momentum

momentum
africa handbook

september 2014

Potential lies in what you envision,
not what you see




Momentum is a leading
African investment
management business

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introduction

Africa presents a compelling long-term investment opportunity as a result of the vast resources, young demographic and expected development of the African continent over the next 20 years and beyond. This opportunity requires a knowledge and understanding of Africa. At Momentum, we draw from our highly-skilled and experienced internal teams of investment professionals and our well-researched network of external managers to present the best of Africa to the world.

Momentum is a leading African investment management brand. It is a wholly-owned subsidiary of the MMI Group, an African-based financial services group listed on the Johannesburg Stock Exchange (JSE) as MMI Holdings, with a market capitalisation of circa US$4 billion as at 31 December 2013. The Group is one of the largest life insurance and investment business in South Africa, employing more than 16 000 people, with an evolving footprint across Africa, and a presence in 13 other African countries and offices in London, New York and Hong Kong.

As an investment business, our expertise includes traditional (long only) asset management, alternatives and property, delivering a wide range of single and multi-asset investment solutions to retail and institutional clients. We manage assets in excess of US$35 billion (out of circa US$55 billion, with the remainder being managed by MMI's corporate balance sheet management division, and others outsourced in bespoke mandates), and employ approximately 450 people in our investment offices based in Johannesburg, Pretoria, Cape Town, Windhoek, and London.

The investment and service offering to global investors, including our unique specialist African funds, is championed by our growing investment management business based in London, Momentum Global Investment Management, and its New York-based subsidiary, Momentum Africa Investments LLC.

African reach

- MMI Holdings Limited, one of the largest life insurers in Africa
- Growing African footprint
- Highly skilled African-based investment teams

African expertise

- Single management
- Multi management
- Real estate
- Alternative investments

Global impact

- Global investment management
- Global networks
- Global relationships


African footprint
Life and health
Short-term insurance
Pension fund administration
Real estate
Asset Management
Nigeria
Ghana
Kenya
Tanzania
Zambia
Namibia
Botswana
Mozambique
Swaziland
Lesotho
South Africa

company overview



About MMI Holdings Limited

MMI Holdings Limited (MMI) is a South African-based financial services group listed on the South African stock exchange, the JSE. MMI is one of the four largest insurance-based financial services groups listed on the JSE, with assets under management /administration of more than US$55 billion, an embedded value of US$3.5 billion, and a National Fitch Credit long term rating of A+.

The core businesses of MMI are long and short-term insurance, asset management, savings, investment, healthcare administration and employee benefits. These product and service solutions are provided to all market segments through operating brands, Metropolitan and Momentum.

Metropolitan has been providing medium to long-term life insurance solutions since 1898, with an initial focus on retail business, sold on both an individual and a group basis. Momentum established its life assurance business in 1966.

All the MMI businesses are organised into segmented businesses and product and solutions business, supported by group-wide functions.

The segment businesses house two key capabilities:

- Segment capabilities that focus on understanding and fulfilling the needs of specific client segments by designing solutions that meet clients' financial wellness needs.
- Channel capabilities that focus on all client interaction, including sales and service, using a wide range of appropriate channels.

The products and solutions business has the capabilities necessary to create products and solutions that meet our clients' financial wellness needs, which the segment businesses identify.

The operating business model of the group supports our client-centric strategy and comprises four-business segments, one products and solutions business, supported by group-wide functions.

The four segment businesses are:

- **Momentum Retail** focuses on understanding and meeting the financial wellness needs of consumers in the South African middle to upper income segments, as well as their associated small businesses. In addition, it is responsible for all interaction with clients in these segments, using the distribution and service channels relevant to middle to upper income clients.
- **Metropolitan Retail** focuses on understanding and meeting the financial wellness needs of consumers in South Africa's lower income segment. The business is also responsible for client interaction and therefore manages the distribution channels and client service capabilities relevant to lower-income clients.
- **Corporate and public sector** concentrates on understanding and meeting the financial wellness needs of medium to large group clients in the corporate and public sector segments. The business also manages the distribution channels used to interact with clients in these segments.
- **International**, covering all markets outside of South Africa, including emerging markets with a focus on other African countries, India and select markets in South East Asia, and select developed markets with a focus on the United Kingdom. The business is responsible for identifying and meeting clients' financial wellness needs, as well as for interacting with clients in the multiple segments of the countries where we are represented (and will be represented in the future). This is done through multiple distribution channels and using the client-facing brand(s) appropriate to the country or region.

The products and solutions business comprises centres of excellence that design solutions to meet the financial wellness needs of clients, identified in conjunction with the segment businesses. The products and solutions business are as follows:

- Specialised insurance solutions (Guardrisk);
- Defined contribution pension fund solutions (FundsAtWork);
- Individual life and general insurance solutions;
- Group insurance solutions;
- Health-related services and solutions;
- Savings and investment solutions; and
- Investments centres of excellence – Momentum Asset Management, Momentum Outcome-based Solutions and Momentum Global Investment Managers, based in London, and the Eris Property Group.

Company profiles

Momentum Global Investment Management	Momentum Global Investment Management was established in the UK in 1998 as the international investment and asset management arm of MMI Holdings Ltd. As with any growing business, it has evolved with the times and the ever-changing investment landscape, developing into an investment-driven business that focuses on tailored products and solutions for a diverse client base. Clients and partners span institutions, corporations, wealth managers and professional advisors in key geographical target markets: South East Asia and the Middle East, the UK and Europe, the United States and South Africa.
Momentum Africa Investments LLC	Momentum Africa Investments LLC is the New York-based subsidiary of Momentum Global Investment Management and was established in 2012.
Momentum Asset Management	Momentum Asset Management is a specialist asset manager with offerings in equity, fixed-income and multi-asset class portfolios. Its investment capabilities are focused within five key areas: Core Strategies, Fixed-income Strategies, Unconstrained Strategies, Frontier Strategies and Beta Strategies, allowing for specialisation and focused teams that cater to varied client requirements and expectations. Momentum Asset Management manages funds for many leading South African institutions, including parastatals, retirement funds, medical aids, educational institutions and corporates. It offers a diverse range of collective investments catering for investor needs and wealth accumulation. Momentum Asset Management is a wholly-owned subsidiary of MMI Holdings Limited.
The Eris Property Group	The Eris Property Group, established in 1985, is one of the leading property development and management companies in South Africa. The MMI Group holds a controlling stake in the Eris Property Group. The Eris Property Group has a history of origination and development of commercial investment property in South Africa and sub-Saharan Africa, developing commercial property assets of US$2.2 billion since 1992.
Momentum Outcome-based Solutions	Momentum Outcome-based Solutions changed its name from Momentum Manager of Managers in July 2014 with the amalgamation of Momentum Manager of Managers, Momentum Alternative Investments and Momentum Investment Consulting. Its unique value proposition is to have a client-centric approach. Their aim is to understand clients' goals and their attitudes and capacities to take on risk. They execute robust solutions by blending asset classes, strategies and investment managers in the most efficient and optimal manner through modern financial engineering techniques. Their purpose is to keep clients invested.

the investment case for africa

Macro economic trends that support the Africa investment thesis

There are a number of macro economic trends that make Africa an attractive investment destination for discerning investors. A lot of these are well documented in the press on a regular basis, but we are yet to see many global institutional investors starting to actively allocate monies to Africa. Here are the factors that we believe most strongly support the investment case for investing in Africa:

GDP growth

The most recognised trend has been the high level of economic growth experienced across most countries in the region. Many countries have grown at growth rates in excess of 4% since 2000. In 2013, despite a slowdown in global demand and political turmoil, sub-Sahara Africa grew at 4.7% and is expected to remain stable at 4.7% in 2014, according to the World Bank[1].

GDP growth rates of the three largest African economies in sub-Saharan Africa

Country	2010	2011	2012	2013e	2014f
Nigeria	7.8%	6.8%	6.5%	7.0%	6.7%
South Africa	3.1%	3.5%	2.5%	1.9%	2.0%
Angola	3.4%	3.9%	6.8%	4.1%	5.2%
SSA, excluding South Africa	6.1%	5.0%	4.2%	6.0%	5.8%

Source: World Bank

Much of the economic growth across sub-Saharan countries in recent years has been driven by domestic demand. For the last four years, domestic consumption of goods and services has accounted for two thirds of Africa's GDP[2]. There is a growing middle class, in 2001 there were 104 million people with an annual income greater than US$2700, in 2011 this number was 184 million, by 2020 it is expected to be 257 million[3]. Domestic demand will continue to be supported by investment in the resource sector and infrastructure, and expansion of the agricultural sector.

Africa's demographics and the demographic dividend

Africa has the second-largest population in the world, estimated to be 1.033 billion people, and this is set to double, to two billion, over the next 40 years[4]. Added to this, sub-Saharan Africa has the youngest population in the world, with more than half the population under the age of 25. The median age is now 20, compared with 30 in Asia and 40 in Europe. As the mass of young people in Africa are educated and become part of the working force, this will divide economic growth and we will see the dependency ratio improve. This 'demographic dividend' was crucial to the growth of East Asian economies a generation ago and offers a huge opportunity for Africa today.

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

Capital returning to the continent

Investment in the African continent is crucial to its development. Investment in infrastructure is critical to the growth and development of the region, especially in addressing power needs and improving roads. In recent years, capital inflows into the region have remained robust, hydrocarbon discoveries in countries like Mozambique and Tanzania have also helped boost investment in the region. The table below shows historical and future expected capital flows into sub-Saharan Africa:

Capital inflows in (US$ billion)

	2008	2009	2010	2011	2012	2013e	2014f	2015f	2016f
Total capital inflows, excl. FDI	13.4	29.2	20.9	36.7	53.7	44	39.7	41.8	45.4
FDI	33.6	30.2	24.0	31.5	28.8	31.9	32.5	35.6	38.4

Source: World Bank

Human capital is also returning to the African continent and we are seeing improvements in the quality of education. Many Africans who have been educated at top-rated global universities abroad and who have worked for prominent global corporations and institutions are returning home to be involved in business on the ground.

On a local level, we are seeing improvements in education, for example, in Angola, the number of children enrolled in primary school has tripled since 2001. During the same period, secondary school enrollment in Angola has gone up from 25% to 40% and adult literacy has risen from 57% to 63%[3].

Improvement in governance and political stability

There has been a marked improvement in governance and stability across the region. These can be seen in measures such as the Mo Ibrahim Index.

The Mo Ibrahim Foundation was established in 2006 with a focus on the critical importance of leadership and governance in Africa. It has created the Ibrahim Index of Africa Governance. This index is a comprehensive collection of quantitative data on governance in Africa. It is compiled in partnership with experts from a number of the continent's institutions and provides an annual assessment of governance in every African country[5]. As can been seen, there has been a marked improvement across many sub-Saharan Africa countries. The most significant improvements have been seen in countries like Botswana, Ghana and Zambia.

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

2013 Ibrahim Index on Africa governance

	2013 IIAG ranking	Score .../100	13-year change
Botswana	2	77.6	5.6
Ghana	7	66.8	5.3
Kenya	21	53.6	1.5
Mozambique	20	54.8	2.3
Namibia	6	69.5	2.3
Nigeria	41	43.4	0.8
South Africa	5	71.3	0.6
Tanzania	17	56.9	1.4
Zambia	12	59.6	8.6
Zimbabwe	47	35.4	1.5

Source: Mo Ibrahim Foundation

However, improvements in governance and political stability are something to be closely watched, especially in countries such as Nigeria. Africa's largest economy has its national, state and local elections in 2015. This will create a lot of uncertainty, where the attention is likely to be concentrated on political rallying rather than the growth of the economy. Other countries, like Kenya, have had a spate of terrorist attacks in recent months.

Africa is the future

We are very excited by Africa's prospects and the development of the continent over the next few years. The macro economic trends listed in this article are just a few of the major positive trends influencing this positive outlook on Africa, there are many other trends that we are as yet unable to asses, which may have an even more radical influence on positive investment opportunities, such as the development in the mobile technology sector and renewable energy.

By: Zee de Gersigny, Managing Director of Momentum Africa Investments LLC, Momentum Global Investment Management

Sources:

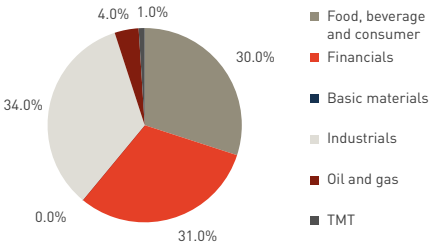
1) World Bank
2) Africa by numbers EY 2014-2013
3) Boston Consulting Group
4) The Economist, 03 December 2011, From the Print edition.
5) http://www.moibrahimfoundation.org

africa equity

Introduction into the market

Africa comprises 54 countries, numerous cultures and languages and is home to 15% of the world's population. Its land mass makes up 20.4% of the total land area of the Earth. Such statistics inform us that the continent is noteworthy in geographical terms, but what of its markets? Africa currently has 29 stock exchanges which represent 38 countries. They mostly comprise capital markets of individual countries, but there are also two regional exchanges in Africa - the BRVM (which represents the countries of Benin, Burkina Faso, Guinea Bissau, Côte d'Ivoire, Mali, Niger, Senegal and Togo) and BVMAC (representing the countries of Central African Republic, Chad, Congo, Equatorial Guinea and Gabon).

Africa ex South Africa sector split

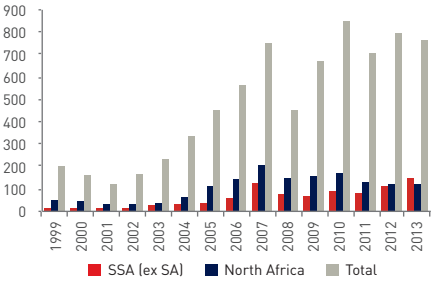


Source: Standard Bank

Size of the market

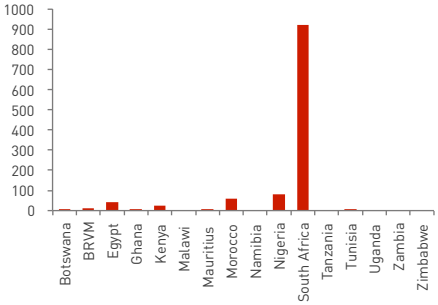
The largest markets are those of South Africa, Nigeria, Morocco, Egypt and Kenya, with South Africa and Egypt being classified as emerging markets, whilst the rest of the African markets are considered frontier. The African market landscape is dominated by South Africa in size, with a market capitalisation 10 times the size of the next biggest market, Nigeria. The number of issuances has increased over the past two years, following a slowdown in companies coming to market post the aftermath of the global financial crisis; this has increased the depth and breadth of the markets. The markets have grown over the last 10 years, from a combined market value of over US$200 billion in 1999 to over US$1 trillion currently. The financial sector generally dominates in terms of sector representation in most markets and hence they tend to be the most liquid counters, with food and beverage companies representing the next largest grouping.

Africa's market capitalisation US$ billion



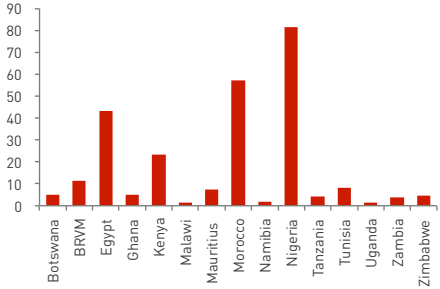
Source: Standard Bank

Market cap (including South Africa) – US$ billion



Source: African Alliance, May 2014

Market cap (excluding South Africa) – US$ billion

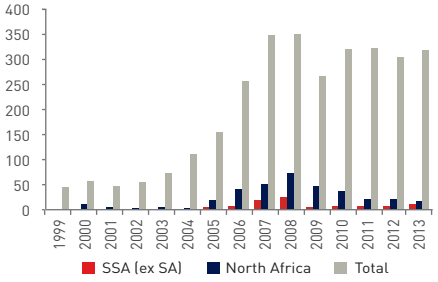


Source: African Alliance, May 2014

Liquidity of the market

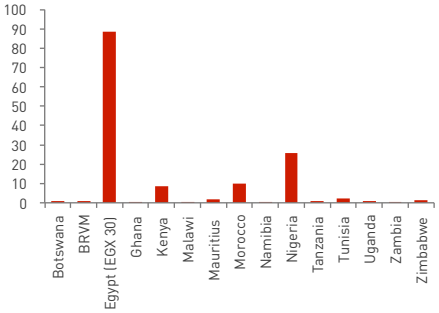
Liquidity reached its peak in 2007, but fell off dramatically after the financial crisis. It has been on an upward trajectory since 2010 as confidence returned amongst investors, albeit below its peak levels. Total market liquidity of stocks listed in Africa (as measured through average daily value traded) is greater than US$1.4 billion with South Africa again dominating with 90% of the value. Overall liquidity still remains challenging, but we believe it will continue to grow and reach levels similar to other large frontier markets in the long term.

Africa's market turnover US$ billion



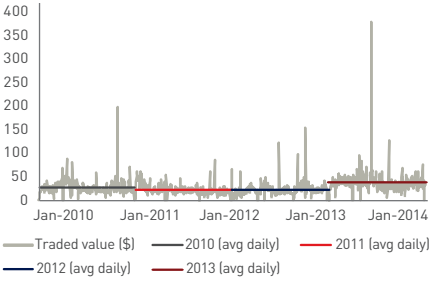
Source: Standard Bank

Average daily value traded (excluding South Africa) – US$ million



Source: African Alliance, May 2014

Sub-Saharan African average daily traded value 2010-2013 (US$ million)

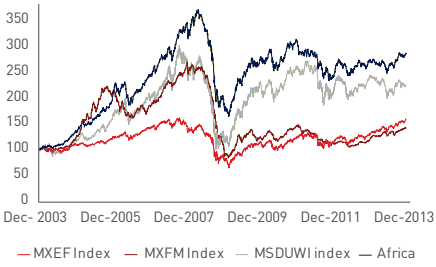


Source: Standard Bank

Return history

Frontier market returns still remains largely dislocated from global and emerging markets and represent an uncorrelated return for investors looking to diversify their investments. Africa has outperformed global, emerging and frontier markets on the back of strong economic growth, improving macros (both of which have been supportive of underlying earnings growth for companies) and consequently increased investor interest.

Africa has performed well (US$. Rebased to 100 at 31 December 2003)

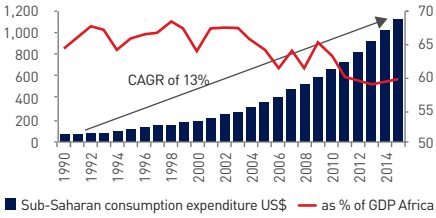


Source: Standard Bank

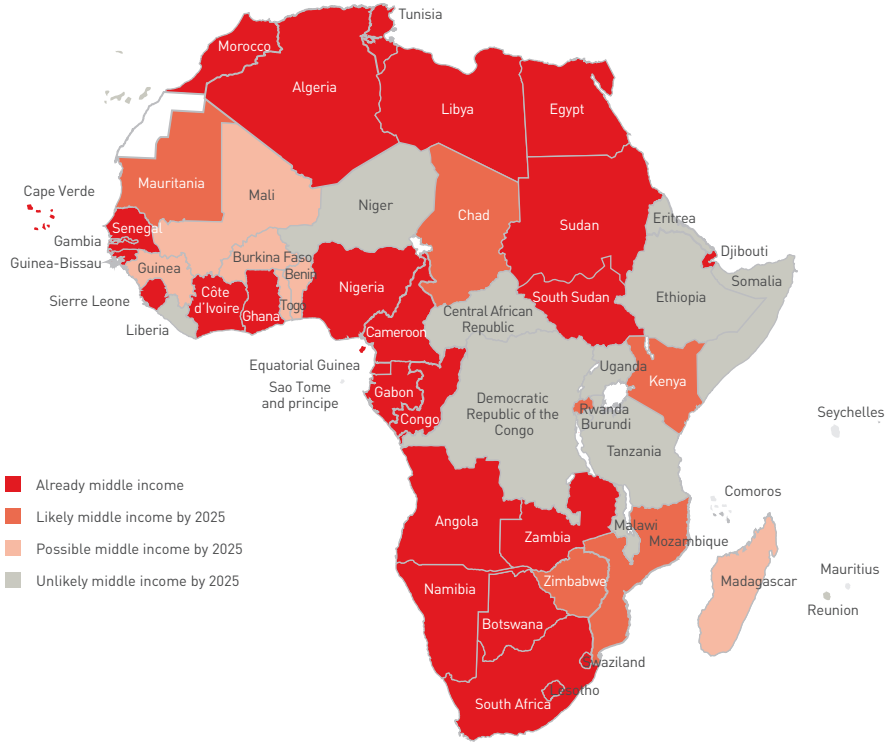
Long-term investment themes/ opportunities

Africa is the world's most youthful continent, with more than 200 million people aged fifteen to twenty-five. Furthermore, it is expected that by 2035, the continent will have the world's largest workforce. A key investment theme for the continent therefore is increasing consumption expenditure, underpinned by a growing middle class and favourable demographics.

Sub-Saharan consumption expenditure (US$ billion)

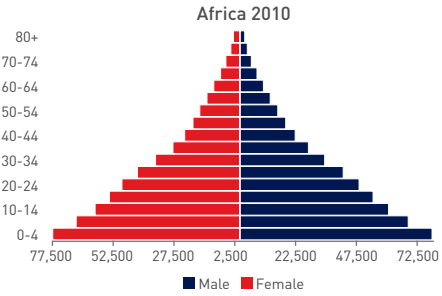


Source: BofA Merill Lynch

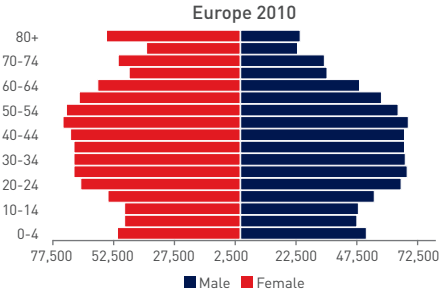


Source: Ernst & Young, Africa Attractivness Survey, 2013

Africa's favourable demographics



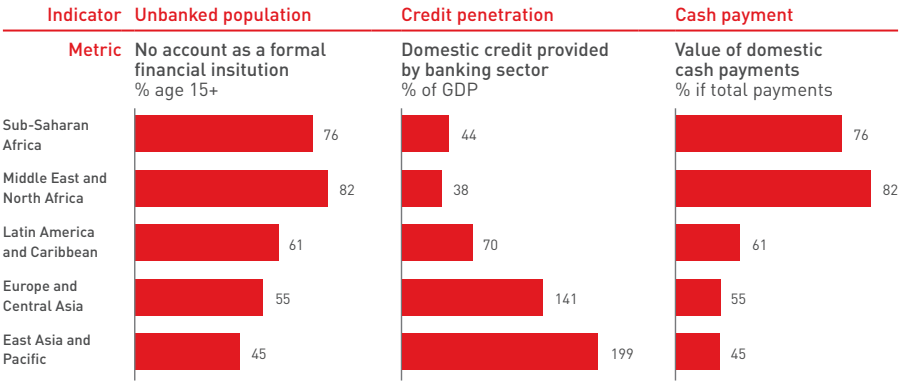
Source: Credit Suisse



Source: Credit Suisse

The consumer is central to the African investment case, other themes that take advantage of the growing income levels and positive demographics include mobile data and banking and financial services. We also believe these present us with a sustained period of growth given their low level of penetration.

Under-penetrated banking sector



Source: Mckinsey Global Institute, 2013

Mobile and internet penetration, 2012

	Mobile penetration % of population [1]	Internet penetration % of population
Algeria	103	14
Angola	49	15
Cameroon	64	5
Cote d'Ivoire	96	4
Egypt	115	36
Ethiopia	24	1
Ghana	100	14
Kenya	72	28
Morocco	120	51
Mozambique	33	4
Nigeria	68	28
Senegal	88	18
South Africa	135	17
Tanzania	57	12

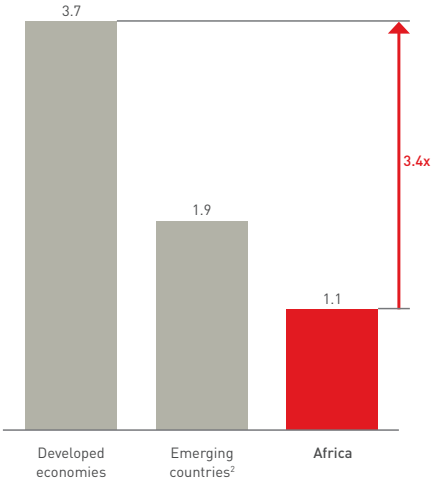
Source: McKinsey Global Institute

Further exploring the mobile theme, we note that, while mobile penetration has witnessed significant growth over the last decade across the continent, data penetration (as seen through internet penetration) across the continent remains low. This will be earnings supportive for mobile players into the medium term, particularly as smart-phone usage increases. Higher internet penetration will also be supportive of growth in other industries, for example banking and retail. Formal penetration of both these sectors remains relatively low, in Nigeria, for example (the largest consumer market), the informal food retail market accounts for c. 95% of the total market, while banking sector penetration is c. 20%.

Sources: 1) Not adjusted for multi-SIMming, i.e. individuals may own more than one SIM card and be counted multiple times.

The internet's contribution to GDP (iGDP) is much lower in Africa

iGDP, 2012% of GDP[1]



Source: McKinsey Global Institute

Infrastructure development also represents a key investment theme for the African continent. When travelling across Africa, it is abundantly clear that there is an infrastructure deficit, whether it be the rail or road network, housing or electricity production. To this end, we have seen an increase in the number of projects in our key markets. We also note that governments, together with the private sector, are looking to address this deficit into the medium term. We are therefore favourable towards industries that will benefit from increasing infrastructure spend (cement producers, real estate developers, etc).

Top 10 African destination countries for infrastructure projects, up to February 2013

	Number of projects	Sum of capital invested (US$ million)
South Africa	134	129,934.0
Nigeria	106	95,480.5
Eqypt	82	60,164.7
Uganda	63	17,730.3
Kenya	60	32,851.5
Algeria	34	87,154.1
Mozambique	31	32,085.0
Libya	29	20,668.4
Tanzania	29	16,185.1
Cameroon	25	8,470.8

By: Mishah Seth, Portfolio Manager - Africa funds, Momentum Asset Management, and Emmanuel Boakye, Portfolio Manager - Africa funds, Momentum Asset Management

Sources: 1) GDP assessed by expenditure method, with a share of each category attributed to the internet.
2) Aspiring/emerging countries data is from 2010.

africa fixed income

Introduction into the market

African fixed income is a relatively new and undiscovered asset class for international investors. There are several reasons for this. Firstly, as recently as 10 years ago, many African countries had unsustainable levels of debt as a result of a combination of borrowing to fund wars and gross economic mismanagement. Secondly, African governments typically financed themselves in local currency in the treasury bill markets, where borrowings were 90, 180 or 364 days only. There were no bonds (which are issued for a term of more than one year). Thirdly, operational complexities such as war, unpredictable dictatorships, excessive regulation, withholding taxes, poor or non-existent custody and forex shortages kept international investors away from the local markets.
Fortunately, the African fixed-income markets of today are vastly different and improved. Debt-to-GDP ratios are significantly less than in G7 countries, with many African countries boasting ratios below 50%. African countries have begun issuing treasury bonds in local currency and Eurobonds in hard currency. And, whilst operational obstacles have not completely disappeared, they are certainly reduced.

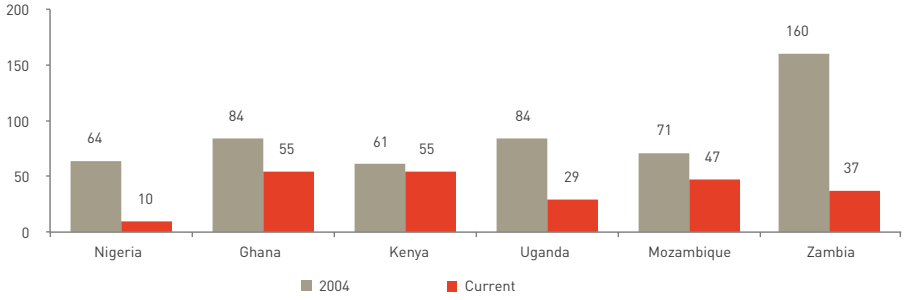
Size of the market

The local currency sovereign African fixed-income market totals US$350 billion, of which half is South African. The hard currency sovereign universe is approximately one tenth of this size and again South Africa accounts for about half of the total issuance. The African corporate Eurobond universe has US$25 billion in issuance, with the lion's share (US$17 billion) from South Africa. Outside of South Africa, most of the corporate Eurobonds are issued by Nigerian banks. There is a local currency corporate bond market, but this is small, illiquid and generally private.

Liquidity of the market

The local currency sovereign markets are the most liquid, with South Africa being by far the most liquid. South Africa is an emerging market and its financial markets are well developed and regulated, whilst the other 53 African countries can be viewed as frontier markets. Only a handful of these 53 have functioning sovereign bond markets. Following its admission into the JP Morgan's range of emerging market bond indices in September 2013, Nigeria is the most liquid local currency bond market after South Africa and it trades anything from US$100 million - US$400 million per day.

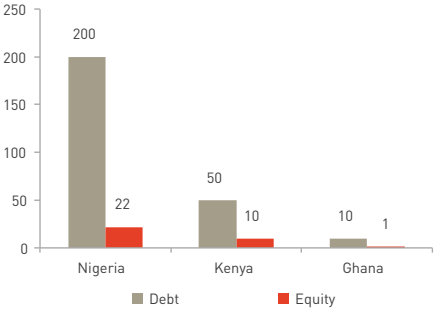
Frontier Africa: world-beating debt/GDP ratios (%)



Source: NKC, May 2014

Kenya trades US$50 million per day, Egypt US$10 million and Ghana US$10 million. Note that these markets are more liquid than the corresponding equity markets in each country. In comparison, the hard currency African Eurobond markets (excluding South Africa) trade US$10 to US$40 million per day for the sovereigns and US$5 to US$10 million per day for the corporates.

Daily trading volumes in debt and equity markets of certain African countries (US$ million)



Source: Insparo, May 2013 and Bloomberg, June 2014

Return history

Given this is a new asset class, historical return information is scarce. However, I would point to the following:

- The universe of African hard currency Eurobonds currently trades at an average yield of approximately 5% and an average price of approximately 105. It is important to remember that many of these bonds were issued at a discount, so the capital appreciation has been more than the average 5% implied above. For example, the Ivory Coast 2032 bond is trading at a price of 97 compared to an issue price of 61 in April 2010 and the Mozambique bond 2020 bond is trading at a price of 100 compared to an issue price of 92 in September last year.
- Most African local currency markets trade at healthy double-digit yields and again capital appreciation has assisted investors in recent years. For example, the Nigeria 2022 10-year bond was issued at par in February 2012 at a yield of 16.39%. It currently trades at a price of 116 versus a 3% decline in the Nigerian currency since issue.

Long-term investment themes/ opportunities

There are three good reasons why investors should consider the Africa fixed-income asset class:

- Investors are currently paid a healthy yield, the 'Africa yield' to lend to African governments and corporates. African local debt currently trades at double-digit yields when compared with other frontier markets, emerging markets, and certain developed markets, whilst African Eurobonds trade at an approximate average excess spread of 4% over US treasuries.
- African countries have some of the world's healthiest balance sheets, if measured on a debt/GDP basis.
- There is significant potential for these yields to compress (and investors to benefit from the resulting capital gains) as (1) more African countries are included in global fixed-income indices, (2) African countries receive credit upgrades (only four African countries are currently ranked as investment grade) and (3) as the world starts to believe the 'Africa renaissance' story.

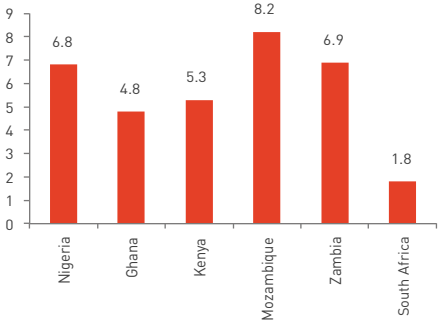
By: David Lashbrook, Head of Africa Investment Strategies, Momentum Global Investment Management

africa real estate

Africa real estate as an asset class is well supported by many of the key investment themes, which make Africa an attractive investment destination. This is coupled with market demand and supply constraints that further add to the opportunities in this asset class.

Sustained levels of high economic growth

Current GDP growth rate (%)



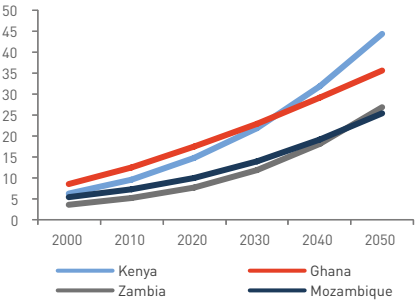
Source: African countries: NKC (2014 forecast as at May 2014), others: www.tradingeconomics.com, 2014 forecast as at May 2014

Many countries in sub-Saharan Africa, outside of South Africa are growing at GDP growth rates in excess of 4% per annum. The growth and development of these economies is creating demand for quality real estate in many cities where there has been limited investment in infrastructure since the mid part of the 20th century.

Growing populations and mass urbanisation

It is well documented that Africa's population is set to double over the next 40 years, from an estimated 1 033 billion people to two billion[1]. This, in addition to the mass urbanisation that is taking place across the African continent, is further driving demand for quality real estate assets. The following graph shows the expected growth in the urban populations of Kenya, Ghana, Zambia and Mozambique.

Growth of urban populations in Kenya, Ghana, Zambia and Mozambique (millions)



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2010 Revision and World Urbanization Prospects: The 2011 Revision, as at 30 December 2013

The growing middle class

In 1980, 26% of Africa's population was considered middle class, and by 2010 this has accelerated to 34% according to the African Development Bank[2]. This annual growth rate of 3.1% in the middle class is comparatively significant when considering the population growth was just 2.6%. It is this growing middle class that is driving demand for global products, services and brands. Many global retailers, including South Africa's Shoprite, PicknPay and Mr Price, are using this opportunity to expand their operations into Africa. The formalisation of these markets requires the support of a physical infrastructure that, in many cities, does not exist.

An example of this is the limited number of shopping centres in many of the major cities in Africa. To put this into perspective, the greater Johannesburg in South Africa has 84 shopping malls servicing a population of eight million, whilst the countries included in the table below have less than four shopping centres across all major cities.

Comparison of country populations, current urban populations and the number of regional-size shopping malls

Detail	Ghana	Kenya	Mozambique	Nigeria	Zambia
Current population (m)	25	44	24	170	14
Current urban population (m)	13	11	7	85	5
Forecast 2050 urban population (m)	36	44	25	278	27
Number of regional-size shopping malls greater in size than 10 000m^2	2	4	0	4	2

Source: NKC, Momentum Africa Handbook 2013, Eris, Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2010 Revision and World Urbanization Prospects: The 2011 Revision, as at 30 December 2013

Repeating the South African experience

Real estate in South Africa has been one of the top-performing asset classes over the last 10 years and we believe the development and growth we have seen in this market will be repeated across the rest of Africa.

