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Economic reforms improve growth prospects

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Sub-Saharan Africa's moderate average economic growth stems mainly from problems in the three largest economies, Nigeria, South Africa and Angola, and masks the fact that there is still a number of interesting growth markets. In North Africa, Egypt stands out in terms of economic growth. Although numerous IMF programs are evidence of financial difficulties, they also ensure that economic policy reforms, beneficial for companies and investors, are being implemented. After a general introduction to economic and political developments in Africa, we provide an overview of twelve countries that have the greatest importance for the German export industry.

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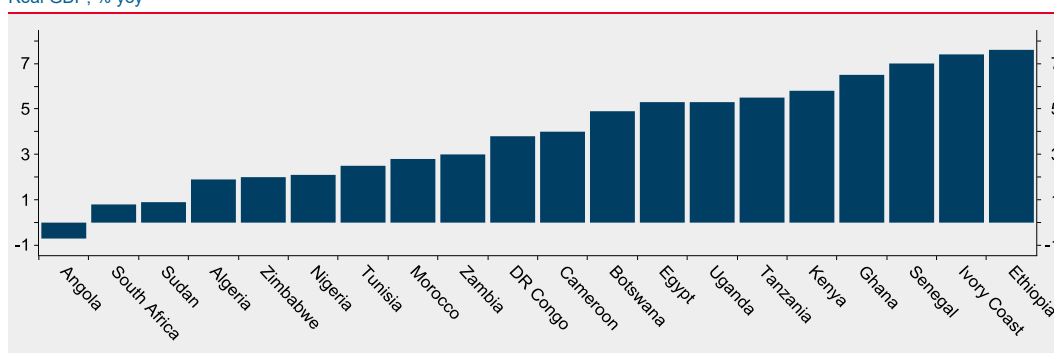
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Diverse region requires differentiated view

The economy of Sub-Saharan Africa grew at 2.7 % in 2018, roughly matching the level of the previous year. In North African countries¹, growth rates ranged from 1.9 % (Algeria) to 5.3 % (Egypt). The average economic growth of Sub-Saharan Africa is thus lower than the increase in global gross domestic product. Compared to other emerging regions, only Latin America, which was suffering from low growth in Argentina and Brazil, performed less well last year. With Nigeria, South Africa and Angola, in particular the heavyweights of the region have disappointed. When looking at such a large and diverse region as Africa, however, it is unsurprising that there is no consistent picture of economic performance. Thus, in addition to the above mentioned countries with restrained economic activity, there are also some countries that have attracted considerable attention through high economic growth. For example, Ethiopia, Ivory Coast, Senegal and Rwanda have recently achieved growth rates of at least 7 %.

GDP growth of the largest African economies in 2018

Real GDP, % yoy



Sources: EIU, Helaba Research

Economic recovery to be expected in 2019

In 2019, Sub-Sahara Africa's economic growth is expected to rise to 3.3 %. The flat trend in the oil price prevents growth from accelerating substantially in the two major oil producing countries Nigeria and Angola. South Africa continues to recover from the severe drought that plagued the country in the first half of 2018. Ethiopia, Rwanda and the Ivory Coast will again be among the top growth performers in 2019 as a result of their ambitious economic reforms. The North African countries are expected to largely maintain their growth level of 2018. A more robust expansion is expected in Algeria (3 %) due to an increase in gas production.

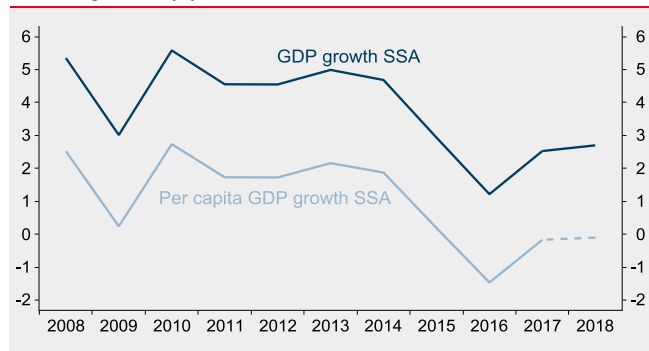
Slower population growth

In Sub-Saharan Africa, there was virtually no per capita growth in 2018 as the economy expanded barely more than the population (2.6 % per year). Although the number of births per woman in Sub-Saharan Africa has fallen since the beginning of the millennium from 5.8 to 4.8 in 2016, it is still at an extremely high level. Niger is ranked on the first place worldwide with 7.2 births per woman. Many years of information campaigns by development organizations have shown virtually no success in the West African country, due to cultural differences. Since 1960, the number of births per woman has always been well above 7. In most other countries, however, the birth rate decline is evident. Still, of the 20 countries in the world with the highest birth rate per woman, 19 are located in Africa.

¹ Morocco, Algeria, Tunisia and Egypt (no plausible data for Libya available)

No per capita GDP growth

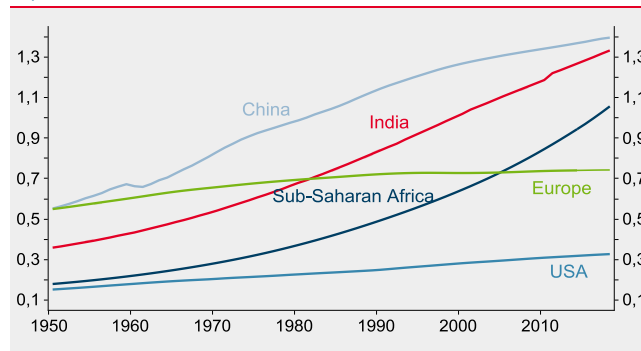
Economic growth, % yoy.



