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Africa Voices

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Welcome

Welcome to Africa Voices, a special publication from the Actis Macro Forum. Actis has been on the ground in Africa for over 70 years now, with offices in Johannesburg, Cape Town, Lagos, Nairobi and Cairo today, but with investments across the continent in all of our principal asset classes - Energy, Real Estate and Private Equity. This gives us a unique perspective not only on the macro economic data available to all, but on how the risks and opportunities these indicators point to are felt on the streets of the cities we live and work in.

In the years since the publication of the original "Africa Rising" narrative, we have seen a lot of the high hopes expressed at that time severely challenged by the decline in commodity prices, economic and political mismanagement and by a continued depreciation in local currencies. However, and as we have been saying quietly for the past 12-18 months, the frustration and concerns of local business leaders have been very gradually turning into a mood of fragile optimism that growth may be on its way back. The challenges of managing Africa's demographic explosion remain, but as our contributors to this edition hope to point out, some of the lessons of the past appear finally to have been learned.



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Taking Stock in North Africa

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As an investment destination, North Africa is a strategically important part of any investor's Middle East & Africa strategy. It is a big region strategically located as a gateway to Europe, Asia, and the rest of Africa, it enjoys attractive demographics, and has some of the highest standards of education in the region. Tunisia has the highest student enrolment ratio in Africa, Egypt is the third largest economy in Africa, and Morocco the one country to emerge from the Arab Spring largely unscathed. The region has shown marked signs of recovery on many fronts – for instance tourist arrivals in North Africa jumped by 22% in 2017 on the back of a much more stable geopolitical environment. This is welcome news not just for the region's growth, but also for employment, hard currency inflows, and stability. However, despite improvement on several fronts, North Africa continues to grapple with persistent macroeconomic imbalances and economic inequality, creating a constant risk of social unrest.

The recent upward movement in oil prices negatively impacts the public finances of Egypt, Tunisia, and Morocco as net oil importers, but benefits Algeria as the largest producer and exporter of oil in North Africa. Two years ago, in a previous issue of the Macro Forum Newsletter, we argued that the economies of North Africa were facing what the IMF's ex-Chief Economist Maurice Obstfeld described 20 years ago as the "developing countries trilemma"; which says that a country cannot simultaneously maintain fixed exchange rates and an open capital market while pursuing a monetary policy oriented towards domestic goals. North African economies wanting to maintain the efficacy of their monetary policy thus had only two options: introducing controls to block the mobility of capital, or liberalizing their exchange rate markets and leaving FX rates to be determined by the forces of demand and supply. We argued that the second option seemed much more palatable for North Africa. Two years on, much progress has been done on structural and currency reforms, and there

is reason to believe that North Africa's economies are gradually moving out of the woods.

First Egypt: the largest and most populous market in North Africa. Egypt is structurally recovering, and rebalancing. By 2020 there will be 100 million Egyptians, better educated than ever before with adult literacy rates now at c. 75%, with competitive wages (minimum wage in Egypt in US\$ terms is half that of Tunisia, and one-quarter that of Morocco), and the necessary power and infrastructure network to support industrialization. President Sisi was re-elected for a second four-year term in March. He has repeatedly reiterated, and so far proven, his commitment to an ambitious structural adjustment and reform program, spearheaded by (a) currency market liberalization and (b) a 3 year IMF program which is now in its second year and progressing according to plan. On 17th May, the IMF and the Egyptian Government reached a staff-level agreement on the third review of Egypt's economic reform program, which should pave the way for disbursement of US\$2 billion, bringing total disbursements under the IMF program to US\$8 billion.

The menace of inflation which has been a big problem in 2017 is now being brought under control, with inflation expected to fall to c. 12% in June. The 2018/19 budget was approved by parliament on 5th June and it shows a healthy primary surplus of 2% (for the first time in 8 years) buoyed by growth expanding to c. 6%. Government debt has dropped from c. 103% of GDP in June 2017 to an expected c. 90% in June 2018, and the IMF expects it to gradually fall to 72% over the next 4 years; the budget deficit is expected to be 9.2% of GDP in June 2018 (down from over 12% two years ago). Sovereign reserves hit an all-time high of c. US\$ 44.1 billion in May, equivalent to c. 8 months imports cover. The FX rate has recently weakened by c. 2% to 17.96 to the US\$, largely due to seasonal effects, but despite a strong run last year the Egyptian Pound is only marginally undervalued compared to what we believe to be long-term fair value. The direction of travel is positive, and S&P has raised Egypt's credit rating from B- to B with stable outlook in May on the back of the accelerating pace of reforms. On the flip side, inflation can be expected to spike again in FY 2018/19 on the back of the next



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round of electricity and fuel subsidy cuts planned for July, and this will be painful to the masses due to its spillover effects on the prices of basic goods and services like food and transportation – especially given that salary increases have not kept up pace with inflation. Also, despite the ambitious reform plans and the improving macro environment, FDI figures have not yet lived up to expectations as foreign investors have so far chosen the easy way in through carry trades and continue to wait for stronger signals of sustained stability and growth as well as an acceleration in domestic investments before going strongly into equities. The CBE cut base rates by 200 bps earlier this year, and there are expectations of a further 200-300 bps cut later this year; this should catalyze private credit (and capex) growth. In summary, the direction of travel remains positive in Egypt, with the reform program continuing at pace. On the ground, the price of the reforms is painful for the lower and middle class, but the Government is diverting a lot of resources into social welfare programs to provide a safety net for the poor. It will be interesting to see how the next round of subsidy cuts will be received by the average man on the street... who has so far been surprisingly patient and accepting of the side effects of the reforms.

Morocco, another big market with c. 36 million people has arguably been a poster child for stability in a turbulent region over the last 5 years. Growth has historically been heavily dependent on agricultural production where an anticipated cyclical downturn is expected to reduce growth from 4.1% in 2017 to c. 3.2% in 2018. However, the country has had marked improvements in the

composition of its economic activity. The industrial sector continues to enjoy strong investment, particularly in the value-added manufacturing industries. Tourism also continues to be a key driver of growth, with tourist arrivals remaining consistently above 10 million in the last two years (and expected to be at similar levels in 2018). Over the next few years, growth will be fueled by continued reform efforts to improve labor participation and efficiency, increased access to finance through growth in NBFIs, and continued improvement in the quality of education. Combined, these factors should have a marked positive impact on the business environment.