South African real estate has returned 17.5% per annum over the last 10 years, as measured by the IPD South Africa Property Index. Capital growth has accounted for an average of 8.3% of growth per annum and income 9.1% of the return. The market capitalisation of the JSE listed property sector has grown from US$1billion to US$25 billion over the last 12 years. As other African markets, such as the ones highlighted above, continue to grow and develop, we expect to see similar outperformance of the real estate asset class, as seen in South Africa.

Conclusion

The factors listed above, and many more such as increased political stability in the region, development of African financial markets, increase in foreign direct investment and the growth and development of local financial institutions, all bode well for this asset class and the potential returns for investors who are prepared to invest for the next eight to 10 years.

By: The Eris Property Group

Sources:
1) The Economist, 03 December 2011, From the Print edition
2) Source: African Development Bank – The Middle of the Pyramid: Dynamics of the Middle Class in Africa (20 April 2011)

Selected country overviews

2013/2014

Detail	South Africa	Nigeria
Nominal GDP (US$bn)	355.93	504.32
Nominal GDP: World ranking	33 out of 188 countries (IMF)	25 out of 188 countries (IMF)
Real GDP (% change, y-o-y)	1.89	7.31
GDP growth: World ranking	127 out of 189 countries (IMF)	20 out of 189 countries (IMF)
GDP per capita (US$)	6,743.64	2,904.82
Agriculture as % of GDP	2.55	22.22
Industry as % of GDP	28.57	25.32
Services as % of GDP	68.89	52.47
Total government debt as % of GDP	46.35	10.58
Total external debt as % of GDP	45.2	2.2
Consumer price inflation (average, %)	5.75	8.5
Current account balance as % of GDP	-5.8	3.7
Equity market: Size in US$	US$512 billion	US$79.1 billion
Equity market: Listed companies	399 primary listings	200 primary listings
Bond market size	US$119 billion government bonds outstanding in the domestic market	US$53.5 billion (end March 2014) government bonds outstanding in the domestic market
Sources:	IMF, NKC Research	IMF, NKC Research, Bloomberg

Egypt	Kenya	Ghana
270.12	44.77	43.95
42 out of 188 countries (IMF)	84 out of 188 countries (IMF)	86 out of 188 countries (IMF)
2.1	4.7	6.28
123 out of 189 countries (IMF)	41 out of 189 countries (IMF)	42 out of 189 countries (IMF)
3,291.84	1,009.48	1,696.61
14.51	26.81	21.97
39.17	19.26	28.58
46.32	53.93	49.45
93.87	50.02	59.02
18.24	26.35	28.51
9.47	5.72	11.65
-1.6	-8.18	-12.98
US$74.4 billion	US$23.8 billion	US$3.89 billion
238 including NILEX listings	63 primary listings	32 primary listings
US$135 billion government bonds outstanding in the domestic market	US$13.1 billion (end January 2014) government bonds outstanding in the domestic market	US$6.03 billion (end December 2013) government bonds outstanding in the domestic market
IMF, NKC Research, Bloomberg, Ministry of Finance	IMF, NKC Research	IMF, NKC Research, BoG, Bloomberg

country profiles

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- Tanzania 136
- Zambia 148
- Zimbabwe 160



botswana



Demographics

Population:	2 155 784 (July 2014 est.)
Population: world ranking	145 out of 240 countries (CIA)
Life expectancy (years)	Total population: 54.06; male: 55.75; female: 52.32 (2014 est.)
Main ethnic groups	Tswana (or Setswana) 79%, Kalanga 11%, Basarwa 3%, other, including Kgalagadi and white 7%
Business language	English, Setswana, Kalanga
Urban population	62.3%
Population below national poverty line	19.3% (2009 est.)

Sources: CIA, World Bank

Geography

Area in sq km	581 730
Area: World ranking	48 out of 252 countries (CIA)
Climate	Semiarid; warm winters and hot summers
Natural resources	Diamonds, copper, nickel, salt, soda ash, potash, coal, iron ore, silver

Sources: CIA, World Bank

Sovereign ratings

S&P	A-/Stable
Fitch	N/R
Moody's	A2/Stable

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	13.26	**Total government debt as % of GDP**	18.13
Nominal GDP: World ranking	118 out of 188 countries (IMF)	**Total external debt as % of GDP**	21.36
Real GDP (% y.o.y)	5.49	**Consumer price inflation (average, %)**	5.92
GDP growth: World ranking	78 out of 189 countries (IMF)	**Current account balance as % of GDP**	11.24
GDP per capita (US$)	6,559.87	**Equity market: Size in US$**	US$4.89bn
Agriculture as % of GDP	2.82	**Equity market: Listed companies**	22 primary listings
Industry as % of GDP	35.46	**Bond market size**	US$788m govt bonds outstanding in the domestic market
Services as % of GDP	61.71		

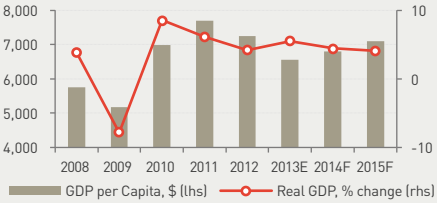
Sources: IMF, NKC Research, Bloomberg (Stock market), Reuters (Bond market)

Political environment	
Government type	Parliamentary republic
Head of state	President Seretse Khama Ian Khama
Head of government	President Seretse Khama Ian Khama
Ruling political party	Botswana Democratic Party (BDP)
Main opposition parties	Botswana Movement for Democracy (BMD), Botswana Alliance Movement (BAM), Botswana Congress Party (BCP), Botswana National Front (BNF)
Elections	Elections last held on 20 October 2009 and due next in October 2014

Source: NKC Research

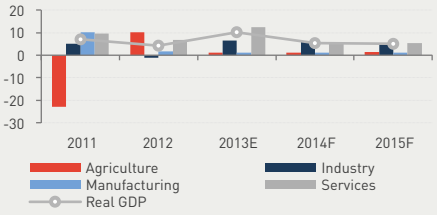
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



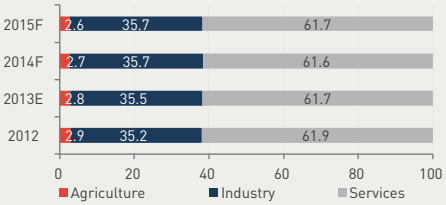
Source: NKC Research

According to the statistics office, real GDP grew by 4.7% y-o-y in the fourth quarter of 2013, following a revised 6.9% y-o-y expansion in the preceding quarter. The economy's overall expansion was supplemented by strong numbers from the mining sector, which averaged 15.8% y-o-y growth during the last three quarters of the year, after slowing to 3.6% y-o-y in the first quarter. Other sub-sectors showing strong growth in 2013 included hotels and restaurants (7.2%), post and telecommunications (8.3%), and real estate and business services (9.6%). On the other hand, the agricultural and manufacturing sectors showed lacklustre expansion last year, averaging 2% and 2.1%, respectively.

With regard to economic structure, the mining sector continues to be the largest sub-sector in the Botswanan economy, despite falling considerably from levels seen prior to the global financial crisis. After accounting for an average of 31% of GDP in the 2005-07 period, the mining sector accounted for some 22.4% of GDP last year, with the central government sector being the second-largest sub-sector (12.8% of GDP). While diamonds currently dominate Botswana's mining

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

sector, the country's vast coal resources lie at the forefront of potential alternatives. The authorities have claimed several times that Botswana is home to more than 200 billion tonnes of coal resources, although these resources remain mostly unproven. However, it can be surmised that there is considerable potential in the coal sector, and the commodity could be the most propitious new export sector and a potential substitute for Botswana's diamond revenue in time. Consequently, the development of the coal sector has become a key priority for the Botswanan government.

Overall, real economic expansion is projected to slow from last year's estimated 5.5% to 4.4% in 2014, and further to 4.1% in 2015. The expected slowdown stems from a forecast slowdown in the industrial sector, as expansion of the mining sector slows to a more temperate level. More specifically, the industrial sector is forecast to slow from an estimated 6.5% growth last year to 6% in 2014, and further to 6% next year. While the services sector is projected to show relatively strong growth numbers, 5% and 5.4% in 2014 and 2015, respectively, the agricultural and manufacturing sectors are forecast to grow by only 1.2% and 1%, respectively, this year.

International trade

The diamond trade continues to be imperative to Botswana's balance of payments. According to the central bank, which differentiates between domestic rough diamond exports and diamond re-exports, exports of domestic rough diamonds grew by 60.3% y-o-y in the first quarter of 2014, following a 2.1% y-o-y contraction in the last quarter of 2013. On a q-o-q basis, exports of rough diamonds increased by 139.2% from US$481.8 million in Q4 2013 to US$1.152 billion in Q1 2014. Debswana, which was established jointly by the Botswana government and De Beers on 23 June 1969, is the largest mining company in the country. According to Anglo American's latest press release, Debswana recovered 9% q-o-q fewer diamonds in the first quarter of 2014.

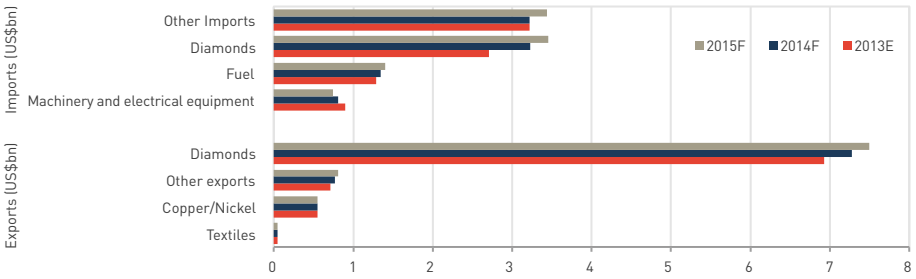
Foreign trade flows, 2013

Main exports	(US$ billion)	Main imports	(US$ billion)
Diamonds	6.93	Other Imports	3.22
Other exports	0.71	Diamonds	2.71
Copper / Nickel	0.55	Fuel	1.29
Textiles	0.04	Machinery and electrical equipment	0.90

Source: NKC Research

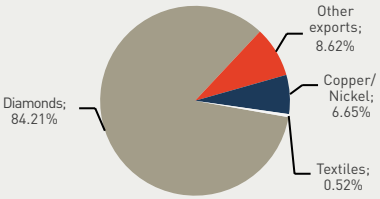
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Botswana top four exports and imports (US$ billion)



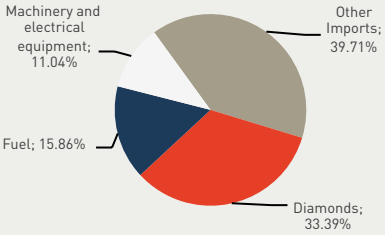
Source: NKC Research

2013 exports (% of total)



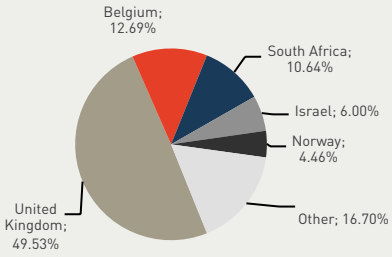
Source: NKC Research

2013 imports (% of total)



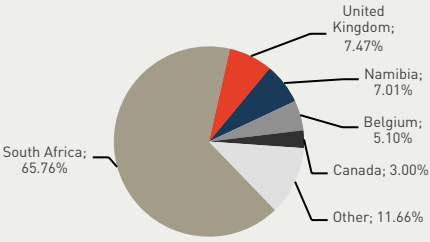
Source: NKC Research

2013 top destinations of exports (% of total)



Source: Trade Map

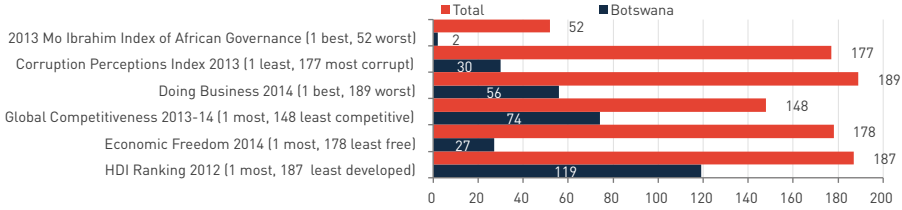
2013 top origins of imports (% of total)



Source: Trade Map

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

The central bank's Monetary Policy Committee (MPC) most recently convened on 22 April, and elected to maintain the country's policy rate for the fourth consecutive month. The committee kept the policy rate at 7.5%, citing balanced risks to inflation and below-potential domestic economic expansion.

The committee noted that consumer price inflation is well within the 3% to 6% target range, and external price developments are projected to remain benign throughout the forecast trajectory. Botswana's Consumer Price Index (CPI) inflation for April 2014 was recorded at 4.5% y-o-y, compared to the preceding month's 4.4% y-o-y. Inflation has fallen within the central bank's target band since June 2013, and is projected to remain within the band for the rest of 2014.

Exchange rate policy:

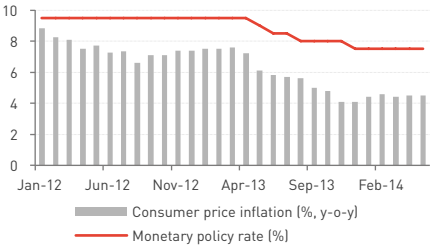
Botswana's pula operates as a crawling peg against a basket of currencies, which is composed primarily of the South African rand (55%), and the International Monetary Fund's (IMF) Special Drawing Rights (SDR, a basket of major currencies). Small adjustments to the pula's peg are said to be determined by Botswana's inflation rate objective, as well as the expected inflation rates of its trading partners. In addition, the country's international competitiveness is also considered by stabilising its real effective exchange rate. The Botswanan currency averaged P8.41/US$ last year, and is forecast to depreciate to an average of P8.82/US$ in 2014, before strengthening to an average of P8.40/US$ next year.

Fiscal policy:

The primary objective of fiscal policy in Botswana is to maintain macroeconomic stability by means of running a balanced budget over the medium term. According to the latest statistics released by the central bank (which in turn sources its data from the Ministry of Finance and Development Planning), Botswana's government received fiscal revenues and grants totalling P35.1 billion in the first nine months of the 2013/14 fiscal year (FY, 1 April to 31 March).

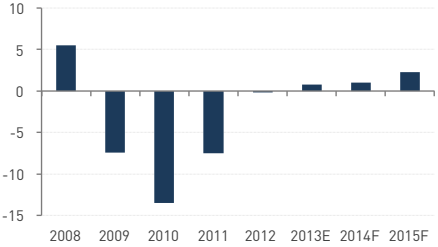
Expenditure and net lending amounted to P30.8 billion over the corresponding period, representing a fiscal surplus of P4.2 billion over the April to December 2013 period. Our baseline forecast is relatively in line with government expectations, with an estimated budget surplus of 0.81% of GDP in the 2013/14 FY, and projected overall budget surpluses equivalent to 1% of GDP and 2.27% of GDP in the 2014/15 and 2015/16 fiscal years, respectively.

Consumer price inflation and monetary policy rate



Source: Central Statistics Office, Bank of Botswana

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

According to the Bank of Botswana's (BoB, the central bank) 2013 annual report, the 2014/15 fiscal budget includes proposals to amend the value added tax (VAT) Act in order to expand the country's revenue base, while also attempting to simplify the Botswanan tax system. Amendments to the VAT Act include the exemption of all farming equipment and basic foodstuffs. Furthermore, the Act is set to be amended to increase the registration threshold from P500 000 to P1million in order to release small businesses from the filing of VAT returns. Also, the Transfer Duty Act will be amended in order to encourage homeownership, particularly with first-time buyers set to benefit.

Political environment

Botswana is one of several Southern African states to hold elections this year, with the country due to go to the polls in October. Since 1965, when the then Bechuanaland Democratic Party – subsequently the Botswana Democratic Party (BDP) – won the first independence elections with some 80% of the vote, the only thing to change in the subsequent nine national elections was that the BDP share of the vote declined, but never enough for it to lose.

Over time, there have been several false dawns for the opposition in Botswana and there is little to suggest 2014 is going to be any different. The key problem for the opposition is a near complete inability to work together for even the shortest period of time before splits occur over jobs, titles and leadership. The only hope the opposition has is that the BDP itself suffers a major split, but to date, when that has happened it has been short-lived. There is nothing to suggest that Botswana will face any problems in the campaigns leading up to the elections and the elections themselves and the foregone conclusion of a BDP victory. There will be robust campaign exchanges and the usual allegations and discontented mumbling, but nothing to even send a ripple through the country's political stability.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Economic environment

Ratings:

Standard and Poor's (S&P) affirmed its long-term and short-term sovereign credit ratings for Botswana on 16 May 2014. The respective ratings therefore remain at 'A-' and 'A-2', while both outlooks are deemed stable. According to the rating agency's press release, Botswana's ratings are supported by the country's 'strong institutions and external and fiscal balance sheets, well-managed minerals-based economy, and long track record of political stability and relatively sound institutional effectiveness.' On the other hand, Botswana's narrow economic base that relies heavily on the diamond sector and is thus vulnerable to shocks, continues to constrain the country's ratings. S&P had previously affirmed their Botswana sovereign credit ratings on 20 December 2013.

On 28 November 2013, Moody's affirmed Botswana's 'A2' government bond rating with a stable outlook. According to the rating agency, this reflects 'the government's relatively strong balance sheet, net external creditor position and its low debt burden against its small economy, which remains heavily dependent on the diamond industry.' The rating agency pointed out that 'upward pressure on Botswana's A2 rating could develop as a result of a successful implementation of the economic diversification strategies over the medium term, coupled with the accumulation of an even larger net financial position'. On the other hand, downward pressure on the rating could be exerted should Botswana see 'a large deterioration in its net asset position over the medium term'.

Botswana is currently not rated by Fitch Ratings.

Key indicators to watch

Diamond prices and production	Debswana recovered 9% q-o-q fewer diamonds in the first quarter of 2014, which could possibly translate to a slowdown in exported diamonds from Botswana later in the year. De Beers projects global diamond demand to expand by between 4% and 4.5% in 2014, with the US market showing strong growth.
Forex reserves and exchange rate	Foreign reserve accumulation was relatively lacklustre in 2013, but is forecast to increase over the medium term once income from De Beers' relocation to Gaborone starts to generate revenue for the local economy. According to the latest data from the central bank, Botswana had foreign reserves totalling US$7.992 billion at the end of Q1 2014.
Monetary policy and inflation	The head of monetary and financial stability at the BoB, Kealeboga Masalila, told Bloomberg in early June that the central bank will maintain its accommodative monetary policy stance, and the central bank projects inflation to remain inside the 3% to 6% target band in the medium term.

Source: NKC Research

Key vulnerabilities	What is the government doing to address this?
Economic structure: heavy reliance on diamonds. This renders the economy vulnerable to fluctuating gem prices and external demand.	Fast-tracking economic diversification remains a key objective, as seen by the implementation of the economic diversification drive (EDD).
A relatively underdeveloped rail infrastructure is a constraint to development of non-diamond extractive sectors (coal, uranium).	Botswana and Namibia signed a bilateral agreement on 19 March to develop a railway between the two countries, stretching some 1 500 km, in order to transport Botswanan coal to the port of Walvis Bay.
Botswana is historically a net importer of electricity, and power shortages are likely to have had a detrimental effect on economic growth.	Medium to long-term goals include the development of additional units for the Morupule B power station, which will provide an estimated 600 MW.

Source: NKC Research

Market participation	
Foreign investors	Botswana's debt markets have grown significantly since its establishment in 2003. Foreign investors are allowed to participate in the local government bond market.
Local investors	Investors include domestic companies, commercial banks, and institutional investors. The local non-bank investor base (asset management, life and general insurance) is deep and diversified.

Source: NKC Research

Financial market

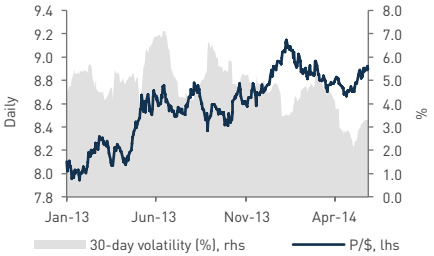
Foreign exchange

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/ maturity	Quotation/ settlement	Reuters page	Additional information
Spot	US$1m to US$10m	US$15m to US$50m	3.5 bps (average from January 2012)	-	T+2	BWP=	Main cross is US$/BWP
Forwards (deliverable)	US$15m to US$50m	US$3m to US$10m	Variable	Overnight to 1-year	T+2	BWP-FWD=	Main benchmark is US$/BWP
Swaps	US$1m to US$10m	US$20m to US$50m	Variable	Overnight to 1-year but pricing is available beyond 1-year	T+2	-	Main benchmark is US$/BWP

Sources: NCK Research, Reuters

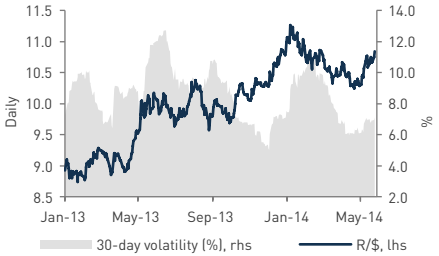
Exchange rate

Botswana pula



Source: Reuters

South African rand



Source: Reuters

Over the past 12 months (ending May 2014) the Botswanan pula has stayed relatively stable, depreciating by 1.14% against the dollar. The central bank noted in its 2014 annual Monetary Policy Statement (MPS) that the lower inflation in 2014 allowed a downward crawl adjustment to the local currency's peg. More specifically, the nominal effective exchange rate (NEER) crawled by negative 0.16% last year. According to the MPS, Botswana's projected inflation for 2014, as well as that of the country's major trading partners, will result in the NEER once again crawling downwards at a rate of 0.16% this year. The central bank maintains its view that 'a crawling band exchange rate policy is in the best interest of international competitiveness of domestic industries, and is intended to contribute towards macroeconomic stability and economic diversification'.

The pula's basket weights will remain at 55% for the South African rand and 45% for the IMF's SDR. Consequently, the rand's movements are significant for the Botswanan local unit. The rand is known as one of the most traded and volatile currencies in the world due to the ease with which it can be bought and sold. The rand returned to stronger than the R11/US$ level late in February and was back at R10.50/US$ by early-May. This came in the wake of investors moving money out of Russia and surrounding countries (and into other emerging markets) given the continued tense situation between Moscow and the West around Crimea. However, the rand handed back some of its gains in late-May and early-June in the wake of a slew of weak economic data reports emanating from Africa's second-largest economy. The rand was weighed down by a lingering strike in South Africa's platinum industry, which is curbing exports of the country's largest export commodity by value. Looking ahead, we see a very gradual appreciation over the medium term, although this will most likely include bouts of weakness and volatility, as seen at present.

As a result of these recent developments and taking our expectations for the future value of the South African rand into consideration, we project that the pula will depreciate from an average of P8.41/US$ in 2013 to P8.88/US$ this year, before recovering somewhat to P8.74/US$ in 2015. Please note that these forecasts remain vulnerable to volatility in the South African rand over the short to medium term.

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Botswana Stock Exchange	22 primary listings (Main Board)	Limited	US$4.8bn	T+3	Financial Services	US$43.6m (total shares traded in March 2014)

Sources: Bank of Botswana, Botswana Stock Exchange

The Botswana Stock Exchange's (BSE) Domestic Company Index (DCI) is dominated by the financial sector as a whole, with the banking sector contributing the majority of the capital asset size on the DCI. According to the central bank, Botswana's stock exchange had a capital asset size of P42.5 billion at the end of April 2014, representing a 2.9% increase from the same period a year earlier.

According to the BSE's website, the DCI boasts 22 domestic company listings, after Firestone Diamonds delisted in the first quarter of 2014. The company's main investment in Botswana is its BK11 mine, which was placed under 'care and maintenance' in February 2012. According to Firestone's press release, the company has moved its primary focus to its assets in Lesotho.

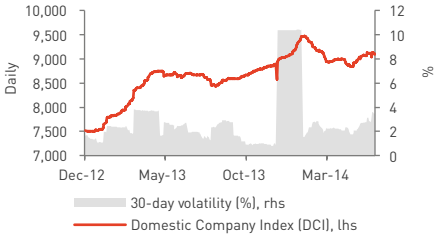
With regard to trading activity, the volume of shares traded in the first quarter of 2014 increased significantly in terms of both volume and value when compared to the same period a year earlier.

More specifically, the volume of shares traded in Q1 2014 amounted to 99.8 million, representing a y-o-y increase of 77.3%. The value of shares traded showed an even higher increase, from US$252.07 million in Q1 2013 to US$650.58 million in the same period a year later. Considering that the number of transactions only increased by 12.4% y-o-y in the corresponding period, it can be deduced that investors are taking much larger positions when investing than they have in the past.

Top-five listed companies	Market capitalisation
FNB Botswana	US$1,036m
Choppies Enterprises Limited	US$554m
Letshego Holdings Limited	US$484m
Barclays Bank of Botswana	US$445m
Standard Chartered Botswana	US$402m

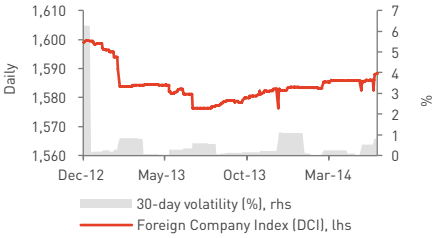
Source: Botswana Stock Exchange

BSE Domestic Companies Index



Source: Reuters

BSE Foreign Companies Index



Source: Reuters

Fixed income

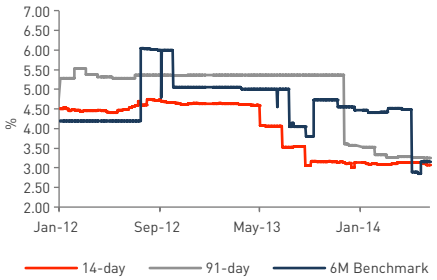
Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bills	14, 91- and 182-day	Weekly	Low	T+3	Licenced primary dealers	20 bps
Treasury bonds	1- to 17-year	Quarterly	Low	T+3	Licenced primary dealers	20 bps

Sources: NKC Research, Bank of Botswana

The BoB utilised mostly open market operation in order to conduct its monetary policy last year. Consequently, excess liquidity in the local money markets was absorbed via the sale of BoB certificates in order to manipulate interest rates that were in line with the central bank's monetary policy stance. The central bank also made use of reverse repurchase agreements (repos) and repos in order to manage intra-auction liquidity, although the BoB made considerably less use of these instruments in 2013 compared to the previous year (P302m and P1bn, respectively).

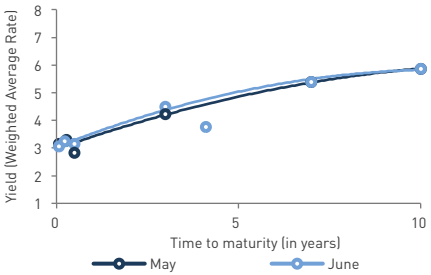
The central bank primarily uses 14- and 91-day certificates to implement its monetary policy operations, but occasionally issues 182-day debt instruments as well.

Botswana treasury bills



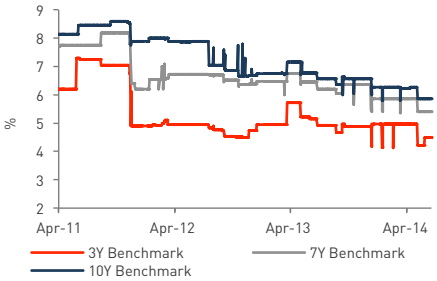
Sources: NKC Research, Reuters

Botswana yield curve



Sources: NKC Research, Reuters

Botswana treasury bonds



Sources: NKC Research, Reuters

The central bank is also known to issue longer-term treasury bonds. The yield rates on the 14-day security held relatively stable during the first five months of 2014, falling by one basis point, from 3.11% at the beginning of the year to 3.1% at the last auction of May. The borrowing costs on the 91-day tenor, which was only sold on four occasions during the corresponding period, saw its weighted average rate (WAR) fall from 3.33% on 4 February to 3.27% on 6 May. The most recent occasion the 182-day treasury bill was sold occurred on 6 June, with the WAR falling by two basis points to 3.197%, compared to the previous auction the security was sold on 7 March. The 6 June auction also included the sale of three, seven and 17-year treasury bonds. The three and seven-year tenors saw yields recorded at 4.525% and 5.32% respectively. Finally, the 17-year security received bids amounting to P182 million, of which P92 million were accepted, with the tenor's yield rising by three basis points to 6.051%, compared to the previous auction on 7 March. We expect Botswana's borrowing costs to move in line with inflationary pressures, which have been relatively benign of late.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013E	2014F	2015F
Real GDP (% change)	-7.84	8.59	6.10	4.18	5.49	4.44	4.13
Nominal GDP (US$bn)	10.11	13.75	15.29	14.50	13.26	13.85	14.60
Consumer price inflation (average, %)	8.03	6.94	8.46	7.54	5.92	5.95	5.92
Budget balance, incl grants (% of GDP)	-7.46	-13.49	-7.49	-0.15	0.81	1.00	2.27
- Revenue (% of GDP)	39.42	37.41	32.46	36.37	36.54	34.80	34.66
- Expenditure (% of GDP)	46.88	50.90	39.94	36.52	35.73	33.81	32.39
Government debt (% of GDP)	7.59	17.76	19.37	19.35	18.13	15.88	13.79
Current account balance (% of GDP)	-11.77	-6.07	-5.00	-6.12	11.24	10.30	9.05
Trade balance (% of GDP)	-13.38	-7.34	-9.52	-14.78	0.84	0.26	-0.93
Pula/US$	7.15	6.80	6.86	7.63	8.41	8.88	8.74
Short-term interest rate (%)	13.76	11.46	11.00	11.00	10.21	9.50	9.50
Foreign reserves (US$bn)	8.70	7.89	8.08	7.63	8.00	8.10	8.31
Months of import cover	19.36	14.76	11.90	10.40	10.98	10.56	10.35

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (%, yoy)	7.41	9.17	7.40	4.10	4.40	4.50	4.50
Monetary policy rate (%)	10	9.5	9.5	7.5	7.5	7.5	7.5
Foreign reserves (US$bn)	7.89	8.08	7.63	7.73	7.99	N/A	N/A
91-day treasury bill rate (%, eop)	7.15	3.45	5.36	3.58	3.27	3.13	3.10
Pula/US$ (eop)	6.46	7.49	7.79	8.76	8.80	8.77	8.77
Diamond price index (US$, eop)	132.19	156.27	139.23	140.43	150.44	145.64	145.72

Sources: NKC Research, Bank of Botswana, Bloomberg, Central Statistics Office, Reuters

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

egypt



Demographics

Population:	86 895 099 (July 2014 est.)
Population: world ranking	16 out of 240 countries (CIA)
Life expectancy (years)	Total population: 73.45; male: 70.82; female: 76.2 (2014 est.)
Main ethnic groups	Egyptian 99.6%, other 0.4% (2006 census)
Business language	Arabic, English, French
Urban population	43.7%
Population below national poverty line	25.2% (2011 est.)

Sources: CIA, World Bank

Geography

Area in sq km	1 001 450
Area: World ranking	30 out of 252 countries (CIA)
Climate	Desert; hot, dry summers with moderate winters
Natural resources	Petroleum, natural gas, iron ore, phosphates, manganese, limestone, gypsum, talc, asbestos, lead, rare earth elements, zinc

Sources: CIA, World Bank

Sovereign ratings

S&P	B-/Stable
Fitch	B-/Stable
Moody's	Caa1/Negative

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	270.12	**Total government debt as % of GDP**	93.87
Nominal GDP: World ranking	42 out of 188 countries (IMF)	**Total external debt as % of GDP**	18.24
Real GDP (% y-o-y)	2.10	**Consumer price inflation (average, %)**	9.47
GDP growth: World ranking	123 out of 189 countries (IMF)	**Current account balance as % of GDP**	-1.60
GDP per capita (US$)	3,291.84	**Equity market: Size in US$**	US$74.4bn
Agriculture as % of GDP	14.51	**Equity market: Listed companies**	238 including NILEX listings
Industry as % of GDP	39.17	**Bond market size**	US$135bn govt bonds outstanding in the domestic market
Services as % of GDP	46.32		

Sources: IMF, NKC Research, Bloomberg, Ministry of Finance

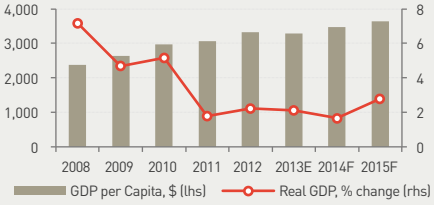
Political environment

Government type	Republic
Head of state	President Abdel Fattah Al-Sisi
Head of government	Prime Minister Ibrahim Mehleb
Ruling political party	None (parliamentary elections to be held)
Main opposition parties	Karama Party, Al-Nour, Strong Egypt, Al-Wafd
Elections	Presidential held in May 2014, legislative to be held before end 2014

Source: NKC Research

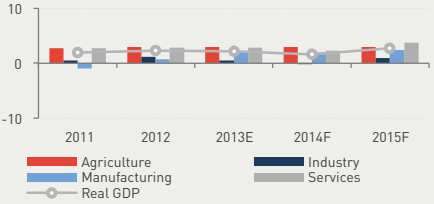
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



Source: NKC Research

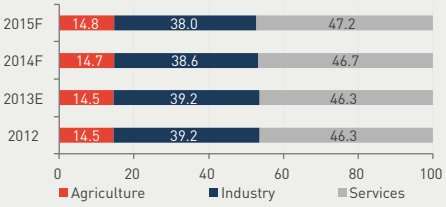
The Egyptian economy is well diversified, covering sub-sectors as diverse as hydrocarbons, manufacturing, tourism, financial services, and construction. In addition, the Suez Canal and remittances are important sources of foreign exchange earnings.

Political uncertainty has, however, put all these activities at risk. The government maintains significant involvement in the economy, with official figures asserting that the public sector accounts for 39% of GDP. The state's involvement is particularly large in a few sectors, such as oil and gas (where the Egyptian General Petroleum Company dominates the sector), water, electricity, the Suez Canal, financial services, insurance and social security. The government also has a notable share of between 25% and 35% in the transport, information and communications sectors.

In contrast, the agricultural, manufacturing, retail trade and tourism sectors are the strongholds for the private sector. Egypt has a large, inefficient and underpaid civil service and the size of the public sector needs to be reduced in order to improve the competitiveness of the economy. Unfortunately, social pressures have meant that the public sector has increased in size since the revolution, rather than decreased. According to the African Development Bank (AfDB), Egypt has more state-owned enterprises (SOEs) than the average for developing countries, with many of these SOEs being overstaffed and underequipped. The military also holds a substantial stake in SOEs, though not much is publicly known about the extent or productivity of these military holdings.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

Over the past three fiscal years (FYs, July - June), real GDP growth has averaged only 2% per annum due to political turmoil since 2011. During the most recent FY (2012/13), real GDP expanded by 2.1%. As in the previous two FYs, GDP growth in the 2012/13 FY was driven by consumption expenditure: real private consumption rose by 2.8%, and real government consumption grew by 3.5%. Meanwhile, real investment contracted by 9.6%.