Sources: Macrobond, EIU, Helaba Research

Exponential population growth

Population, billion



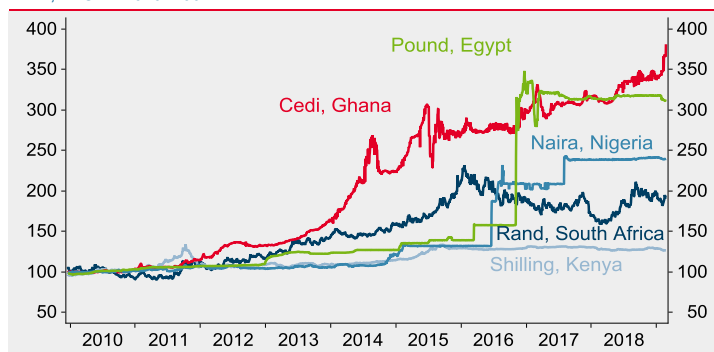
Sources: Macrobond, Helaba Research

Currencies losing value

In the middle of last year, the focus was on Emerging Market currencies, in particular the Turkish lira and the Argentine peso, both of which had depreciated substantially. In Africa, the emerging market currency turmoil affected amongst others the Ghanaian cedi. The devaluation phenomenon goes back even further. As early as 2011, the currencies of the major emerging economies in Africa began to depreciate against the US dollar. Being exposed to heavy external pressure, Egypt and Nigeria had to abandon their exchange rate peg several times. Only the Kenyan shilling and, with some volatility, the South African rand have been reasonably stable over the past three years. Free-floating currencies are a minority on the continent. Currently, the IMF classifies only the exchange rate regimes of ten countries as „free floating“ or „floating“. All those countries that are trying to influence or stabilize their exchange rates face the problem of having to sell foreign exchange reserves during periods of external pressure, or restrict capital flows.

African currencies depreciate

Index, vs USD 2010=100



Sources: Macrobond, Helaba Research

External imbalances

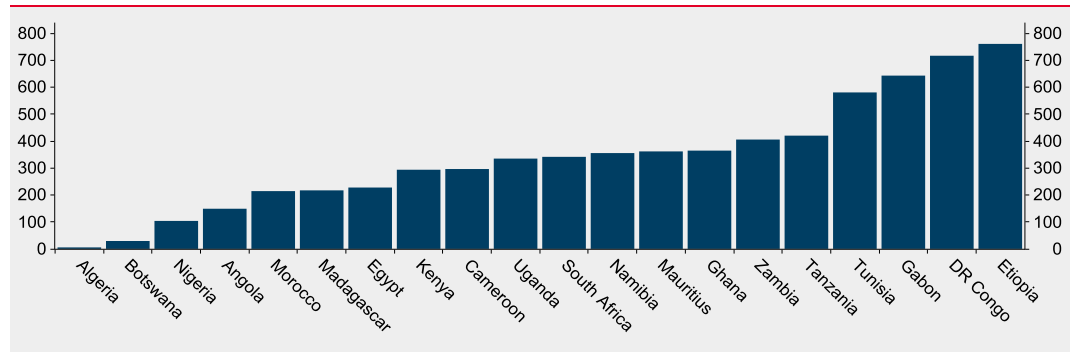
For some time quite a lot of countries have been facing external pressure. Four reasons can be identified: a decline in commodity prices (e.g. Nigeria, Angola, Congo), political conflicts (e.g. Egypt, Tunisia, Sudan, Zimbabwe), high borrowing (e.g. Uganda, Djibouti, Mauritania, Cape Verde), hidden or understated debt (Mozambique, Zambia). In some countries, several factors may play a role. In the Emerging Markets analysis in our yearly economic outlook [Markets and Trends 2019](#), we had a look at external debt as a proportion of foreign exchange reserves to identify countries that are vulnerable to external shocks. Applied to Africa's largest economies (excluding the outliers Sudan and Zimbabwe), Ethiopia, the Democratic Republic of the Congo (DR Congo), Gabon and Tunisia exhibit higher values than Turkey and Argentina, both of which stood out with spectacular devaluations in the late summer of 2018.

In order to stabilize African countries, the IMF had to intervene on a large scale. Most IMF programs that involve the effective payment of loan tranches currently take place in Africa. 20 of the

54 countries on the continent are currently undergoing such an IMF loan program². On the other hand, with Nigeria, Angola and Algeria, three of the five largest economies on the continent exhibit relatively little external vulnerability, with external debt of no more than 150 % of foreign exchange reserves. In addition, some fiscal consolidation success has already been achieved. The fiscal deficit of Sub-Saharan African countries has fallen from an average of 4 % of GDP in 2017 to an estimated 3.3 % in the past year. Under the guidance of the IMF, the deficit should continue to decline slightly in the future.

External resilience differs considerably among countries

External debt, % of foreign exchange reserves



Sources: Macrobond, Helaba Research

It is not surprising that almost every year is a „super-election year“, given that Africa is a continent of 54 countries. The DR Congo has already held presidential elections in early 2019. Attention will also be paid during the year to the elections in Nigeria (presidential elections), South Africa (parliamentary elections), Algeria (presidential elections), Tunisia (parliamentary and presidential elections) and Senegal (presidential elections). Political elections are not always democratically run here. According to the *EIU Democracy Index*, African countries have seen little improvement on average in recent years. 8 out of 15 most undemocratic countries in the world are located in Africa. Full or flawed democracies include Mauritius, Cape Verde, Botswana, South Africa, Lesotho, Ghana, Tunisia, Namibia and Senegal.

Difficult business environment is improving

Welcome news for businesses and investors is that economic reforms are on the agenda of many African governments. According to the World Bank's *Doing Business Report 2019*, Sub-Saharan Africa has been the region with the highest number of reforms every year since 2012. For example, duration and costs of starting a business have fallen dramatically in recent years. Among the ten countries that implemented the largest number of pro-business reforms last year, five are African: Djibouti, Togo, Kenya, Ivory Coast and Rwanda. Out of a total of 190 evaluated countries, Mauritius (20) and Rwanda (29) have a particularly good business environment. However, many African countries are still in the back of the ranking, highlighting the need for further reforms.

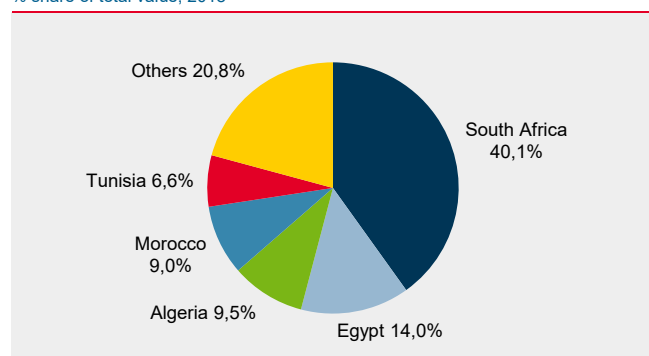
Regional integration is also progressing. An example is the *East African Community* with its common market. A monetary union is being sought, but it is likely to take a few more years. The *Union Economique et Monétaire Ouest Africaine* (UEMOA) and the *Communauté Economique et Monétaire de l'Afrique Centrale* (CEMAC) each use a common currency whose convertibility into euro is ensured by the French Ministry of Finance. The regional integration of the member states of CEMAC is not yet very pronounced.