In January 2018, the Government moved towards a more liberal exchange rate environment, allowing the Dirham to fluctuate within a wider band. More liberalization is needed on this front, but inflation targeting continues to be at the center of the exchange rate policy framework. The Dirham is undervalued by as much as 30% according to our fair value model, and that absence of devaluation pressures probably lends itself to a more gradual shift in the exchange rate policy. The Dirham is predicted to depreciate against the Euro, while strengthening against the dollar this year. Inflation remains under control and is forecast to accelerate from c. 1% in 2017 to c. 2% in 2018, mainly due to oil prices.

On the public finances front, the current account deficit is expected to drop to c. 5% of GDP in 2018 and c. 4.3% of GDP in 2019, driven by growth in tourism, exports, and workers' remittances. The country will however remain dependent on imports of food, energy and consumer goods, which will keep the trade deficit from narrowing in dollar terms. However, an expected recovery in FDI, coupled with further accumulation of external debt will provide a supportive backdrop for foreign reserves to increase. Morocco's fiscal deficit is forecast to drop from 3.5% of GDP in 2017

to 3.2% of GDP in 2018, aided by reigning in public wages. Medium term plans are also in place to increase Government investment and to reduce subsidies on fuel and key food items. Coupled with an acceleration of tax reforms to broaden the tax base, this should further strengthen the fiscal position.

On balance, the direction of travel in Morocco is perhaps the most positive in North Africa. It is a demographically young country with 45% of the population under 24 years old. It has a relatively stable currency supported by a healthy FX reserves balance of c. US\$25 billion, a low inflation environment, coupled with an ambitious Governmental infrastructure investment program that is creating a positive backdrop for investors, and foreign investment is also picking up. That's why Morocco continues to attract the attention of a growing cohort of investors given its size, diversification, and relatively stable geopolitical environment, with sectors like food, financial services, education and energy attracting significant interest.

Then there is **Tunisia**, which has been on somewhat of a rollercoaster ride since President Essebsi took office in December 2014. On the one hand, the country probably enjoys the highest levels of freedom and democracy in the region, but at the same time it has also had the lion's share of protests and revolts from trade unions. Economic growth is showing some signs of recovery this year, standing at 2.5% in the first quarter of 2018- the highest since 2014- supported by agriculture and exports. The more flexible exchange rate policy also helped improve the current account deficit; and we believe that the Tunisian Dinar is c. 23% undervalued compared to fair value. Inflation is on the rise due to higher oil prices and increased growth in money supply, which may result in further tightening of monetary policy. Rising import costs, coupled with weak

tourism revenues and a drop in workers' remittances have weighed on the external position. The current account is forecast to show a deficit of c. 10% in 2018, and external debt is predicted to increase from c. 81% of GDP in 2017 to c. 87% in 2018. Last month, the IMF warned that "risks to macroeconomic stability in Tunisia, especially inflation, have increased and require a decisive response, complemented with measures to protect the poor."

Low productivity and a reform program that is hampered by resistance to privatization, tax hikes and public-sector wage freezes from the very strong Tunisian General Labor Union ("UGTT") probably means that GDP growth will remain at c. 2-3% in the medium-term and this won't be of any help to unemployment, which remains structurally high. Frustrated with the governing coalition, voters gave independent candidates the biggest vote at the Municipal elections last month at the expense of both "Nidaa Tounis" and "Ennahda" governing parties. Despite that result, the Government is likely to continue being reluctant to take on UGTT for fear of instability and protests. As such, reform will only continue at a slow pace due to populist headwinds in the run-up to parliamentary and presidential elections next year. Investment activity and earnings growth in defensive industries like food, education, and healthcare continue to do well in spite of the fragile macroeconomic backdrop—which is a theme we saw five years ago in Egypt during the peak of the Arab Spring.

And finally, there is what we would describe as the sleeping giant in the region...

Algeria. This is a large, and rich market that is currently stifled by its insular economic policies and its geopolitical uncertainties given imminent succession questions. Algeria today probably sits in the "watch this space" category... but this may change (positively or negatively) very soon. As usual, never a dull moment in North Africa!



West Africa (Anglophone)

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As with other parts of Sub-Saharan Africa, West Africa is benefiting from the rebound in commodity prices. This differs by country dependent on levels of the broader macro rebalancing and structural reforms being undertaken to achieve sustained and accelerated growth. The focus is on Nigeria and Ghana which have both seen declining inflation, rising reserves and a return to trade surpluses. However, Ghana is set for more sustained and above average GDP growth given the appreciable progress made in fiscal consolidation and structural reforms, unless Nigeria can shift gears on its structural reform plans.

Nigeria: Fragile recovery from high oil price

There has been a tepid return to growth in Nigeria, the economic power house of West Africa, and indeed Africa as a whole, driven mainly by higher oil prices and stable oil production arising from the respite from the Niger Delta Militants disrupting oil production. Hence, the economic recovery has been fundamentally cyclical even though the Buhari administration has articulated laudable structural reforms as set out in their Economic Recovery and Growth Plans (EGRP) to diversify the economy for a sustainable GDP growth. 2018 GDP is forecast to grow at 2%, with Q1 2018 growth recorded at 1.9%; oil growth at 14% while non-oil growth at 0.76% was lower than in the previous quarter, with some key sectors notably trade, contracting in the quarter.