International trade

Egypt's current account deficit narrowed significantly last year – from US$10.7 billion in 2012 to US$3.3 billion in 2013. Most of this improvement is attributable to foreign grants to the value of US$6 billion received from Arab Gulf governments after the military coup in July 2013, which led to the current transfers surplus increasing from US$19.8 billion in 2012 to US$24 billion last year. The other main contributor to the narrowing current account deficit was a 7.8% drop in imports from US$59.9 billion to US$55.3 billion. This was partly because Egypt struggled with severe foreign exchange shortages, especially during the first half of the year, which made it difficult to import goods. The aid received since July last year has eased these forex shortages and has helped to shore up the value of the currency, which in turn has had a positive impact on Egypt's ability to import goods.

Nevertheless, imports were kept low by Gulf aid in the form of petroleum products. Export earnings increased by 8.3% in 2013 – from US$23.2 billion to US$25.1 billion. This was due to a notable increase in crude oil exports – from US$3.3 billion to US$6.5 billion.

This is somewhat surprising, since Egypt's crude oil production declined in 2013. The most likely cause is that fuel donations from Arab countries meant that less crude oil needed to be refined for domestic consumption, thereby freeing up crude oil for exportation. Excluding crude oil, all other exports combined declined by 6.3% in 2013. Finished goods exports, which account for 40% to 45% of total exports, declined by 5.5% in 2013. This represents a deterioration in a range of manufacturing industries.

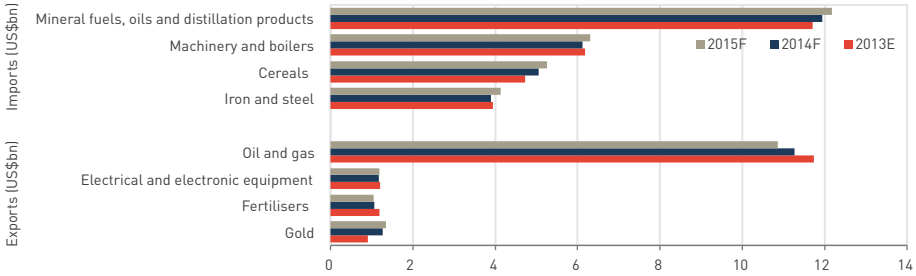
Foreign trade flows, 2013

Main exports	(US$ billion)	Main imports	(US$ billion)
Oil and gas	10.94	Mineral fuels, oils, distillation products	12.08
Gold	1.70	Machinery and boilers	5.35
Fertilisers	1.20	Cereals	4.90
Electrical and electronic equipment	1.05	Iron and steel	4.01

Source: NKC Research

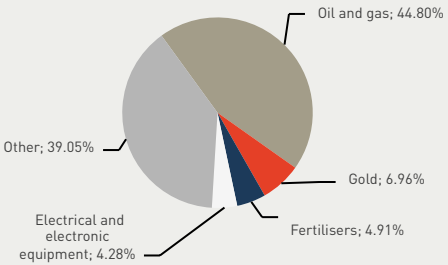
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Egypt top four exports and imports (US$ billion)



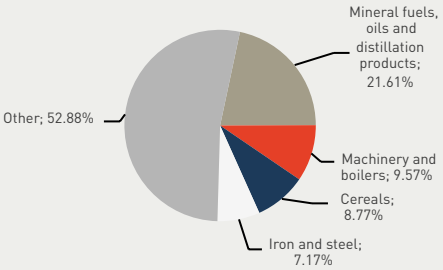
Source: NKC Research

2013 exports (% of total)



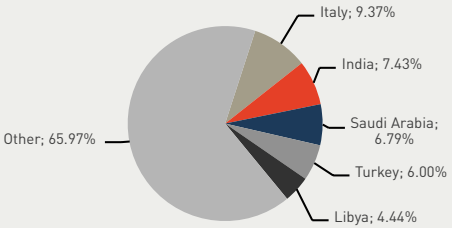
Source: NKC Research

2013 imports (% of total)



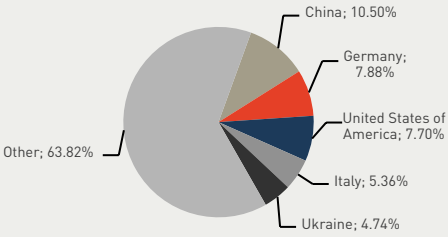
Source: NKC Research

2013 top destinations of exports (% of total)



Source: Trade Map

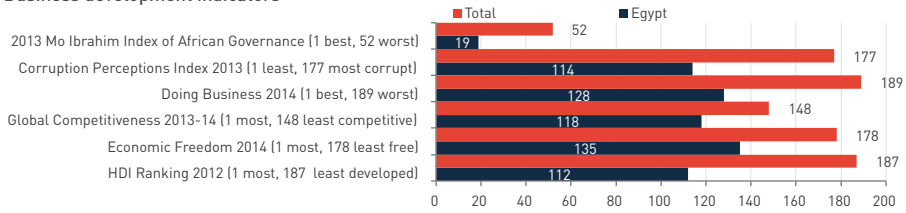
2013 top origins of imports (% of total)



Source: Trade Map

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

The Monetary Policy Committee has lowered interest rates by a cumulative 150 basis points since July 2013 in an attempt to reduce borrowing costs and stimulate economic growth. The interest rate cuts have helped to reduce borrowing costs for the government, with treasury bill and treasury bond rates falling by around four percentage points since July 2013. In turn, this has made it easier for the government to finance its fiscal deficit. However, it is not so clear whether the interest rate cut will stimulate business activity in the private sector. Although real lending rates are close to zero, private sector credit extension remains sluggish, largely due to a decline in lending to private businesses. This suggests that, despite lower interest rates, banks remain wary of lending to businesses due to the high level of risk. We expect the Central Bank of Egypt (CBE) to maintain its accommodative monetary policy stance in the near term in an attempt to boost economic growth, especially since inflation has moderated in recent months.

Exchange rate policy:

Since early-2011, the CBE has heavily managed the Egyptian pound. However, with reserves having reached critically low levels at the end of 2012, the authorities had to allow the pound to depreciate. The pound subsequently fell from E£6.18/US$ on 30 December 2012 to E£7/US$ in June 2013. Since then, Egypt has received billions of dollars in aid, which has allowed the monetary authorities to manage the pound once again.

Almost one year later, the pound has weakened only slightly to E£7.15/US$.

Fiscal policy:

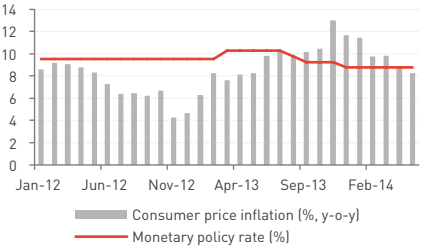
Egypt's budget deficit narrowed significantly over the first three quarters of the 2013/14 FY on the back of an influx of foreign aid. Over this period, the budget deficit was equivalent to roughly 7.2% of the full year's GDP. However, excluding grants, the deficit was 9.8% of GDP. Over the same period last year, the deficit equalled 9.9% of GDP including grants, and 10.1% of GDP excluding grants. In addition to monetary grants, Egypt also receives grants in the form of petroleum products from Arab Gulf countries, which has meant that the government's energy subsidy bill has declined substantially this year.

According to the Ministry of Finance, energy subsidies decreased from E£72.2 billion over the first three quarters of 2012/13 to E£49.8 billion over the same period this fiscal year. In turn, this was a major contributing factor to why total government spending increased by 'only' 10.6% y-o-y over the corresponding period.

Revenues increased by 35.8% y-o-y, mainly due to the massive increase in grants. The public debt to GDP ratio declined from 94% to 90% over the first half of the FY, which illustrates how much relief the Arab aid has provided. The aid, combined with a loose monetary policy stance, has also led to a decline in treasury bill yields, which have helped to contain debt interest costs this year. Even so, debt interest payments are

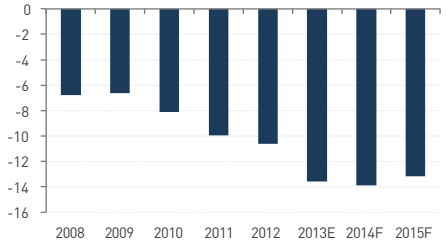
still equivalent to over 40% of fiscal revenues, and around 50% of revenues after excluding grants. This is extremely high by international standards and shows that structural reforms are needed to reduce the dependence on aid and borrowing. It is worth noting that, in addition to the official public debt figure, the state oil company reportedly had arrears worth US$5.7 billion at the end of March 2014, up from US$4.9 billion in December 2013, which it owed to foreign oil companies. Energy companies remain reluctant to invest in Egypt, partially due to the risk of not being paid.

Consumer price inflation and monetary policy rate



Source: Central Bank of Egypt

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

Egypt was amongst the top global reformers in the World Bank's Doing Business surveys in the years leading up to the uprising.

However, progress has stopped since then: according to the past three surveys, Egypt has made no positive reforms, and one negative reform since 2011. Issues that are particularly challenging are dealing with construction permits (where Egypt is ranked 149th out of 189 countries in the most recent 2014 Index), enforcing contracts (ranked 156th), paying taxes (148th), resolving insolvency (146th), and protecting investors (147th). In contrast, starting a business is quite easy: it takes eight days to start a business, compared to an average of 11 in Organisation for Economic Cooperation and Development (OECD) countries, and no paid-in minimum capital is required. Nevertheless, as noted above, paying taxes is cumbersome: it takes an average of 392 hours per year for a business to pay taxes, which is more than twice as long as in OECD countries. Furthermore, the total tax rate of 42.6% is slightly above that of OECD countries.

There has been a trend recently to increase tax rates in an attempt to improve the fiscal position.

Specifically, the government imposed a 10% capital gains tax on profits and dividends earned on the Egyptian Exchange; it announced an additional 5% tax on individuals and companies earning more than E£1 million per annum; and the finance minister said that a 10% property tax on rentable value above a specified minimum is set to come into effect on 1 July 2014.

Political environment

In May 2014, Field Marshal Abdel Fattah Al-Sisi was elected president in a landslide, with just under 97% of the vote. The election re-establishes legitimate rule in Egypt after the chaotic 11-month period that followed the ouster of Egypt's previous elected president, Mohammed Moursi, and the subsequent military moves to contain the Muslim Brotherhood (MB), to which Mr Moursi belongs. Mr Sisi is undoubtedly very popular, but risk remains in Egypt for various reasons. Most obvious is continued opposition by the MB, which is fuelling terrorism.

There is also opposition to Mr Sisi from liberals, who fear that he will turn into the kind of autocratic military ruler that Egypt knows too well.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

The new government does place some restrictions on civil liberties, but this was to be expected in the context of the threat from the MB, and most Egyptians support these restrictions.

More political risk in Egypt flows from economic issues. Problem areas are labour rights, wages, and the price of subsidised goods. For the moment, strong support from Gulf countries has allowed the government to keep the existing system in place, but it is clear that deep reforms of the subsidy system are necessary, and the implementation of these reforms will be disruptive. What actions dissidents take, and how the State then reacts, will determine exactly how disruptive.

Economic environment

Ratings:

Since 2011, Egypt's sovereign credit ratings have been downgraded by between five and six notches by the three major international credit ratings agencies. More recently, though, there has been a turnaround: Standard and Poor's (S&P) upgraded Egypt's rating by one notch to 'B-' in November 2013, while Fitch Ratings improved the outlook on its 'B-' rating from negative to stable in January 2014. Both S&P and Fitch attributed their decisions to strong financial support from Gulf Cooperation Council (GCC) governments.

On 5 June 2014, Fitch stated that 'there have been some positive developments on the political side – maybe we are at the low point for the ratings.' Moody's Investors Service continues to rate Egypt 'Caa1' (equivalent to 'CCC+' on S&P's rating scale) with a negative outlook.

Key indicators to watch

Foreign aid	Egypt has large fiscal and external shortfalls – in fact, Egypt's fiscal metrics are looking worse than various other countries that defaulted on their debt in recent years. Thus, the continued support from Arab countries will be pivotal for Egypt to avoid financing difficulties. For now, though, Egypt has the full support of Saudi Arabia and the United Arab Emirates.
Forex reserves	A drop in foreign aid or an inability to implement reforms that lead to structural improvements in Egypt's macroeconomic balances would lead to a further drop in foreign exchange reserves, which could result in a currency crisis, and goods shortages.
Economic growth	We project that real GDP growth will average only 2.5% per annum in the 2013/14 to 2015/16 fiscal years, which is too low to ensure a sustainable decrease in unemployment. Strong growth is also needed to boost fiscal revenues. Investment is expected to remain limited due to political and economic policy uncertainty, as well as the effects of slow economic growth and high inflation on demand.

Source: NKC Research

Key vulnerabilities	What is the government doing to address this?
Limited economic freedom and challenging business environment.	Egypt was one of best reformers on the World Bank Doing Business Index in the five years prior to the uprising, but there has been a downward trend ever since.
State subsidies for food and fuel make the fiscal position vulnerable to an increase in global commodity prices.	Some fuel price increases have been announced, especially for industrial companies. Much more needs to be done to ensure fiscal sustainability.
Currency risk is high due to a sharp decline in foreign exchange reserves since the uprising.	The government is expected to continue receiving aid from Arab countries to shore up its foreign exchange reserves.

Source: NKC Research

Market participation	
Foreign investors	No restrictions exclude foreign investors from participating in Egyptian capital markets. Foreign investors are required to conduct their trading activities through a licensed member or firm approved by the local Financial Markets Authority. Withdrawals for corporations are limited to US$30 000 per day to curb currency speculation.
Local investors	The local investor base is narrow, with institutional investors having the predominant market share. Commercial banks are the largest institutional investors, while social insurance funds and the post office are the largest savings institutions in the country.

Source: NKC Research

Financial market

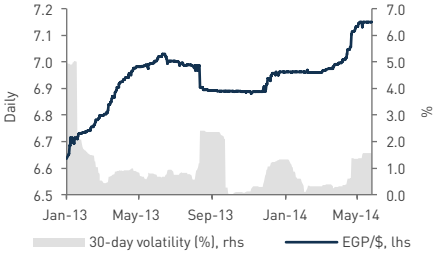
Foreign exchange

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/maturity	Quotation/ settlement	Reuters page	Additional information
Spot	N/A	N/A	0.24 bps (average since 2012)	Liquid up to 1 year	T+2	EGP=	Main cross is US$/EGP
Forwards (deliverable)	N/A	N/A	N/A	Liquid up to 1 year; 3 month most liquid	T+2	-	Main benchmark is US$/EGP

Source: Reuters

Exchange rate

Egyptian pound



Source: Reuters

With the external position having weakened substantially since the uprising, underlying pressure on the Egyptian pound has been severe in recent years. This culminated in a sharp depreciation at the start of 2013.

Following the military coup in July 2013, Egypt received large quantities of aid, which shored up reserves and allowed the authorities to protect the currency. The pound subsequently strengthened from E£7/US$ in mid-2013 to as strong as E£6.88/US$ at the end of November 2013. After that, the pound weakened gradually to E£7.01/US$ at the start of May 2014.

However, in the run-up to the presidential election at the end of May, the pound weakened significantly to E£7.15/US$. In the two weeks since the election, the pound has remained steady at E£7.15/US$. The average rate for 2013 was E£6.87/US$, compared to E£6.07/US$ in 2012. With international reserves at only US$17.3 billion (3.1 months of import cover), the authorities' ability to keep the pound stable will depend on how much aid Egypt can secure. At present, however, support from Arab Gulf governments remains strong.

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Egyptian Exchange (EGX)	238	Liquid	US$74.4bn	T+2	Telecoms, Construction, Financials	269.2 million shares

Source: Bloomberg

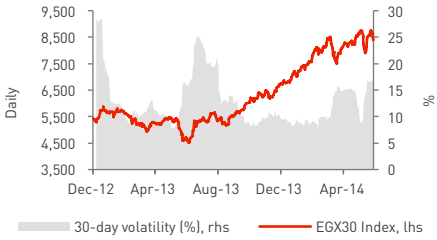
The main index of the Egyptian Exchange – the EGX30 index – has climbed significantly since the coup in July 2013. In fact, by January this year it reached its pre-uprising level of around 7,200 points. The Gulf Cooperation Council's (GCC) continued support for Egypt has buoyed investor confidence in the country. That said, aid cannot continue indefinitely. As Egypt's macroeconomic fundamentals are significantly worse than before the uprising, the rally over the past year is fragile.

Political uncertainty in Egypt is projected to continue for the foreseeable future, and should aid be significantly reduced, we will probably see large losses on the bourse. Another contributor to the rally has been the loose monetary stance, which has resulted in negative real interest rates, which means holders of cash earn an interest rate lower than the rate of rising consumer prices. This kind of policy is very positive for nominal gains in the equity market as people are forced to speculate to earn a return on their cash holdings. Since the end of May, however, the bourse has performed weaker. This follows a decision by the government to impose a 10% capital gains tax on profits and dividends earned on the Egyptian Exchange.

Top-five listed companies	Market capitalisation
Orascom Construction	US$8.2bn
CIB Egypt	US$4.6bn
Global Telecom	US$3.9bn
Telecom Egypt	US$3.4bn
Vodafone Egypt	US$3.4bn

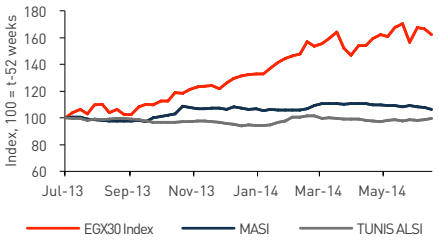
Source: Bloomberg

Egyptian exchange - EGX30



Source: Bloomberg, Reuters

North Africa SEs performance indices



Source: NKC Research, Reuters

Fixed income

Security	Tenor/maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bill	91, 182, 259, 266, 273 and 350 day	Weekly	Good	T+1	Licenced primary dealer	N/A
Treasury bonds	2 to 25 year	Weekly or as set out in provisional auction calendar	Good	T+1	Licenced primary dealer	N/A

Source: CBE

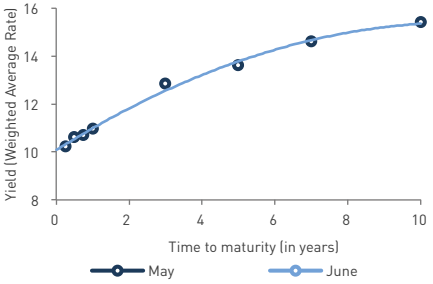
The Egyptian fixed-income market is dominated by government issuances, although corporate issuances have increase over the past few years.

Nevertheless, the market offering is relatively sophisticated, with local investors being exposed to various bond structures, such as amortising and callable structures with fixed and floating coupons. Egypt's treasury bill yields have surged since early-2011 due to a combination of factors.

These include heightened uncertainty about the political environment and the future direction of economic policy, a widening of the budget deficit (and therefore an increase in the amount of treasury bills on offer), and an increase in currency risk.

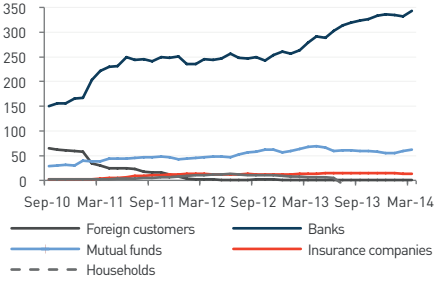
The yield on one-year local-currency treasury bills increased from 10.5% before the uprising to more than 15% at the start of July 2013. However, since that peak, yields have declined by around four percentage points owing to ample liquidity conditions at commercial banks and strong financial support from Arab Gulf countries. While at present we do not foresee a deterioration in Egypt's relationship with key allies, the longer-term outlook for Egyptian bonds is bearish due to relatively high political risk and the lack of structural economic reforms.

Egypt (benchmark) yield curve



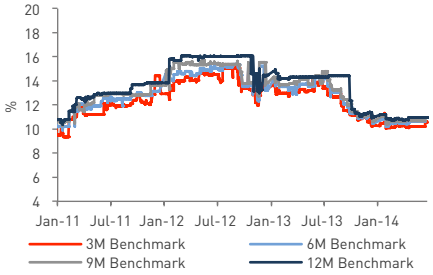
Sources: NKC Research, Reuters

Main holders of Egyptian treasury bills (E£'bn)



Sources: CBE

Egypt treasury bills (secondary market)



Sources: NKC Research, Reuters

Although aid pledges were instrumental in warding off a balance of payments crisis, foreign investors will remain on the side-lines while exchange rate risk remains elevated and political and policy uncertainty persists. As shown in the accompanying graph, foreign investors have yet to show much interest in holding Egyptian debt. On the other hand, local banks' holdings of treasury bills have risen substantially. This has proven a profitable source of revenue for Egyptian banks, though it has also crowded out lending to the private sector. Between December 2010 and March 2014, banks' asset portfolios have changed markedly. In particular, loans to customers as a percentage of total assets declined from 35.7% to 31.7%, while the share of securities and investments to the government increased from 34.4% to 44.1%. Clearly, therefore, banks' exposure to government risk has increased, which would become a concern if Arab aid to Egypt were to stop.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013E	2014F	2015F
Real GDP (% change)	4.67	5.15	1.78	2.23	2.10	1.65	2.77
Nominal GDP (US$bn, calendar years)	202.67	232.57	243.70	269.04	270.12	289.71	307.92
Consumer price inflation (average, %)	11.76	11.27	10.05	7.12	9.47	10.90	10.26
Budget balance, incl grants (% of GDP)	-6.62	-8.11	-9.96	-10.62	-13.57	-13.90	-13.19
- Revenue (% of GDP)	27.11	22.22	19.35	19.27	19.98	21.20	20.24
- Expenditure (% of GDP)	33.73	30.33	29.31	29.89	33.55	35.10	33.43
Government debt (% of GDP)	80.99	79.39	82.34	83.17	93.87	99.77	103.18
Current account balance (% of GDP)	-1.65	-2.41	-3.24	-3.64	-1.60	-2.81	-3.10
Trade balance (% of GDP)	-11.09	-11.90	-11.71	-13.36	-11.65	-11.48	-11.19
EGP/US$	5.54	5.62	5.93	6.07	6.87	7.10	7.53
Short-term interest rate (%)	11.98	11.01	11.03	12.00	12.29	11.73	12.00
Foreign reserves (US$bn)	32.25	33.61	14.92	11.63	13.61	13.21	13.14
Months of import cover	7.78	7.28	3.40	2.61	3.12	3.02	2.99

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (%, y-o-y)	10.28	9.55	4.66	11.66	9.81	8.87	8.24
Monetary policy rate (discount rate, %)	8.50	9.50	9.50	8.75	8.75	8.75	8.75
Foreign reserves (US$bn)	36.00	18.12	15.01	17.03	17.41	17.49	17.28
91-day treasury bill rate (%, eop)	9.50	12.90	13.35	10.30	10.35	10.20	10.22
EGP/US$ (eop)	5.80	6.03	6.35	6.95	6.97	7.01	7.15
Brent crude (US$/barrel, eop)	80.29	109.2	111.6	110.5	106.4	109.0	110.0

Sources: NKC Research, CBE, Reuters

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

ghana



Demographics

Population	25 758 108 (July 2014 est.)
Population: world ranking	49 out of 240 countries (CIA)
Life expectancy (years)	Total population: 65.75; male: 63.38; female: 68.19 (2014 est.)
Main ethnic groups	Akan 47.5%, Mole-Dagbon 16.6%, Ewe 13.9%, Ga-Dangme 7.4%, Gurma 5.7%, Guan 3.7%, Grusi 2.5%, Mande-Busanga 1.1%, other 1.6% (2010 census)
Business language	English, Asante
Urban population	52.5%
Population below national poverty line	28.5% (2006 est.)

Sources: CIA, World Bank

Geography

Area in sq km	238,533
Area: World ranking	82 out of 252 countries (CIA)
Climate	Tropical; warm and comparatively dry along southeast coast; hot and humid in southwest; hot and dry in north
Natural resources	Gold, timber, industrial diamonds, bauxite, manganese, fish, rubber, hydropower, petroleum, silver, salt, limestone

Sources: CIA, World Bank

Sovereign ratings

S&P	B/Negative
Fitch	B/Negative
Moody's	B1/Negative

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	43.95	**Total government debt as % of GDP**	59.02
Nominal GDP: World ranking	86 out of 188 countries (IMF)	**Total external debt as % of GDP**	28.51
Real GDP (% change y-o-y)	6.28	**Consumer price inflation (average, %)**	11.65
GDP growth: World ranking	42 out of 189 countries (IMF)	**Current account balance as % of GDP**	-12.98
GDP per capita (US$)	1,696.61	**Equity market: Size in US$**	US$3.89bn
Agriculture as % of GDP	21.97	**Equity market: Listed companies**	32 primary listings
Industry as % of GDP	28.58	**Bond market size**	US$6.03bn* govt bonds outstanding in domestic market
Services as % of GDP	49.45		

Sources: IMF, NKC Research, BoG, Bloomberg

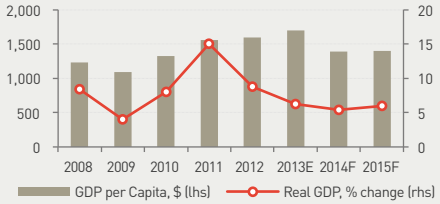
*(end Dec-13)

Political environment	
Government type	Constitutional democracy
Head of state	President John Dramani Mahama
Head of government	President John Dramani Mahama
Ruling political party	National Democratic Congress (NDC)
Main opposition parties	New Patriotic Party (NPP), People's National Convention (PNC), Convention People's Party (CPP)
Elections	Election last held on 7 December 2012 (next to be held in December 2016)

Source: NKC Research

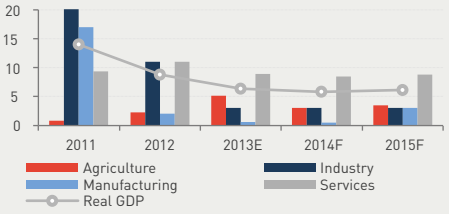
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



Source: NKC Research

The commencement of oil production in December 2010 led to Ghana recording one of the highest growth rates in the world in 2011 (15%). Excluding the oil sector, real GDP expanded by 8.4% in 2011 at factor cost.

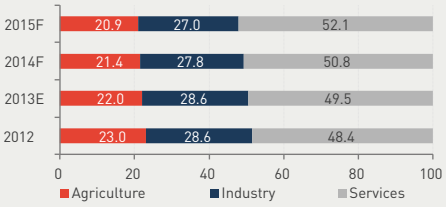
Ghana's impressive economic growth performance, with average real GDP growth of 7.9% per annum achieved during 2005-12, has coincided with an improvement in development indicators. Ghana is ranked 135th out of 187 countries in the 2013 UN Human Development Report, placing it in the 'medium development' category. The proportion of the Ghanaian population that lives on less than US$2 a day (purchasing power parity adjusted) declined from 63.3% in 1998 to 51.8% in 2006 (latest available data).

However, the short to medium-term outlook for Ghana's economic performance is less promising than was seen in recent years. A substantial fiscal slippage in 2012 and insufficient consolidation in 2013 have pressurised macroeconomic stability. Weak fiscal finances have contributed to a widening current account deficit, a depreciating currency, increasing levels of inflation, high interest rates, and an increase in tax rates. All these factors, in addition to ongoing energy shortages, are likely to keep real GDP growth under pressure during 2014-16. We expect real GDP growth to decline to 5.4% this year, before rebounding to 6% in 2015.

Tullow's production at the Jubilee field averaged 102 000 barrels per day (bpd) in the first quarter of 2014.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

The company expects production to average 100 000 bpd for the entire year, with gas disposal methods being implemented until the gas processing infrastructure is completed. Meanwhile, Tullow has made good progress with the Tweneboa-Enyenra-Ntomme (TEN) project, with first oil expected by mid-2016. We forecast Ghana's oil production at 100 000 bpd for this year (up from 96 200 bpd in 2013), before increasing by 18% next year (as the Jubilee field reaches its plateau output level), and by a further 18.6% in 2016 as new production comes on stream.

International trade

Ghana's principal foreign exchange earning products are gold, oil, and cocoa. Gold maintained the lead as Ghana's top export earner in 2013, and is expected to keep this position over the 2014-15 period as well, despite struggling since 2013 due to lower output and prices. Crude oil surpassed cocoa as the second-largest export product in 2012.

Ghana's principal imports are fuels, manufactured products, and capital goods. We expect the current account deficit to narrow this year to US$4.8 billion, but to remain in double-digit territory when expressed as a percentage of GDP (13.2%). The narrowing in the shortfall is expected to be facilitated by a decline in the imports of goods and services, which in turn can be ascribed to a slowdown in economic growth, as well as severe forex shortages and a weaker cedi limiting companies' ability to import. A further narrowing in the trade deficit next year, this time due to a strong expected showing by exports, should lead to a further narrowing in the current account shortfall to US$4.5 billion (11.8% of GDP).

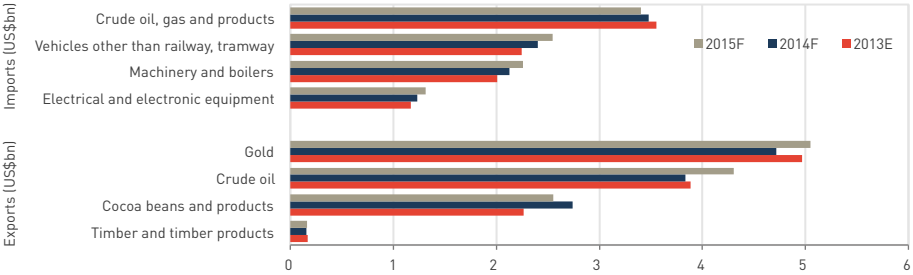
Foreign trade flows, 2013

Main exports	(US$ billion)	Main imports	(US$ billion)
Gold	4.81	Crude oil, gas, and products	3.29
Crude oil	3.83	Vehicles other than railway, tramway	2.25
Cocoa beans and products	2.12	Machinery and boilers	2.01
Timber and timber products	0.16	Electrical, electronic equipment	1.17

Source: NKC Research

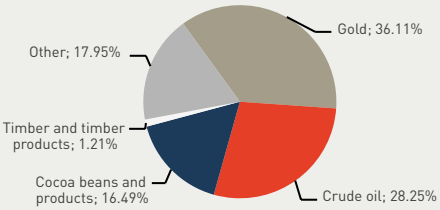
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Ghana top four exports and imports (US$ billion)



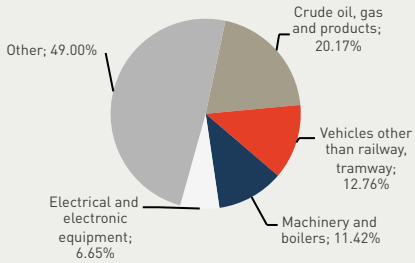
Source: NKC Research

2013 exports (% of total)



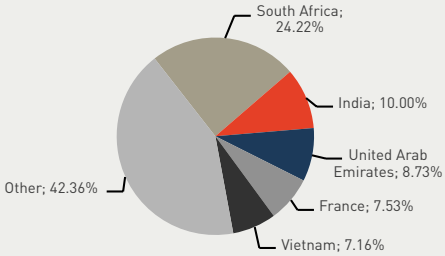
Source: NKC Research

2013 imports (% of total)



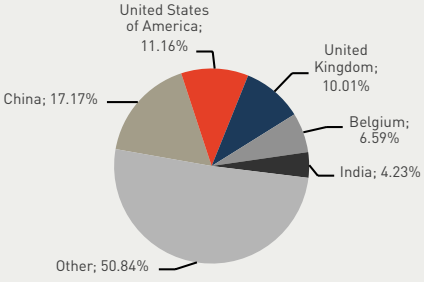
Source: NKC Research

2013 top destinations of exports (% of total)



Source: Trade Map

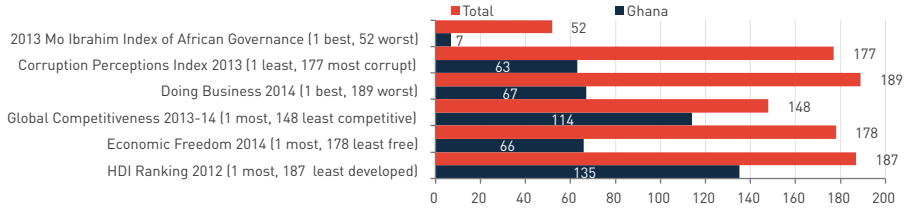
2013 top origins of imports (% of total)



Source: Trade Map

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

The Bank of Ghana (BoG, the central bank) decided after its Monetary Policy Committee (MPC) meeting on 6 February 2014 to increase its policy rate by 200 basis points to 18% to anchor inflation expectations in the face of a weakening currency. The previous change in the policy rate occurred in May last year, when it was increased by 100 basis points. At its subsequent meeting, on 2 April 2014, the MPC decided to leave its policy rate unchanged, though increased the cash reserve requirement on banks from 9% to 11%, reduced the single currency net open position (NOP) limits of banks from 10% to 5%, and the aggregate NOP from 20% to 10%. The BoG expects Consumer Price Index (CPI) inflation to average 12% this year, higher than a targeted 7.5% to 11.5%, and to return to the target range by the end of 2015 H1. Ghana needs fiscal reform and restraint to address the free-falling cedi and double-digit CPI inflation. Still, in the absence of significant improvements on this front, the central bank would have to keep its policy rate high to do what it can to manage inflation expectations and to maintain credibility.

Exchange rate policy:

According to the International Monetary Fund (IMF) Ghana 'currently has a multiple currency practice, arising from a special reference rate for certain official transactions, subject to Fund approval.' The BoG calculates a reference rate, which it uses for certain official transactions, but there is no mechanism in place to ensure that this rate does not differ from the market rate by more than 2%.

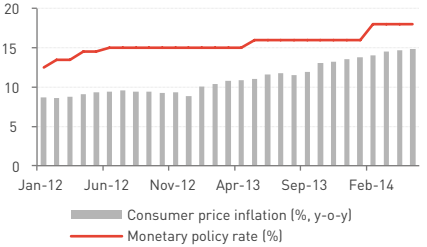
The cedi's value has been eroded by close to 650% since the start of the new millennium, and by almost 115% since the beginning of 2010. The cedi's rapid depreciation is mainly being driven by the government's spendthrift. Cumulative fiscal spending amounted to GH¢53.4 billion during 2012-13, which is more than the previous five years combined. In response to the weakening cedi, the central bank has directly intervened in the market, in addition to announcing various measures to support the local unit. These measures include limiting cash withdrawals from foreign exchange accounts, and requiring exporters to repatriate their earnings within 60 days of shipment. Given that the government has shown that it is not interested in making a U-turn on its current fiscal path, the outlook for the cedi exchange rate is dire.

Fiscal policy:

The major fiscal slippage in 2012 – when spending soared by 78% – was not followed by sufficient fiscal consolidation. In fact, the fiscal deficit widened by a further 17% last year after widening by 239% in 2012, and remained in double-digit territory as a percentage of GDP. After missing its deficit target significantly in 2012 and in 2013, we expect to see a repeat of this in 2014. It appears that the government is not concerned about the shortfall being at a permanently higher level. While fuel and utility subsidies have been lowered, key concerns include the size of the wage bill and high debt interest costs, both of which will be difficult to bring down. Moreover, the government's revenue projections are overly optimistic, which could result in further spending overruns.