Africa does not yet play a significant role in German foreign trade. Thus, in 2018, goods worth only about 23 billion euros (-11 % yoy.) were exported to the continent. This corresponds approximately to the total value of German goods exports to Russia or Denmark. Overall, only 2 % of all German exports go to Africa. According to the Federal Statistical Office, this share has been largely stable in recent years. South Africa and Egypt alone account for over half of German exports to Africa.

² The „Precautionary and Liquidity Line“ for Morocco is not included

Dominant German export markets in Africa

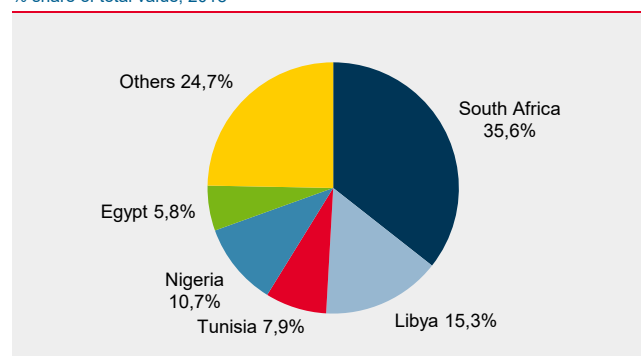
% share of total value, 2018



Sources: Federal Statistical Office, Helaba Research

Dominant German Import Markets in Africa

% share of total value, 2018



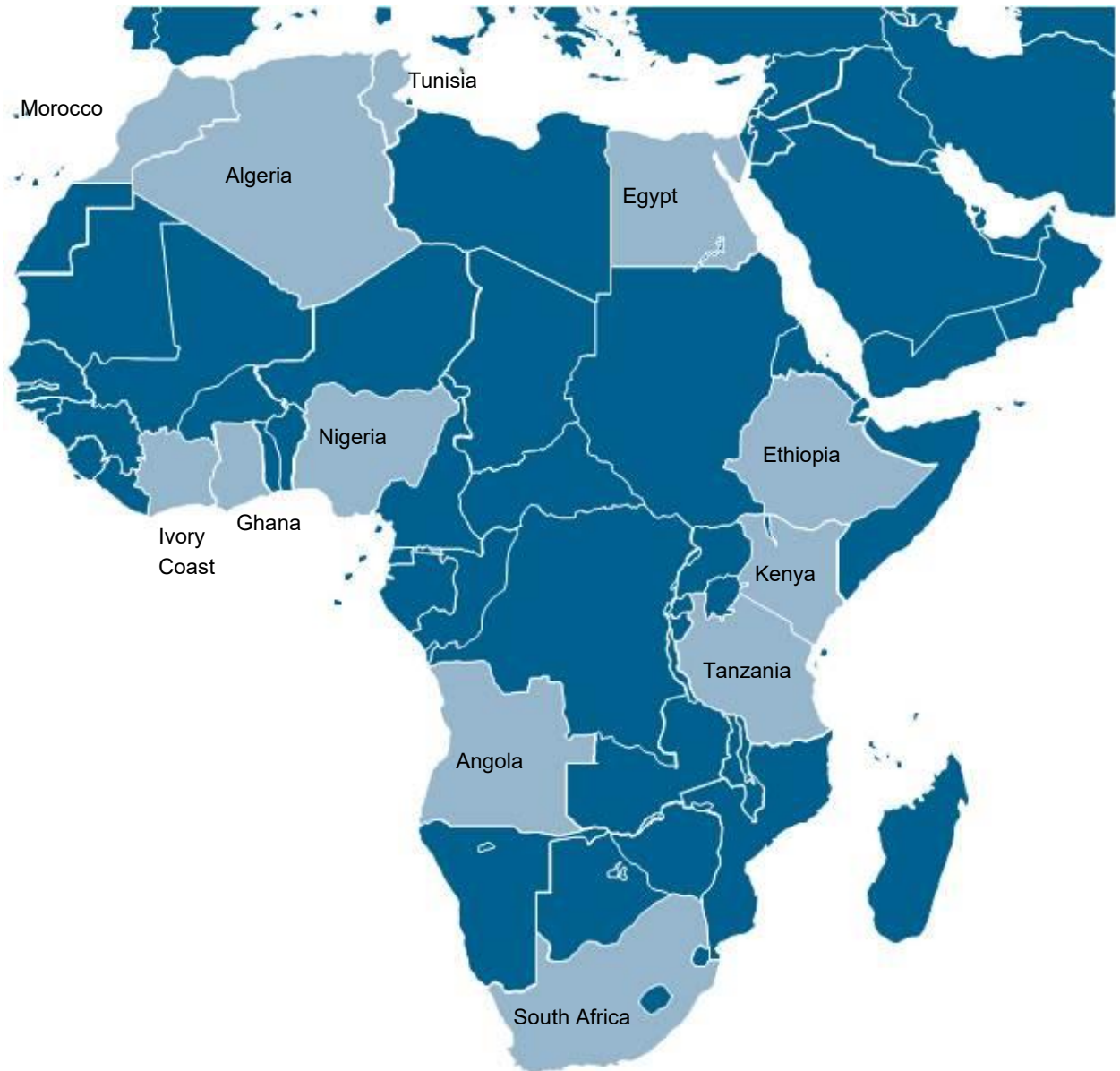
Sources: Federal Statistical Office, Helaba Research

German Federal Government supports economic development

Looking at imports, a similar picture emerges. At around 22 billion euros (+9 % yoy), only 2 % of all German imports come from Africa. Regarding imports, raw materials have the greatest weight and in particular energy sources, followed by metal ores. Cars and motor vehicle parts are mainly exported to Africa, followed by machinery and chemicals. To support economic development and the private sector and to promote foreign trade, the German Federal Government has launched three initiatives: „Pro! Afrika“ (Federal Ministry for Economic Affairs and Energy), „Marshallplan mit Afrika“ (Federal Ministry for Economic Cooperation and Development), „Compact with Africa“ (Federal Ministry of Finance). Whether these projects will have a positive impact on the trading volume of Germany with Africa remains to be seen.

Analysis of selected African countries

In the following section we have a look at those countries having the largest share in total German external trade with Africa.