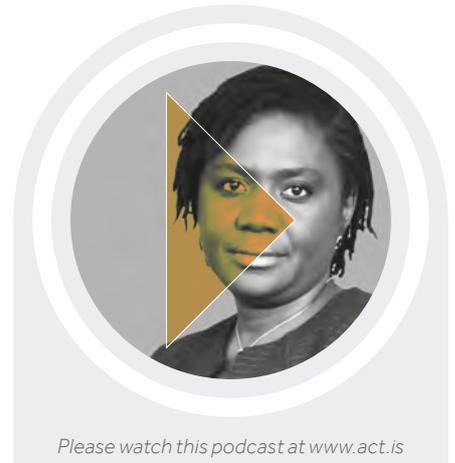
In part, the weak and fragile non-oil growth is attributed to the CBN's restrictive monetary policies to curb inflation and stabilize the exchange rate to avoid imported inflation. This medicine is working; inflation has trended downwards from a peak of 18.9% for 16 consecutive months with the inflation rate of 11.61% in May 2018 now below the Monetary Policy Rate (MPR) of 14%. The stronger than expected FX flows from oil revenues, as well as successful Eurobond issuance (\$2.5bn) this year has led to a rapid growth in FX reserves which are now at a 5-year

high of \$50bn as of May 31; increasing import cover from 7 months, to over 15. The Naira has been stable since the introduction of the Investors and Exporters Window to allow for a market determined transparent exchange rate mechanism in April 2017. Total FX traded in the window from inception to March is c. \$38bn vs. \$15bn supplied by the CBN in the same period. CBN was the sole supplier during the liquidity crisis. The improvement in FX liquidity is also exemplified by international airlines no longer having trapped cash as is still being experienced in Angola and Venezuela. We are seeing a trickle down to both consumer and business confidence; for example, the appetite of retailers to expand their footprint is growing and thus the lease up rate for both existing malls, like our Jabi Lake Mall in Abuja, and new projects is improving.

Despite the progress, the CBN is not expected to change its policy stance and thus unlikely to lower the MPR, due to the inflationary risks from rising spending ahead of the election nor will the CBN support a lower interest rate regime to boost growth. The high interest rate regime supports the Naira and mitigates the risks of substantial reversals of portfolio flows, particularly as the US is set to continue to increase interest rates putting pressure on emerging markets in general.

The stock index has given up all its gains to May from profit taking from investors looking to exit ahead of the elections, but the outlook remains positive given stronger growth prospects from increased government spending, and an expected increase in minimum wage. The upcoming listing of MTN Nigeria is a major capital event expected to reopen the closed IPO market.

The EGRP outlines structural reform to diversify the Nigerian economy away from oil and attain sustainable GDP growth. Key underpinnings are the deepening of the tax base from 6% of GDP to 15% of GDP by 2020, boosting non-oil exports via tax and other incentives; investment in infrastructure to reduce the cost of doing business and encouraging import substitution where Nigeria has competitive advantage, e.g. refining of petroleum products by the Dangote Group, who is building a US\$12bn single train refinery, the largest in the world,



that is set to commence production in late 2019. On the policy front, EGRP recognises the need for key reforms to attract FDI into key sectors including a single market determined exchange rate, cost reflective tariffs in the power sector, restructuring of the oil sector, including deregulation of the downstream sector of oil and subsidy removals.

Three years into his tenor, Buhari has made little progress in implementing the core policy/plans in the EGRP and unlikely much will be accomplished in the balance of his term as the upcoming February 2019 elections is already a major distraction and there is unwillingness to execute policies that may introduce hardship to the populace and push inflation higher in the short term. The outcome of the 2019 elections is uncertain. The popularity of the incumbent government has waned for not yet delivering on the mandate of job creation given high unemployment, estimated at 21.5% by the Nigeria Bureau of Statistics. Political tensions are heightened, made worse by the violence by rogue herdsmen and bandits in the North. President Buhari has signified his intention to seek re-election, in spite of speculation about his fitness. The coalition that brought him to power is tenuous and may not hold for the next elections. However, the opposition remains weak and fragmented. Thus, unless a formidable coalition is formed, the window for which is closing fast, the incumbent is likely to win re-election.

Ghana: Above average GDP growth driven by structural reform

GDP growth is forecast at 7% for 2018 and 2019 due to recovery of commodity prices; cocoa prices (25% of exports) and oil prices. The outlook for oil production growth is strong, albeit from a low base. The above average GDP growth is attributed to structural reforms and fiscal consolidation. The Nana Akufo Addo administration has been commended by the IMF for making significant progress of reducing the budget deficit from 9.3% of GDP to 5.2% of GDP via spending cuts in its first year and aim to further cut to 4.5% of GDP in 2018. A key risk to attaining this is the planned increase in spending to implement campaign promises to create employment and stimulate economic activity in the rural areas – via government funded jobs and investments. New programs include free

secondary education. Thus, there is a focus on revenue enhancing measures via improved tax administration to finance these programs as well as invest in improvements to the infrastructure. To broaden the tax base, a new tax identification system has been launched with ongoing plans to adopt and leverage technology for improved collections of taxes and excise duties. The government's approval rating is high given efforts to reduce the cost of doing business; including tax and tariff cuts, stable power supply with Ghana now set to be a net exporter of power.

Inflation continues to trend downwards and is 9.6% in April from over 25% in April 2016. With the policy rate at 17%, Ghana has high real interest rates, providing scope for a rate cutting cycle. This is broadly positive for supporting credit growth and ameliorating npls of

23%. The banking sector reform for the banks to increase their minimum capital requirement by over 200% will spur capital raises via FDI as well as a consolidation and will also spur credit growth.

Ghana is also back in trade surplus, from the strong commodity prices which together with portfolio flows and issuance of the US\$2bn Eurobonds have bolstered FX reserves by over 50% since April 2016. In spite of the ability to better support the Cedi, it has depreciated 8% since April due largely to the strengthening of the USD.

As with Nigeria, there is a risk that a reversal for portfolio flows will put additional pressure on the Ghana Cedi, particularly as the value of the portfolio flows is higher than the FX reserves. Thus the challenge is for the government to sustain the structural reforms and fiscal consolidation to prevent a sell off.



Francophone West Africa (FWA): Still navigating through pockets of turbulence

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The outlook for the Francophone West Africa (FWA) region continues to raise concerns. The collapse of oil prices in 2014-16 weakened one of the two regions that make up the area, to the point of driving new rumours about a potential devaluation of the CFA Franc. IMF programmes implemented in many of the FWA countries, (especially for CEMAC¹ countries) coupled with a subsequent oil price recovery, have supported fiscal and external adjustment. As a result, the economic outlook may not be bright for many FWA countries but it has improved and furthermore IMF programmes implementation are starting to have an impact.

CEMAC: Challenging times ahead...