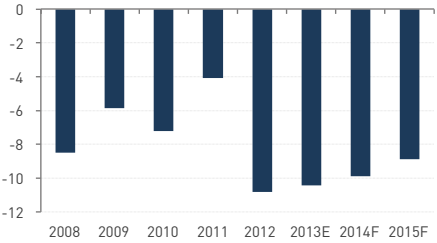
Worryingly, there is another election in 2016, which could again lead to over-spending. Public debt more than doubled between the end of 2011 and the end of 2013 in local currency units. Over the same period, the debt/GDP ratio climbed from 41% to 59%. Our projections indicate that the ratio will continue to increase, reaching a peak of 66.1% in 2016.

Consumer price inflation and monetary policy rate



Source: Bank of Ghana, Ghana Statistical Service

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

Ghana is relatively open to foreign investment. The only sectors that are not fully open to foreign investment are mining, and oil and gas. There is a minimum investment amount for foreigners in place of US$50 000.

Ghana has one of the most accommodative business environments on the continent, and this, along with the discovery of oil and the presence of other natural resources, has helped to boost foreign direct investment (FDI) significantly. It takes eight procedures and 14 days to start a business in Ghana, compared to the sub-Saharan African (SSA) averages of eight procedures and 29.7 days. The corporate income tax rate is comparatively low at 25% of profit. There is also a tax of 13% on gross salaries for social security contributions. The value added tax rate has been raised by 2.5 percentage points to 17.5%, while capital gains and interest are taxed at 15% and 8% respectively.

Political environment

Ghana is effectively a two-party state, with the National Democratic Congress (NDC) and New Patriotic Party (NPP) having alternated in government since 1992. The most recent general election was held in December 2012, and the NDC retained Parliament and the presidency through the re-election of John Dramani Mahama, who took over after the death of sitting president, John Atta Mills in July 2012. The NPP unsuccessfully challenged the outcome of the election before the Supreme Court.

There has been some activity on the party political scene in Ghana in recent months: in mid-April, the opposition NPP elected a new national executive. The new national chairman and general secretary seem close to Alan Kyerematen, a businessman and diplomat who could be a strong contender for the party in the 2016 presidential election. We are paying attention to the NPP's chances in 2016 because the current state of governance in Ghana is so dire, and most political risk flows from the poor state of the economy. Inflation, a weakening currency, high interest rates and unemployment are all serious issues, and could lead to crime or more confrontational opposition if trends hold. For the moment, however, no such problems have emerged.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Economic environment

Ratings:

All of the three major rating agencies currently have Ghana's sovereign credit rating on a negative outlook. On 16 May, Standard & Poor's (S&P) affirmed Ghana's 'B' rating with a negative outlook, which means there is a 33% likelihood that S&P will downgrade the rating in the short term. The rating is constrained by the government's weak finances and external vulnerabilities. Fitch Ratings announced on 28 March that it had changed the outlook on Ghana's 'B' rating to negative following continued worsening of the fiscal position, and a weakening in policy credibility following two consecutive years of double-digit and larger-than-expected budget deficits. Fitch warned on 9 June that increased central bank financing of the fiscal deficit in the first quarter of 2014 'illustrates the financing challenges the government faces given surging yields and a deteriorating maturity profile'. Finally, Moody's Investors Service rates the sovereign one notch higher than the other rating agencies at 'B1' (with a negative outlook). Moody's changed the outlook on the rating from stable to negative in December last year.

Key indicators to watch	
Public finances	The major fiscal slippage in 2012 was not followed by sufficient consolidation, and it appears as though the government is not concerned about its deficit being at a permanently higher level. Wages and debt interest payments consume the majority of the budget, while over-optimistic revenue assumptions are concerning. Principal Eurobond repayments are due in 2017 and 2023.
Forex reserves and exchange rate	The cedi is under notable pressure due to a sharp increase in fiscal spending and a structurally wide current account deficit. Foreign reserves have fallen sharply, and in this context the substantial external financing requirement for 2014 is concerning.
Monetary policy and inflation	CPI inflation is elevated due to central bank financing of the deficit, as well as higher utility and fuel prices, and a sharp depreciation of the cedi. Any monetary policy action in the absence of fiscal reform will not be effective.

Source: NKC Research

Key vulnerabilities	What is the government doing to address this?
Export earnings dominated by primary commodities, rendering the economy vulnerable to fluctuating commodity prices and external demand.	If Ghana can get its local oil refineries in order and exploit the commercial potential of its natural gas, it would diversify export earnings. Local content laws are aimed at developing domestic industry.
The fiscal deficit deteriorated sharply last year, pushing up public debt levels and harming the government's credibility.	The government scrapped fuel subsidies in May 2013, raised utility tariffs in September, and raised taxes, but the deficit remains very wide due to elevated wage and debt interest payments.
Import cover remains quite low as a result of a large import bill and drawdown in international reserves.	The central bank introduced capital controls in February 2014 to support the local unit – these were eased in June. Fiscal consolidation has been too slow.

Source: NKC Research

Market participation	
Foreign investors	Foreign investor participation in the debt market is limited to long-term instruments. Foreign residents may hold foreign exchange accounts in Ghana.
Local investors	Participation dominated by the banking sector, the Social Security and National Insurance Trust (SSNIT) Pension Fund, as well as a very active retail investor market.

Source: NKC Research

Financial market

Foreign exchange

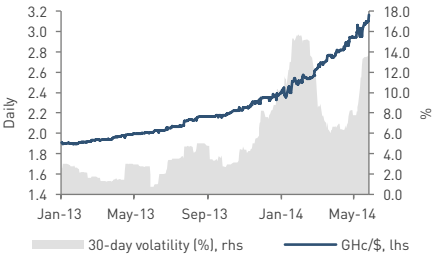
Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/ maturity	Quotation/ settlement	Reuters page	Additional information
Spot	US$0.25m to US$0.5m	US$10m	25 bps for US$0.25m	-	T+2	GHS=	Main cross is US$/GHS
Forwards (deliverable)	US$0m to US$5m	US$0m to US$5m	150 bps to 300 bps	Liquid up to 1 year	T+2	GHS-FWD=	Main benchmark is US$/GHS
Forwards (non-deliverable)	US$1m to US$2m	US$0m to US$5m	150 bps to 300 bps	Limited immaterial of tenor	T+2	-	Main benchmark is US$/GHS
Swaps	US$0m to US$5m	US$10m to US$20m	150 bps to 300 bps	Liquid up to 1 year	T+2	-	Main benchmark is US$/GHS

Sources: Bloomberg, Reuters, NKC Research

The cedi's value has been eroded by close to 650% since the start of the new millennium, and by almost 115% since the beginning of 2010. The cedi's rapid depreciation is mainly being driven by the government's spendthrift tendencies. In response to the weakening cedi, the central bank has directly intervened in the market, in addition to announcing various measures to support the local unit. These measures include limiting cash withdrawals from foreign exchange accounts, and requiring exporters to repatriate their earnings within 60 days of shipment. In addition, the central bank increased its policy rate by 200 basis points in February this year, and in April increased the cash reserve requirement on banks from 9% to 11%. In spite of these measures, by 9 June, the cedi had depreciated by 30.1% y-t-d against the US dollar.

Exchange rate

Ghanaian cedi



Source: Reuters

Given that the government has shown that it is not interested in making a U-turn on its current fiscal path, the outlook for the cedi exchange rate is dire. We forecast that the currency will average GH¢2.9/US$ this year, 40.1% weaker on average than last year. The local unit is projected to average 12.8% weaker next year at GH¢3.27/US$. Significant upside risk to these exchange rate forecasts exists.

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Ghana Stock Exchange	32	Limited	US$3.9bn	T+3	Financial; Beverages	1.02m shares

Sources: Bloomberg, Ghana Stock Exchange

The Ghana Stock Exchange (GSE) remains relatively small and market liquidity is a constraint for many foreign funds. Daily trading values are in the region of US$0.6 million. This is due to there being relatively few listed companies. Meanwhile, institutions such as the Social Security and National Insurance Trust (SSNIT) are large shareholders, but do not trade regularly, adding to liquidity constraints.

'The introduction of the automated trading system has helped to address some liquidity concerns because it has done away with the issuance of share certificates, which took time to trade-in shares', according to the director-general of the Securities and Exchange Commission (SEC), Adu Anane Antwi. The SEC is looking to introduce market making and set up live trading on the GSE in order to boost liquidity levels.

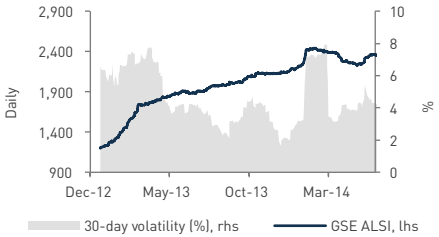
The GSE composite index rose by nearly 80% in 2013, and made a good start to the new year, rising by a further 5.1% in January and 7.3% in February. However, since then, the stock market has come under pressure, falling by 1.4% in March and 5.5% in April. We attribute this to increased macroeconomic risk in the country, including acute exchange rate risk. In addition, the central bank raised its main policy interest rate by 200 basis points in February, and raised the banks' cash reserve requirements in April, which would have tended to dampen liquidity levels. The composite index is still up by around 6.1% y-t-d.

However, the market capitalisation has fallen to US$3.9 billion, compared to US$4.5 billion at the end of last year.

Top-five listed companies	Market capitalisation
Standard Chartered Ghana	US$672m
Ecobank Ghana	US$629m
Guinness Ghana	US$385m
Ghana Commercial Bank	US$385m
Unilever Ghana	US$367m

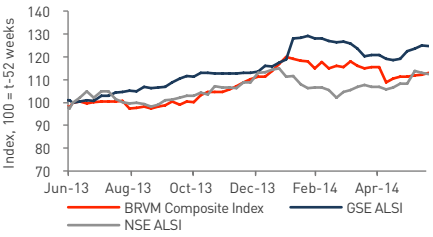
Source: Bloomberg

Ghana Stock Exchange - Composite Index



Source: Reuters

West Africa SEs performance indices



Source: NKC Research, Reuters

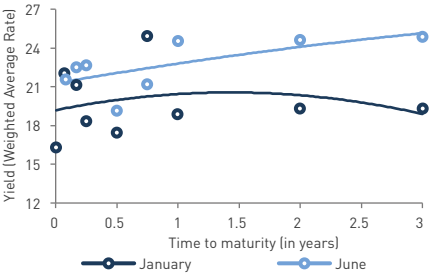
Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bill	91, 182 day	Weekly	Limited	Generally T+0	Licenced primary dealers	100 bps to 150 bps
Treasury bonds	1 to 2-year Fixed Rate Note (FRN); 3 to 5-year Fixed Rate Bond (FRB)	FRN sold weekly; FRB sold on ad hoc basis	Limited	T+1 (notes); T+2 (bonds)	Licenced primary dealers (foreigners are restricted to a minimum of 3 years on a primary issue)	50 bps to 100 bps

Source: Bloomberg, NKC Research

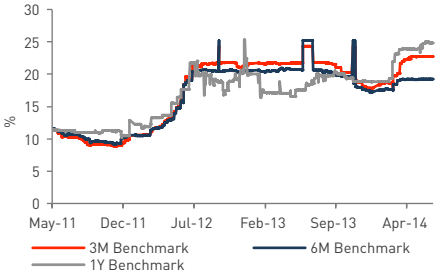
Debt in the local market is mostly issued in order to repay maturing liabilities and to finance the budget deficit. The term structure of the debt market yield curve was lengthened last year with the debut issue of a seven-year bond. Ghana is one of the few countries on the continent that boast having a fully-automated trading process relating to its fixed-income instruments on the GSE, which is accompanied by a GSE Central Securities Depository (GCSD). Non-residents of Ghana are allowed to invest in the domestic capital market, but only at the long end (i.e. with maturities of three years and above). However, towards the end of last year, the BoG noted that it was in discussions with the finance ministry to allow foreign investor participation in one and two-year government securities in order to 'ensure competitive pricing in the market'. In January 2014, foreigners were allowed to partake in the auction of two-year securities, while still being barred from one-year instruments. Foreign investors have snatched up the majority of the three and five-year bonds on offer over the last few years, but the situation has started to change given the tightening of global liquidity expected during 2014-15, as well as increased macroeconomic risk in Ghana. Ghana's debut seven-year local bond issue of August last year attracted GH¢270 million in bids, of which only GH¢102 million were accepted. Foreign investors accounted for 48% of total bids. However, no foreign bids were accepted because they 'were a bit expensive'. Several auctions have been cancelled so far this year due to concerns about rising yields.

Ghana (benchmark) yield curve



Sources: NKC Research, Reuters

Ghana treasury bills (secondary market)



Sources: NKC Research, Reuters

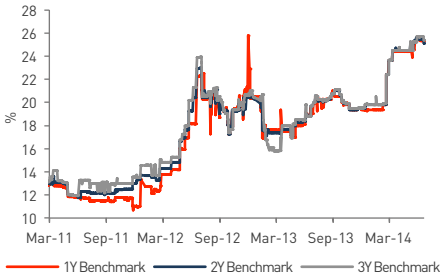
In terms of the holders of Ghana's outstanding domestic government debt (totalling GH¢24.67 billion at December 2013, up from GH¢18.54 billion in December 2012), as percentage of the total:

- Commercial banks – 27.5%
- The central bank – 28.8%
- Social Security and National Insurance Trust – 2.7%
- Insurance companies – 0.2%
- Non-residents – 21.6%
- Others – 23.2%

Ghana's treasury bill and treasury bond yields have increased notably since 2012 due to a sharp widening of the fiscal deficit, which was mostly financed by domestic debt. Yields on short-term paper increased from below 11% at the end of 2011 to around 21% in mid-2012. Yields have remained at these elevated levels for most of the last two years for a number of reasons. Firstly, the budget deficit widened by a further 16.7% in 2013, and in our baseline scenario, we project that it will widen by another 11.4% in 2014.

Secondly, both inflation and the central bank's policy rate have increased significantly. Thirdly, Ghana's creditworthiness, as measured by international rating agencies, has deteriorated. The government has on more than one occasion decided this year to cancel long-term bond auctions in order to avoid yields rising by too much. However, given that the budget deficit remains very wide, authorities cannot indefinitely continue to cancel bond auctions.

Ghana treasury bonds (secondary market)



Sources: NKC Research, Reuters

This illustrates the Ghanaian government's precarious position: it has a large budget deficit to fund, and a large amount of maturing debt to refinance. At the same time, holding these bonds has become more risky, which has lowered demand.

The combination of lower demand and elevated supply keeps yields elevated. Unless spending levels are cut, the government has no option other than to accept higher yields. But in doing so, the deficit (via higher interest payments) rises even further, which necessitates that more bonds have to be issued. The vicious cycle will continue until decisive measures are taken to bring the wage bill down to more sustainable levels.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013E	2014F	2015F
Real GDP (% change)	3.99	8.01	15.00	8.80	6.28	5.45	5.98
Nominal GDP (US$bn)	25.80	32.19	38.75	40.52	43.95	36.71	37.86
Consumer price inflation (average, %)	19.25	10.71	8.73	9.16	11.65	14.20	12.38
Budget balance, incl grants (% of GDP)	-5.86	-7.21	-4.08	-10.81	-10.42	-9.90	-8.90
- Revenue (% of GDP)	16.65	16.80	19.68	22.24	21.11	20.78	20.88
- Expenditure (% of GDP)	22.51	24.01	23.76	33.05	31.52	30.68	29.77
Government debt (% of GDP)	32.91	43.01	40.96	46.83	59.02	62.65	64.74
Current account balance (% of GDP)	-7.35	-8.60	-9.14	-12.12	-12.98	-13.16	-11.77
Trade balance (% of GDP)	-8.55	-9.20	-7.88	-10.39	-8.76	-8.17	-6.57
GHS/US$	1.41	1.43	1.51	1.85	2.07	2.90	3.27
Short-term interest rate (%)	28.80	22.70	20.60	20.70	22.30	23.60	23.80
Foreign reserves (US$bn)	3.39	4.22	4.95	4.88	5.29	4.22	4.41
Months of import cover	3.46	3.95	3.31	2.92	3.00	2.52	2.57

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% y-o-y)	8.58	8.58	8.85	13.53	14.54	14.68	14.84
Monetary policy rate (%)	13.50	12.50	15.00	16.00	18.00	18.00	18.00
International reserves (US$bn)	4.61	5.38	5.35	5.63	4.70	N/A	N/A
91-day treasury bill rate (%, eop)	11.89	10.46	21.62	17.84	22.20	22.63	22.71
GHS/US$ (eop)	1.49	1.64	1.90	2.38	2.66	2.83	3.08
Gold (US$/oz, eop)	1,419.45	1,563.80	1,674.34	1,204.94	1,283.64	1,291.29	1,250.69

Sources: Bank of Ghana, Ghana Statistical Service, Reuters

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

ivory coast



Demographics	
Population	22 848 945 (July 2014 est.)
Population world ranking	55 out of 240 (CIA)
Life expectancy (years)	Total population: 58.01; male: 56.9; female: 59.16 (2014 est.)
Main ethnic groups	Akan 42.1%, Voltaiques or Gur 17.6%, Northern Mandes 16.5%, Krous 11%, Southern Mandes 10%, other 2.8% (includes 130,000 Lebanese and 14,000 French) (1998)
Business language	French (official), 60 native dialects of which Dioula is the most widely spoken
Urban population	52.0%
Population below national poverty line	42.7 (2008 est.)

Sources: CIA, World Bank

Geography	
Area in sq km	322 463
Area: World ranking	69 out of 252 (CIA)
Climate	Tropical along coast, semiarid in far north; three seasons - warm and dry (November to March), hot and dry (March to May), hot and wet (June to October)
Natural resources	Petroleum, natural gas, diamonds, manganese, iron ore, cobalt, bauxite, copper, gold, nickel, tantalum, silica sand, clay, cocoa beans, coffee, palm oil, hydropower

Sources: CIA, World Bank

Sovereign ratings	
S&P	N/R
Fitch	N/R
Moody's	N/R

Source: NKC Research

Economy in 2013			
Nominal GDP (US$bn)	28.29	Total government debt as % of GDP	43.19
Nominal GDP: World ranking	98 out of 188 (IMF)	Total external debt as % of GDP	27.80
Real GDP (% change, y-o-y)	8.1	Consumer price inflation (average, %)	2.58
GDP growth: World ranking	13 out of 189 (IMF)	Current account balance as % of GDP	-1.22
GDP per capita (US$)	1,175.29	Equity market: Size in US$	US$11.57bn (BRVM total)
Agriculture as % of GDP	N/A	Equity market: Listed companies	31 out of 37 companies on the BRVM are listed as Ivorian
Industry as % of GDP	N/A	Bond market size	US$3.87bn outstanding govt bonds on the domestic market
Services as % of GDP	N/A		

Sources: IMF, NKC Research, BRVM, WAEMU

Political environment	
Government type	Republic; multiparty presidential regime established 1960
Head of state	President Alassane Dramane Ouattara
Head of government	Prime Minister Daniel Kablan Duncan
Ruling coalition	Rally of the Republicans (RDR), Democratic Party of Cote d'Ivoire (PDCI)
Main opposition parties	Ivorian Popular Front (FPI), Citizen's Democratic Union (UDCY), Democracy and Liberty for the Republic (LIDER), Ivorian Worker's Party (PIT), Movement of the Future Forces (MFA), Union for Democracy and Peace in Cote d'Ivoire (UDPCI), over 144 smaller registered parties
Elections	Last held on 31 October and 28 November 2010 (next to be held in 2015)

Source: NKC Research

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013F	2014F	2015F
Real GDP (% change)	3.75	2.45	-4.73	9.76	8.08	8.16	7.65
Nominal GDP (US$bn)	22.50	22.96	24.10	24.69	28.29	32.29	36.09
Consumer price inflation (average, %)	1.01	1.37	4.90	1.30	2.58	1.17	2.50
Budget balance, incl grants (% of GDP)	-1.6	-2.3	-5.7	-3.4	-2.7	-2.3	-3.1
- Revenue (% of GDP)	19.49	19.70	20.26	20.81	21.76	22.18	21.87
- Expenditure (% of GDP)	20.95	21.71	25.93	24.22	24.23	24.42	24.68
Government debt (% of GDP)	67.69	68.45	98.31	49.16	43.19	40.38	39.87
Current account balance (% of GDP)	7.55	2.47	12.92	-1.26	-1.22	-2.24	-1.97
Trade balance (% of GDP)	18.4	14.5	24.2	14.2	10.1	9.0	7.7
CFAfr/US$	472.19	494.91	471.87	509.96	493.83	482.32	508.49
Short-term interest rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign reserves (US$bn)	2.68	3.20	4.21	3.38	4.25	5.19	5.73
Months of import cover	3.7	3.6	5.5	3.3	3.8	3.9	3.8

Sources: WEO, IMF

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (%, y-o-y)	5.1	1.9	3.4	0.4	0.0	-0.2	N/A
Prime lending rate (discount rate, %)	4.25	4.25	4.00	3.50	3.50	3.50	3.50
Foreign reserves (US$bn)	3.20	4.21	3.38	4.25	N/A	N/A	N/A
91-day treasury bill rate (%, eop)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CFAfr/US$ (eop)	489.92	506.80	496.49	475.77	476.37	473.00	481.43
Cocoa price (USc/lb, eop)	143.56	98.44	106.29	129.69	140.88	141.41	146.79

Sources: Reuters, WAEMU, IMF

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

kenya



Demographics	
Population	45 010 056 (July 2014 est.)
Population: world ranking	31 out of 240 countries (CIA)
Life expectancy (years)	Total population: 63.52; male: 62.06; female: 65.01 (2014 est.)
Main ethnic groups	Kikuyu 22%, Luhya 14%, Luo 13%, Kalenjin 12%, Kamba 11%, Kisii 6%, Meru 6%, other African 15%, non-African (Asian, European, and Arab) 1%
Business language	English (official), Kiswahili (official)
Urban population	24.4%
Population below national poverty line	45.9% (2005 est.)

Sources: CIA, World Bank

Geography	
Area in sq km	580 367
Area: World ranking	49 out of 252 countries (CIA)
Climate	Varies from tropical along coast to arid in interior
Natural resources	Limestone, soda ash, salt, gemstones, fluorspar, zinc, diatomite, gypsum, wildlife, hydropower

Sources: CIA, World Bank

Sovereign ratings	
S&P	B+/Stable
Fitch	B+/Stable
Moody's	B1/Stable

Source: NKC Research

Economy in 2013			
Nominal GDP (US$bn)	44.77	Total government debt as % of GDP	50.02
Nominal GDP: World ranking	84 out of 188 countries (IMF)	Total external debt as % of GDP	26.35
Real GDP (% change y-o-y)	4.70	Consumer price inflation (average, %)	5.72
GDP growth: World ranking	41 out of 189 countries (IMF)	Current account balance as % of GDP	-8.18
GDP per capita (US$)	1,009.48	Equity market: Size in US$	US$23.8bn
Agriculture as % of GDP	26.81	Equity market: Listed companies	63 primary listings
Industry as % of GDP	19.26	Bond market size	US$13.1bn (end Jan-14) govt bonds outstanding in the domestic market
Services as % of GDP	53.93		

Sources: IMF, NKC Research

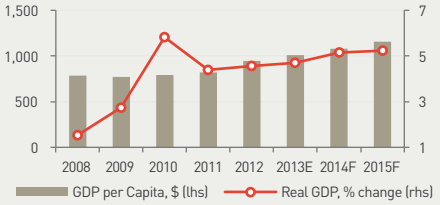
Political environment

Government type	Republic
Head of state	President Uhuru Kenyatta
Head of government	President Uhuru Kenyatta
Ruling political party	Jubilee Alliance
Main opposition parties	Coalition for Reforms and Democracy, Eagle Alliance, Amani Coalition
Elections	Election last held on 4 March 2013 (next to be held in 2018)

Source: NKC Research

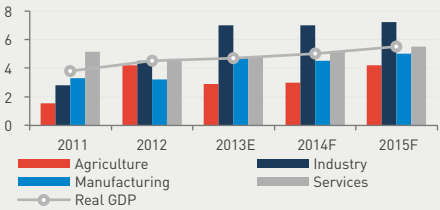
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



Source: NKC Research

Kenya's economic growth performance has been fairly volatile over the past decade. Real GDP growth averaged 4.2% per annum during 2002-11.

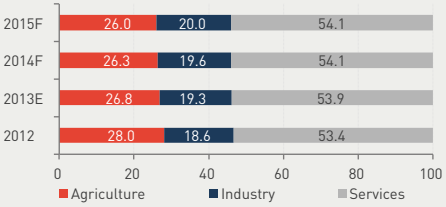
During this period, the highest growth rate was achieved in 2007 (7%), and the lowest in 2002 (0.5%). Agriculture is very important to the economy, as it is a major source of both employment and foreign exchange. Since most agricultural activities remain largely rain-fed, the sector is exposed to the vagaries of the weather.

And since a significant proportion of the population is dependent on agriculture for their livelihoods, a downturn in the sector has a noticeable and damaging effect on private consumption. Over the 2002-11 period, the correlation between growth in the agricultural sector (1.6% per annum) and overall real GDP growth was very high at 0.84. Over the same period, growth in the services sector has been impressive at an annual average of 4.8%. Some of the fastest-growing sectors in the services industry include telecommunications, hotels and restaurants, trade, and banking. Between 2002 and 2011, the industrial sector expanded at an annual average rate of 4.5%.

Within the sector, mining activities have expanded rapidly, though from a very low base. Moreover, there has been strong growth in the construction and manufacturing sectors, although expansion in the latter has been below par in recent years, and we feel there is still significant room for development.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

Kenya's population is expanding at a rapid pace, which necessitates an even higher real GDP growth rate to ensure that there are significant improvements in living standards. The United Nations Population Division estimates Kenya's population growth rate at around 2.7% per annum between 2000 and 2010. Over the subsequent decade, it is only expected to decline marginally. GDP per capita in current US$ prices is estimated to have exceeded US$1 000 for the first time last year, rising to US$1 009 , a 7.1% increase from the previous year. Similar growth in GDP per capita is forecast for 2014-15, reaching US$1 152 by the end of this period.

International trade

Kenya's main exports are black tea, coffee, and horticultural products, especially flowers. In addition, tourism and remittances are also important foreign exchange earners, and help to partially offset the sizeable trade deficit. Kenya does not yet produce any oil, and as a result, its oil import bill is a big drag on the current account. Kenya's forex earners have performed well over the past few years. However, imports have also expanded rapidly, resulting in a widening current account deficit. Specifically, the current account deficit widened from just 0.8% of GDP in 2004 to 9.9% of GDP in 2011. Over the same period, the trade deficit widened from 10.1% of GDP to 26.2% of GDP. Tullow Oil announced on 15 January 2014 that it had made two further oil discoveries in northern Kenya. Tullow believes that the basin has an overall potential of more than one billion barrels of oil. Further exploration activities will be undertaken over the next two years. Oil production is projected to start by 2015-16, while there are also plans for an export pipeline. The start of oil production will be very positive for Kenya. It will help to diversify and expand export earnings, and – provided the necessary refinery infrastructure is put in place – it will lower import requirements. As a result, it will help to narrow Kenya's trade deficit.

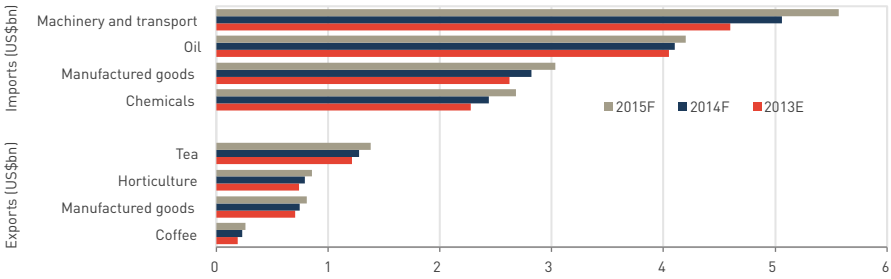
Foreign trade flows, 2013

Main exports	(US$ billion)	Main imports	(US$ billion)
Tea	1.22	Machinery and transport equipment	4.60
Horticulture	0.74	Oil	4.05
Manufactured goods	0.71	Manufactured goods	2.62
Coffee	0.19	Chemicals	2.28

Source: NKC Research

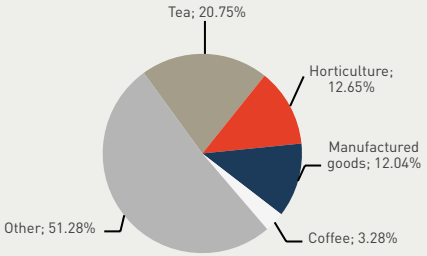
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Kenya top four exports and imports (US$ billion)



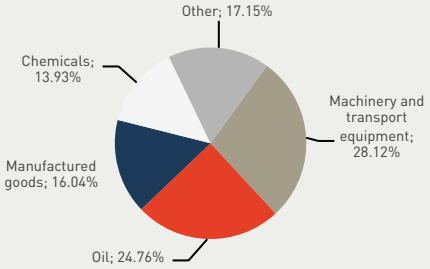
Source: NKC Research

2013 exports (% of total)



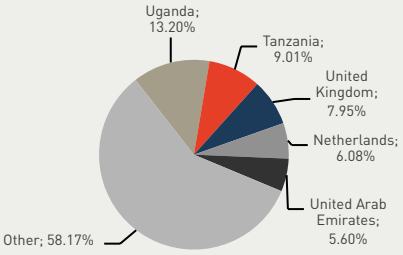
Source: NKC Research

2013 imports (% of total)



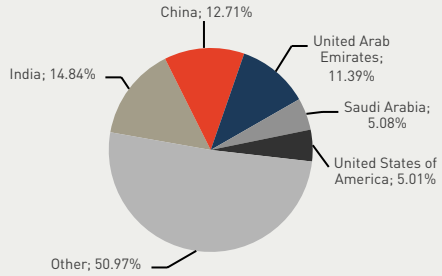
Source: NKC Research

2013 top destinations of exports (% of total)



Source: KNBS

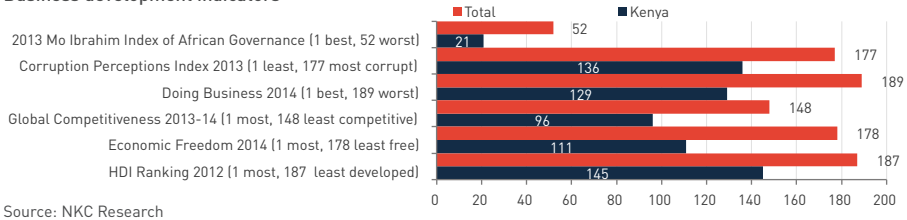
2013 top origins of imports (% of total)



Source: KNBS

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

The Monetary Policy Committee (MPC) of the Central Bank of Kenya (CBK) decided during its first two meetings of 2014 (held in January and April) to keep the Central Bank Rate (CBR) unchanged at 8.5%.

The rate was last changed in May last year, when it was lowered by 100 basis points. The MPC believes that its monetary policy stance has anchored inflation expectations. This view is supported by a Market Perceptions Survey that was conducted by the bank in December 2013. Meanwhile, confidence in the economy remains strong, and has been reinforced by positive comments made by the IMF. The MPC is carefully monitoring the trend in private sector credit for signs that it might trigger an uptick in inflation.

However, the bank believes that the 'combination of declining credit risk and rising private sector [credit] growth supports private investment and growth'. A committee looking into ways to boost private sector credit and mortgage finance in the country has proposed a new formula to be used by commercial banks in calculating lending rates.

Specifically, all banks will be required to use the Kenya Banks' Reference Rate (KBRR), which will be calculated as an average of the CBR and the average 91-day treasury bill rate. The CBK will publish the KBRR, which will remain effective for six months.

Commercial banks must price their interest rates by using the following formula: KBRR + k, where k is a measure of a bank's operating costs, the borrower's credit profile, and the type of loan product. All new loans awarded from 1 July 2014 onwards must use this formula, while banks will have until 1 July 2015 to recalculate rates on existing loans. The framework will later be extended to other lenders, such as microfinance banks.

Exchange rate policy:

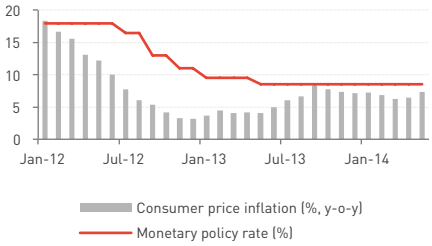
In a statement issued on its website on 26 May, the CBK noted that recent pressure on the shilling exchange rate was due to seasonal factors, and reiterated that its foreign exchange reserves 'are sufficient to provide adequate cushion against temporary shocks', while the forthcoming Eurobond will provide further support. The central bank expects a normalisation of the situation, but stands ready to act in order to dampen volatility levels. A US$600 million syndicated loan was due to be repaid by the government on 15 May. However, due to the delays in issuing its maiden Eurobond – which was supposed to finance repayment of the loan – the government decided to extend the maturity of the loan until 15 August. While the extension of the syndicated loan's maturity is not a default, it does highlight Kenya's challenges: it has sizeable current account and budget deficits, while foreign direct investment inflows are relatively small in comparison. Hence, the country is reliant on external debt to finance its shortfalls. While seasonal factors have contributed to pressure on the shilling, the negative effect on Kenya's tourism sector – an important foreign exchange earner – caused by increased terror risk cannot be denied.

Fiscal policy:

The finance ministry projects total fiscal expenditure at KSh1.58 trillion in the 2014/15 fiscal year (FY, starting in July), and total revenue is forecast at KSh1.24 trillion. The budget deficit is projected at KSh342.4 billion, which, according to our estimates, is equivalent to 7.4% of GDP. External financing will amount to KSh149.2 billion, or 3.2% of GDP, while domestic borrowing would cover KSh190.8 billion, or 4.1% of GDP. The remaining KSh2 billion will be covered by loan repayment receipts. Kenya's fiscal deficit has widened in recent years due to higher wages and increased infrastructure spending. The fiscal deficit in the coming FY may once again fall short of the target due to implementation capacity constraints, but even so, consecutive large budget deficits may start to crowd out credit to the private sector.

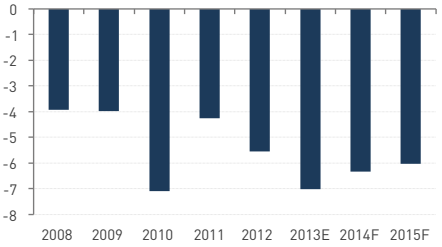
Kenya's public debt is forecast to reach 50.9% of GDP by the end of June 2014, compared to 44.4% of GDP at the end of June 2008. Infrastructure spending received considerable attention in the latest budget. The finance minister stated that the government would finalise financing for the second stage of a new standard gauge railway between Nairobi and the Ugandan border. Building of the first stage from the coast to Nairobi has already begun. In addition, the government plans to build three new airports: at Malindi on the coast, Mandera in the north and Suneka in the western part of the country.