Source: Helaba Research



South Africa: Elections, land reform and weak growth

The appointment of the new president Cyril Ramaphosa in February 2018, who replaced Jacob Zuma, is in principle a positive signal for the economy of the country. In the parliamentary elections on May 8, Ramaphosa will have to face the decision of the voters for the first time. In South Africa, the parliament elects the president. Recent polls indicate that the ruling *African National Congress* (ANC) will be able to defend its absolute majority.

Populists put pressure
on the president

The president must be careful not to jeopardize the unity of his party, in which supporters of the former president Zuma are still powerful, and to prevent a strengthening of the left-wing populist Economic Freedom Fighters (EFF). In February 2018, the EFF put pressure on the president. Parliament approved by 241 votes to 83 EFF's motion to allow for expropriation of landowners without compensation, although EFF has only 25 of the 400 seats. So far, discussions on expropriations are going on in parliament. About three-quarters of the agricultural area are in the hands of white South Africans, who only account for 10 % of the 57 million inhabitants. Although the president has promised that a more equitable distribution of land would be organized in an orderly manner, large mining corporations have been critical and have warned of negative investment effects. However, it is generally not expected that the mine operators will be the main target of land redistributions.

Expansive fiscal policy
without growth effects

South Africa faces major fiscal challenges. Since 2008, government debt has doubled from 26 % of GDP to 52 %. Government spending has increased by nearly four percentage points of GDP to 30 %. By contrast, budget revenues have only increased by one percentage point of GDP. The lion's share of spending increases is accounted for by wages, followed by interest payments. Since these are not productive expenditures, it is not surprising that the strong increase in spending has had no lasting effect on economic growth. On average, growth has been at a weak 1.5 % per annum over the past ten years. In the ten years before, it was still at an average of almost 4 % per year. Calculated in per capita terms, there was virtually no growth at all. In 2018, South Africa was still struggling with the adverse effects of a severe drought, which is why the country temporarily slipped into recession, with negative economic growth in the second and third quarter. Towards the end of the year, the economy recovered slightly. Overall in 2018, GDP increased to just below 1 %. For 2019, economic growth of just below 2 % is expected.

Selected figures South Africa

	2018*
Population (millions)	57.4
GDP, nominal (ppp, USD billions)	781
GDP, real (% yoy)	0.8
Inflation rate (% yoy)	4.6
Budget balance (% of GDP)	-3.9
Current account balance (% of GDP)	-3.1
Public debt (% of GDP)	52
External debt (USD billions)	175
Exports to South Africa (EUR billions)	9.08
Imports from South Africa (EUR billions)	8.00
Main exports	gold, diamonds, platinum, vehicles
Main imports	machinery, petroleum, vehicles, chemicals

*Estimates, except for external trade figures

Sources: EIU, Federal Statistical Office, Helaba Research

ppp=purchasing power parity



Egypt: With IMF support to economic stability

The Egyptian government has succeeded in stabilizing the macroeconomic situation over the last two years thanks to a three-year IMF program (12 billion US dollar). The exchange rate liberalization in November 2016, which was a condition for the conclusion of the agreement with the IMF, caused inflation to surge to 30 % on average in 2017. At the same time, however, the external situation has stabilized and the black market for foreign exchange has dried up. For example, between the beginning of the program and the end of 2018, foreign exchange reserves almost doubled to 38 billion US dollar and are now covering imports of about six months. The current account deficit has fallen from nearly 9 % of GDP to around 2 % over the same period, thanks to a recovery in the important tourism sector. High import demand for capital goods, necessary to complete the numerous infrastructure projects, is responsible for a relatively slow decline in the trade deficit.

Correction of fiscal imbalances under way

The Egyptian economy is reasonably well diversified. Besides the dominant tourism sector, receipts from the Suez Canal, agriculture, the energy sector and the construction industry play an important role. Fiscal policy has traditionally been a weakness of Egyptian governments. But here, too, the IMF program has set the right course. A reduction of expensive energy subsidies and the introduction of a VAT have almost completely eliminated the primary deficit. However, high interest payments continue to burden the state budget and lead to a total deficit of almost 10 % of GDP. Nonetheless, since the beginning of the IMF program, government debt has fallen from 111 % of GDP to a still high 90 %. Economic growth in 2018 was about 5 %, which is also expected for the coming years.

al-Sisi until 2034?

President al-Sisi was elected in April 2018 for a second term until 2022. At the beginning of February, the governing coalition introduced constitutional amendments in parliament aiming at a lifting of the limitation of terms in office. Thus, al-Sisi could theoretically remain in office until 2034. The popularity of the president has decreased significantly due to the painful economic reforms. Although unemployment is decreasing slightly, it is still at a high 10 %. About one third of the 97 million Egyptians are younger than 15, and each year around 700,000 people are entering the labour market. Political stability is maintained by al-Sisi's full control over the military and the security apparatus. In addition, many Egyptians fear a return to the turbulent phase immediately after the Arab Spring. However, protests could occasionally flare up.

Selected figures Egypt

	2018*
Population (millions)	97.1
GDP, nominal (ppp, USD billions)	1,204
GDP, real (% yoy)	5.3
Inflation rate (% yoy)	14.4
Budget balance (% of GDP)	-9.5
Current account balance (% of GDP)	-2.2
Public debt (% of GDP)	89
External debt (USD billions)	96
Exports to Egypt (EUR billions)	3.18
Imports from Egypt (EUR billions)	1.30
Main exports	oil, gas, foodstuff, cotton
Main imports	machinery, fuels, chemicals

* Estimates, except for external trade figures

ppp=purchasing power parity

Sources: EIU, Federal Statistical Office, Helaba Research



Algeria: No successor to Bouteflika

Among African countries, Algeria plays a key role for the German federal government. The authorities in Algiers should help contain refugee flows and fight terrorists in the Sahara. Germany provides the necessary military equipment to support the army. For years, Algeria has been the most important customer of German arms exports. In 2017, the Federal Ministry of Economics and Labor reported export licenses for defence products worth a total of 1.36 billion euro to the North African country.

Abdelaziz Bouteflika, who has been in power since 1999, will once again run for president in April. Since his stroke in 2013, however, he sits in a wheelchair and is hardly able to conduct government affairs. It is believed that he will continue to be president only because an opaque network of politicians, military men and entrepreneurs called „Le Pouvoir“ cannot agree on a successor. This smouldering conflict carries the danger of a political crisis if Bouteflika leaves office without orderly succession.