Of the six countries that make up CEMAC, five are oil producers, with **Cameroon** differing from others because of its more diversified economy. At CEMAC level, revenues generated by the oil sector accounted for 82% of exports and more than half of budget in 2014. In addition, many ambitious public investment programs were ongoing when oil prices collapsed, which accentuated the macro-financial crisis and the situation quickly became critical. Between 2015 and 2016, the CEMAC lost 2/3 of fiscal budget revenue and half of its export revenues. Despite a significant public investment contraction from 14% of GDP in 2014 to 8.4% in 2016, macroeconomic imbalances continued to widen. The regional budget deficit thus reached 6% of GDP in 2016 against 4.5% in 2014. The deterioration of the external position has been even more notable. From 1.5% of GDP, the current account deficit soared to 13% of GDP in 2015 before slipping slightly to 10% in 2016. At the end of 2016 reserves covered

1 *The Economic and Monetary Community of Central African States (CEMAC) includes Cameroon, CAR, Chad, Republic of Congo, Equatorial Guinea, Gabon. Of the CEMAC states, five are heavily dependent on oil revenue with Cameroon being less dependent due to the more diversified structure of its economy.*

only 2.4 months of imports while the IMF sets the warning threshold at five months for fixed exchange rates economies.

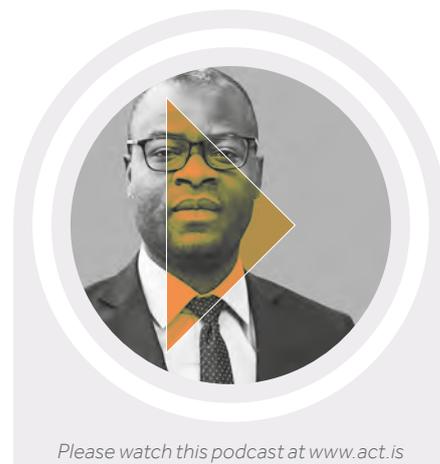
Discussions were therefore initiated with the IMF to stop this downward spiral.

Cameroon and **Gabon** quickly managed to sign multi-year funding agreements, while the **Central African Republic** and **Chad**, already under program, have seen theirs strengthened. Initial results are encouraging, FX reserves have finally stabilised in the CEMAC region thanks to higher oil prices and IMF support. The foreign exchange reserves for CEMAC have recovered to US\$5bn at end-2017, up by US\$1.3bn in the second half of 2017 (a 35% increase in six months). The recovery is mainly driven by Cameroon (reserves up US\$965m since June 2017) and to a lesser extent Gabon (US\$271m since June 2017), supported by continued fiscal consolidation efforts, the slight rising of oil prices, and disbursements from the IMF and other donors. The timeframe for the conclusion of IMF deals with **Republic of Congo** and **Equatorial Guinea** is unclear but if a deal is reached with one or both, this would improve the outlook further.

...but the region is starting to get its head above water

According to the latest macroeconomic forecast from the IMF published in January 2018, the outlook should continue to improve but many hurdles remain. The improvement of external liquidity at regional level mainly reflects that of **Cameroon**, whose contribution to CEMAC FX reserves stands at 55%, far more than its economic weight (40% of the CEMAC GDP). On the other hand, the contribution to CEMAC FX reserves of **Equatorial Guinea** is now almost zero and that of the **Republic of Congo** could zero rapidly, as the country continues to face a decline in foreign exchange reserves. **Chad** is in a similar situation and the country contributes little to the pool of reserves.

Without external funding in all CEMAC countries (Equatorial Guinea and Republic of Congo have yet to reach an agreement with the IMF), adjustment efforts needed to improve public finance are likely to be even more severe in the region, which would further impact an already weak



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economic recovery. Growth is back in positive territory but remains weak as spending cuts and domestic arrears constrain economic activity. Slowing economic growth is putting pressure on public finances. After two years of contraction in 2016-17, growth is expected at only 1.6% in 2018 before it accelerates to 3.2% in 2019, in line with population growth.

WAEMU: Successfully navigating through the downturn and holding steady in challenging times...

At a glance, there are green shoots of optimism for WAEMU.² The regional growth rate has exceeded 6% in 2017, for the sixth year in a row. This growth is remarkable given the difficult context for sub-Saharan Africa, whose average growth rate (excluding **South Africa**) has been decreasing since 2015. The region was driven by recovery in the two main economies **Côte d'Ivoire** since the end of the post-electoral crisis of 2011 and **Senegal**. Growth has also remained solid in other countries despite the multiplication of tensions (insecurity in the Sahel, political transition in **Burkina Faso** and **Mali**). Unlike many African countries, WAEMU countries were not affected to the same extent by the downturn in commodity prices and the tightening of external financing conditions. Activity continued to benefit from the strength of household's consumption (low inflation, high population growth rate) and new investment programs in infrastructure.

2 *The West African Monetary Union (WAEMU) has eight member states, Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.*

Table 1: Weight of the oil and gas sector as a percentage of GDP within CEMAC

	GDP	Exports	Fiscal Revenues
Cameroon (%)	6,2	41,7	23,7
Central Africa Republic (%)	Non-Oil economy		
Republic of Congo (%)	59,3	88,0	68,6
Equatorial Guinea (%)	40,8	96,7	86,5
Gabon (%)	37,9	83,9	49,5
Chad (%)	25,1	81,9	49,3
CEMAC (%)	29,1	81,6	55,1

Source: IMF

...However, the growth situation in WAEMU requires a cautious stance

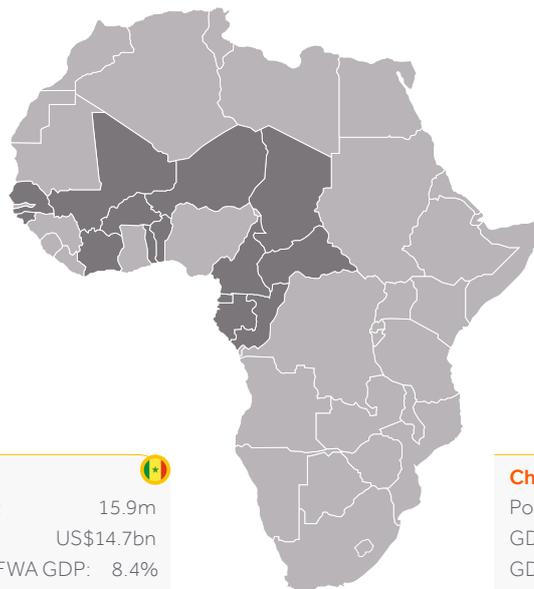
At 9.6% of GDP in 2017, public investment in the region has never been so high and its progression has been sustained since 2011. WAEMU is one of the few regions in sub-Saharan Africa where investment continued to grow in recent years. These investment programs generated strong pressures on public finances and created growing macro-economic imbalances such as high current account deficits and unsustainable external indebtedness. In 2017, the regional budget deficit reached 4.8% of GDP compared with less than 3% in 2012. The current account deficit reached a historic high in 2017, at 6.8% of GDP, such levels were last seen during the financial crisis in 2008. Foreign reserves have been significantly restored, but at the end of 2017, expressed in US dollars, they were still 9% below their 2011 high. Reserves decreased from 6.6 months of imports of goods and services in 2011 to 4.2 months in 2017, slightly below what the IMF considers appropriate.