Consumer price inflation and monetary policy rate



Source: Central Bank of Kenya, National Bureau of Statistics

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

Although Kenya is still one of the easier countries to do business in – compared to other countries in Africa – its progress in terms of reforms has been mixed. After Kenya boasted being one of the top-10 reformers on a global basis in the World Bank's Doing Business 2008 index, the country has moved down the scale since. Kenya is ranked 129th out of 189 countries in the 2014 edition of the index, down seven places from the previous edition. The corporate income tax rate is 30% of profit. There is also a 2.67% tax on gross salaries for social security contributions. The value added tax rate is 16%, while interest is taxed at 15%. There is no capital gains tax, although the Kenya Revenue Authority wants it to be reintroduced. (Capital gains legislation has been suspended since 1985.)

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Political environment

Kenya can be considered a low-risk country since the success of the 2013 elections under the new constitution. Most recent news from Kenya has been about insecurity resulting from terror attacks by members or sympathisers of Somalia's Al-Shabaab, which killed more than 150 people in the first six months of 2014. There definitely has been an increase in terrorism since the beginning of the year, and the tourism business (especially in Coast Province) has already suffered, but it is not yet serious enough to threaten overall political stability.

President Uhuru Kenyatta and Deputy President William Ruto's trials in the International Criminal Court (ICC) are progressing very limply, and it looks probable that both will be acquitted. Ultimately, the trials' effect on politics in Kenya will, if this outcome materialises, turn out to have been minimal, and will mostly amount to a surge of defensive nationalism, which has been to the advantage of the government.

The main political risks are economic ones: the indirect threat that terror may affect investment and business in general (in addition to the tourism industry), and the danger that a leaky and bloated bureaucracy, now growing because of the devolution of power to county-level governments, may hamper investment and affect Kenya's fiscal profile. These dangers are still only potential ones.

Economic environment

Ratings:

Kenya has the same rating on its sovereign debt from all three major rating agencies. Standard & Poor's (S&P) affirmed its sovereign credit rating on Kenya at 'B+' with a stable outlook on 8 November 2013. The stable outlook reflects S&P's view that economic growth will remain resilient, and that despite sporadic unrest, political stability will be maintained. Meanwhile, Fitch Ratings affirmed Kenya's long-term foreign currency sovereign credit rating on 31 January 2014 at 'B+', also with a stable outlook. The rating continues to be constrained by weak governance, low income per capita, and relatively poor human development indicators and business environment. Moody's Investors Service affirmed Kenya's credit rating at 'B1' with a stable outlook on 13 November 2013.

Key indicators to watch	
Exchange rate	The shilling has been fairly stable over the past two years, but remains exposed to weather and external demand-related shocks.
Forex reserves	The central bank uses its forex reserves to support the local unit from time to time. Kenya's foreign reserve position has strengthened over the past few years, despite a wide current account deficit and meagre official net FDI.
Monetary policy and inflation	The central bank has in the past been slow to raise interest rates pre-emptively to combat rising inflation. The real policy rate has declined from a peak of 10.4% in August 2012 to 4.5% in May this year.

Source: NKC Research

Key vulnerabilities	What is the government doing to address this?
Terrorism is the most serious impediment to foreign investment and tourism.	While terrorism is difficult to contain, Kenya needs to implement strategies and tactics designed to prevent what is currently a relatively containable issue sliding out of control.

Key vulnerabilities	What is the government doing to address this?
Dependent on hydroelectricity; oil-importing region.	New power plants using a combination of geothermal energy, co-generation, coal, and liquefied natural gas will become operational over the next few years, thereby reducing Kenya's reliance on hydropower. Oil production is to start within a few years.
Dependence on Europe for trade, remittances, and tourism earnings.	Kenya's exports to other countries within the EAC grouping have increased more than five-fold in the period between 2001 and 2011, and comprises over 75% of intra-regional exports.

Source: NKC Research

Market participation	
Foreign investors	All foreign-owned commercial banks operating in the country participate in both the government and corporate debt market. Foreign ownership of equity may not exceed 60%. Repatriation of capital, dividends, and interest is guaranteed by the Foreign Investment Protection Act (FIPA).
Local investors	All domestic-owned commercial banks and mortgage companies. The pension sector has become an increasingly important player since the enactment of the Retirement Benefits Act.

Source: NKC Research

Financial market

Foreign exchange

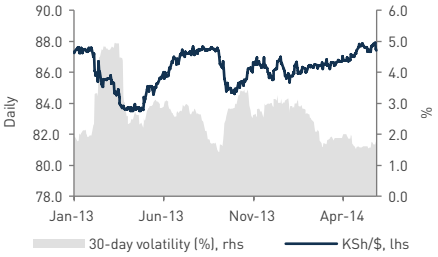
Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/ maturity	Quotation/ settlement	Reuters page	Additional information
Spot	US$0.5m to US$2m	US$20m to US$50m	10 bps for US$0.5m to US$1m	-	T+2	KES=	Main cross is US$/KES
Forwards (deliverable)	US$0m to US$2m	US$10m and above	200 bps to 400 bps	Liquid up to 1 year	T+2	KES-FWD=	Main benchmark is US$/KES
Forwards (non-deliverable)	US$1m to US$2m	US$0m to US$5m	200 bps to 400 bps	Liquid up to 1 year	T+2	-	Main benchmark is US$/KES
Swaps	US$0.5m to US$2m	US$20m to US$50m	200 bps to 400 bps	Liquid up to 1 year	T+2	-	Main benchmark is US$/KES

Sources: Bloomberg, Reuters, NKC Research

The shilling depreciated sharply during 2011 to reach a low of KSh106/US$ in October of that year. This was caused by a combination of higher international oil prices; a drought, which resulted in lower agricultural export earnings, higher food imports, and lower supply of hydropower; and loose monetary policy. The shilling recovered strongly subsequent to reaching its low point in October 2011, supported by tighter monetary policy, funding from the IMF, and inflows of foreign investment into the debt and equity markets. Since then, the shilling has again depreciated, although at only a gradual pace. The shilling averaged KSh84.4/US$ in 2012 (from KSh88.7/US$ in 2011), and depreciated to an average of KSh86/US$ last year. The local unit has come under some pressure since 2013 Q4, but it has not nearly been as sharply affected as a number of emerging and frontier market currencies in 2014 to date. This is mainly due to foreign investors not making up as large a share of the bond and equity markets, combined with a favourable macroeconomic outlook. Moreover, forex reserves are currently at a healthy level, so the central bank does have some scope to support the shilling exchange rate.

The shilling is expected to average around KSh88.3/US$ in 2014, before weakening to an average of KSh90.1/US$ next year. This will be driven by the large current account and budget deficits, higher inflation than that of trading partners, and the possibility of seeing larger portfolio investment outflows than in recent years.

Exchange rate
Kenyan shilling



Source: Reuters

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Nairobi Stock Exchange	63 primary listings	Very liquid in African context	US$23.8bn	T+3	Banking, telecommu-nications	38m shares

Source: Bloomberg

The Nairobi Stock Exchange (NSE) has performed very well since the beginning of 2012. The recovery was partly driven by investors shifting from Kenyan debt markets into the stock market. The loosening of monetary policy, with interest rate cuts in July, September, and November of 2012, and in January and, most recently, in May 2013, also proved to be supportive. The bourse came under some pressure during May-August last year, which may have been linked to the generally weaker sentiment towards emerging and frontier asset markets following the US Federal Reserve's indication that it will start to taper its bond-buying programme earlier than was previously expected.

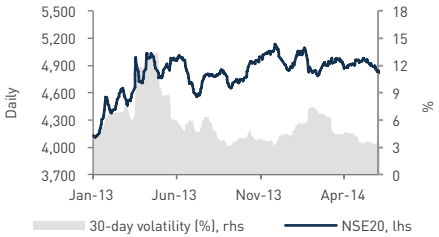
An increase in Kenya's domestic bond yields since mid-June may also have led to a marginal shift in investment from the equity to the debt market, as investors would want to lock in the higher returns on offer. The bourse has recovered strongly since September. Foreign ownership of shares in the NSE reached a seven-year high in November 2013, with a proportion of around 25%. However, in the first quarter of 2014, foreign investors were net sellers on the bourse to the value of KSh2.78 billion, compared to net purchases of KSh25.6 billion during the whole of last year. Telecoms operator Safaricom has the biggest market capitalisation on the bourse, at around

US$5.9 billion or 24.8% of the total. The company's share price soared last year, reaching an all-time high. The NSE's overall market capitalisation stood at US$23.8 billion at the end of May, an increase of 19.2% y-o-y. Monthly equity market turnover averaged KSh13 billion last year, up from KSh7.2 billion in 2012 and KSh6.5 billion in 2011. Turnover increased by 27.4% y-o-y in the first quarter of this year. The stock exchange is therefore quite liquid in an African context.

Top-five listed companies	Market capitalisation
Safaricom Limited	US$5.9bn
East African Breweries Limited	US$2.4bn
Equity Bank Limited	US$1.7bn
Kenya Commercial Bank Limited	US$1.6bn
Standard Chartered Bank Kenya	US$1.1bn

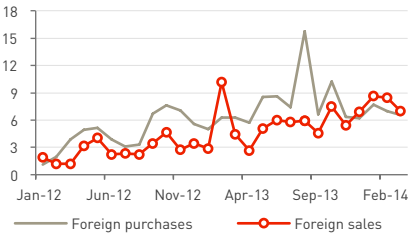
Source: Bloomberg

Nairobi Stock Exchange - NSE20



Source: Reuters

Foreign investor participation (KSh' billion)



Source: NSE

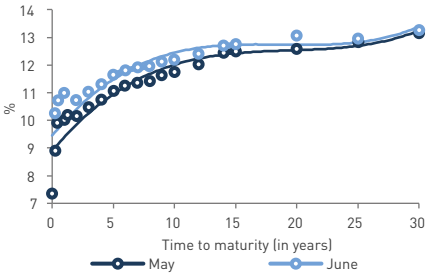
Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bill	91, 182 and 364 day	91 and 182 day sold weekly 364 day sold monthly	Good	T+1 (primary market) T+3 (secondary market)	Open to all market participants	N/A
Treasury bonds	1 to 30 years	Monthly or as set out in provisional auction calendar	Good	T+1 (primary market) T+3 (secondary market)	Foreign banks are prohibited from obtaining funding of less than 1 year directly through the local market	50 bps - 100 bps

Source: NKC Research

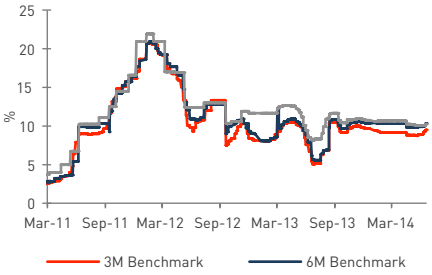
Kenya's domestic debt market is well developed and liquid by African standards. Maturities range from 91 days to 30 years. In June this year, the Kenyan sovereign finally issued its maiden Eurobond after many delays. The US$500 million five-year tranche priced at a yield of 5.875%, while the US$1.5 billion 10-year tranche attained a yield of 6.875%. The final yields both came in at the tighter end of initial guidance, which was 6% on the five-year tranche and 7% on the 10-year offering. The order book on the five-year tranche reached US$2.5 billion while the longer-dated tranche raked in US$5.5 billion in tenders. The proceeds are earmarked for infrastructural development as well as the repayment of a US$600 million syndicated loan. Kenya illustrated shrewdness in weighing market conditions and offering a dual-tranche instrument to widen the capital base and lower aggregate borrowing costs. Still, we remain circumspect about such a large issue; the combined US$2 billion issue amounts to around 30% of foreign exchange reserves, which is quite high relative to other recent African issuers.

Kenya (benchmark) yield curve



Sources: NKC Research, Reuters

Kenya treasury bills (secondary market)



Sources: NKC Research, Reuters

The sovereign's maiden Eurobond issue is expected to contribute to increased international bond issuances from the private sector and parastatals. As a result, external debt is forecast to increase by 12.7% this year, taking the ratio to GDP to 27.7%, from 26.8% in 2013. Kenya Power has announced that it plans to issue Eurobonds to help finance its expansion plans after it has obtained a credit rating. Meanwhile, ARM Cement has also announced that it may sell Eurobonds to help fund its US$300 million expansion programme. Housing Finance, Kenya's second-largest mortgage lender, has also announced that it will issue a seven-year KSh20 billion corporate bond once the government has issued its Eurobond, in order to take advantage of potentially lower borrowing costs. A key concern we have is that the increased appetite for taking on debt (by the public and private sector), spurred by the easy global monetary conditions, could backfire once liquidity dries up. It is therefore crucial that business plans are not reliant on interest rates remaining at current low levels.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012E	2013E	2014F	2015F
Real GDP (% change)	2.74	5.80	4.38	4.56	4.70	5.14	5.22
Nominal GDP (US$bn)	30.60	32.23	34.33	40.70	44.77	49.17	53.85
Consumer price inflation (average, %)	9.23	3.96	14.02	9.38	5.72	6.95	7.41
Budget balance, incl grants (% of GDP)	-3.98	-7.09	-4.26	-5.55	-7.01	-6.33	-6.01
- Revenue (% of GDP)	22.44	25.13	24.63	23.54	23.85	25.09	26.02
- Expenditure (% of GDP)	26.41	32.21	28.89	29.09	30.87	31.43	32.04
Government debt (% of GDP)	46.72	49.87	53.36	50.26	50.02	50.92	51.39
Current account balance (% of GDP)	-5.31	-7.35	-9.89	-9.50	-8.18	-8.17	-8.34
Trade balance (% of GDP)	-16.24	-19.33	-26.24	-25.90	-23.46	-22.83	-22.38
KES/US$	77.35	79.23	88.81	84.53	85.98	88.16	92.00
Short-term interest rate (%)	14.81	14.37	15.05	19.67	17.31	17.20	17.90
Foreign reserves (US$bn)	3.85	4.07	4.25	5.70	6.56	6.77	7.19
Months of import cover	4.11	3.61	3.12	3.78	4.36	4.27	4.20

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% y-o-y)	4.51	18.93	3.20	7.15	6.27	6.41	7.30
Monetary policy rate (%)	6.00	18.00	11.00	8.50	8.50	8.50	8.50
Foreign reserves (US$bn)	4.07	4.25	5.70	6.56	N/A	N/A	N/A
91-day treasury bill rate (% eop)	2.28	18.66	8.17	9.63	9.16	8.83	8.89
KES/US$ (eop)	80.50	84.95	85.75	86.20	86.30	86.96	87.60
Brent crude oil (US$/barrel eop)	94.23	109.19	111.60	110.50	106.40	108.98	110.01

Sources: NKC Research, Reuters, Central Bank of Kenya, Kenya National Bureau of Statistics

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

lesotho



Demographics

Population	1 942 008 (July 2014 est.)
Population: world ranking	149 out of 240 countries (CIA)
Life expectancy (years)	Total population: 52.65, male: 52.55, female: 52.75 (2014 est.)
Main ethnic groups	Sotho 99.7%, Europeans, Asians, and other 0.3%
Business language	Sesotho (official) (southern Sotho), English (official), Zulu, Xhosa
Urban population	28.3%
Population below national poverty line	56.6% (2003 est.)

Sources: CIA, World Bank

Geography

Area in sq km	30 355
Area: World ranking	142 out of 252 countries (CIA)
Climate	Temperate; cool to cold, dry winters; hot, wet summers
Natural resources	Water, agricultural and grazing land, diamonds, sand, clay, building stone

Sources: CIA, World Bank

Sovereign ratings

S&P	N/R
Fitch	BB-/Stable
Moody's	N/R

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	2.09	**Total government debt as % of GDP**	46.20
Nominal GDP: World ranking	160 out of 188 countries (IMF)	**Total external debt as % of GDP**	48.80
Real GDP (% change, y-o-y)	3.35	**Consumer price inflation (average, %)**	5.03
GDP growth: World ranking	36 out of 189 countries (IMF)	**Current account balance as % of GDP**	-2.15
GDP per capita (US$)	1,007.53	**Equity market: Size in US$**	N/A
Agriculture as % of GDP	6.93	**Equity market: Listed companies**	N/A
Industry as % of GDP	34.09	**Bond market size**	US$110m govt bonds outstanding in the domestic market
Services as % of GDP	58.98		

Sources: IMF, NKC Research, CBL

Political environment	
Government type	Parliamentary constitutional monarchy
Head of state	King LETSIE III
Head of government	Prime Minister Motsoahae Thomas Thabane
Ruling political party	All Basotho Convention or ABC
Main opposition parties	Democratic Congress (DC), Lesotho Congress for Democracy (LCD), Basotho National Party (BNP), Popular Front for Democracy (PFD)
Elections	Elections last held in May 2012

Source: NKC Research

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013F	2014F	2015F
Real GDP (% change)	3.60	7.87	3.74	3.96	3.35	4.53	3.95
Nominal GDP (US$bn)	1.72	2.20	2.53	2.28	2.09	1.98	2.14
Consumer price inflation (average, %)	7.38	3.60	5.03	6.10	5.03	5.66	5.52
Budget balance, incl grants (% of GDP)	-3.98	-5.10	-10.09	4.93	3.28	1.19	1.35
- Revenue (% of GDP)	64.13	53.05	52.64	65.44	70.52	73.93	75.81
- Expenditure (% of GDP)	68.11	58.15	62.74	60.51	67.24	72.74	74.47
Government debt (% of GDP)	39.73	35.95	39.01	40.16	46.20	39.89	40.37
Current account balance (% of GDP)	6.52	-10.16	-24.76	-6.62	-2.15	5.63	2.16
Trade balance (% of GDP)	-45.37	-43.15	-43.45	-46.58	-49.90	-45.33	-45.43
LSL/US$	8.47	7.32	7.26	8.21	9.63	10.75	10.40
Short-term interest rate (%)	13.10	11.00	10.52	10.15	9.97	10.40	10.80
Foreign reserves (US$bn)	1.11	0.96	0.86	0.97	1.27	1.53	1.76
Months of import cover	6.05	4.51	3.71	4.18	6.41	8.26	8.82

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (%, y-o-y)	3.1	7.2	4.5	5.1	5.6	5.9	N/A
Prime lending rate (discount rate, %)	11.25	10.50	10.08	9.92	10.25	10.25	10.25
Foreign reserves (US$bn)	0.96	0.86	0.97	1.03	0.98	N/A	N/A
91-day treasury bill rate (%, eop)	5.60	5.38	5.45	5.28	6.10	6.15	6.30
LSL/US$ (eop)	6.60	8.07	8.45	10.45	10.52	10.47	10.57
Diamond price index (US$, eop)	132.19	156.27	139.23	140.43	150.44	145.64	145.72

Sources: NKC Research, CBL, Bloomberg

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

malawi



Demographics	
Population	17 377 468 (July 2014 est.)
Population: world ranking	64 out of 240 countries (CIA)
Life expectancy (years)	Total population: 59.99, male: 58.04, female: 61.97 (2014 est.)
Main ethnic groups	Chewa 32.6%, Lomwe 17.6%, Yao 13.5%, Ngoni 11.5%, Tumbuka 8.8%, Nyanja 5.8%, Sena 3.6%, Tonga 2.1%, Ngonde 1%, other 3.5%
Business language	Chichewa (official), English (official)
Urban population	15.8%
Population below national poverty line	50.7% (2010 est.)

Sources: CIA, World Bank

Geography	
Area in sq km	118 484
Area: World ranking	100 out of 252 countries (CIA)
Climate	Sub-tropical; rainy season (November to May); dry season (May to November)
Natural resources	Limestone, arable land, hydropower, unexploited deposits of uranium, coal, and bauxite

Sources: CIA, World Bank

Sovereign ratings	
S&P	N/R
Fitch	N/R
Moody's	N/R

Source: NKC Research

Economy in 2013			
Nominal GDP (US$bn)	3.85	Total government debt as % of GDP	68.42
Nominal GDP: World ranking	155 out of 188 countries (IMF)	Total external debt as % of GDP	39.49
Real GDP (% change, y-o-y)	5.00%	Consumer price inflation (average, %)	27.90
GDP growth: World ranking	48 out of 189 countries (IMF)	Current account balance as % of GDP	-19.71
GDP per capita (US$)	235.16	Equity market: Size in US$	US$1.384bn
Agriculture as % of GDP	30.25	Equity market: Listed companies	13 domestic listings
Industry as % of GDP	21.74	Bond market size	US$401.2m govt bonds outstanding in the domestic market
Services as % of GDP	48.01		

Source: NKC Research

Political environment	
Government type	Multiparty democracy
Head of state	President Peter Mutharika
Head of government	President Peter Mutharika
Ruling political party	Democratic Progressive Party (DPP)
Main opposition parties	Malawi Congress Party (MCP), United Democratic Front (UDF)
Elections	Presidential, legislative and local government held on 20 May 2014 (next to be held in 2019)

Source: NKC Research

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013F	2014F	2015F
Real GDP (% change)	9.06	6.55	4.35	1.89	5.00	5.68	6.00
Nominal GDP (US$bn)	5.03	5.40	5.61	4.17	3.85	4.43	4.98
Consumer price inflation (average, %)	8.42	7.41	7.62	21.27	27.90	14.56	9.92
Budget balance, incl grants (% of GDP)	-4.41	2.60	-5.23	-2.64	-6.66	-2.31	-0.93
- Revenue (% of GDP)	33.29	40.15	29.81	38.60	40.86	40.31	40.88
- Expenditure (% of GDP)	37.70	37.55	35.04	41.24	47.52	42.62	41.81
Government debt (% of GDP)	43.43	37.41	37.56	59.76	68.42	57.47	51.00
Current account balance (% of GDP)	-11.44	-13.77	-12.09	-21.04	-19.71	-22.89	-21.97
Trade balance (% of GDP)	-16.58	-20.50	-17.86	-29.78	-28.94	-31.17	-29.83
MWK/US$	139.63	149.29	156.93	253.08	366.94	407.63	420.39
Short-term interest rate (%)	25.25	24.63	23.75	32.33	37.00	24.50	23.00
Foreign reserves (US$bn)	0.15	0.31	0.20	0.22	0.37	0.41	0.51
Months of import cover	0.89	1.67	1.00	1.09	1.79	1.85	2.10

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (%, y-o-y)	6.30	9.80	34.60	23.50	24.00	23.90	22.60
Monetary policy rate (discount rate, %)	13.00	16.00	25.00	25.00	25.00	25.00	25.00
Foreign reserves (US$m)	391.00	190.00	223.00	403.00	478.00	454.00	451.00
91-day treasury bill rate (%, eop)	6.20	7.00	20.02	31.39	11.71	18.35	21.04
MWK/US$ (eop)	150.00	162.05	321.00	415.00	385.00	385.00	383.00
Uranium (US$/lb, eop)	62.50	52.50	43.75	34.50	34.70	30.75	28.25

Sources: NKC Research, Reserve Bank of Malawi, National Statistics Office, Reuters

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

mauritius



Demographics

Population	1 331 155 (July 2014 est.)
Population: world ranking	156 out of 240 (CIA)
Life expectancy (years)	Total population: 75.17; male: 71.71; female: 78.81 (2014 est.)
Main ethnic groups	Indo-Mauritian 68%, Creole 27%, Sino-Mauritian 3%, Franco-Mauritian 2%
Business language	Creole 86.5%, Bhojpuri 5.3%, French 4.1%, two languages 1.4%, other 2.6% (includes English, the official language, which is spoken by less than 1% of the population), unspecified 0.1% (2011 est.)
Urban population	41.8%
Population below national poverty line	<1.0% (2012)

Sources: CIA, World Bank, UNDG

Geography

Area in sq km	2 040
Area: World ranking	181 out of 252 (CIA)
Climate	Tropical, modified by southeast trade winds; warm, dry winter (May to November); hot, wet, humid summer (November to May)
Natural resources	Arable land, fish

Sources: CIA, World Bank

Sovereign ratings

S&P	N/R
Fitch	N/R
Moody's	Baa1/Stable

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	11.93	**Total government debt as % of GDP**	54.13
Nominal GDP: World ranking	128 out of 188 (IMF)	**Total external debt as % of GDP**	37.67
Real GDP (% change, y-o-y)	3.2	**Consumer price inflation (average, %)**	3.60
GDP growth: World ranking	99 out of 189 (IMF)	**Current account balance as % of GDP**	-10.23
GDP per capita (US$)	9,588.45	**Equity market: Size in US$**	US$9.3bn
Agriculture as % of GDP	3.3	**Equity market: Listed companies**	79 primary listings
Industry as % of GDP	24.12	**Bond market size**	US$5.2bn govt bonds outstanding in the domestic market
Services as % of GDP	72.57		

Sources: IMF, NKC Research, Bloomberg, SEM

Political environment	
Government type	Parliamentary Republic
Head of state	President Kailash Purryag
Head of government	Prime Minister Navinchandra Ramgoolam
Ruling political party	Labour Party, Mauritian Social-Democratic Party (coalition)
Main opposition parties	Mauritian Militant Movement, Militant Socialist Movement
Elections	General to be held 2015, early election possible

Source: NKC Research

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013F	2014F	2015F
Real GDP (% change)	3.01	4.11	3.85	3.23	3.20	3.67	4.17
Nominal GDP (US$bn)	8.92	9.71	10.97	11.33	11.93	12.16	12.84
Consumer price inflation (average, %)	2.55	2.89	6.53	3.85	3.60	4.47	4.45
Budget balance, incl grants (% of GDP)	-3.57	-3.06	-2.52	-2.20	-3.53	-3.13	-3.28
- Revenue (% of GDP)	22.77	22.43	22.45	21.87	21.51	22.14	21.32
- Expenditure (% of GDP)	26.34	25.49	24.97	24.06	25.04	25.27	24.61
Government debt (% of GDP)	52.16	52.95	54.45	52.69	54.13	52.22	50.10
Current account balance (% of GDP)	-7.34	-8.18	-11.36	-12.36	-10.23	-9.36	-8.72
Trade balance (% of GDP)	-17.55	-19.51	-21.44	-21.36	-19.12	-21.07	-21.58
Rs/US$	31.66	30.20	28.22	29.60	30.50	31.80	32.20
Short-term interest rate (%)	9.25	8.88	8.92	8.67	8.80	9.00	9.30
Foreign reserves (US$bn)	2.18	2.44	2.58	2.84	3.34	3.26	3.34
Months of import cover	5.44	5.12	4.50	4.93	5.30	4.80	4.58

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (%, y-o-y)	6.14	4.82	3.22	4.00	4.50	4.20	3.40
Monetary policy rate (discount rate, %)	4.75	5.40	4.90	4.65	4.65	4.65	4.65
Foreign reserves (US$bn)	2.44	2.58	2.84	3.34	3.43	3.59	3.64
91-day treasury bill rate (%, eop)	4.00	2.95	2.80	2.30	3.16	2.99	2.31
Rs/US$ (eop)	29.80	28.90	30.00	29.51	29.40	29.33	29.53
Sugar (USc/lb, eop)	35.30	22.63	20.34	16.73	18.13	17.72	17.38

Sources: NKC Research, Bank of Mauritius, Bloomberg, Reuters

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

morocco



Demographics

Population:	32 987 206 (July 2014 est.)
Population: world ranking	39 out of 240 countries (CIA)
Life expectancy (years)	Total population: 76.51; male: 73.44; female: 79.74 (2014 est.)
Main ethnic groups	Arab-Berber 99%, other 1%
Business language	Arabic (official), Berber dialects, French (often the language of business, government, and diplomacy)
Urban population	57.4%
Population below national poverty line	9.0% (2007 est.)

Sources: CIA, World Bank

Geography

Area in sq km	446 550
Area: World ranking	58 out of 252 countries (CIA)
Climate	Mediterranean, becoming more extreme in the interior
Natural resources	Phosphates, iron ore, manganese, lead, zinc, fish, salt

Sources: CIA, World Bank

Sovereign ratings

S&P	BBB-/Stable
Fitch	BBB-/Stable
Moody's	Ba1/Negative

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	104.97	**Total government debt as % of GDP**	74.82
Nominal GDP: World ranking	62 out of 188 countries (IMF)	**Total external debt as % of GDP**	37.14
Real GDP (% change y-o-y)	4.36	**Consumer price inflation (average, %)**	1.86
GDP growth: World ranking	57 out of 189 countries (IMF)	**Current account balance as % of GDP**	-8.01
GDP per capita (US$)	3,179.99	**Equity market: Size in US$**	US$56.9bn
Agriculture as % of GDP	16.74	**Equity market: Listed companies**	73 primary listings
Industry as % of GDP	27.72	**Bond market size**	US$56.9bn govt bonds outstanding in the domestic market
Services as % of GDP	55.54		

Sources: IMF, NKC Research, Bloomberg, Reuters

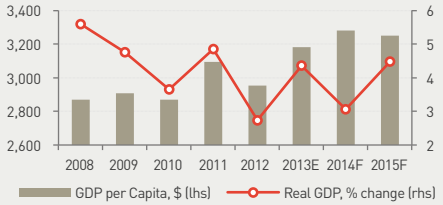
Political environment

Government type	Constitutional monarchy
Head of state	King Mohammed VI
Head of government	Prime Minister Abdelillah Benkirane
Ruling political party	Party for Justice and Development (PJD)
Main opposition parties	Istiqlal (Independence) Party, National Rally of Independents (RNI), Authenticity and Modernity Party (PAM), Popular Movement (MP), Progress and Socialism Party (PPS)
Elections	Last held on 23 November 2011 (next to be held in 2016)

Source: NKC Research

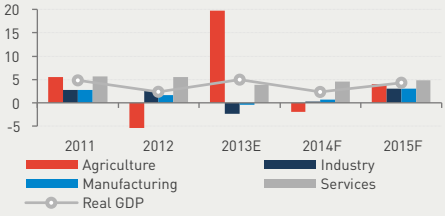
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



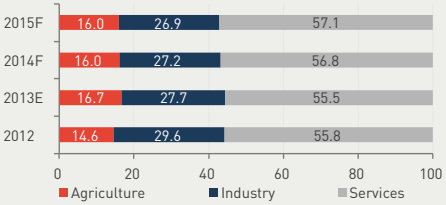
Source: NKC Research

The Moroccan economy is relatively well diversified. It is, however, vulnerable in two main areas. Firstly, its external position is highly reliant on the Eurozone, as most of its exports, foreign investments, tourism, and remittances inflows come from that region. Secondly, private consumption is dependent on the agricultural sector, since 40% of jobs are in that sector. Since the weather tends to be erratic and irrigation is not yet well-developed, growth in the agricultural sector tends to be volatile.

Furthermore, the outlook for Morocco's external payments position remains poor. Continued weak demand for Moroccan goods and services is expected to keep the current account deficit very wide in 2014, thereby leading to a further decline in foreign exchange reserves and an increase in external debt. By the end of 2014, we project that external debt will reach 39.4% of GDP, up from below 30% of GDP in 2011, while import cover is forecast to decline gradually from 4.7 months at the end of last year to 4.3 months by 2017. The risk of serious balance of payments troubles is mitigated by Morocco's access to a US$6.2 billion Precautionary Liquidity Line (PLL) from the International Monetary Fund. Under this facility, the government has the option of drawing on the liquidity line if it encounters a balance of payments crisis. The assurance given by the PLL is very important for investor sentiment in the country and significantly reduces the risk of severe external imbalances.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

In 2013, Morocco's agricultural sector expanded by 19% on the back of an 87.8% increase in cereal production over the drought-affected 2012 season.

This had a positive effect on Moroccans' incomes and therefore on household expenditure. In contrast, non-agricultural growth slowed from 4.3% in 2012 to 2% last year due to the following: weak Eurozone demand, which constrained manufacturing exports; weak global demand for phosphates and fertilisers, which are Morocco's biggest export category; and tight liquidity conditions in the banking sector, which constrained private sector credit growth. Overall, real GDP growth was 4.4%. Non-agricultural growth is forecast to improve to 3.5% to 4% this year on the back of a stronger expansion in the Eurozone economy. However, overall real GDP growth is forecast to slow to 3.1% due to a contraction in farming output.

International trade

Despite a large decline in phosphate and phosphate-derivative exports last year, total exports increased by 2.7% to almost US$22 billion on the back of increases in agricultural, automobile, aeronautic and electrical equipment exports. The development of new manufacturing industries, such as aeronautics, automobile manufacturing, and electronics, is particularly encouraging and is showing strong signs of growth. According to a January 2014 Autofacts report by PricewaterhouseCoopers (PwC), Morocco assembled 156 000 vehicles in 2013, which made the country the 30th largest supplier in the world, and second in Africa after South Africa. The PwC study also projects that Morocco will produce over 230 000 units in 2014. Renault has also stated that it plans to add another 200 000 unit per annum manufacturing line in Morocco in 2015. Apart from vehicle assembly, Morocco produces parts and equipment for various auto companies. In turn, Morocco's import bill increased by 2.3% to US$42.4 billion in 2013. The slow rate of increase compared to previous years stems from a tighter fiscal stance, an excellent domestic cereal harvest, and a decline in international commodity prices. The country's large trade deficit was partly financed by US$6.9 billion worth of tourism revenues, US$8.3 billion worth of remittances, and US$3 billion in net foreign direct investment (FDI).