The economy has overcome the worst

The collapse in prices for oil and gas in 2014, by far the most important export goods, has left its mark on the Algerian economy. The currency has depreciated massively. Since the end of 2014 it lost around 50 % of its value and is currently trading around 50 % weaker against the US dollar compared to its value at the end of 2014. Foreign exchange reserves have fallen by more than half in line with the collapse of the currency. With increasingly smaller reserves, the government eventually was forced to change its strategy and embarked on fiscal consolidation. In 2016, a medium-term fiscal framework was introduced for the first time. The ensuing consolidation efforts and a slight recovery in the oil price led to a decline in the budget deficit from 13 % of GDP in 2016 to around 5 % last year. At the same time, turnaround in economic growth could also be observed. At around 2 % in 2018, the first slight increase in growth since the beginning of the crisis in 2014 was recorded.

Difficult implementation of the new economic model

The previous economic model, which was built on distributing revenues from the commodities sector through a large public sector to the population, is no longer sustainable. Therefore, the government has set six strategic goals: promoting the creation of businesses, expanding financing options for private investment, diversifying the manufacturing sector, reorganizing the country's administration, ensuring and diversifying energy supply and improving economic policy. The vested interests of the ruling elite should prevent an efficient implementation of these projects.

Selected figures Algeria

	2018*
Population (millions)	42.1
GDP, nominal (ppp, USD billions)	651
GDP, real (% yoy)	1.9
Inflation rate (% yoy)	3.9
Budget balance (% of GDP)	-4.7
Current account balance (% of GDP)	-6.4
Public debt (% of GDP)	26
External debt (USD billions,)	6
Exports to Algeria (EUR billions)	2.15
Imports from Algeria (EUR billions)	0.65
Main exports	oil, gas
Main imports	capital goods, consumer goods, foodstuff

* Estimates, except for external trade figures

ppp=purchasing power parity

Sources: EIU, Federal Statistical Office, Helaba Research



Morocco: Concerned about social tensions

Since the Italian government closed its borders to refugees to the greatest possible extent, Morocco has been the main transit country for refugees from Africa and the Middle East to Europe. This has pushed the country back into the focus of European political actors. The EU provides Morocco with funds for border management and the integration of refugees. At the same time, Germany is trying to improve the conditions for private investment under the initiative „Compact with Africa“, thus offering a perspective for local people. Especially in the field of renewable energies, there is intensive cooperation. The German federal government is providing Morocco with Euro 330.5 million in loans and subsidies.

Economic diversification
is progressing

In recent years, Morocco has had some success in diversifying its economy. 37 % of the workforce is still employed in agriculture, followed by 35 % in trade and tourism. However, the country is increasingly successful in attracting automobile companies and suppliers. Therefore, the automotive sector is likely to become an important foreign exchange earner besides tourism in the near future.

Despite economic growth of around 3 %, unemployment remains persistently at 10 %. In particular, youth unemployment is a problem that creates social tensions. Through social media protests are being organized denouncing the enrichment of the ruling elite. The government is trying to counter the dissatisfaction with relatively high public spending. However, fiscal room for maneuver is limited as public debt is already relatively high at around 80 % of GDP, compared to the low revenue base of only 20 % of GDP. At the same time, the government aims to further reduce the budget deficit, although we expect only little progress.

Greater exchange rate
flexibility is recommended

On the external side, the kingdom does quite well despite current account deficits. Foreign exchange reserves finance five and a half months of imports and exceed short-term external debt by two and half times. In addition, the IMF provides an emergency credit line as part of the two-year *Precautionary and Liquidity Line*. Already between 2012 and 2018 Morocco agreed such credit lines with the IMF but never had to draw on them. The exchange rate of the Moroccan dirham is tied to a basket of currencies, with the euro having the highest weight at 60 %. Experts of the IMF regularly urge the Moroccan authorities to liberalize the exchange rate to better absorb external shocks.

Selected figures Morocco

	2018*
Population (millions)	36.2
GDP, nominal (ppp, USD billions)	312
GDP, real (% yoy)	2.8
Inflation rate (% yoy)	1.9
Budget balance (% of GDP)	-3.9
Current account balance (% of GDP)	-3.6
Public debt (% of GDP)	81
External debt (USD billions.)	52
Exports to Morocco (EUR billions)	2.03
Imports from Morocco (EUR billions)	1.22
Main exports	electronics, fertilizers, chemicals, clothes
Main Imports	fuels, capital goods, consumer goods

* Estimates, except for external trade figures

Sources: EIU, Federal Statistical Office, Helaba Research

ppp=purchasing power parity



Tunisia: Democracy alone is not enough

Tunisia is the only North African country to have been able to establish a reasonably well functioning democracy in the aftermath of the Arab Spring. This was not enough to help revive the economy. On the contrary, since the overthrow of Ben Ali in 2011, only in 2012 Tunisia exhibited a growth rate similar to the years before the outbreak of the revolution. Due to a good performance of the agricultural sector and a rebound in tourism, growth in 2018 reached at least 2.4 %.

Tunisians are fed up
with reforms

Most Tunisians do not benefit from last year's economic revival. Inflation is above 7 % and largely compensates for income gains. Unemployment at above 15 % is stubbornly high. Among young people it amounts to 35 %. There is seething unrest among the population. In mid-January another strike paralyzed the civil service. The powerful unions are resisting painful reforms that the government has to implement in order to meet IMF conditions for further loan disbursements. In particular, a reduction of the bloated public sector is necessary. Salary costs for civil servants amount to over 40 % of the budget. The IMF program targets a halving of the budget deficit to 3 % of GDP by 2020. To achieve this, reducing public sector salaries and subsidies, reforming the pension system and restructuring loss-making state-owned enterprises are of utmost importance. At the same time, public debt should not exceed 70 % of GDP. Political and social resistance make these plans seem unrealistic.

External imbalances
persist

On the external side Tunisia remains vulnerable. Foreign exchange reserves amount to approximately 5 billion US dollar, covering only two and a half months of imports. Reserves are unlikely to recover in a difficult election year. Current account deficits are expected to remain in double digits. However, Tunisia can count on the support of the EU, which does not want to abandon the only democracy in North Africa. It also relies on the help of the Tunisian government to curb refugee flows.