Cautiously Optimistic

Many key macroeconomic variables are to be improved within FWA (low banking penetration rate, depth of the capital markets), however, the ability of governments to strengthen tax collection is critical for the outlook of the region. From 42% of GDP in 2010, WAEMU's public debt rose to 49.5% in 2017, except for **Senegal**, no WAEMU country has non-oil revenues accounting for over 20% of GDP, despite some significant progress made in recent years. The road to an effective tax collection is much more daunting considering the dominant weight of the informal sector in WAEMU and FWA in general. Without additional fiscal revenue,

WAEMU countries risk having to readjust their investment program to reduce the pressure on external accounts, and thereby impact economic activity.

The situation is even worse for CEMAC with regard to financial distress which affects the region. CEMAC's public debt has soared since 2014, from 35% of GDP to 60% of GDP and the aggravation of the twin deficits weighs on the indebtedness of CEMAC countries. Although 60% debt to GDP may seem low by some developed market standards the limited tax base and



Senegal

Population: 15.9m
GDP: US\$14.7bn
GDP/total FWA GDP: 8.4%

Chad

Population: 14.9m
GDP: US\$9.6bn
GDP/total FWA GDP: 5.5%

Guinea-Bissau

Population: 1.9m
GDP: US\$1.2bn
GDP/total FWA GDP: 0.7%

Benin

Population: 11.1m
GDP: US\$8.6bn
GDP/total FWA GDP: 4.9%

Central African Republic

Population: 4.7m
GDP: US\$1.8bn
GDP/total FWA GDP: 1%

Côte d'Ivoire

Population: 24.3m
GDP: US\$36.4bn
GDP/total FWA GDP: 20.8%

Cameroon

Population: 24m
GDP: US\$32.2bn
GDP/total FWA GDP: 18.4%

Congo

Population: 5.3m
GDP: US\$7.8bn
GDP/total FWA GDP: 4.5%

Burkina Faso

Population: 19.2m
GDP: US\$11.7bn
GDP/total FWA GDP: 6.7%

Mali

Population: 18.5m
GDP: US\$14bn
GDP/total FWA GDP: 8%

Gabon

Population: 2m
GDP: US\$14.2bn
GDP/total FWA GDP: 8.1%

Togo

Population: 7.8m
GDP: US\$4.4bn
GDP/total FWA GDP: 2.5%

Niger

Population: 21.5m
GDP: US\$7.5bn
GDP/total FWA GDP: 4.3%

Equatorial Guinea

Population: 1.4m
GDP: US\$10.7bn
GDP/total FWA GDP: 6.1v%

Source: World Bank and UN World Population Prospects 2017

low per capita income mean this is only supportable by external assistance.

We remain cautious of medium and long term intermittent risks for FWA and view mobilization of domestic resources as a critical component for the outlook of the region. Actis is one of the largest investors in **Cameroon** and is the Strategic Partner to the Government of Cameroon in ENEO, the national electricity utility under a concession which has been extended until 2031. Actis is also constructing Douala Grand Mall (DGM), the first world-class retail shopping experience in central Africa in Cameroon. Construction of Phase 1 of Douala Grand Mall (DGM) commenced in January 2018, consisting 18,000 m² of lettable retail on two levels, with an extensive offer in fashion, lifestyle and services for all age groups. DGM is set to become the premier shopping destination in Cameroon. A ground breaking ceremony was organised to create awareness and leverage the start of construction to boost leasing, ensure government and public authorities support and show existing and prospective tenants progress on site while also giving reassurance on completion date. The ground-breaking event was placed under the patronage of the President of the Republic and under the mentoring of the Minister of Commerce. The government understand the importance of such a project especially because Cameroon's formal retail sector, especially beyond the main urban centres, remains rudimentary. There is also an opportunity to introduce retail

and fast-food chains (such as KFC) and entertainment facilities (such as cinemas) which we are providing within Douala Grand Mall.

Finding a credible franchisee is a requirement that could stall location in Cameroon from an international brand's perspective. We have therefore engaged with many international retailers and are helping them in matching these retailers with prospective franchise partners (a prerequisite to their entry into Cameroon).

Investors here have the potential to be the first movers in the market and there is an underserved middle and upper middle class consumer in the market, offering opportunities for multinationals that move in early with competitively-priced quality products. Fast-food chains, modern retail centres and entertainment facilities are all untapped opportunities in Douala. In addition, there is also a need to build branded hotels to cater to foreign travellers and tourists - there is not a single branded hotel in Douala which is why we are currently accelerating Phase 2 of the project which includes a 4 star branded hotel and an office park.

Risks remain to the outlook and linked to the implementation of IMF programmes, security and politics. Cameroonian security forces have been fighting Boko Haram since 2014 in northern Cameroon and secessionist movements have taken place in the in the two Anglophone regions. These two issues come against the backdrop of presidential elections due by October this year.