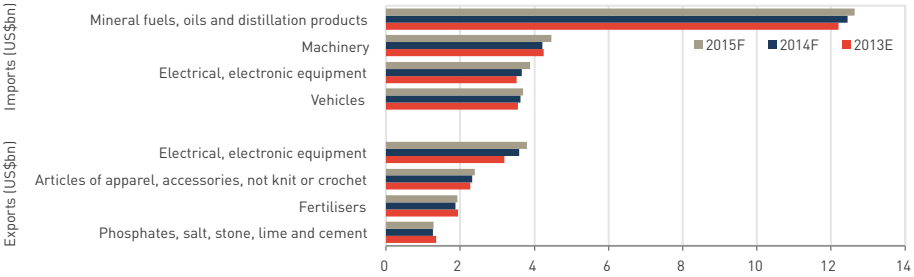
Foreign trade flows, 2013

Main exports	(US$ billion)	Main imports	(US$ billion)
Electrical, electronic equipment	3.20	Mineral fuels, oils, distillation products	12.21
Articles of apparel, accessories, not knit or crochet	2.28	Machinery	4.25
Fertilisers	1.94	Electrical, electronic equipment	3.62
Phosphates, salt, sulphur, earth, stone, plaster, lime and cement	1.36	Vehicles	3.56

Source: NKC Research

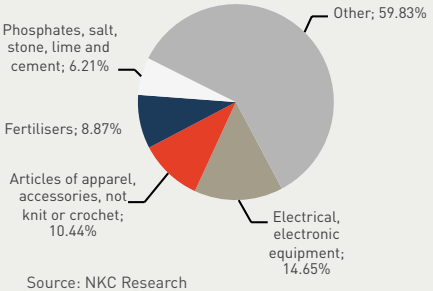
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Morocco top four exports and imports (US$ billion)



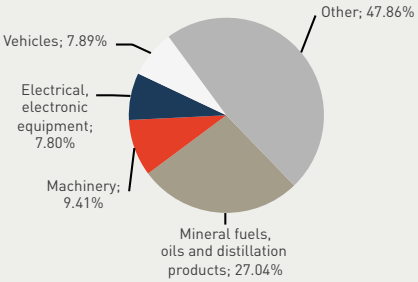
Source: NKC Research

2013 exports (% of total)



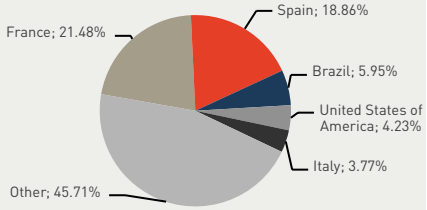
Source: NKC Research

2013 imports (% of total)



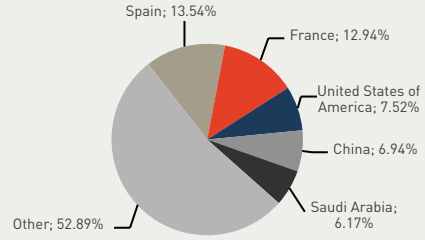
Source: NKC Research

2013 top destinations of exports (% of total)



Source: Trade Map

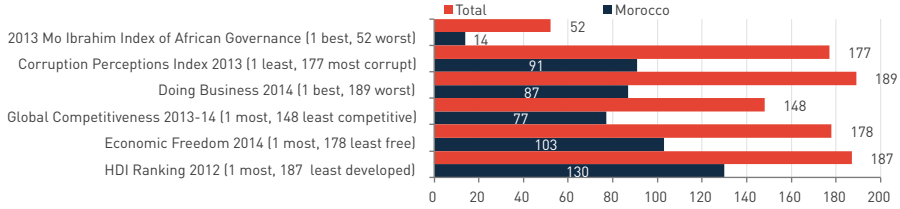
2013 top origins of imports (% of total)



Source: Trade Map

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

Morocco has a history of low and stable inflation. Consumer price inflation averaged only 1.2% per annum from 2009-13. Commercial banks have struggled with tight liquidity conditions in recent years, mainly due to a drop in foreign currency inflows. Increased treasury bill purchases by banks have also been a drain on liquidity. To fill the shortage in bank liquidity, the Bank al Maghrib (BAM) has injected liquidity for the past few years, mainly through seven-day advances. Furthermore, with inflation expected to remain low and the BAM looking at ways to stimulate credit growth, it decided to lower the required reserve ratio from 4% to 2% at its monetary policy meeting in March 2014. The policy interest rate has, however, been kept unchanged at 3%.

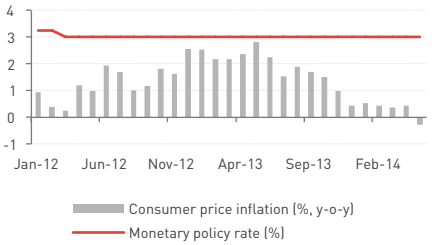
Exchange rate policy:

The Moroccan currency, the dirham, is actively pegged against a basket of currencies, namely the euro (80%) and the US dollar (20%). The BAM has been successful in maintaining the currency peg, which has effectively anchored inflation expectations, thus creating stable monetary conditions while facilitating trade between Morocco and its main trading partner, Europe. However, the current account balance has continued to deteriorate due to loss of competitiveness.

Fiscal policy:

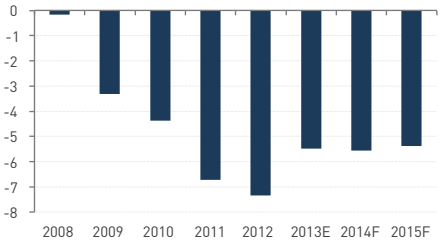
In recent years, subsidies – especially energy subsidies – have risen markedly as a result of rising international oil prices and a fear of social unrest if subsidies are removed. From 2007 to 2012, the subsidy bill increased by an average of 27.4% per annum to MAD54.9 billion (6.6% of GDP). However, since 2012, the government has gradually implemented reforms. It started by increasing fuel prices (petrol, diesel and fuel oil) by more than 20% in June 2012 and by another 5% to 10% in September 2013. In January 2014, the government went even further, by announcing that it would completely remove all subsidies on petrol and fuel oil. The government also announced at that time that the per-unit subsidy on diesel would be gradually lowered from MAD2.15/litre (26 US cents/litre) at that stage to MAD0.80/litre by October. Subsidy reforms, combined with lower international fuel prices, ensured that the subsidy bill declined from 6.6% of GDP in 2012 to 4.7% of GDP in 2013, and the government aims to reduce it to 3% of GDP by 2016. In order to mitigate the impact on the poor and to minimise the likelihood of large-scale social unrest, the government has announced various measures, including keeping public transport tariffs unchanged. We expect growth in fiscal revenues to remain weak in 2014, which will make it challenging for the government to reduce the deficit much this year – instead we project that it will widen marginally to 5.56% of GDP. We expect stronger revenue growth from 2015 onwards as economic activity improves, thereby leading to a narrowing of the fiscal deficit.

Consumer price inflation and monetary policy rate



Sources: Bank al Maghrib & Haut Commissariat au Plan

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

Morocco has been one of the best reformers in the world on the World Bank's Doing Business index over the last five years, with its ranking improving from 130th in the world in the 2009 survey to 87th in the 2014 survey. The good performance is sure to improve Morocco's attractiveness as an investment destination and help develop the private sector over the medium term. In the latest survey, Morocco's ranking for 'Paying Taxes' improved considerably – from 115th to 78th – partially because the government made it easier for companies to pay taxes by increasing the use of the electronic filing and payment system for social security contributions. Nevertheless, according to the World Bank, the total tax rate is equivalent to 49.6% of profits, compared to 41.3% on average in Organisation for Economic Cooperation and Development (OECD) countries; it also takes 33% longer to pay taxes per year than on average in the OECD.

Political environment

Prime Minister Abdelilah Benkirane lost his parliamentary majority last year when the Istiqlal party walked out of his coalition; he regained his majority by striking a deal with the National Rally of Independents (RNI), but lost some power by doing so, letting Morocco's old guard, the Makhzen, take back ground.

As has been the case to a greater or lesser degree since his election in 2011, Mr Benkirane looks like an Islamist figurehead put forward to take the blame for unpopular measures, while King Mohammed VI and the Makhzen run the country from behind the scenes. The subsidy cuts implemented so far have had little effect on the cost of living, and the government is categorical that subsidies on food will be kept in place, so it seems unlikely that the opposition, which has problems of its own, will be able to use this subject to rally mass popular opposition against the government.

Security issues – crime and terrorism – remain a concern. In 2014, Casablanca experienced a wave of violent crime, involving gangs of young thugs armed with knives mugging people in the streets. There has been no real news about Islamic terrorism recently, but the threat of a deadly terror attack is still present. The Western Sahara issue has shown no signs of moving closer to a resolution, although there seems to have been an improvement in human rights in the territory.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Economic environment

Ratings:

Both Standard and Poor's (S&P) and Fitch rates Morocco 'BBB-', which is the lowest possible investment grade rating. In October 2012, S&P revised the outlook on the rating from stable to negative, since a challenging external environment made it more difficult for the Moroccan authorities to reduce the budget and current account deficits. Then, in May 2014, S&P revised the outlook back to stable to reflect the agency's view that fiscal and external deficits will continue to narrow on the back of fiscal reforms. Meanwhile, Fitch has maintained the rating outlook at stable thanks to the country's resilience during the Arab Spring, with political and social stability helping to keep economic growth and FDI inflows at high levels. In April 2014, Fitch also noted its optimism about the trend in the budget balance. Moody's Investors Service revised the outlook on Morocco's credit rating from stable to negative on 11 February 2013 due to two main factors: widening budget deficits since 2011, and a very large current account deficit. The rating itself was affirmed at 'Ba1', which is one notch below investment grade. On 13 March 2014, Moody's kept the rating and the outlook unchanged, and noted that Morocco's credit rating is constrained by 'persistently low per-capita GDP levels and significant structural rigidities that limit competitiveness'.

Key indicators to watch	
Current account	The current account deficit has been very wide in recent years (average of 8.7% of GDP in 2011-13). This has led to a marked increase in external debt and has put pressure on Morocco's sovereign credit rating. A sustained increase in tourism revenues and export earnings is needed to improve the current account balance over the medium term.
Foreign exchange reserves	Foreign exchange reserves have declined significantly in recent years due to a sharp widening of the current account deficit. Reserves are still sufficient at present (covering 4.7 months of imports), but with the country forecast to record large current account deficits over the medium term, reserves could fall further. The country does, however, have access to a US$6.2 billion Precautionary Liquidity Line from the International Monetary Fund if it encounters a balance of payments crisis.
Eurozone economic growth	Morocco is dependent on the Eurozone for the bulk of its export earnings, tourism inflows and remittances. As such, an economic recovery in that region will be good news for Morocco.

Source: NKC Research

Key vulnerabilities	What is the government doing to address this?
Trade and tourism heavily dependent on the EU.	Strengthening ties with Arab and Asian countries, which are becoming increasingly important players in the global economy. Even so, Europe will remain a key trading partner.

Key vulnerabilities	What is the government doing to address this?
State subsidies for food and fuel make the fiscal position vulnerable to increases in commodity prices. Moreover, the public sector is large, resulting in a large wage bill.	The government has made good progress in addressing energy subsidies.
Economic growth is heavily dependent on the agricultural sector, which in turn is volatile due to erratic rainfall in the region.	The government has made agricultural development a priority, by implementing advanced irrigation plans and increasing the research and development spending in the sector.

Source: NKC Research

Market participation	
Foreign investors	There are no direct restrictions on foreign investor participation in Moroccan capital markets. However, when it comes to forex restrictions and profit repatriation, some restrictions do exist on the convertibility of capital accounts. Conversion is allowed if the original investment is registered with the foreign exchange office.
Local investors	The local investor base is mainly made up of the pension and mutual fund industry, commercial banks and insurance companies.

Source: NKC Research

Financial market

Foreign exchange

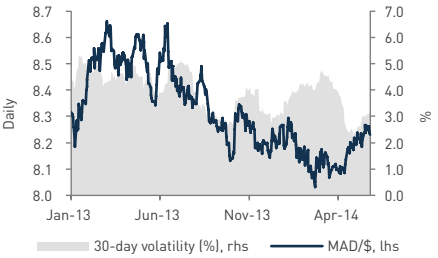
Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/ maturity	Quotation/ settlement	Reuters page	Additional information
Spot	N/A	N/A	2.87 bps (average since 2012)	Liquid up to 1 year	T+3	MAD=	Main cross is US$/ MAD

Sources: Reuters

The Moroccan monetary authorities manage the dirham exchange rate, maintaining it at a roughly fixed rate against a basket of currencies. The basket is made up of the euro, which has an 80% share, and the US dollar, which makes up the remaining 20% of the basket. The euro's large weight in the basket means that the dirham's exchange rate against the greenback has a large positive correlation with the exchange rate of the Eurozone currency against the greenback. As a result, the dirham has strengthened against the dollar over the past two years – from as weak as MAD9.09/US$ in July 2012 to MAD8.08/US$ in early May 2014. Since then, however, the dirham has depreciated to above MAD8.20/US$ as a further loosening in the monetary policy stance of the European Central Bank (ECB) has weakened the euro.

Exchange rate

Moroccan dirham



Source: Reuters

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Casablanca Stock Exchange	73	Liquid	US$56.9bn	T+3	Financials	400 000 shares

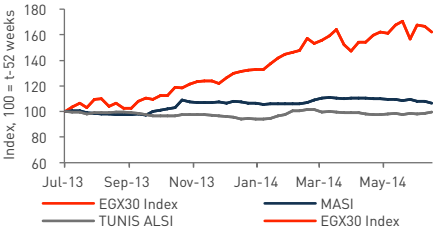
Sources: Bloomberg

The Bourse de Casablanca (Casablanca Stock Exchange, CSE) is one of four African stock exchanges that are members of the World Federation of Exchanges. The bourse is liquid in an African context, and there are currently 73 companies listed on the bourse, with a combined market capitalisation of US$56.9 billion at the end of May. According to the WEF's Global Competitiveness Report, Morocco is ranked 39th in the world in terms of the ease of raising money through the local equity market. Nevertheless, the country's close economic ties with Europe, as well as political instability in neighbouring countries, have decreased the attractiveness of the stock exchange in recent years. Developments in Europe threaten to lower profits in numerous industries, particularly tourism, textiles, and electronic goods. Apart from these factors, tight liquidity in the Moroccan banking system has also contributed significantly to the CSE's poor performance. Meanwhile, stock market liquidity has also fallen in recent years. In fact, it declined to such an extent that MSCI downgraded the CSE from emerging market status to frontier market status in June 2013. The All Share Index (MASI) decreased from a high of 13 400 points before the Arab Spring in January 2011 to a low of 8,334.5 points at the end of August 2013 (i.e. a 60% drop in two-and-a-half years). Since then, however, the MASI has rebounded to around 9 400 points in early June 2014.

Top-five listed companies	Market capitalisation
Maroc Telecom	US$10.3bn
Attijariwafa Bank	US$7.7bn
BMCE Bank	US$4.6bn
BCP Bank	US$4.0bn
Lafarge Morocco	US$3.0bn

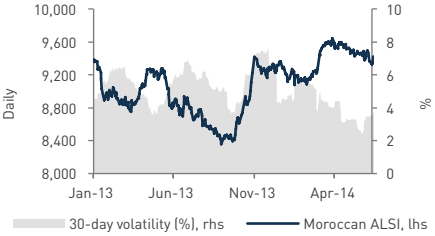
Source: Bloomberg

North Africa SEs performance indices



Source: NKC Research, Reuters

Casablanca Stock Exchange - MASI



Source: Reuters

Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bill	7 to 364 days	Weekly	Liquid	T+6	Licenced primary dealer	N/A
Treasury bonds	2 to 30 years	Fortnightly	Liquid	T+6	Licenced primary dealer	N/A

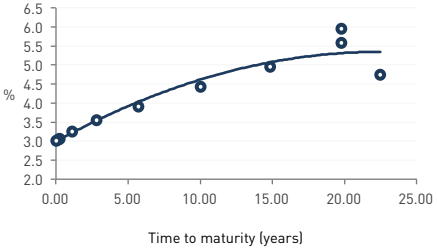
Sources: Bank al Maghrib, Bloomberg, Reuters

Morocco boasts a relatively sophisticated debt market, supported by a well-developed and well-capitalised banking sector, which generally keeps debt interest costs low for the government. There was, however, a sharp increase in bond yields from April 2012 to early in 2013 due to a widening budget deficit and tightening domestic liquidity conditions.

Yields stabilised at high levels for most of 2013, before declining substantially in the fourth quarter of 2013 and at the start of 2014. Borrowing costs have now reached levels last observed in 2012.

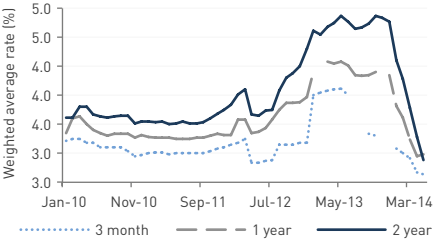
This decline since the fourth quarter of 2013 was mainly due to a large increase in external borrowing by the state, which meant that its domestic borrowing needs had declined. A lowering of banks' minimum reserve requirements from 4% to 2% in March 2014 will boost liquidity and could therefore help to reduce yields further.

Morocco yield curve (as at June 2014)



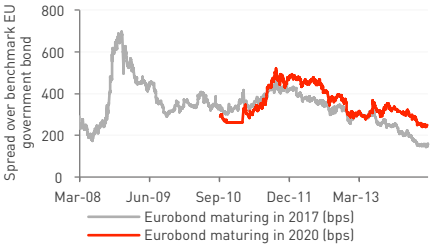
Sources: Bank al Maghrib

Treasury bill yields



Source: Bank al Maghrib

Eurobond yield spread



Sources: NKC Research, Reuters

The Moroccan government issued a 10-year Eurobond in June 2014. The bond has a value of €1 billion, a coupon of 3.5%, and a spread of 233.5 basis points above German Bunds. According to Reuters, bids totalled €2 billion, showing that demand for the issuance was strong. Morocco has four other Eurobonds outstanding; these are maturing in June 2017, October 2020, December 2022, and December 2042 respectively. Despite an increase in credit risk – as measured by our sovereign credit rating for Morocco – there has been a downward trend in Morocco's yield spreads (compared to benchmark European or US government bonds) since the third quarter of 2011. This largely reflects the shift by investors globally towards emerging market assets in recent years, due to aggressive monetary easing measures by developed economies' central banks. Following the Eurobond issuance in June, Morocco's finance minister said that there are no plans to issue more international bonds this year.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013E	2014F	2015F
Real GDP (% change)	4.76	3.64	4.86	2.74	4.36	3.06	4.47
Nominal GDP (US$bn)	90.91	90.77	99.21	95.98	104.97	109.84	110.32
Consumer price inflation (average, %)	0.99	0.99	0.92	1.28	1.86	2.52	2.89
Budget balance, incl grants (% of GDP)	-3.30	-4.38	-6.72	-7.35	-5.48	-5.56	-5.39
- Revenue (% of GDP)	26.39	27.53	27.82	28.70	28.02	27.85	28.49
- Expenditure (% of GDP)	29.69	31.91	34.54	36.06	33.50	33.40	33.88
Government debt (% of GDP)	57.17	61.00	64.84	71.18	74.82	78.40	81.22
Current account balance (% of GDP)	-5.46	-4.16	-8.06	-9.96	-8.01	-7.64	-7.41
Trade balance (% of GDP)	-17.91	-16.50	-19.61	-20.85	-18.81	-18.38	-18.37
MAD/US$	8.06	8.42	8.09	8.63	8.40	8.39	8.77
Short-term interest rate (%)	6.20	6.30	6.50	6.30	6.30	6.40	6.50
Foreign reserves (US$bn)	22.80	22.61	19.53	15.87	18.09	18.05	18.13
Months of import cover	7.60	7.06	4.99	4.25	4.74	4.62	4.49

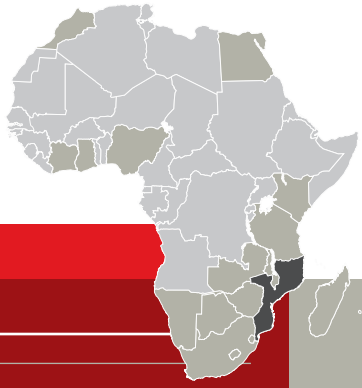
Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% yoy)	2.00	0.92	2.55	0.44	0.36	0.45	-0.27
Monetary policy rate (%)	3.25	3.25	3.00	3.00	3.00	3.00	3.00
Foreign reserves (US$bn)	22.61	19.53	15.87	18.09	17.78	19.42	19.56
91-day treasury bill rate (% eop)	3.28	3.36	3.43	3.45	3.25	3.10	3.08
MAD/US$ (eop)	8.33	8.59	8.45	8.17	8.12	8.08	8.22
Phosphate rock (US$/tonne, eop)	140.0	202.5	185.0	101.0	108.0	108.0	112.0

Source: NKC Research, Reuters, Bank al Maghrib, HCP

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

mozambique



Demographics

Population:	24 692 144 (July 2014 est.)
Population: world ranking	51 out of 240 countries (CIA)
Life expectancy (years)	Total population: 52.6, male: 51.85, female: 53.37 (2014 est.)
Main ethnic groups	African 99.66% (Makhuwa, Tsonga, Lomwe, Sena, and others), Europeans 0.06%, Euro-Africans 0.2%, Indians 0.08%
Business language	Emakhuwa, Portuguese (official), Xichangana, Cisena, Elomwe, Echuwabo
Urban population	31.5%
Population below national poverty line	54.7% (2009 est.)

Sources: CIA, World Bank

Geography

Area in sq km	799 380
Area: World ranking	35 out of 252 countries (CIA)
Climate	Tropical to subtropical
Natural resources	Coal, titanium, natural gas, hydropower, tantalum, graphite

Sources: CIA, World Bank

Sovereign ratings

S&P	B/Stable
Fitch	B+/Stable
Moody's	B1/Stable

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	15.64	**Total government debt as % of GDP**	43.92
Nominal GDP: World ranking	116 out of 188 countries (IMF)	**Total external debt as % of GDP**	35.87
Real GDP (% y.o.y)	7.00	**Consumer price inflation (average, %)**	4.26
GDP growth: World ranking	22 out of 189 countries (IMF)	**Current account balance as % of GDP**	-43.51
GDP per capita (US$)	605.36	**Equity market: Size in US$**	US$534.69m
Agriculture as % of GDP	30.10	**Equity market: Listed companies**	4 primary listings
Industry as % of GDP	22.37	**Bond market size**	US$1.19bn govt bonds outstanding in the domestic market
Services as % of GDP	47.53		

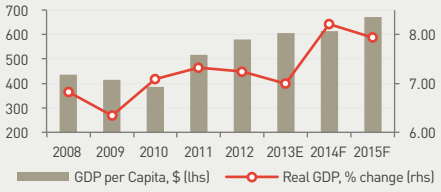
Sources: IMF, NKC Research, Mozambique Stock Exchange, Reuters

Political environment	
Government type	Republic
Head of state	President Armando Emilio Guebuza
Head of government	Prime Minister Alberto Clementino Vaquina
Ruling political party	Frente de Liberatacao de Mocambique (Frelimo)
Main opposition parties	Resistencia Nacional Mocambicana-Uniao Eleitoral (RENAMO-UE), Mozambique Democratic Movement (MDM)
Elections	Elections due next in 2014

Source: NKC Research

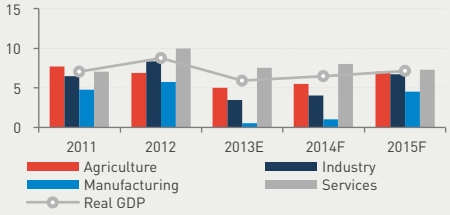
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



Source: NKC Research

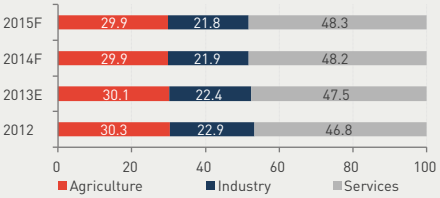
The Mozambican economy has expanded by more than 6% in real terms in every year since 2001, with the average real GDP growth at 7.7% per annum during 2001-12.

While this is an impressive performance, real GDP growth has come from a very low base; as a result, estimated GDP per capita was still below US$600 in 2013. Poverty levels are also still extremely high, and infrastructure remains of poor quality. There continues to be a favourable outlook for the country's economic growth performance over the coming years, with growth rates of over 7% being projected. Therefore, Mozambique's GDP per capita should improve considerably over the medium to long term. The extensive flooding in the first quarter of last year resulted in a disappointing growth figure of 4.3% y-o-y in the corresponding quarter, followed by strong growth figures during the rest of the year. Preliminary data published by the Instituto Nacional de Estatistica (INE) indicates that the Mozambican economy grew by a revised 8.1% y-o-y and 8.2% y-o-y in the second and third quarters respectively, and then expanded by an estimated 7.1% y-o-y in the last quarter of 2014. The extractive sector continued to show exceptionally strong growth, expanding by 58.7% y-o-y in the fourth quarter, after averaging 31.7% growth in the first three quarters.

Our view is that it will take some time before the supply of infrastructure in Mozambique catches up with the sharp increase in demand created by the increased capacity of coal production.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

Overall, we expect Mozambique's economic growth performance to remain strong over the short to medium term, sustained by the natural resource boom and infrastructure investment. As such, real GDP growth is projected to increase from an estimated 7% last year to 8.2% in 2014, before decreasing slightly to 7.9% in 2015.

International trade

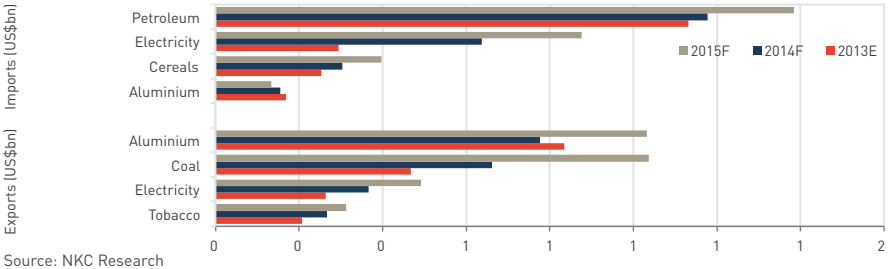
Imports into Mozambique are forecast to continue to rise substantially in coming years, with imports related to the liquefied natural gas (LNG) sector in particular forecast to increase significantly. Imports are projected to increase by 9.7% from an estimated US$8.6 billion last year to US$9.5 billion in 2014, and by a substantial 14.5% to US$10.9 billion next year. While the sizable increase may appear to be alarming, the majority of the costs are projected to be financed externally by foreign companies, and should therefore have minimal domestic impact. Furthermore, once LNG exports commence (the earliest projections are for 2018), the trade deficit should narrow considerably. In addition to an increase in exports, imports will show a steep decline once the construction phase of the LNG plants is completed (around 2023). In the short to medium term, however, Mozambique's trade deficit is projected to widen from an estimated US$4.6 billion last year to US$4.9 billion in 2014, before increasing further to US$5.4 billion next year.

Foreign trade flows, 2013

Main exports	(US$ billion)	Main imports	(US$ billion)
Aluminium	0.83	Petroleum	1.13
Coal	0.47	Electricity	0.29
Electricity	0.26	Cereals	0.25
Tobacco	0.21	Aluminium	0.17

Source: NKC Research

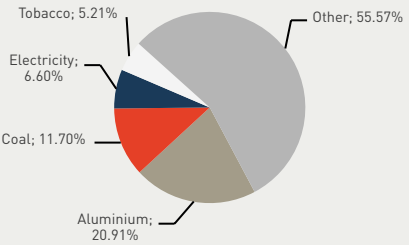
Mozambique top four exports and imports (US$ billion)



Source: NKC Research

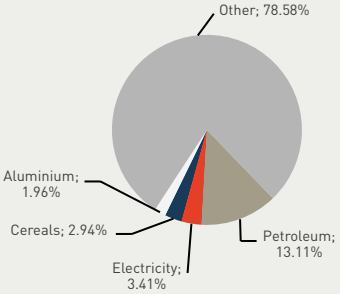
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

2013 exports (% of total)



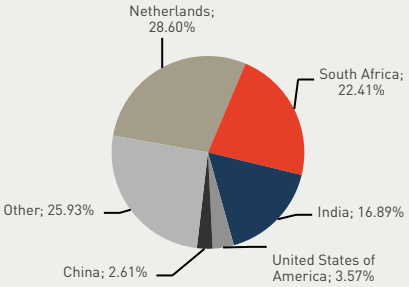
Source: NKC Research

2013 imports (% of total)



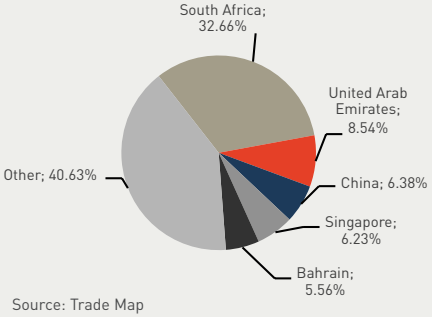
Source: NKC Research

2013 top destinations of exports (% of total)



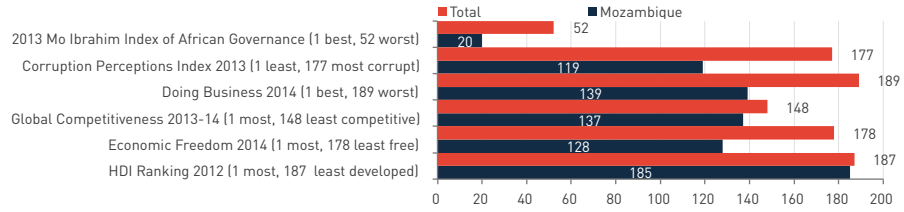
Source: Trade Map

2013 top origins of imports (% of total)



Source: Trade Map

Business development indicators



Source: NKC Research

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Policy environment

Monetary policy:

Mozambique's benign inflation environment reflects the central bank's continued adherence to prudent monetary policy. The Banco de Mocambique's (BdM, the central bank) Monetary Policy Committee (MPC) has held the benchmark interest rate steady at 8.25% since October last year, while also managing to constrain money supply growth. Credit to the economy grew by 13.9% y-o-y during the first quarter of 2014, compared to 26% y-o-y growth during the same period a year earlier. Similarly, the monetary base expanded by 18.7% y-o-y in Q1 2014, compared to 21.8% y-o-y in Q1 2013. With that said, inflationary pressures are expected to pick up somewhat during the latter part of the year, in part due to a weakened local unit, expansionary fiscal policies, and base effects.

Exchange rate policy:

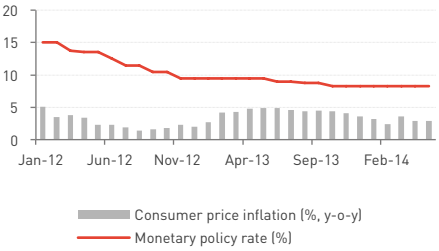
Monetary authorities have, on numerous occasions, reiterated their commitment to a flexible exchange rate regime. However, regular intervention in the foreign exchange market to smooth seasonal fluctuations and provide foreign exchange liquidity means the exchange rate regime can more accurately be described as a managed float.

Fiscal policy:

The Mozambican Parliament approved the country's budget for the 2014 fiscal year (FY, 1 January to 31 December) in December 2013. According to the World Bank, the budget authorises expenditure amounting to MT241 billion this year, while fiscal revenues are budgeted at MT147 billion – representing a budget deficit of MT93.52 billion. The expansionary 2014 budget reflects the allocation of the sizable capital gains tax received last year towards once-off needs, including election costs and capital expenditures. The local authorities reiterated commitments to the IMF during their recent visit that continuing efforts will be made to improve revenue collections, value added tax (VAT) administration, and management of windfall receipts (like capital gains taxes from the natural gas sector).

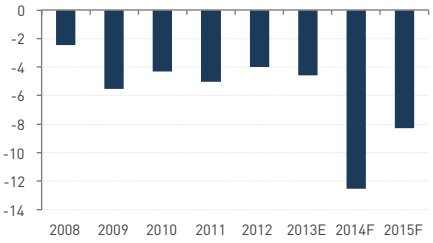
The most important pitfall for the government to avoid is to not increase recurrent expenditure with the expectation of further sizable revenues from once-off receipts. These receipts should rather go towards investment spending, or paying back accumulated VAT arrears. Priority spending, according to the IMF, budgeted for the 2014 FY include an allocation of 0.5% of GDP to social protection, while public investment spending is set to accelerate to 15% of GDP (of which approximately half is to be financed externally).

Consumer price inflation and monetary policy rate



Sources: Instituto Nacional de Estatistica, Banco de Moçambique

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

Economic policy formulation in Mozambique is dominated by developments in the extractive sector. The government is in the process of preparing the economy for the oncoming natural resource boom, with a focus on modernising the fiscal regime, while enhancing the country's macroeconomic management capacity to support a stable economy. The Mozambican government has several medium to long-term plans in place to address the issues of the impact of the coal and gas industries on the economy, public investment spending, external competitiveness, debt sustainability, and investment planning. These plans include the 2010-14 plan (Plano Quinguenal do Governo), the 2011-14 Poverty Reduction Strategy (PARP), and the longer term plan – Agenda 2025. With regard to the development of the financial sector, the authorities are implementing a strategy stretching from 2013-22, which 'includes a broad range of targeted measures to enhance financial inclusion and deepening competition, consumer protection, and financial literacy.'

Political environment

Afonso Dhlakama, the leader of the National Resistance of Mozambique (Renamo), and his more rambunctious party members have received much of the political headlines in Mozambique of late. There have been threats of violence emanating from the main opposition party, although very little violence has materialised.

The violence that has occurred – including a series of raids on convoys in central Mozambique – is being treated as outright criminal activity, masquerading as 'political activism'. That said, the exaggerated potential of Renamo's aging bandits does have a negative impact on the risk perceptions about the country – an impact that the economy can ill afford due to its increasing dependence on foreign investment inflows.

With elections due in October, and with Mr Dhlakama staying trapped in the bush and unable to see his way clear to competing on an electoral level, the dismal and declining support for Renamo will ebb further. That is going to make Renamo more dangerous in the short term, but its activities will remain largely criminal and no greater than banditry before the final inevitable disappearance of this blot on Southern Africa's political landscape.

A victory for the Liberation Front of Mozambique (Frelimo) in October is a foregone conclusion, with the military threat from Renamo insignificant in the medium to long term.

Economic environment

Ratings:

S&P downgraded Mozambique's long-term sovereign credit rating on 14 February 2014. The rating was lowered from 'B+' to 'B', with a stable outlook (S&P had placed Mozambique's rating on a negative outlook in August 2013). The stable outlook reflects S&P's expectation that 'investment spending will continue to weigh on Mozambique's fiscal and external imbalances, but that the pace of economic growth will remain high'. The rating agency noted the following as key drivers of the downgrade: increased government spending has resulted in much higher fiscal deficits and faster debt accumulation than previously expected; and external commercial borrowing increased significantly in 2013, with a government-owned agency issuing debt equivalent to 5% of GDP under a government guarantee.

Fitch Ratings affirmed Mozambique's foreign currency sovereign credit rating at 'B+' on 16 May 2014. According to the rating agency, the affirmation reflects 'the development of Mozambique's significant mineral resources, infrastructure investment following the country's three-decade long civil war as well as a favourable macroeconomic policy environment'. Fitch also noted the lessened inflationary pressures in Mozambique, which was supported by an appreciating currency and improved monetary policy.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Along with the country's long-term foreign and local currency Issuer Default Ratings (IDRs) being maintained at 'B+' with a stable outlook, Fitch also affirmed the country ceiling at 'B+' and short-term IDR at 'B'.

Moody's Investors Service announced on 20 September 2013 that it had assigned debut local and foreign-currency issuer ratings to the government of Mozambique. The agency provided the sovereign with a 'B1' rating with a stable outlook, equivalent to 'B+' on our scale. Moody's commented that the 'B1' rating is based on the following: the country has a small and undiversified economy with high levels of poverty and very low GDP, but also favourable economic growth prospects given its vast natural resources; high levels of public debt given significant infrastructure development needs that translate into low fiscal strength; there is a likely decline in external donor support over the coming years and a resulting shift to commercial borrowing from abroad; low institutional strength with weak governance indicators, although these are likely to improve over time given the support from the IMF; moderate external risks given the very large current account deficits, which are financed by inflows of FDI into the natural resources sectors; and political risks, in particular emanating in the context of the future distribution of the natural resource wealth.

