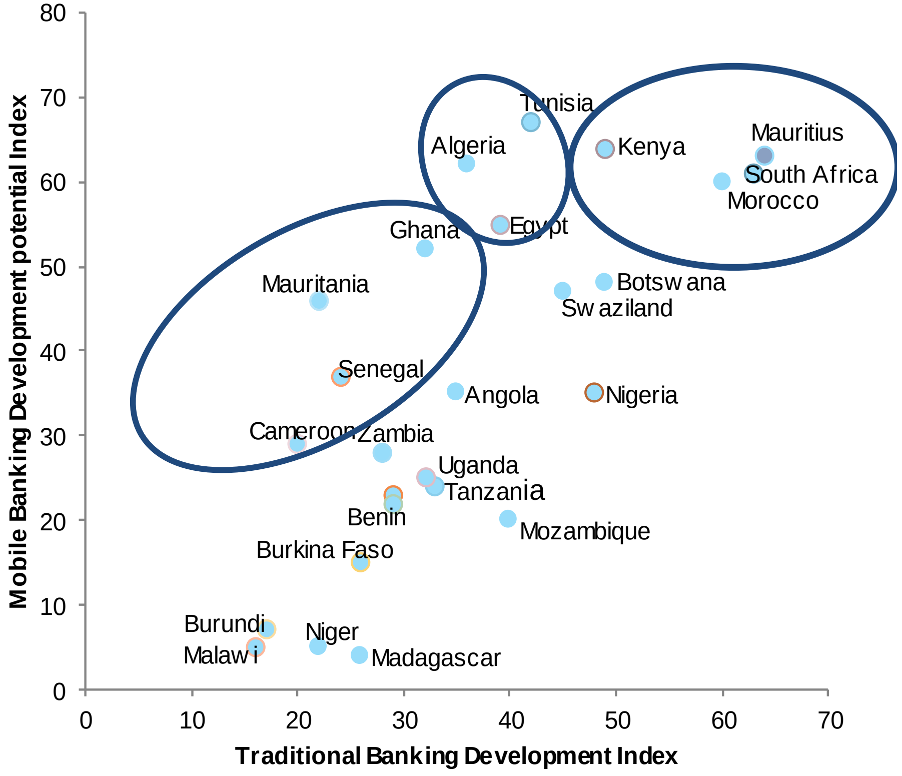
Africa: Fiscal revenue (% of GDP) and access to electricity (% of population)



Sources: Euler Hermes

Overcoming the weak government issue is needed in order to finance long-term needs. E-government techniques should be used to build the Leviathan.

Africa: Banking development indices, traditional vs. mobile



Sources: Euler Hermes

Low access to banking services is inhibiting growth. Mobile banking is likely to be used, e.g. in Kenya, Ghana or Mauritius.

THANK YOU!

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