Parliamentary and presidential elections are scheduled for the end of 2019. The current government is made up of numerous parties and independent deputies, making the legislative process more difficult. It is dominated by the secular *Nidaa Tounes* and the moderate islamists of *Hizsb al-Nahda*. Furthermore, there is the conflict between the 92-year-old president Essebsi and prime minister Chahed. In July 2018, Essebsi indirectly called for Chahed's resignation. Meanwhile, Chahed is said to have ambitions to become president himself.

Selected figures Tunisia

	2018*
Population (millions)	11.7
GDP, nominal (ppp, USD billions)	142
GDP, real (% yoy)	2.4
Inflation rate (% yoy)	7.4
Budget balance (% of GDP)	-5.9
Current account balance (% of GDP)	-11.8
Public debt (% of GDP)	73
External debt (USD billions)	35
Exports to Tunisia (EUR billions)	1.49
Imports from Tunisia (EUR billions)	1.77
Main exports	consumer and mechanical goods, agricult. prod.
Main imports	consumer goods, machinery, fuels

* Estimates, except for external trade figures

ppp=purchasing power parity

Sources: EIU, Federal Statistical Office, Helaba Research



Nigeria: Buhari's weak performance

The most populous country in Africa, with almost 200 million inhabitants, holds presidential elections in February. Just a few hours before the election poll, the Electoral Commission surprisingly postponed the election date by one week to 23 February due to logistical difficulties. So far, this is no reason for concern. Already four years ago, the presidential elections had been postponed by several weeks, but then passed off relatively calm. The then incumbent Goodluck Jonathan accepted his defeat and handed over the presidency to his successor Muhammadu Buhari of the *All Progressives Congress* (APC).

The 76-year-old Buhari, who spent much of last year in London due to ill health, now runs again for office. His main challenger, 76-year-old Atiku Abubakar of the *People's Democratic Party* (PDP), a former vice president and businessman, tries to emphasize his economic competence. A close result is expected in the ballot. Meanwhile, the precarious security situation in the northeast of the country persists. Buhari has not been able to eliminate the terrorist group Boko Haram, one of his key election promises in 2015.

Economy fails to revive

On the economic front, Buhari's performance has been even worse. Economic growth increased slightly to 2.1 % in 2018 due to a recovery in oil prices. However, growth is well below potential and is also lower than population growth. The Nigerian economy is dominated by oil and gas, which together account for 9 % of GDP, over half of government revenues and almost 90 % of exports. Apart from the oil sector, economic activity is improving with dynamic growth in telecommunications and banking.

Lowest revenue base in Africa

At first glance public debt seems to be extremely low at 17 % of GDP. However, at 3 % of GDP government revenue is the lowest in Africa, constraining overall debt capacity. On the external side, however, Nigeria is one of the less vulnerable countries. Foreign exchange reserves are as high as external debt. The currency devaluations of 2016 and 2017 allowed foreign exchange reserves to recover significantly. Since then, the central bank has kept the exchange rate of the naira stable against the US dollar.

Selected figures Nigeria

	2018*
Population (millions)	196
GDP, nominal (ppp, USD billions)	1,156
GDP, real (% yoy)	2.1
Inflation rate (% yoy)	12.14
Budget balance (% of GDP)	-2
Current account balance (% of GDP)	2.7
Public debt (% of GDP)	17
External debt (USD billions)	49
Exports to Nigeria (EUR billions)	0.87
Imports from Nigeria (EUR billions)	2.4
Main exports	crude oil, gas
Main imports	machinery, chemicals, transport equipment

* Estimates, except for external trade figures

ppp=purchasing power parity

Sources: EIU, Federal Statistical Office, CIA World Factbook, Helaba Research



Ethiopia: Ahmed turns the country upside down

President Abiy Ahmed only came into office in April 2018 and has already completely redirected his country politically and economically. Shortly after beginning his term in office, he surprised observers when he signed a peace treaty with the archenemy Eritrea and initiated mutual cooperation with his neighbour. Between 1998 and 2000, both countries waged a bloody border war against each other.

Not all Ethiopians agree
with radical reforms

Domestically, Ahmed made concessions to the opposition. Thus, political prisoners were released and a true multiparty democracy is to be introduced. Half of government members are now made up of women. Not everyone agrees with this quick opening. The former ruling elite of the Tigray ethnic group criticizes the peace agreement with Eritrea. There was an attack on Ahmed at a political rally in mid-2018. Violent protests also erupted in some regions. Formerly suppressed ethnic groups use the new freedom to settle old scores. So far, the opposition does not have a single seat in parliament. The next parliamentary elections are scheduled for 2020.

With economic growth well above 7 %, Ethiopia is the growth champion on the continent. The hitherto state-led economic model is to be liberalized. Numerous privatizations, e.g. in telecommunications, logistics, energy supply and aviation, are planned or already initiated. The government hopes for efficiency gains and more competition. The „Growth and Transformation Plan II“ aims to transform the agricultural economy into Africa's largest manufacturing hub. Therefore, it targets annual growth rates of 11 %, which we think is a bit too optimistic.

Foreign exchange short-
age plagues businesses

However, high growth rates hide external imbalances. Costly imports for numerous infrastructure projects and the narrow export base dominated by weather-dependent agricultural products (mainly coffee) lead to current account deficits of almost 10 % of GDP. The Ethiopian economy suffers from a chronic shortage of foreign currency. At the end of 2018, foreign exchange reserves covered the imports of just two months. Among the major African economies, Ethiopia is one of the countries with the lowest ratio of foreign reserves to external debt. Besides the official exchange rate there is a parallel exchange rate and companies report long waiting periods to obtain foreign exchange.

Selected figures Ethiopia

	2018*
Population (millions)	107.5
GDP, nominal (ppp, USD billions)	217
GDP, real (% yoy)	7.6
Inflation rate (% yoy)	13.5
Budget balance (% of GDP)	-2.9
Current account balance (% of GDP)	-9.5
Public debt (% of GDP)	59
External debt (USD billions)	30
Exports to Ethiopia (EUR billions)	0.25
Imports from Ethiopia (EUR billions)	0.15
Main exports	coffee, oilseeds, vegetables, flowers
Main imports	machinery, aircraft parts, metal products

* Estimates, except for external trade figures

ppp=purchasing power parity

Sources: EIU, Federal Statistical Office, CIA World Factbook, Helaba Research



Kenya: Domestic tensions ease

Constitutional Court
demonstrates
independence

In Kenya elections are always a cause for unrest. Memories of the riots in the aftermath of the announcement of the results of the presidential elections in early 2008 are still present. In those days more than 1,000 people died and hundreds of thousands had to flee. The last presidential elections in mid-2017 too, did not pass without conflict. The opposition questioned the legitimacy of the electoral victory of incumbent Kenyatta. Protests erupted leaving many people dead or injured. The Constitutional Court upheld the appeal of opposition candidate Odinga for new elections, a rarity on the continent. Since Odinga boycotted the subsequent elections, Kenyatta could still prevail in the second attempt. As a result, the opposition tried to hamper the political process. Surprisingly, in early 2018 reconciliation took place between Kenyatta and Odinga. This and the fact that the next elections will be held only in 2022 should ease political tensions.