Key indicators to watch	
External debt accumulation	While the Mozambican authorities are accumulating debt at an increasing pace in order to finance infrastructure projects, the private sector is set to accumulate external debt aggressively in order to finance the vast imports needed to develop the natural gas sector. Vulnerabilities to Mozambique's debt sustainability include shocks to foreign investment inflows and the exchange rate.
Coal Exports	Infrastructure constraints have severely limited coal exports, with Vale Mozambique (as an example) only able to export some three million tonnes of the four millions tonnes produced last year. Exports are expected to pick up significantly as infrastructure projects reach completion in 2014 and 2015.
Monetary policy and inflation	Consumer Price Index (CPI) inflation was recorded at 2.91% y-o-y in May 2014, compared to 2.87% y-o-y in April 2014. On a monthly basis, however, the index registered the first decrease of 2014, with the CPI declining by 0.38% m-o-m in May, compared to an increase of 0.12% m-o-m the preceding month. The indicator showing the highest decrease in May was the cost of food and non-alcoholic beverages, which contributed -0.37 percentage points to the m-o-m decrease.

Source: NKC Research

Key vulnerabilities	What is the government doing to address this?
External debt levels are forecast to increase significantly in the short to medium term.	The majority of the external debt being accumulated by the government is on concessional terms, thereby mitigating risk of debt distress.
Business environment is challenging and corruption rampant.	Reforms have led to a vast improvement over the past five years, and this is expected to continue in the coming years.

Source: NKC Research

Market participation	
Foreign investors	Participation is limited. Foreigners can only invest in fixed-income instruments that are listed on the domestic stock exchange.
Local investors	Participation is limited. The financial sector remains underdeveloped compared to neighbouring economies like South Africa and Botswana.

Source: NKC Research

Financial market

Foreign exchange

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/ maturity	Quotation/ settlement	Reuters page	Additional information
Spot	US$0.5m to US$2m	US$5m to US$15m	50 bps to 200 bps	-	T+2	MZN=	Main cross is US$/ MZN
Forwards (deliverable)	Order basis	-	50 bps to 200 bps	Liquid up to 6 months	T+2	-	-

Sources: NKC Research, Reuters

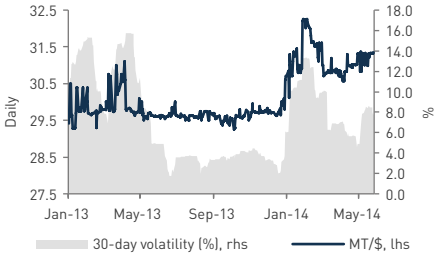
The BdM reiterated its commitment to a flexible exchange rate regime to the IMF during the Fund's latest country visit to Mozambique. According to the central bank, the metical's relative stability against the US dollar in 2013 was mostly due to an increased availability of foreign exchange in the local economy. More recently, after the Mozambican metical struggled against the greenback during the first quarter of 2014, reaching its lowest point against the US dollar since late 2010 of MT32.25/US$ on 27 February, the local unit recovered somewhat – averaging MT31.33/US$ during May.

Despite the seemingly worrisome depreciation of the local unit, the metical performed better against the South African rand. South Africa is Mozambique's largest trading partner, and the depreciation of the rand against the dollar has outstripped the depreciation of the Mozambican currency, thereby making the metical relatively stronger against the rand. Overall, our outlook for the metical against the dollar remains bearish, considering the likely pressure that will be asserted on the local unit from Mozambique's sizable current account deficit, expansionary fiscal policies, and rising external debt levels.

As such, the metical is projected to weaken from an average of MT29.73/US$ in 2013 to an average of MT32.54/US$ this year, before depreciating to an average of MT33.20/US$ in 2015.

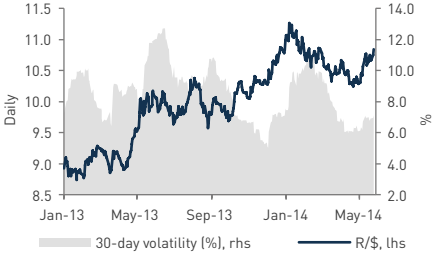
Exchange rate

Mozambique metical



Source: Reuters

South African rand



Source: Reuters

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Bolsa de Valores de Moçambique (BVM)	4 primary listings	Limited	US$532m	N/A	N/A	N/A

Sources: Bloomberg (Stock market), Reuters (Bond market)

Mozambique's stock market, the Bolsa de Valores de Moçambique (BVM), was launched in October 1999 with assistance from the World Bank and the Lisbon Stock Exchange. The BVM is a public institution under the guardianship of the Minister of Finance, while the BdM is responsible for supervision and surveillance in both the primary and secondary securities market.

A remote trading network system was installed in 2000, providing stockbrokers with direct access to the trade session without the need to physically be in the stock exchange. Still, the bourse remains extremely illiquid and hampered by a lack of physical infrastructure and a poor legal framework.

According to the BVM, stocks of four companies are listed on the bourse, namely Mozambican Hydrocarbons Company (CMH), Beers of Mozambique (CDM), Empresa Moçambicana de Seguros (EMOSE), and CETA (Construction and Services). Following an initial public offering (IPO) by EMOSE between 23 September and 14 October last year, the company's market capitalisation reached MT314m by 13 June. The IPO consisted of 15.7 million shares at a par value of MT1/share and a subscription price of MT20/share.

Top-five listed companies	Market capitalisation
Beers of Mozambique	US$441.95m
Construction and Services	US$67.09m
Empresa Moçambicana de Seguros	US$10.03m
Mozambican Hydrocarbons Company	US$7.58m

Source: Bolsa de Valores de Moçambique

According to their website, EMOSE is the largest and oldest insurance company in Mozambique. Total market capitalisation reached MT16.48 billion (US$532 million) on 13 June 2014, commensurate with levels seen at the beginning of the year.

The bourse is dominated by CDM and CETA, accounting for 84% and 13% of total market capitalisation respectively. Trading activity on the exchange is in general very low compared to other stock exchanges in the region.

Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
treasury bills	91, 182 and 364days	Weekly	N/A	N/A	N/A	N/A
Treasury bonds	3 to 10 years	No predefined frequency	N/A	N/A	N/A	N/A

Source: NKC Research

Mozambique's short-term Treasury yields have declined substantially since 2011, partly due to global liquidity conditions, but largely due to a significant reduction in consumer price inflation.

After averaging 12.43% in 2010 and 10.94% in 2011, consumer price inflation fell to an average of 2.82% in 2012. In addition, the global hunt for yield, given liquidity conditions in developed markets, has further encouraged lending to the country, which also put downward pressure on yields.

The government has increased efforts to develop domestic capital markets. The issuance of government bonds by auction in the domestic stock exchange began in 2013, and a financial market education programme has been designed. In 2014, the registry of security holdings will be centralised in order to increase transparency, facilitate trading, investor protection, and taxation. There are currently 25 debt securities listed in the stock exchange by companies.

The BdM primarily issues 91 and 182 day treasury bills to raise domestic public debt, while occasionally also selling 364-day tenors. According to Bloomberg, the central bank auctioned the 91-day security on six occasions so far in 2014 – most recently on 11 June. The weighted average rate (WAR) on the three-month tenor has remained relatively steady, rising from 5.24% at the first auction of the year on 15 January to 5.34% at the most recent auction. The local authorities attracted bids amounting to MT8.55 billion for the shortest-dated security over the corresponding period, of which MT7.24 billion was accepted.

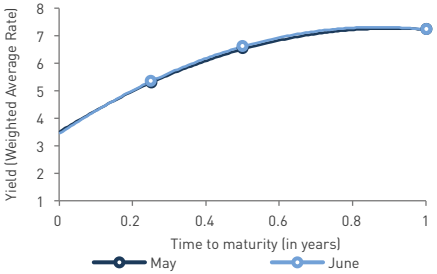
The BdM favoured the 182-day tenor with regard to raising domestic debt, selling the six-month instrument on 11 occasions – also most recently on 11 June. Similar to the yield on the 91-day security, the borrowing costs on the 182-day instrument has stayed relatively stable so far this year, rising from 6.59% on 8 January to 6.61% at the most recent auction.

The central bank attracted bids for the six-month tenor amounting to MT23 billion over the corresponding period, of which MT16.98 billion was accepted.

Finally, the BdM sold the 364-day instrument on four occasions so far this year – most recently on 4 June.

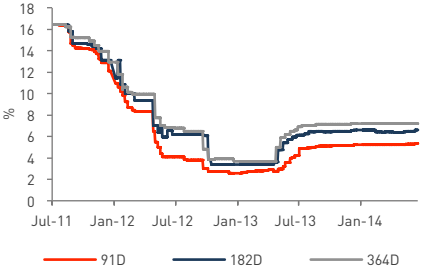
The WAR on the instrument saw a marginal rise from the 7.2% recorded at the first auction the security was sold at this year, on 5 March, to 7.25% at the most recent auction. The central bank attracted bids amounting to MT5.15 billion for the one-year tenor over the corresponding period, of which MT4.55 billion was accepted.

Mozambique yield curve



Sources: NKC Research, Reuters

Mozambique treasury bills



Sources: NKC Research, Reuters

Macroeconomic data and forecasts

2009	2009	2010	2011	2012	2013E	2014F	2015F
Real GDP (% change)	6.33	7.09	7.32	7.25	7.00	8.21	7.94
Nominal GDP (US$bn)	9.67	9.27	12.69	14.63	15.64	16.22	18.19
Consumer price inflation (average, %)	3.79	12.43	10.94	2.82	4.26	6.42	6.25
Budget balance, incl grants (% of GDP)	-5.51	-4.30	-5.05	-4.00	-4.56	-12.52	-8.30
- Revenue (% of GDP)	27.06	28.56	28.62	28.63	31.43	27.59	27.43
- Expenditure (% of GDP)	32.57	32.87	33.67	32.64	35.99	40.11	35.73
Government debt (% of GDP)	45.60	45.81	39.63	41.91	43.92	46.91	49.07
Current account balance (% of GDP)	-16.16	-16.29	-24.11	-43.96	-43.51	-46.14	-46.06
Trade balance (% of GDP)	-16.72	-14.25	-17.73	-27.67	-29.67	-29.99	-29.64
Metical/US$	27.16	34.03	28.75	27.89	29.73	32.54	33.20
Short-term interest rate (%)	15.68	16.26	19.10	18.50	17.00	17.50	17.50
Foreign reserves (US$bn)	2.10	2.03	2.35	2.72	3.14	3.32	3.73
Months of import cover	5.44	5.35	4.00	2.86	3.14	3.00	3.01

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (%, yoy)	17.44	6.14	2.02	3.54	3.57	2.87	2.91
Monetary policy rate (%)	16.50	15.00	9.50	8.25	8.25	8.25	8.25
Foreign reserves (US$bn)	2.10	2.43	2.80	3.19	3.39	N/A	N/A
91-day treasury bill rate (%, eop)	N/A	N/A	N/A	6.60	6.41	6.40	6.51
Metical/US$ (eop)	32.15	26.65	29.47	29.71	30.79	30.56	31.31
Aluminium (US$/tonne, eop)	2,460.75	1,994.50	2,041.00	1,754.75	1,744.25	1,756.25	1,806.50

Sources: NKC Research, Bloomberg, Reuters, Banco de Mocambique, Instituto Nacional de Estatistica

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

namibia



Demographics

Population	2 198 406 (July 2014 est.)
Population: world ranking	143 out of 240 countries (CIA)
Life expectancy (years)	Total population: 51.85; male: 52.22; female: 51.46 (2014 est.)
Main ethnic groups	Black 87.5%, White 6%, Mixed 6.5%
Business language	English, Afrikaans, German
Urban population	39.0%
Population below national poverty line	28.7% (2009 est.)

Sources: CIA, World Bank

Geography

Area in sq km	824 292
Area: World ranking	34 out of 252 countries (CIA)
Climate	Desert; hot, dry; rainfall sparse and erratic
Natural resources	Diamonds, copper, uranium, gold, silver, lead, tin, lithium, cadmium, tungsten, zinc, salt, hydropower, fish

Sources: CIA, World Bank

Sovereign ratings

S&P	N/R
Fitch	BBB-/Stable
Moody's	Baa3/Stable

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	12.63	**Total government debt as % of GDP**	26.67
Nominal GDP: World ranking	126 out of 188 countries (IMF)	**Total external debt as % of GDP**	33.51
Real GDP (% change, y-o-y)	4.41	**Consumer price inflation (average, %)**	5.60
GDP growth: World ranking	62 out of 189 countries (IMF)	**Current account balance as % of GDP**	-3.32
GDP per capita (US$)	5,481.67	**Equity market: Size in US$**	US$1.9 billion
Agriculture as % of GDP	3.36	**Equity market: Listed companies**	8 primary listings
Industry as % of GDP	32.84	**Bond market size**	US$1.8 billion govt bonds outstanding in the domestic market
Services as % of GDP	63.8		

Sources: IMF, NKC Research, NSX, BoN

Political environment	
Government type	Republic
Head of state	President Hifikepunye Pohamba
Head of government	Prime Minister Nahas Angula
Ruling political party	South West Africa People's Organisation (SWAPO)
Main opposition parties	Congress of Democrats (CoD), Democratic Turnhalle Alliance of Namibia (DTA), Rally for Democracy and Progress (RDP)
Elections	Elections last held November 2009, (elections due next in 2014)

Source: NKC Research

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013F	2014F	2015F
Real GDP (% change)	-1.46	6.60	6.01	6.69	4.41	5.05	5.22
Nominal GDP (US$bn)	8.72	11.14	12.45	13.40	12.63	12.55	14.20
Consumer price inflation (average %)	9.45	4.88	5.01	6.72	5.60	5.60	5.80
Budget balance, incl grants (% of GDP)	-1.53	-5.11	-5.96	-0.13	-5.35	-5.79	-4.37
- Revenue (% of GDP)	32.53	28.66	33.14	34.54	35.30	39.10	40.19
- Expenditure (% of GDP)	34.06	33.78	39.10	34.67	40.65	44.89	44.56
Government debt (% of GDP)	19.61	19.00	25.44	25.04	26.67	28.66	28.77
Current account balance (% of GDP)	-7.61	-7.83	-5.56	-1.20	-3.32	-3.69	-2.08
Trade balance (% of GDP)	-19.87	-13.69	-11.28	-10.06	-13.01	-13.48	-11.30
N$/US$	8.47	7.32	7.26	8.21	9.62	10.70	10.35
Short-term interest rate (%)	11.12	9.75	9.58	9.25	9.25	9.50	9.75
Foreign reserves (US$bn)	1.92	1.55	1.78	1.74	1.50	1.70	1.82
Months of import cover	3.85	3.00	3.30	2.98	2.64	2.67	2.78

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (%, y-o-y)	3.10	7.40	6.40	4.89	5.24	5.90	6.06
Monetary policy rate (discount rate, %)	6.00	6.00	5.50	5.50	5.50	5.50	5.50
Foreign reserves (US$bn)	1.55	1.78	1.74	1.50	1.68	N/A	N/A
91-day treasury bill rate (%, eop)	5.59	5.47	4.99	5.14	5.38	5.78	5.97
N$/US$ (eop)	6.60	8.07	8.47	10.45	10.52	10.47	10.57
Uranium (US$/lb, eop)	62.50	52.50	43.75	34.50	34.70	30.75	28.25

Sources: NKC Research, Bank of Namibia, Namibia Statistics Agency, Reuters

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

nigeria



Demographics	
Population	177 155 754 (July 2014 est.)
Population: world ranking	8 out of 240 countries (CIA)
Life expectancy (years)	Total population: 52.62; male: 51.63; female: 53.66 (2014 est.)
Main ethnic groups	Nigeria, Africa's most populous country, is composed of more than 250 ethnic groups; the following are the most populous and politically influential: Hausa and Fulani 29%, Yoruba 21%, Igbo (Ibo) 18%, Ijaw 10%, Kanuri 4%, Ibibio 3.5%, Tiv 2.5%
Business language	English, Hausa, Yoruba, Igbo, Fulani
Urban population	50.2%
Population below national poverty line	46% (2010 est.)

Sources: CIA, World Bank

Geography

Area in sq km	923 768
Area: World ranking	32 out of 252 countries (CIA)
Climate	Varies; equatorial in south, tropical in centre, arid in north
Natural resources	Natural gas, petroleum, tin, iron ore, coal, limestone, niobium, lead, zinc, arable land

Sources: CIA, World Bank

Sovereign ratings

S&P	BB-/Negative
Fitch	BB-/Stable
Moody's	Ba3/Stable

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	504.32	Total government debt as % of GDP	10.58
Nominal GDP: World ranking	25 out of 188 countries (IMF)	Total external debt as % of GDP	2.20
Real GDP (% change y-o-y)	7.31	Consumer price inflation (average, %)	8.50
GDP growth: World ranking	20 out of 189 countries (IMF)	Current account balance as % of GDP	3.70
GDP per capita (US$)	2,904.82	Equity market: Size in US$	US$79.1bn
Agriculture as % of GDP	22.22	Equity market: Listed companies	200 primary listings
Industry as % of GDP	25.32	Bond market size	US$53.5bn (end Mar-14) govt bonds outstanding in the domestic market
Services as % of GDP	52.47		

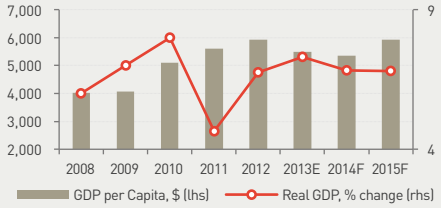
Sources: IMF, NKC Research, Bloomberg

Political environment	
Government type	Federal Republic
Head of state	President Goodluck Jonathan
Head of government	President Goodluck Jonathan
Ruling political party	People's Democratic Party (PDP)
Main opposition parties	All Progressives Congress (APC)
Elections	Senate, House of Representatives, State, State Governor and Presidential due in 2015

Source: NKC Research

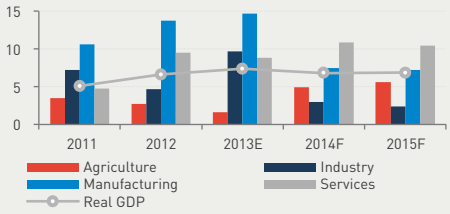
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



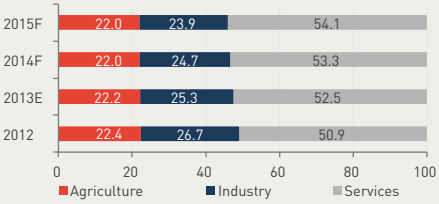
Source: NKC Research

Nigeria now has the largest economy on the continent following the release of much-anticipated preliminary rebased GDP statistics. The previous base year of 1990 has become outdated due to changes in the structure of the economy. The National Bureau of Statistics (NBS) now estimates Nigeria's GDP at N80.22 trillion in 2013 compared to N42.4 trillion prior to the rebasing. The number of economic activities surveyed for the purposes of the calculation of GDP increased to 46 from 33 previously. Better coverage (including of the informal sector), the inclusion of new industries, and methodological improvements led to significant increases in the contribution of the services sector, manufacturing, construction, and water and electricity. On the other hand, value added by the agricultural and the oil and gas sectors declined notably relative to GDP. The agricultural sector contributed 35% to GDP prior to rebasing, but is now only estimated to account for 22% of GDP.

Meanwhile, the services sector's contribution increased from 29% of GDP to 52% of GDP, with the telecommunications sector rising from 0.9% of GDP to 8.7% of GDP. The manufacturing sector is now estimated to contribute 6.8% to GDP, compared to just 1.9% previously, while the oil and gas sector's contribution has been revised down to 14.4% from 32.4% before rebasing.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

Real GDP growth averaged a stellar 7.4% per annum during 2003-12. This impressive performance has, however, not resulted in a significant reduction in poverty; some estimates even point to an increase in poverty over the past decade.

Possible reasons for this include regional and income disparities; low productivity in the agricultural sector; limited non-oil exports; very low value added; and corruption.

Real GDP growth is expected to improve to an average of 6.8% per annum during 2014-15 and further to 7% per annum in 2016-17. Although the oil and gas sector is expected to continue stagnating, growth in the overall industrial sector is expected to improve on the back of strong performances by construction and manufacturing. The agricultural sector's growth rate is expected to improve over the medium term, as the government's reform efforts start to bear fruit. The services sector is expected to remain the best performer, supported by telecommunications, trade, real estate, and business services.

International trade

Oil theft and regulatory uncertainty continue to be a major problem for companies operating in Nigeria's hydrocarbons sector. As a result, we expect to see only a 2% increase in oil production this year, following two consecutive years of decline. A stagnation in output is projected for next year. With the assumption that the Petroleum Industry Bill (PIB) will be passed after the elections, we might start to see an acceleration in oil and gas output growth from 2016 onwards, although the terms of the bill would obviously be a key consideration. We forecast a decline in the current account surplus to US$15.2 billion this year from an estimated US$18.7 billion in 2013. Apart from a large trade surplus, Nigeria's current account is further propped up by a sizable current transfers surplus. The combined trade and current transfers surplus is partially offset by large deficits on the income and services accounts.

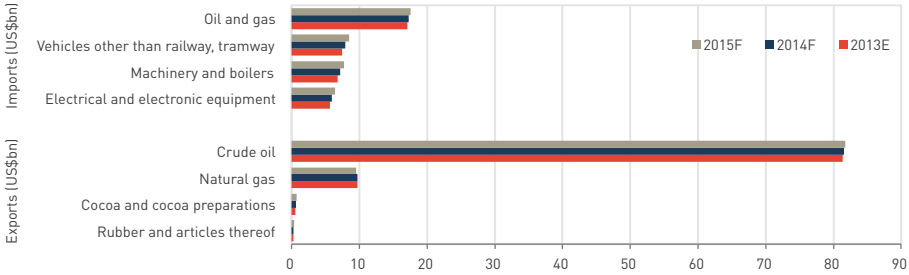
Foreign trade flows, 2013

Main exports	(US$ billion)	Main imports	(US$ billion)
Crude oil	81.40	Oil and gas	17.07
Natural gas	9.73	Vehicles other than railway, tramway	7.49
Cocoa and cocoa preparations	0.60	Machinery and boilers	6.76
Rubber and articles thereof	0.27	Electrical and electronic equipment	5.62

Source: NKC Research

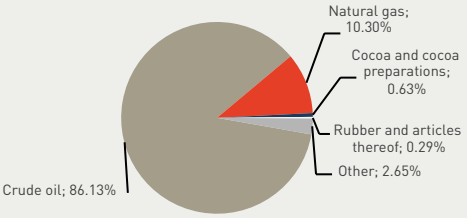
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Nigeria top four exports and imports (US$ billion)



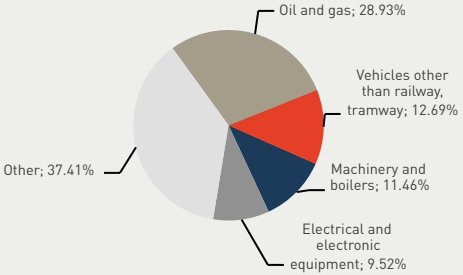
Source: NKC Research

2013 exports (% of total)



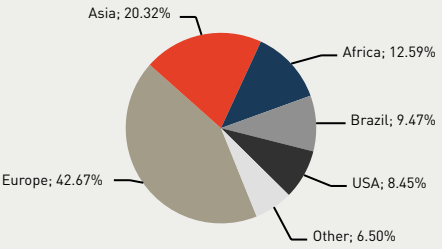
Source: NKC Research

2013 imports (% of total)



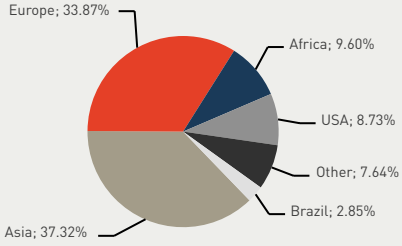
Source: NKC Research

2013 top destinations of exports (% of total)



Source: NBS Nigeria

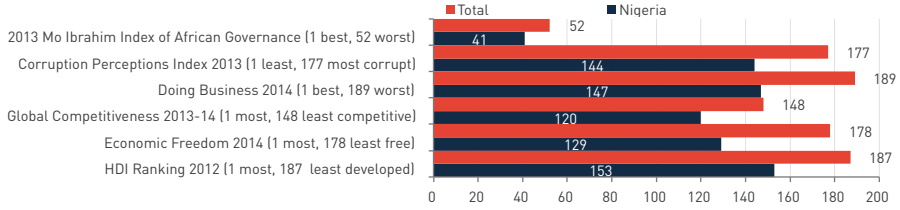
2013 top origins of imports (% of total)



Source: NBS Nigeria

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

Unless oil prices surge, we do not think a devaluation of the naira can be delayed for too long. Using different methods, the International Monetary Fund (IMF) estimated in an April 2014 report using information available as at December 2013 that the naira is overvalued by between 4.6% and 8.3%, which gives some indication of the size of a possible devaluation. We believe a probable range for a devaluation is 3.2% to 10%, to occur in the first half of next year. Since the previous devaluation, the naira has gradually become more overvalued, as is clear from the notable appreciation of the Real Effective Exchange Rate (REER). Apart from boosting the competitiveness of non-oil exports, the devaluation will also have a short-term impact on CPI inflation and government bond yields, but the long-run positive effects will outweigh the short-run costs. In the interim, we expect that the central bank will keep monetary policy tight in order to support the naira. The new governor of the Central Bank of Nigeria (CBN), Godwin Emefiele, held his first press briefing in his new role on 5 June. Mr Emefiele stated that, while the bank's policies have been successful in recent years in anchoring expectations and creating policy certainty, 'there exists much room for improvement'. A key theme in the new governor's speech is the importance of developmental objectives alongside that of price stability.

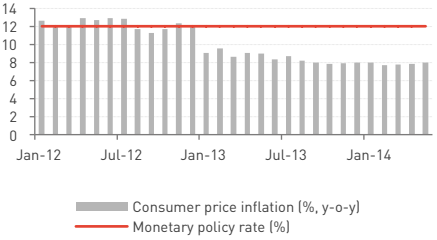
Exchange rate policy:

The IMF classifies Nigeria's exchange rate regime as 'not flexible' due to the heavily managed nature thereof. Authorities prefer to keep the exchange rate relatively stable in order to control the prices of imported products due to Nigeria's high import dependence and exchange rate pass-through. According to the central bank, large and unpredictable foreign exchange transactions in the oil sector further necessitates intervention in the foreign exchange market in order to smooth temporary fluctuations.

Fiscal policy:

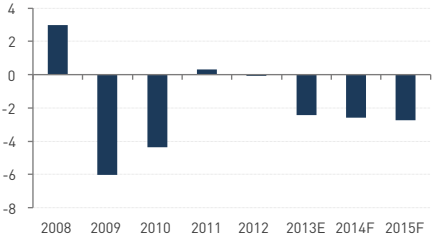
In 2013, fiscal oil revenues were 20% lower than in 2008, even though oil prices and oil production were 12% and 10% higher respectively. The IMF notes that some of this decline may be attributed to aging oil fields, higher extraction costs due to security concerns, and 'quasi-fiscal expenditure items'. In line with lower oil revenues, the Nigerian government's consolidated fiscal balance (i.e. at the local, state, and federal level) turned into a small deficit in 2012 that widened in 2013. We expect to see a further widening during 2014-15 due to election-related pressures on revenues (i.e. leakages) and spending.

Consumer price inflation and monetary policy rate



Sources: Central Bank of Nigeria, National Bureau of Statistics

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

In spite of the progress made by the Nigerian government in fiscal and macroeconomic management over the past decade, reforms in terms of improving the business environment have not kept pace. It is a very time-consuming process in Nigeria – 956 hours – to pay taxes on an annual basis. There are only two countries where it takes longer – Bolivia (1 025 hours) and Brazil (2 600 hours). The corporate income tax rate is 30% of profit, while there is also a social security contribution tax (7.5% of gross salaries), an education tax (2% of profit), an employee compensation contribution (1% of gross salaries), and a training tax (1% of gross salaries). The value-added tax rate is 5%, while capital gains and interest are both taxed at 10%. Nigeria is fairly open and welcoming to foreign investment. However, in the banking industry, foreign investors are not allowed to acquire more than 40% of an existing domestic bank, although there are no restrictions on setting up a new bank. Delays in passing the Petroleum Industry Bill (PIB) have led to lower investments in the hydrocarbon industry.

Political environment

President Goodluck Jonathan and his People's Democratic Party (PDP) are locked into a fierce electoral fight against the All Progressives Congress (APC), a new opposition party that was born from the merger of three old parties and a number of defections from the PDP.

While the APC is mainly a northern party and the PDP mainly southern, the split is more complicated than that. Much of the risk in Nigeria flows from this political contest, as both sides are politicising any issues that arise and, it seems, may be redirecting government funds for political ends in the administrations that they control. This dynamic will be important until the 2015 elections – in which both the federal and state governments will be chosen – are over.

In 2014, security risk took a serious turn for the worse as Boko Haram, an Islamist insurgency active in the north of Nigeria, stepped up its activities to a considerable degree. More than 5 000 people died in Borno State, the group's main area of operations, in the first five months of the year, and its kidnapping of over 200 schoolgirls made headlines worldwide.

The insurgency has weakened Mr Jonathan's administration, is fuelling political and social divisions between southerners and northerners, and may yet overlap with sectarian violence between Muslims and Christians in the Middle Belt. The insurgency has had real effects on stability, and there are few signs that the military is capable of defeating it.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Economic Environment

Ratings:

In March this year, Standard and Poor's (S&P) affirmed Nigeria's sovereign credit rating at 'BB-', but changed the outlook to negative. The negative outlook reflects S&P's view that risks have increased due to infighting in the ruling party, extensive oil theft, and 'the possibility of increased political influence on the central bank's management'. Meanwhile, Fitch Ratings continues to award a 'BB-' rating on Nigeria with a stable outlook.

Fitch may decide to upgrade the rating if external buffers improve if there is a longer track record of single-digit inflation, an improvement in governance, and a continuation of structural reforms that result in 'faster, more diverse and inclusive growth and higher employment and per capita incomes'. Finally, the 'Ba3' rating by Moody's Investors Service (on a stable outlook) is equivalent to a 'BB-' rating from the other agencies.

Key indicators to watch	
Oil prices and production	The government gets up to 80% of its revenues from oil and gas, while these commodities generate around 95% of export earnings. Developments in domestic production and international prices are therefore crucial for external and domestic accounts.
Forex reserves and exchange rate	Given Nigeria's high level of oil production and relatively elevated oil prices, the actual accumulation of foreign exchange reserves has been disappointing in recent years. Reserves have fallen sharply over the past year, with this having implications for the central bank's ability to defend the exchange rate.
Monetary policy and inflation	The abrupt suspension of Sanusi Lamido Sanusi raises some concerns about the independence of the central bank, as well as the future direction of monetary policy.

Source: NKC Research

Key vulnerabilities	What is the government doing to address this?
Poor infrastructure and high cost of doing business.	With attention focused on next year's elections, not much is being done about the business environment.
Delays in passing the PIB have led to lower investment in the oil sector.	The PIB was sent to Parliament in July 2012, but it will likely only progress further after the 2015 elections.
Security, especially in the northern states, and the prospect of terrorism spreading deeper and wider in Nigeria are major elements in political risk.	The insurgency has had real effects on stability, and there are few signs that the military is capable of defeating it.

Source: NKC Research

Market participation	
Foreign investors	Foreign investors are allowed to invest in the local debt market, but are restricted to government securities with tenors of one year and above. Holders of longer-dated bonds can invest in securities of less than a year to maturity (these include commercial paper, bankers acceptances, and negotiable certificates of deposits). Repatriation of investment funds and earnings are possible at any time through certificates of capital importation.
Local investors	The banking sector (including deposit money banks, discount houses, and development finance institutions), pension fund industry, insurance companies, and retail investors make up the local investor base.

Source: NKC Research

Financial market

Foreign exchange

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/ maturity	Quotation/ settlement	Reuters page	Additional information
Spot	US$0.5m	US$350m	10 bps for US$0.5m	-	T+2	NGN=	Main cross is US$/NGN
Forwards (deliverable)	-	US$5m	Varies	Limited up to 1 year	-	-	Main benchmark is US$/NGN
Forwards (non-deliverable)	US$3m to US$65m	US$10m to US$20m	100 bps to 300 bps	Liquid up to 1 year	-	-	Main benchmark is US$/NGN
Swaps	US$5m	US$10m to US$20m	Varies	Limited up to 1 year	-	-	Main benchmark is US$/NGN

Source: NKC Research, Reuters, Bloomberg

The naira has been under notable pressure this year, with key contributing factors being portfolio investment outflows in the context of global rebalancing, and the abrupt suspension of respected central banker, Sanusi Lamido Sanusi.

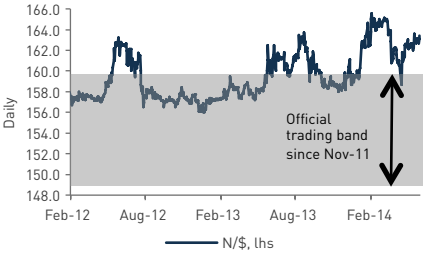
In response, the central bank has protected the naira, both directly by selling foreign exchange, and indirectly by keeping monetary policy tight. Intervention in the forex market led to reserves falling to a low of US$37.8 billion by the end of March 2014, down 22.1% y-o-y. Since then, the situation has improved slightly, supported by renewed foreign interest in domestic assets (possibly due to the rebasing of GDP), a calming of fears following Mr Sanusi's suspension, and a rebuilding of the Excess Crude Account (ECA) due to higher oil production.

That being said, with elections around the corner, and with the race being the tightest it has been for some time, we expect oil revenue leakages to persist, and hence the need for a devaluation (due to a decline in forex reserves) remains.

However, authorities may want to delay a devaluation until after elections due to the effect it will have on consumers' purchasing power. The current trading band is N155/US$ ± 3%; the naira consistently traded outside this band this year between 23 January and 2 May. After a brief stint within the band, the naira has once again weakened to above N160/US$.

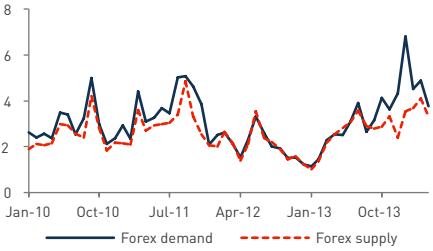
Exchange rate

Nigerian naira to US dollar (daily)



Source: Reuters

Forex demand and supply (US$ billion)



Sources: CBN

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Nigeria Stock Market (NSE)	200 primary listings	Very liquid in African context	US$79.1bn (primary listings)	T+3	Financial; Beverages	350m shares

Sources: Bloomberg

After increasing by 36.1% in 2012 (in local currency terms), the Nigerian Stock Exchange (NSE) All Share Index (ALSI) continued its strong performance in 2013, climbing by a further 47.2%. The solid performance reflected improved liquidity conditions on the exchange, renewed confidence in the banking sector, an improvement in macroeconomic stability, good economic growth prospects, and a sharp increase in foreign participation. The last factor can in turn be partly ascribed to the ultra-loose monetary policies being implemented by major central banks around the globe. As a result of this, and the US Federal Reserve starting to taper its bond-buying programme, the exchange was due for a correction. By the end of May 2014, the ALSI was up by only 0.35% y-t-d, recovering from losses in Q1 in the subsequent months. Disappointing earnings results released last year and high price/earnings ratios have also resulted in a number of consumer goods stocks doing poorly this year. Net portfolio investment in Nigeria increased notably in 2012 to US$15.1 billion from US$3.6 billion in 2011 and US$2.6 billion in the previous year. The equity component of this increased from US$1.1 billion in 2011 to US$8.1 billion in 2012.