Kenya

A much-welcomed political and economic thaw

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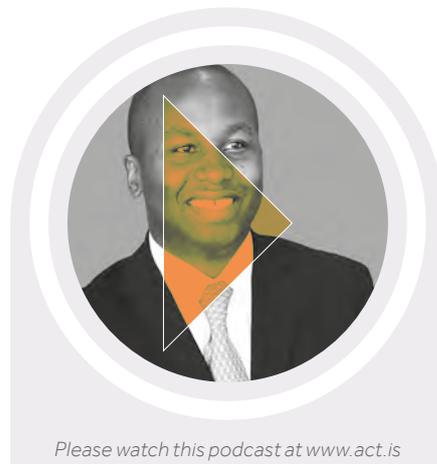
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In Kenya where the cunning twists and turns of politics are often expected, the recent bromance between President Uhuru Kenyatta and opposition leader Raila Odinga has caught political pundits and the mwananchi (ordinary Kenyan) by surprise. What started as a famous reconciliatory handshake between the leaders has culminated in hugs and apologies, which was unthinkable a few months ago after a tumultuous presidential election featuring an annulled result, fierce accusations of rigging and bloodshed. The motivations for both leaders to reconcile is a matter of intense debate but for the mwananchi, it could not have come at a better time.

During the second half of 2017, the Kenyan economy ground to a halt. Many domestic businesses paused plans to expand operations due to the political uncertainty with the ripple effect being lower consumer confidence and spending. To make matters worse, this was already after a tough year where a prolonged drought had caused; (i) inflation to spike to a high of 12%, leading to increased prices for most food products; and (ii) reduced credit extension due to an interest rate lending cap, which locked many out of formal borrowing. Our portfolio company, AutoXpress, which is the largest distributor of tyres and auto parts in East Africa, directly suffered from the lower business spending and *mwananchi* woes.

As political uncertainty diminishes, the outlook is for a return to normal levels of economic activity, which would deliver GDP growth of 5.5-6% in 2018 (up from 4.9% in 2017). From a micro perspective, we have seen a marked improvement in performance at AutoXpress and better



trading for our tenants at Garden City Mall. Over the longer term, we remain firm believers in the region's potential for rapid growth as the fundamentals bode well for Kenya and East Africa in general. The oft-discussed demographic dividend should provide a good macro growth tail wind as the active population between ages 15 and 64 increases relative to dependents. In addition to an increasing labour force, growth will be sustained by increased capital spending on regional transport infrastructure projects, hydrocarbons sector and port development leading to capital deepening and productivity growth.

Recently, the *mwananchi* has gotten some reprieve on their wallet with inflation declining to 3.7% in April 2018, facilitated by lower food price inflation on improving weather patterns that have delivered good rains since March and the expectation for better food harvests. In response to the subdued inflation, we have seen a slight reduction in the benchmark lending rate from 10% to 9.5% in 2018, but its impact on consumption will likely be minimal because of the interest rate cap. However, the Government remains committed to amending or repealing the cap, most probably in 2H 2018, which would facilitate much welcomed access to credit. While we believe that the currency is overvalued, a currency crisis is unlikely given healthy levels of FX reserves at US\$9bn or 6 months of import cover on the back of higher agricultural exports, strengthened remittances, less food imports and lower capex-related imports.

Inflation: Consumer price inflation, % y-o-y, ave



Source: BMI Research

Balance of payments: Current account balance, % of GDP



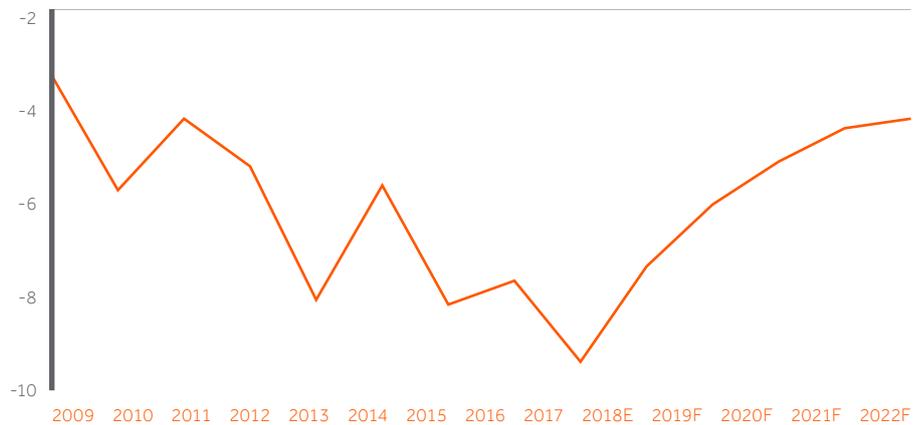
Source: BMI Research

The outlook is, however, not completely rosy. Of concern is that public debt levels are very high at almost 60% of GDP. The fiscal deficit of 8% of GDP is precarious to say the least following infrastructure spend and c.US\$1bn ploughed into two rounds of expensive presidential elections. It is becoming quite clear that for the government to consolidate the fiscal position it will be imperative to curtail the public sector wage bill (which grew at 17% in 2017) and increase tax collections, which would again reduce consumer spending on aggregate. In addition, the rise in global crude oil prices will push up the cost of transport and energy, likely driving up inflation in the second half of 2018.

The macro narrative is similar in neighbouring **Uganda** and **Tanzania**. As in Kenya, inflation is on the decline, infrastructure investment is in vogue, foreign reserves are healthy, all of which are driving sustained economic growth of c.6-7%. That said, their political situations are less promising. In Uganda, President Yoweri Museveni continues to strengthen his grip on power by most recently scrapping the age limit for presidency, which was capped at 75 years. The expectation is that he will use this constitutional amendment to prolong his 35 year autocratic leadership post the elections. In Tanzania, President John Magufuli continues with a hard-line economic nationalist approach, which has created an unpredictable policy environment resulting in foreign investor concern.