With growth at almost 6 %, the economy performed well in 2018. Buoyed by consumption and investment, the favourable economic situation should persist. However, this assumes no political unrest and a favourable harvest. In the past, economic growth declined significantly during election years and periods of severe drought. Agriculture accounts for 37 % of GDP and is the main source of income for most Kenyans.

Interest rate cap
dampens lending

Kenya's banking sector is well developed compared to most other African countries. Businesses have in general good access to bank loans. However, the interest rate cap adopted by parliament in September 2016 has persistently harmed the financial sector. Credit growth plummeted and has not recovered since, bank profitability declined and monetary policy effectiveness has been curbed.

Kenya is a member of the *East African Community* (EAC), an organization dedicated to closer economic and political cooperation. Besides Kenya, members include Burundi, Rwanda, South Sudan, Tanzania and Uganda. Compared to other African regional economic organizations, cooperation within the EAC works relatively well. Kenya is pushing for a deepening of the common regional market. A customs union has already been introduced, but the implementation of the planned monetary union is likely to take some time.

Selected figures Kenya

	2018*
Population (millions)	51
GDP, nominal (ppp, USD billions)	175
GDP, real (% yoy)	5,8
Inflation rate (% yoy)	4,7
Budget balance (% of GDP)	-6.8
Current account balance (% of GDP)	-5.4
Public debt (% of GDP)	58
External debt (USD billions)	32
Exports to Kenya (EUR billions)	0.37
Imports from Kenya (EUR billions)	0.13
Main exports	tea, flowers, coffee, fish, cement, clothes
Main imports	machinery, transport equipment, fuels

* Estimates, except for external trade figures

ppp=purchasing power parity

Sources: EIU, Federal Statistical Office, CIA World Factbook, Helaba Research



Ghana: In the future without IMF funds?

In mid-February the German Minister for Economic Cooperation and Development travelled to Ghana to participate in a German-African economic conference. He pointed to the interesting investment opportunities for German companies and called Ghana an „African reform champion“. In fact, Ghana's economy is performing well, as highlighted by growth rates of 8.1 % in 2017 and 6.5 % in 2018. However, Ghana's economy is largely dominated by commodities. Exports are almost entirely made up of raw materials. Therefore, the industrialization of the country should be accelerated. During the last election campaign, the ruling *New Patriotic Party* (NPP) promised to build at least one industrial plant in each of the 254 districts by the year 2020. Due to infrastructure constraints, an insufficiently qualified workforce and persistent deficiencies in the business climate, this target may be too ambitious.

IMF programs did not eliminate twin deficits

High budget and current account deficits have plagued Ghana for years. Repeatedly Ghana had to recourse to IMF support (last program from 2015 to 2019). As a result, foreign exchange reserves were kept at a satisfactory level overall. The local currency, cedi, is extremely volatile and vulnerable to global tensions as well as declining investor confidence in emerging markets. The government is fundamentally committed to a free floating exchange rate, but some capital controls remain in place. That is why the procurement of foreign currency can be time-consuming.

At 54 % of GDP, government debt is almost three times higher than government revenue. Consolidation of the budget, and in particular an increase in revenue, remains the focus of the government. In election years, budget deficits regularly get out of hand, but the Ghanaian governments have always managed to bring the deficit down the following year. Strong economic and export growth continue to ensure debt sustainability. After the expiration of the current IMF program in April, the government does not intend to agree on a new loan program with the institution, but still wants to benefit from the IMF's expertise in managing fiscal policy.

Example of democracy in Africa

Democracy and the rule of law are well established in Ghana and there is generally a smooth transition of power. The political landscape is dominated by the ruling NPP and the opposition *National Democratic Congress* (NDC). The awareness of the population that elections could actually lead to changes considerably limits the potential for domestic unrest.

Selected figures Ghana

	2018*
Population (millions)	29.5
GDP, nominal (ppp, USD billions)	140
GDP, real (% yoy)	6.5
Inflation rate (% yoy)	9.8
Budget balance (% of GDP)	-4.3
Current account balance (% of GDP)	-4.2
Public debt (% of GDP)	54
External debt (USD billions)	21
Exports to Ghana (EUR billions)	0.23
Imports from Ghana (EUR billions)	0.39
Main exports	gold, crude oil, cocoa, timber
Main imports	capital goods, crude oil, foodstuff

* Estimates, except for external trade figures

Sources: EIU, Federal Statistical Office, Helaba Research

ppp=purchasing power parity



Angola: Adjusting to lower oil prices

The collapse of the oil price in late 2014 has dealt a heavy blow to the Angolan economy. Subsequently, economic growth fell sharply. In 2016 and 2018 the country even slipped into recession. Since 2015, per capita growth has been negative. As oil accounts for about 90 % of exports, foreign exchange reserves declined from 27 billion US dollar in 2014 to 17.5 billion US dollar in 2017. To halt the outflow of foreign currency, the central bank was forced to float the exchange rate of the Angolan kwanza in early 2018. In the course of 2018, the kwanza lost about half of its value against the US dollar.

Stabilizing effect of exchange rate liberalization and IMF program

The economy is gradually adjusting to the lower oil price level. Thus, the liberalization of the exchange rate in 2018 led to the first current account surplus since 2013. The slight recession of the previous year should come to an end in 2019. After the high deficits of the past years, the government budget was roughly balanced in 2018. At the end of 2018, the new president Lourenço reached an agreement with the IMF on a three-year program (3.7 billion US dollar). His predecessor had always resisted an IMF program. In addition, China provides loans for infrastructure projects. Angola must be careful not to let public debt get out of control. Between 2013 and 2018, it increased from 33 % of GDP to an estimated 75 %.

Difficult business environment a burden for companies

The macroeconomic stabilization plan seeks to reduce the role of the state in the economy in favour of the private sector. Several privatizations are on the agenda. The second largest oil producer in Sub-Saharan Africa is seeking to diversify its economy. However, this is a Herculean task, given the extremely bad business climate. In the World Bank's *Doing Business Ranking* the country ranks 173 out of 190 countries.

In September 2017, for the first time in 38 years, change of power took place in Angola: José Eduardo dos Santos handed over the presidency to João Manuel Gonçalves Lourenço. He has since consolidated his grip on power over state and party and pushed back the influence of dos Santos and his children. So far, Lourenço seems to enjoy the support of the Angolan people. Especially the efforts in the fight against corruption are well received by his compatriots. It remains to be seen whether his popularity remains at a high level, once difficult IMF reforms are to be implemented.

Selected figures Angola

	2018*
Population (millions)	30.8
GDP, nominal (ppp, USD billions)	191
GDP, real (% yoy)	-0.7
Inflation rate (% yoy)	20.3
Budget balance (% of GDP)	0.1
Current account balance (% of GDP)	2.2
Public debt (% of GDP)	75
External debt (USD billions)	38
Exports to Angola (EUR billions)	0.14
Imports from Angola (EUR billions)	0.05
Main exports	crude oil, gas, diamonds
Main imports	consumer goods, chemicals, paper, plastics

* Estimates, except for external trade figures

Sources: EIU, Federal Statistical Office, Helaba Research

ppp=purchasing power parity



Ivory Coast: 2020 election casting its shadows

In Ivory Coast, all eyes are on the 2020 presidential election. Potential candidates try to position themselves. In 2018, the governing coalition broke up. Henri Konan Bédié, together with his *Parti Démocratique de Côte d'Ivoire* (PDCI), resigned from government to lead the opposition against president Alassane Ouattara's *Rassemblement des Houphouëtistes pour la Démocratie et la Paix* (RHDP) in the 2020 elections. In early February 2019, the president of parliament Guillaume Soro resigned. He had previously rejected an offer to join the RHDP. It is widely believed that he, too, has his eye on the presidency.

Highest GDP growth
in West Africa

Despite the political turmoil, the economy is in excellent shape. Since the end of the civil war in 2011, annual economic growth has averaged over 8 %. A stable political environment, high public investment and reforms to improve the business climate have a positive impact. According to the World Bank's *Doing Business Report*, Ivory Coast is one of the ten countries in the world that have implemented the most pro-business reforms last year (improvement from rank 139 to 122 out of 190 countries). Bureaucratic processes have been streamlined, corporate tax law simplified and access to credit improved.

Since 2016, the government has been pursuing a national development plan with the goal of implementing structural reforms aimed at strengthening growth, improving macroeconomic stability, reducing poverty and distributing wealth more equally. The IMF supports the government through a three-year program (loan volume of around 900 million US dollar). Public debt has remained broadly constant at about 44 % of GDP in recent years. However, the revenue base is very low at 17 % of GDP.

Good investment
conditions

The external sector is in a healthy position. The current account deficit of approximately 3 % of GDP is mainly financed through loans and foreign direct investment. That is why foreign currency reserves, at just over 6 billion US dollar, cover imports of about six months, a fairly high level. The national currency, the CFA franc, is pegged to the euro at a fixed exchange rate. The convertibility of the currency is guaranteed by the French Ministry of Finance.

Selected figures Ivory Coast

	2018*
Population (millions)	24.9
GDP, nominal (ppp, USD billions)	105
GDP, real (% yoy)	7.4
Inflation rate (% yoy)	0.5
Budget balance (% of GDP)	-4.2
Current account balance (% of GDP)	-3.2
Public debt (% of GDP)	44
External debt (USD billions)	16
Exports to Ivory Coast (EUR billions)	0.21
Imports from Ivory Coast (EUR billions)	0.98
Main exports	cocoa, coffee, timber, crude oil, cotton
Main imports	fuels, capital goods, foodstuff

* Estimates, except for external trade figures

ppp=purchasing power parity

Sources: EIU, Federal Statistical Office, CIA World Factbook, Helaba Research



Tanzania: Donors quarrel with Magufuli

Since 2015, John Magufuli of the *Chama Cha Mapinduzi* (CCM) party is president of the country. Since the introduction of a multi-party system in 1992, the CCM won all presidential and parliamentary elections. Magufuli is increasingly intolerant of other opinions, demonstrating a rather authoritarian style of governing. For instance, a law criminalizing doubts about official statistics has been adopted. The human rights situation also worsened. The government is cracking down on homosexuality and wants to exclude pregnant girls from attending school. In response to this move, the World Bank and Denmark have already frozen their grants. The EU is considering similar steps. There is also criticism from the US. At the next presidential election, it is widely expected that Magufuli will run again for a second and then final term. If he runs, he is likely to win.

Economic policy not
compatible with
development strategy

At 5.5 % in 2018, the economy grew at a slower pace than in previous years. Investors are worried about the government's inconsistent economic policy. The government is basically trying to promote industrialization and reduce poverty through five-year development plans as part of its „Development Vision 2025“. The private sector is supposed to play an important role in this context. Tax increases, frequent legislative changes and insufficient transparency threaten the successful implementation of the plan. Nevertheless, the government targets high levels of public investment, including in the field of energy supply.

Unrealistic budget
planning

The budget deficit is moderate at just over one percent of GDP and public debt is only at 37 % of GDP. However, budget revenues are low at around 16 % of GDP. Similar to other low-income countries with a large informal sector, the country faces the problem of a low revenue base. Unrealistic revenue and expenditure estimates in the state budget often lead to domestic arrears.

In 2015, the Tanzanian shilling depreciated considerably. Since 2016, the central bank has kept the exchange rate largely stable with only minor devaluations. Foreign exchange reserves are sufficiently available and amount to more than double the value of short-term external debt.

Selected figures Tanzania

	2018*
Population (millions)	59.1
GDP, nominal (ppp, USD billions)	175
GDP, real (% yoy)	5.5
Inflation rate (% yoy)	3.5
Budget balance (% of GDP)	-1.3
Current account balance (% of GDP)	-3.8
Public debt (% of GDP)	37
External debt (USD billions)	19
Exports to Tanzania (EUR billions)	0.15
Imports from Tanzania (EUR billions)	0.07
Main exports	gold, coffee, cashew nuts
Main imports	consumer goods, machinery, transport equip.

* Estimates, except for external trade figures

ppp=purchasing power parity

Sources: EIU, Federal Statistical Office, CIA World Factbook, Helaba Research ■