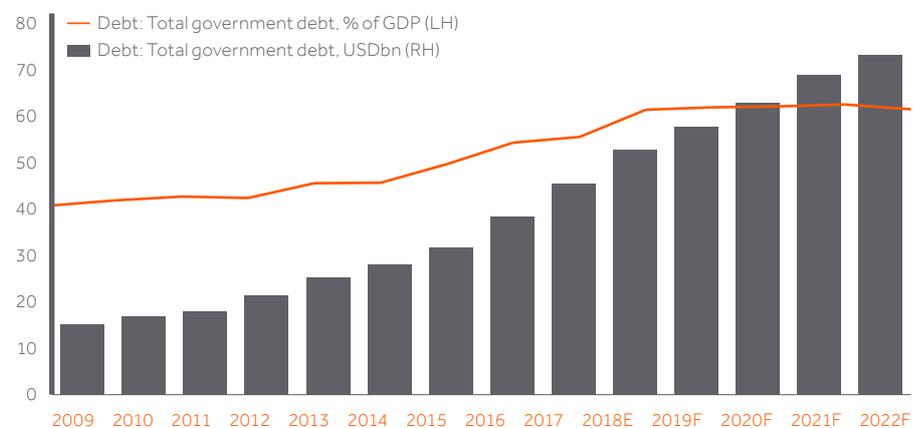
In Kenya, all the *mwananchi* can do for now is enjoy the return to normalcy with a more stable political environment and improved business confidence. However, we hope that it will not be short-lived, as political risk remains in focus in the medium-term. Kenyatta will be unable to run for election again in 2022 owing to the constitutional two-term limit for president. We have started seeing manoeuvring by interested successors, but hope that the handshake signifies growing maturity on ways to deal with political discord, which would alleviate election-related economic slowdown and the ensuing impact on the *mwananchi*.

Fiscal: Budget balance, % of GDP



Source: BMI Research

Total debt: % of GDP and US\$bn



Source: BMI Research



Southern Africa

Winds of change

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A more positive mood has begun to sweep through the economic and political landscape in Southern Africa.

Earlier this year we wrote about the political changes in South Africa, which saw the end of the troubled Zuma presidential era. Angola and Zimbabwe, until recently in the stranglehold of two of the longest serving presidents on the continent, have both seen sweeping change in the past year. In Mozambique green shoots are starting to emerge after debt related issues surfaced. Zambia in contrast, where political change has been more sporadic, is struggling despite stronger commodity prices. Positive momentum, however tentative, is coming through across the region.

In **South Africa**, after a fierce internal battle within the ANC, Cyril Ramaphosa replaced Jacob Zuma ahead of all-important elections in 2019 (See *Macro Forum Publication March 2018*). Ramaphosa has now completed his first 100 days which has seen him act decisively in key areas that have lifted confidence in the country. His reinstatement of two respected former finance ministers into key cabinet positions points to much needed focus on rooting out state capture and corruption. We have witnessed positive outcomes in governance changes in state owned enterprises, avoided further ratings downgrades, and the establishment of a high-level team to seek investments of US\$100bn to help drive the economy forward.

The energy sector is a further example of strong first steps by Ramaphosa with a difficult road ahead requiring focused leadership to drive long-term change. On April 4 2018, facing continued political headwinds from factions within the ANC, Eskom finally signed 27 power purchase agreements (including two wind projects owned by Actis Energy 3's pan-Africa

renewables platform Lekela) which had been awarded in the fourth renewable energy procurement round nearly three years ago, comprising US\$4.7bn in investment and resuscitating the deteriorating investor sentiment in the energy sector. Energy Minister Radebe has promised to publish the energy sector's roadmap by Q3 2018, which is expected to exclude the significant nuclear and coal additions that Zuma's government was pushing for, and he has promised to announce round five of the renewables procurement by Q4 2018. This ambitious agenda is compounded by the government resources required to turn around the state-owned utility Eskom, beleaguered by years of mismanagement and rent-seeking, as continued infrastructure investment is predicated on a utility with a healthy balance sheet.

However, the positive sentiment in South Africa has yet to play out in real growth – the recently released first quarter GDP figures have dampened the early positive response to Ramaphosa's appointment. A decline in quarterly GDP of -2.2% is anecdotally blamed on the lack of investment in 2017 but analysts are still largely pointing to positive growth forecasts in the second half of the year which we remain cautious on. Adding to the caution is the uncertainty around land expropriation without compensation. Land reform is a vital component of stability and prosperity in the country, and Ramaphosa has his hands full in balancing the complexity of the issue. For the investor community, he is consistent in his positioning that land reform will not be at the expense of food security or growth of the economy. Despite these factors having subdued the 'Ramaphoria' felt earlier in the year, the boardrooms of our South African portfolio companies are considerably more optimistic about the future than they were a short 6 months ago. The positive order book development in Actom (industrial engineering business in our PE portfolio) is one such example.

In **Angola**, elections were held on 23 August 2017 after former president José dos Santos stepped down after ruling for almost 40 years. Whilst minimal damage was expected from the dos Santos approved successor João Lourenço, he has taken a strong anti-corruption stance. This change ushered in a new era, in which dos Santos' son is being prosecuted for



Please watch this podcast at www.act.is

fraud, and his daughter has been taken off the board of the state owned oil company, Sonangol. Oil-dependent Angola is also set to benefit from the uptick in oil prices.

The rule of the region's other presidential strong man, **Zimbabwe's** Robert Mugabe, also finally came to an end. His ousting brought about hope for Zimbabwe and renewed confidence. In July, elections will be held with wide expectations that Zanu PF will win. The agriculture sector is starting a slow recovery, and policy developments have been put in place to attract investors back into the country. Although liquidity problems remain a challenge, investors are excited about the commitment to recovery in Zimbabwe. The change in consumer demand is evidenced in the listed consumer sector where Delta Beverages reported 50% volume growth in lager beer and sparkling beverages in the first quarter of 2018, notwithstanding currency challenges impacting imported raw materials.

Mozambique is still feeling the after effects of a US\$2bn undisclosed debt scandal, including continued government tension with the IMF, yet there is a growing air of optimism. Our experience of building Baia Mall, Maputo's largest A-grade retail mall is evidence alone. Two years ago project funding and leasing into a soft market were a real challenge, we have however achieved 89% occupancy but still struggle to convert signed agreements to trading stores. A recent opening of a food and beverage tenant produced an additional 40,000 people through the mall in that month. Although off a low base, GDP growth remains reasonably strong at c. 3.5 – 4%, and the currency has been stable after the post-debt crisis roller

coaster. In addition, the government has concluded agreements with gas operators, which will auger well for the broader foreign investment sentiment although not yet solving government's short term cash availability issues. Two other areas we are watching are the impact on national peace talks between the ruling party FRELIMO and the longstanding opposition RENAMO (The Mozambican National Resistance), following the recent death of the RENAMO leader Afonso Dhlakama and the recent Islamic Jihadist attacks in the north of the country.

In **Zambia** there have been political concerns along with cabinet reshuffles, uncertainty around policies as well as warnings around debt distress from the IMF. The Zambian economy has been performing below its potential and in the short term is not yet in a position to fully benefit from an uptick in commodity prices. The state-owned electric utility is suffering one of the continent's highest amounts of arrears to its suppliers including independent power producers. However, our food retail outlets in Food Lovers Market continue to trade well, with demand such that we are opening a further two outlets in the country this year.

Although challenges are varied and many for the economies of Southern Africa, the sweeping effects of recent political changes in many of the regions key economies are timeous. Global commodity price increases, recoveries from recent own goals and generally improving political environments could well be a genuine boost for a renewed growth period for the region after a challenging few years. Optimism is back in vogue albeit tinged with realism about time horizons for real economic progress.





Africa Voices in Numbers

Tunisia

Real GDP USDbn 2010 prices & Exchange Rates	49
GDP % (YOY)	2
Real GDP per capita USD	4247
Inflation	5.3
Total External Debt Stock USDbn	30
Current Account USDbn	-4.2
S&P/Moodys	..-/B2



Morocco

Real GDP USDbn 2010 prices & Exchange Rates	119.3
GDP % (YOY)	4
Real GDP per capita USD	3338
Inflation	0.8
Total External Debt Stock USDbn	47.7
Current Account USDbn	-3.9
S&P/Moodys	BBB-/Ba1



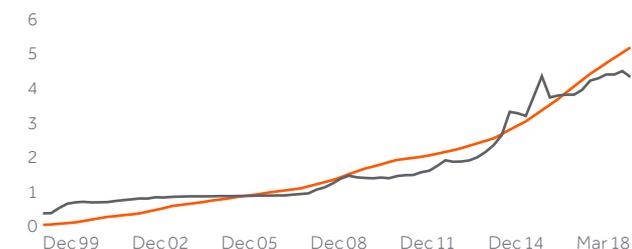
Ivory Coast

Real GDP USDbn 2010 prices & Exchange Rates	40.2
GDP % (YOY)	8.6
Real GDP per capita USD	1653
Inflation	0.8
Total External Debt Stock USDbn	12.2
Current Account USDbn	-0.7
S&P/Moodys	..-/Ba3



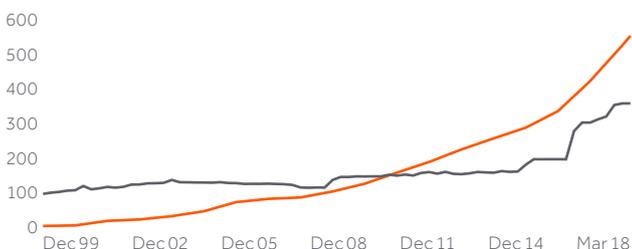
Ghana

Real GDP USDbn 2010 prices & Exchange Rates	52.2
GDP % (YOY)	8.4
Real GDP per capita USD	1810
Inflation	12.4
Total External Debt Stock USDbn	24
Current Account USDbn	-2.1
S&P/Moodys	B-/B3



Nigeria

Real GDP USDbn 2010 prices & Exchange Rates	457
GDP % (YOY)	0.8
Real GDP per capita USD	2393
Inflation	16.5
Total External Debt Stock USDbn	32
Current Account USDbn	2.3
S&P/Moodys	B/B2



Cameroon

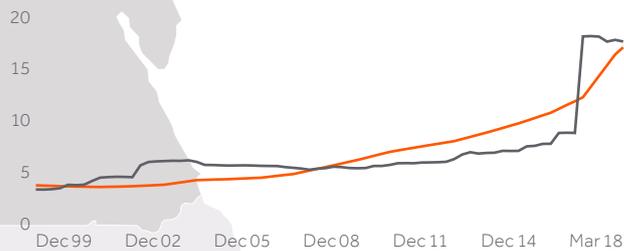
Real GDP USDbn 2010 prices & Exchange Rates	34.3
GDP % (YOY)	3.7
Real GDP per capita USD	1424
Inflation	0.6
Total External Debt Stock USDbn	7.9
Current Account USDbn	-0.9
S&P/Moodys	B/B2



— FV — FX

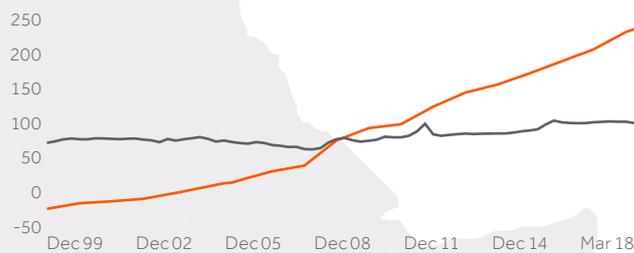
Source for Macro Data: BMI Research

Source for FX Charts: Bloomberg & Actis methodology for Fundamental Value



Egypt

Real GDP USDbn 2010 prices & Exchange Rates	260.1
GDP % (YOY)	4.1
Real GDP per capita USD	2666
Inflation	29.6
Total External Debt Stock USDbn	62.7
Current Account USDbn	-14.4
S&P/Moodys	B/B3



Kenya

Real GDP USDbn 2010 prices & Exchange Rates	58.2
GDP % (YOY)	4.9
Real GDP per capita USD	1170
Inflation	8
Total External Debt Stock USDbn	27.6
Current Account USDbn	-5.1
S&P/Moodys	B+/B2



Zambia

Real GDP USDbn 2010 prices & Exchange Rates	28
GDP % (YOY)	4.1
Real GDP per capita USD	1644
Inflation	6.6
Total External Debt Stock USDbn	15.2
Current Account USDbn	-0.7
S&P/Moodys	B/B3



Mozambique

Real GDP USDbn 2010 prices & Exchange Rates	15.2
GDP % (YOY)	3.2
Real GDP per capita USD	511
Inflation	15.4
Total External Debt Stock USDbn	11.8
Current Account USDbn	-2.6
S&P/Moodys	SD/Caa3



South Africa

Real GDP USDbn 2010 prices & Exchange Rates	426.9
GDP % (YOY)	1.3
Real GDP per capita USD	7526
Inflation	5.3
Total External Debt Stock USDbn	173
Current Account USDbn	-8.6
S&P/Moodys	BB/Baa3

— FV — FX



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Values drive value

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