In 2013, Nigeria received net portfolio investment of US$13.6 billion, although a notable drop-off was witnessed in Q3. We expect to see net portfolio investment outflows of US$3.5 billion this year.

Apart from the general rebalancing of portfolios caused by changes in the US Fed's policies, the Nigerian stock market's poor performance this year was exacerbated by the abrupt suspension of respected Central Bank Governor, Sanusi Lamido Sanusi, on 20 February. According to the NSE, there were net foreign equity outflows of N110.35 billion in the first four months of 2014.

Top-five listed companies	Market capitalisation
Dangote Cement	US$23.78bn
Nigerian Breweries	US$8.09bn
Nestlé Nigeria	US$5.21bn
Guaranty Trust Bank	US$5.16bn
Zenith Bank	US$4.64bn

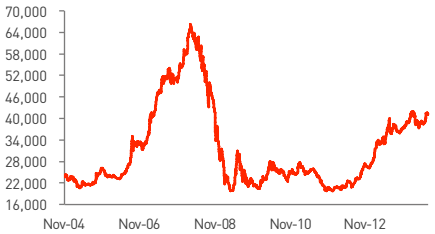
Source: Bloomberg

Nigeria stock market capitalisation (US$ billion)



Source: Bloomberg

NSE ALSI (Local currency)



Source: Reuters

Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bill	91, 182 and 364 day	Fortnightly or as set out in provisional auction calendar	Good	T+1, T+2	Licenced primary dealer and market makers (PDMMs)	25 bps
Treasury bonds	2, 3, 5, 7, 10 and 20 years	Monthly or as set out in provisional auction calendar	Good	T+2	Licenced primary dealer and market makers (PDMMs)	<3 years = 15 kobo; >3 years = 30 kobo;

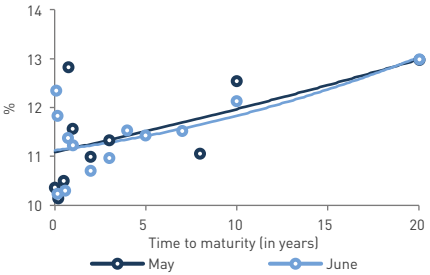
Source: NKC Research, Reuters, Bloomberg

Nigeria boasts one of the most active secondary sovereign debt markets on the continent in terms of liquidity and tradability. Nigeria's three most liquid bonds (maturing in 2014, 2019 and 2022 respectively) were included in JP Morgan's Government Bond Index-Emerging Market Index in October 2012. JPMorgan noted at the time that the inclusion might attract US$1.5 billion in inflows from foreign investors. Indeed, Nigeria's bond yields declined significantly during 2012 Q4.

Barclays also included some US$16 billion of Nigeria's local currency-denominated government bonds in its emerging markets government bond index from April 2013.

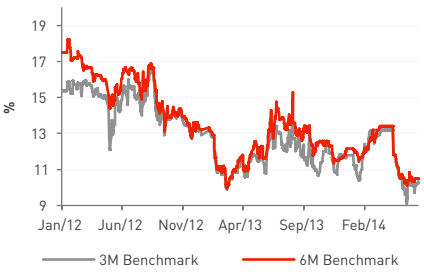
The decline in yields was further supported by a moderation in consumer price inflation, and the commencement of retail bond trading on the NSE on 1 February 2013.

Nigeria yield curve



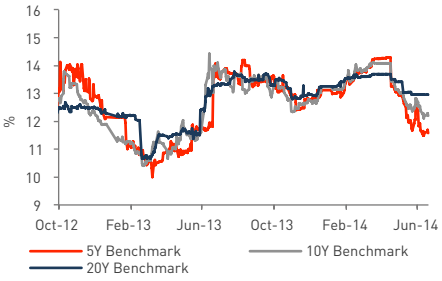
Sources: Reuters

Nigeria treasury bills (secondary market)



Sources: NKC Research, Reuters

Nigeria government treasury bonds (secondary market)



Sources: NKC Research, Reuters

The Nigerian government has approved a debt-management plan that will reduce the proportion of domestic debt in total debt over the 2013-15 period, due to domestic liabilities being more expensive than external ones. The plan envisions an increase in the proportion of foreign debt in the total to 40% by 2015 from a current level of 14%. 'We are going to have a smooth transition so that everything is well managed and there is no shock to the system', Minister of State for Finance, Yerima Ngama, stated. The government will be looking to access concessionary financing from institutions such as the African Development Bank, the Islamic Development Bank, and the World Bank.

Nigeria issued two Eurobonds in July last year. The sovereign issued a five-year US$500 million Eurobond at a yield of 5.375% and a 10-year US$500 million Eurobond at a yield of 6.625%. The funds will reportedly be used for infrastructure development.

The combined issue was more than four times oversubscribed. Some market analysts believed the bonds priced at a premium of between 35 and 70 basis points. The dual-tranche nature of the deal made sense, as the five-year security appealed to more conservative European investors, while US investors eagerly snapped up the 10-year note. US investors accounted for 73% of the 2023 issue and for 57% of the 2018 issue, while Europe accounted for 24% of the 2023 issue and for 37% of the 2018 issue.

In terms of investor type, asset managers accounted for 85% of the 2023 issue, banks for 5%, hedge funds for 3%, and pension funds/insurers for 7%. For the 2018 issue, asset managers accounted for a smaller share (79%), while banks accounted for 13%, hedge funds for 6%, and pension funds/insurers for 2%. Following the issuing of the Eurobonds in July 2013, their yields have come down notably, with the 2018 bond reaching a yield of 4.2% by 17 June.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012E	2013E	2014F	2015F
Real GDP (% change)	7.01	4.65	6.75	7.31	6.54	6.84	6.80
Nominal GDP (US$bn)	265.89	360.65	408.81	453.97	504.32	557.14	590.06
Consumer price inflation (average, %)	11.54	13.72	10.84	12.22	8.50	9.07	9.46
Budget balance, incl grants (% of GDP)	-6.02	-4.36	0.30	-0.07	-2.42	-2.58	-2.75
- Revenue (% of GDP)	11.29	12.70	17.84	15.03	12.26	11.34	10.48
- Expenditure (% of GDP)	17.31	17.05	17.54	15.10	14.68	13.92	13.24
Government debt (% of GDP)	9.59	9.74	9.86	10.83	10.58	10.73	10.89
Current account balance (% of GDP)	5.37	3.72	2.14	3.84	3.70	2.73	2.08
Trade balance (% of GDP)	9.76	8.49	7.61	8.70	7.04	5.90	5.10
NGN/US$	148.90	150.30	154.74	156.81	159.07	162.19	172.37
Short-term interest rate (%)	18.36	17.59	16.02	16.79	16.65	17.00	17.30
Foreign reserves (US$bn)	41.64	31.37	31.59	42.69	42.01	35.84	38.96
Months of import cover	10.24	5.68	4.51	6.52	6.10	4.96	5.07

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% y-o-y)	11.80	10.28	11.95	7.95	7.79	7.87	7.98
Monetary policy rate (%)	6.25	12.00	12.00	12.00	12.00	12.00	12.00
International reserves (US$bn)	32.34	32.64	43.83	42.85	37.83	38.14	36.96
91-day treasury bill rate (%eop)	7.54	14.66	12.92	11.78	13.20	10.70	10.55
NGN/US$ (eop)	151.95	162.20	156.10	159.90	165.0	160.60	162.69
Bonny light crude (US$/barrel, eop)	95.28	110.84	113.30	111.70	108.65	111.53	112.01

Sources: NKC Research, Reuters, National Bureau of Statistics, Central Bank of Nigeria

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

south africa



Demographics	
Population	48 375 645 (July 2014 est.)
Population: world ranking	28 out of 240 countries (CIA)
Life expectancy (years)	Total population: 59.6; male: 57.7; female: 61.4 (2013 est.)
Main ethnic groups	Black African 79.8%, white 8.7%, coloured 9%, Indian/Asian 2.5% (2013 est.)
Business language	English, Afrikaans, Xhosa, Zulu
Urban population	62.4%
Population below national poverty line	23% (2006 est.)

Sources: CIA, World Bank

Geography	
Area in sq km	1 219 090
Area: World ranking	25 out of 252 countries (CIA)
Climate	Mostly semiarid; subtropical along east coast; sunny days, cool nights
Natural resources	Gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, tin, rare earth elements, uranium, gem diamonds, platinum, copper, vanadium, salt, natural gas

Sources: CIA, World Bank

Sovereign ratings	
S&P	BBB-/Stable
Fitch	BBB/Negative
Moody's	Baa1/Negative

Source: NKC Research

Economy in 2013			
Nominal GDP (US$bn)	355.93	Total government debt as % of GDP	46.35
Nominal GDP: World ranking	33 out of 188 countries (IMF)	Total external debt as % of GDP	45.20
Real GDP (% change, y-o-y)	1.89	Consumer price inflation (average, %)	5.75
GDP growth: World ranking	127 out of 189 countries (IMF)	Current account balance as % of GDP	-5.80
GDP per capita (US$)	6,743.64	Equity market: Size in US$	US$512bn
Agriculture as % of GDP	2.55	Equity market: Listed companies	399 primary listings
Industry as % of GDP	28.57	Bond market size	US$119bn govt bonds outstanding in the domestic market
Services as % of GDP	68.89		

Sources: IMF, NKC Research

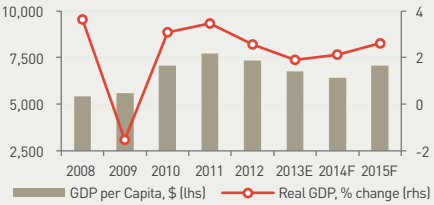
Political environment

Government type	Republic
Head of state	President Jacob Zuma
Head of government	President Jacob Zuma
Ruling political party	African National Congress (ANC)
Main opposition partners	Democratic Alliance (DA), Economic Freedom Fighters (EFF), Inkatha Freedom Party (IFP)
Elections	Election last held on 7 May 2014 (next to be held in 2019)

Source: NKC Research

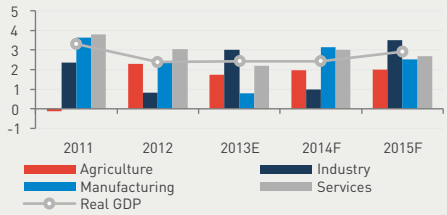
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



Source: NKC Research

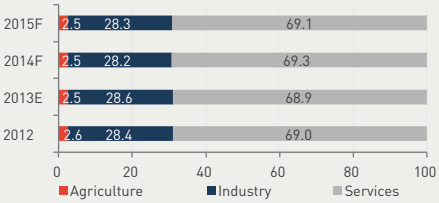
South Africa is the continent's second-largest economy, having ceded the top spot to Nigeria during March 2014 following a rebasing of GDP by the latter. The economy is productive and industrialised around urban nodes, but at the same time exhibits many characteristics associated with developing countries, including a big divide between formal and informal sectors.

South Africa has almost all the commodities essential for international competition except crude petroleum products and bauxite (which is used in the manufacturing of aluminium). Structural constraints on economic activity include strict labour laws, a poor track record on implementing economic policy reforms, electricity supply challenges, and amongst the world's largest inequalities in income distribution.

The South African economy contracted by 0.6% q-o-q during Q1 of 2014 as a result of a near-25% q-o-q drop in mining activity due to a strike in the platinum sector that started on 23 January. The Rand Merchant Bank (RMB)/Bureau for Economic Research (BER) business confidence index (BCI) showed downbeat sentiment amongst private enterprise during the first half of 2014, with a reading of 41 during both the first and second quarters – anything below 50 is negative.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

These readings indicated that almost six out of 10 respondents were unhappy with prevailing business conditions. Overall, GDP growth is currently projected at 2% (at best) during 2014. This is woefully inadequate to create jobs for the millions of people from South Africa and elsewhere on the continent seeking jobs locally; our projections point to an unemployment rate of more than 25% over the medium term.

International trade

South Africa's export revenues declined by 4.1% during 2013 to US$95.5 billion and we expect a recovery of only 1.6% this year to US$97 billion as a result of a projected 6% drop in the value of precious metal and stone shipments. The trade deficit is projected at US$8.5 billion during 2014 (the largest ever at an equivalent 2.5% of GDP) and the current account deficit is forecast to rise by 3% to US$21.25 billion. This will translate into the current account deficit equalling 6.2% of GDP, which will be the highest since the tough economic times of 2007-08. While our outlook is for improved current account dynamics over the medium term, the short term will see pressure on the exchange rate continue and vulnerability to capital outflows intensify. Moody's Investor's Service was correct in its assertion during May that the platinum strike would hold back the normalisation of the current account deficit. However, South Africa's dependence on mineral exports (from an industry prone to strikes) is a structural issue: mineral ores and concentrates, as well as precious metal and stones, accounted for a third of export revenues during 2013.

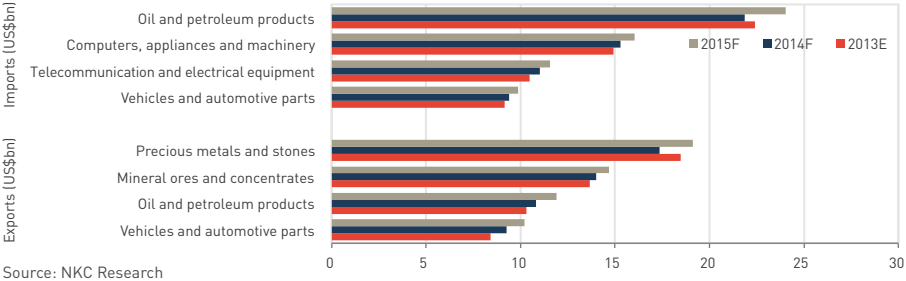
Foreign trade flows, 2013

Main exports	(US$ billion)	Main imports	(US$ billion)
Precious metals and stones	18.48	Oil and petroleum products	22.42
Mineral ores and concentrates	13.65	Computers, appliances and machinery	14.90
Oil and petroleum products	10.30	Telecommunication and electrical equipment	10.48
Vehicles and automotive parts	8.42	Vehicles and automotive parts	9.16

Source: NKC Research

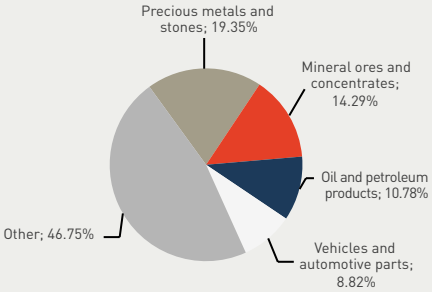
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

South Africa top four exports and imports (US$ billion)



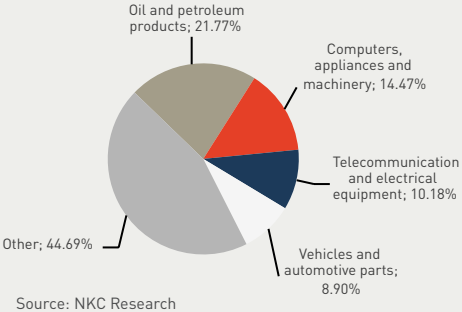
Source: NKC Research

2013 exports (% of total)



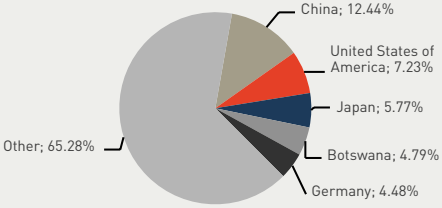
Source: NKC Research

2013 imports (% of total)



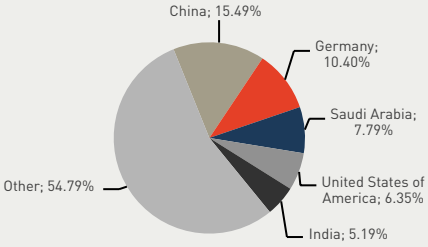
Source: NKC Research

2013 top destinations of exports (% of total)



Source: Trade Map

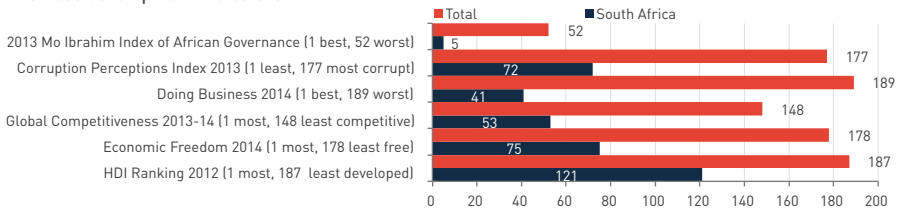
2013 top origins of imports (% of total)



Source: Trade Map

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

The South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) voted 5:2 in favour of keeping interest rates on hold at its latest meeting on 20 to 22 May 2014. Governor Gill Marcus reiterated that further monetary policy tightening can be expected over the short term and that this will be data dependent, especially on inflation and inflation expectations reports. (Policymakers see inflation outside the target range for another 12 months). It is also still possible that changes to interest rates could occur in 25 basis points intervals last seen more than a decade ago. The central bank will try to increase real interest rates as it raises the repo rate away from multi-decade lows. We do not see the repo rate rising by more than 50 basis points towards the end of 2014, and that this adjustment could be larger were it not for the slow pace of economic growth currently being experienced.

Exchange rate policy:

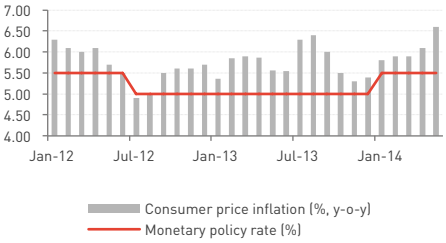
The rand is a free floating currency and amongst the most liquid emerging market currencies. This makes it prone to volatility and shifts in global investor sentiment, and makes the South African economy vulnerable to higher import prices should sentiment deteriorate. Both the SARB and National Treasury admit that they have limited tools to help stabilise the currency during times of volatility. The latest SARB Quarterly Bulletin reaffirmed the central bank's position against using reserves to intervene in the currency market.

'The risks attached to intervention in the foreign-exchange market by selling foreign currency to protect the exchange rate was illustrated when intervention by the Argentinian central bank failed due to a depletion of its reserves, thereby rendering the country very vulnerable,' stated the document.

Fiscal policy:

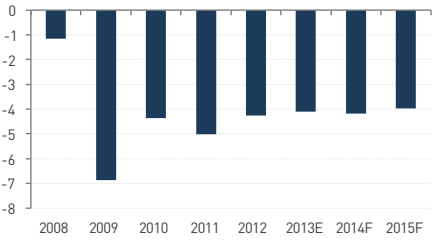
South Africa's external debt levels climbed to their highest since the foreign debt standstill era of the mid-1980s by September 2013 at an equivalent 38.2% of GDP, according to the SARB. This is not surprising considering the expansive fiscal budget deficit seen since the 2008/09 financial year. (By the close of last year, 50% of external obligations were held by public authorities and corporations.) The government has, since 2008, implemented a counter-cyclical policy stance on top of an expansion of its social safety net towards its 'developmental state' strategy. This is set to continue with the appointment of Minister of Finance, Nhlanhla Nene. He was elevated from the deputy position with the appointment of the new Cabinet late in May. However, while his knowledge of state finance matters cannot be questioned, it must be kept in mind that Mr Nene is an African National Congress (ANC) loyalist, and that he might not be as forceful in defending the National Treasury's views when it comes to interacting with the rest of the executive. He already indicated on 29 May 2014 that disappointing GDP data for Q1 will slow the narrowing of the fiscal deficit.

Consumer price inflation and monetary policy rate



Sources: SARB, Statistics South Africa

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

Not much has happened in South Africa during the first five months of 2014 from an economic policy perspective as political parties were in full election mode. One of the first jobs of the new Cabinet will be to formulate and approve the five-year Medium-Term Strategic Framework (MTSF) for 2015 onwards that will be the tool used to implement the vision of the National Development Plan (NDP). With the appointment of ANC Deputy President, Cyril Ramaphosa, as head of the National Planning Commission (NPC), implementation of the framework is set to receive renewed attention. However, the NPC has no executive powers, and the success of the NDP will be dependent on government departments implementing the scheme. Elsewhere, the Davis Tax Committee continues its investigation into the 'role of the tax system in the promotion of inclusive economic growth, employment creation, development and fiscal sustainability.' Its findings are expected to eventually translate into higher taxes given our view that the National Treasury has based its long-term planning for the country on faster GDP growth rates (and accompanied increases in tax receipts) than seen of late and projected over the medium term.

Political environment

Despite inroads made by the opposition Democratic Alliance (DA), the ruling African National Congress (ANC) has received a fresh mandate by securing 62.4% of the votes in the May 2014 national elections.

However, apart from the encouraging sign that Cyril Ramaphosa has been installed as heir apparent to the presidency, and Minister of Trade and Industry, Rob Davies, retained his job, the new Cabinet is singularly uninspiring. There is little to suggest that this new executive is going to take the hard decisions and embrace adverse political conditions for the sake of the greater good. The influence of organised labour, although weakened by its internal faction fighting, will remain a key element of the political environment, and one which will prevent any major economic liberalisation or labour market reform.

President Jacob Zuma delivered his State of the Nation address on 17 June to South Africans seeking answers on how to kick-start the country's flailing economy. As for any 'radical transformation of the economy' that has been punted by the ANC of late, there was not a single hint apart from new 'interventions' the state will make, the combined impact of which will put the country's twin deficits and credit ratings under even more pressure. South Africa needed something close to sensational from the president and his State of the Nation address, but it was not forthcoming. He promised higher/expanded minimum wages, that investment in welfare will be increased, and that the Expanded Public Works Programme (EPWP) will add another two million jobs towards 2019.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Economic environment

Ratings:

Standard & Poor's (S&P) downgraded South Africa's long-term Issuer Default Rating (IDR) from 'BBB' (negative outlook) to 'BBB-' (stable outlook) on 13 June – this was not unexpected. On the same day, Fitch Ratings put its 'BBB' rating on a negative watch, with Moody's Investors Service also having a negative outlook on its 'Baa1' rating. Both S&P and Fitch lamented the continued decline in economic momentum that manifested into a 0.6% q-o-q contraction in GDP during Q1 of 2014 as a result of the protracted platinum strike. S&P's downgrade reflects lacklustre economic growth, continued large twin deficits, rising government debt, and the potential volatility and cost of external debt. Fitch analysts, after indicating downside risks to the performance of the new Cabinet, indicated that its negative outlook could translate into a downgrade (its next review is expected during December) if the government fails to implement structural reforms aimed at boosting economic growth, there is material slippage against current fiscal projections, and if the current account deficit is not narrowed. In response to Fitch's rating announcement, the National Treasury indicated that the government 'will redouble its efforts to improve the regulatory environment, reduce the skills shortage and accelerate its infrastructure investment programme so as to reduce the bottlenecks constraining growth.' In the aftermath of the S&P downgrade announcement, it said that the state's commitment to and ability to service debt has not changed.

Key indicators to watch	
Inflation	The central bank targets y-o-y consumer price inflation in a band of 3% to 6% over an 18 to 24 month period. The current outlook is for headline inflation to average above 6% y-o-y over the coming 12 months and that the weak rand exchange rate poses upside risk to this outlook. The SARB is committed to an upward trend in interest rates, with inflation and inflation expectations the key variables in this trajectory.
Exchange rate	The rand was previously seen as a gauge for global risk appetite. However, since early-2012, the currency has more directly reflected sentiment towards the South African economy. It currently reflects a weak local economy, some lingering post-election uncertainty about political matters, more labour strikes, and no intervention by the SARB. The outlook also includes no effective intervention in the economy by political leaders.
Precious metal prices	The platinum price climbed to an eight-month high during May, finally showing some reaction to strikes on the platinum belt. Platinum mining companies were, during the first few months of the strike, able to sell off stockpiles of white metals and have recently started to purchases platinum and related metals on the open market to satisfy customers.

Source: NKC Research

Key vulnerabilities	What is the government doing to address this?
Rising social unrest and political tension as the government fails to live up to their voters' expectations.	Not much, apart from continuously increasing social grants. Electioneering leading up to the May 2014 elections left policy making muted for several quarters.

Key vulnerabilities (continued)	What is the government doing to address this? (continued)
Low economic growth is not keeping pace with employment creation and poverty reduction needs.	The government is continually increasing its spending on public employment and social grants, and is unwilling to admit any failure in policy formulation.
Electricity supply under increasing pressure; winter months in 2014 will see sporadic power blackouts.	State and parastatal expenditure on capacity expansion is on-going and has already shown some success.

Source: NKC Research

Market participation	
Foreign investors	There are no restrictions on foreign investor participation. South African debt markets have been open to foreign issuers under certain criteria: Mauritius and Namibia have issued bonds in the country, while other African sovereigns are also considering this option.
Local investors	Local market participation is made up of the banking and pension fund sector, institutional investors (asset managers and hedge funds), as well as retail investors. The latter can obtain direct market access through brokers or institutional investors.

Source: NKC Research

Financial market

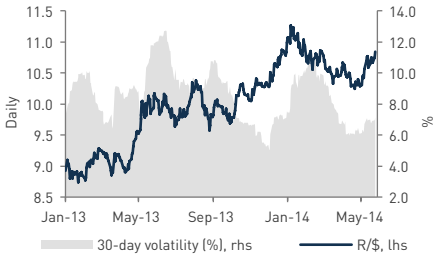
Foreign exchange

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/ maturity	Quotation/ settlement	Reuters page	Additional information
Spot	US$5m	US$9bn	25 – 75 bps	-	T+2	ZAR=	Main cross is US$/ZAR
Forwards (deliverable)	US$1m - US$20m	US$2.8bn	50 bps up to 6 months and 100 bps up to 1 year	Liquid up to 1 year; pricing out to 10 years	T+2	ZAR-FWD=	Main benchmark is US$/ZAR
Swaps	US$1m - US$5m	US$15.6bn	Variable	Liquid up to 10 years, pricing out to 30 years	-	-	Main benchmark is US$/ZAR
Options	US$1m - US$10m	US$450m	1 vols	1 – 24 months, pricing available on 5 and 10-year options	-	-	Main benchmark is US$/ZAR

Sources: Reuters, AfDB

Exchange rate

South African rand



Source: Reuters

A survey by a South African bank published during March 2014 found that currency volatility was ranked by two out of three respondents as a major concern, along with cash flow, commodity prices and political risk. This exposure to currency volatility was found across all industries and company sizes. It was therefore good news that the rand regained some lost ground early in 2014, with an accompanied decline in volatility. The rand returned to below the R11/US$ late in February and was back at R10.50/US$ by early-May. This came in the wake of investors moving money out of Russia and surrounding countries (and into other emerging markets) given the continued tense situation between Moscow and the West around Crimea. Reuters IFR Markets also reported real money inflows (i.e. not speculative) supporting the Malaysian and South African currencies at the end of Q1 and early in the second quarter. Peaceful local elections, continued conflict in Ukraine, and a rally in local bonds all supported the rand during the second quarter. The recovery was also in general attributed to an ebbing in emerging market pessimism, the oversold nature of the local currency, and a struggling US dollar. The rand appreciated to a five-month high of R10.22/US$ on 13 May in the wake of peaceful national elections, and has since been on a weaker footing once more.

The negative impact the protracted strike in the important platinum mining industry translated into weak economic data being released during the second half of Q2. Disappointing GDP growth data and weak mining and manufacturing production numbers sent the rand back on a trajectory towards R11/US$ as the quarter wound down, with little hope that the new Cabinet would be able to do something to arrest the situation. The medium-term outlook for the rand is for a slow appreciation against major currencies, but with volatility and bouts of weakness factored into this trajectory.

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Johannesburg Securities Exchange (JSE)	399 primary listings	Very liquid	US$512bn primary listings	T+5	Consumer goods and services; Mining	300m shares

Sources: Bloomberg (Stock market), SARB (Bond market)

The Johannesburg Stock Exchange (JSE) has been on a broad positive run since mid-March and posted fresh all-time highs on many occasions, Emerging stock markets elsewhere were running on a similar trend, while Wall Street indices were trotting rather than galloping. At the same time, local platinum mining stocks ran out of steam as hopes were dashed for a resolution to the country's costliest strike ever. Gold stocks had no clear direction as weakness in the international gold price and a recovery in the rand weighed on their earnings outlook. Rather, the JSE's gains were driven by stronger financial stocks: this sector gained some 20% during the February to

May period compared to the All Share and Top-40 indices rising around 12.5%. Banking stocks in particular – up 25% since the start of February – performed well, with Vunani Private Clients commenting recently that banks' valuations are still below those of the overall market. Some analysts are expecting a pull back in the All Share in coming months after it cracked the 50 000 level on 22 May, arguing that the gains seen in 2014 so far do not reflect current and short-term economic fundamentals.

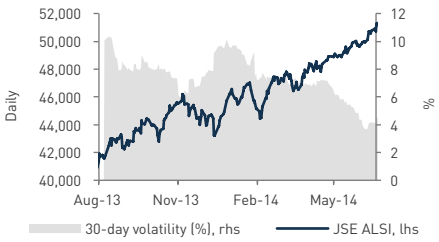
A database glitch delayed the start of trading on the JSE for an hour on 23 April 2014, the latest in a string of errors that have hampered Africa's biggest bourse in recent years. Trade did not start until 08:00 GMT, compared to the usual opening time of 07:00 GMT. Investors shrugged off the delay, however, with the benchmark Top-40 Index hitting another record high soon after the delayed opening. The bourse operator said in a statement that the error was 'related to a JSE database' and not the two-year-old Millennium Exchange trading platform that it had promised would put an end to its stability problems. The JSE moved to the Millennium platform, which was developed by a unit of the London Stock Exchange Group in 2012 to increase trading speeds and in a bid to prevent the network errors that have disrupted trade in recent years. The glitches have been an embarrassment to the JSE, which is looking to court more overseas investors and market itself as a gateway to Africa's growing capital markets.

The bourse announced during May 2014 that it will launch new services aimed at attracting foreign company listings, and that the new range of services – e.g. investor meetings and seminars at the exchange – will support companies in identifying prospective investors and interacting with existing investors.

Top-five listed companies	Market capitalisation
British American Tobacco Plc	US$120bn
SABMiller Plc	US$92bn
Glencore Plc	US$72bn
BHP Billiton Plc	US$67bn
Compagnie Financière Richemont	US$54bn

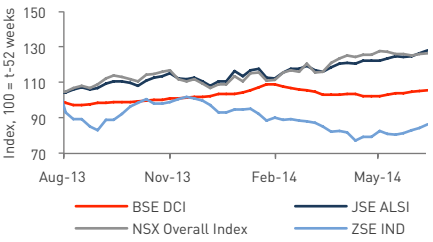
Source: Bloomberg

JSE All Share Index



Source: Reuters, JSE

South Africa and neighbours' SEs performance indices



Sources: NKC Research, Reuters

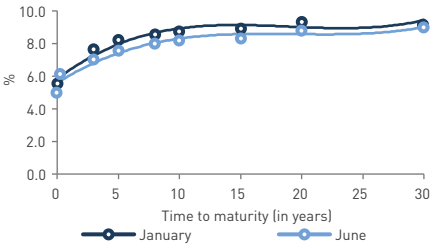
Fixed income

Security	Tenor/maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bill	91, 182, 273 and 364 day	Weekly	Liquid	T+0, T+3 at auctions	Institutions, commercial banks	2.5 bps to 5 bps
Treasury bonds	Up to 39 years	Weekly	Very liquid	T+3	Institutions, hedge funds, investment banks	Size-dependent; 1 bpt or above

Source: SARB, JSE

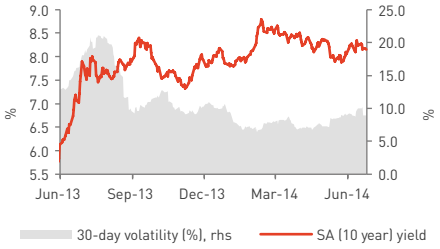
The South African National Treasury issues bills at auctions and by other means, such as a private placement. Registered users may obtain direct access through the Money Market Internet System. Government bonds are issued as a means of financing the country's fiscal budget. Auctions of instruments are held in accordance with an issuance calendar drawn up to facilitate coordination for public sector borrowing with state-sponsored and corporate issuers. The primary bond market is exclusively a wholesale market, open only to primary dealers. Government bonds represent around half of all sales (by value), while municipal and parastatal debt (around 15% of market value) is also well established. The JSE took over the Bond Exchange of South Africa (BESA) during 2009, and currently administers the most diverse and liquid capital market on the continent (both from a government and private issuance perspective). Government paper now has maturities of more than three decades, with the R157 and R186 instruments the most traded. Around a third of the market's trading volumes are from foreign buyers, with South Africa seen as a dynamic emerging market economy from this perspective, rather than an African market. Private non-bank investors (both domestic and abroad) hold around half of the issued debt, with another third held by pension funds. The balance is owned by commercial banks. Transactions on the secondary market are dominated by banks and fund management firms.

South Africa (benchmark) yield curve



Sources: Reuters

South Africa 10-year government bond



Sources: Reuters

Data from the JSE shows that foreign investors sold a net R9.6 billion in bonds during the first five months of 2014 compared to net purchases of R31.4 billion in January to May of last year. Nonetheless, the government's benchmark 10-year bond yield has over the past four months been on a choppy downward trend from the 11-month high near 8.8% seen at the start of February, declining to below the 8% level on 9 May. The sovereign benefitted from some money escaping Russia and Eastern Europe as a result of the on-going geopolitical tensions in and around Ukraine. A stronger rand – which is closely correlated with local long-term yields – also supported stronger interest in the sovereign's debt instruments. From a fiscal perspective, the 2014/15 fiscal budget (released late in February) and the subsequent outturn of the 2013/14 financial year (ending 30 March) carried no big surprises, and reaffirmed the state's intentions to narrow the fiscal deficit in coming years.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013E	2014F	2015F
Real GDP (% change)	-1.53	3.09	3.46	2.55	1.90	2.12	2.62
Nominal GDP (US$bn)	283.99	363.24	401.80	384.31	355.93	341.37	377.38
Consumer price inflation (average, %)	7.13	4.26	5.28	5.41	5.75	6.36	5.91
Budget balance, incl grants (% of GDP)	-6.86	-4.36	-5.00	-4.25	-4.09	-4.18	-3.97
- Revenue (% of GDP)	27.59	28.47	25.45	28.77	29.51	30.69	31.80
- Expenditure (% of GDP)	34.45	32.83	30.46	33.02	33.60	34.87	35.77
Government debt (% of GDP)	31.96	37.25	40.71	43.28	46.35	50.90	55.12
Current account balance (% of GDP)	-4.00	-3.91	-4.90	-5.18	-5.80	-6.22	-5.78
Trade balance (% of GDP)	0.20	-0.32	-0.96	-1.10	-2.11	-2.49	-2.12
ZAR/US$	8.47	7.32	7.26	8.21	9.62	10.50	10.00
Short-term interest rate (%)	11.71	9.83	9.00	8.75	8.50	8.63	9.25
Foreign reserves (US$bn)	35.24	38.18	42.60	44.00	44.20	45.91	48.91
Months of import cover	5.88	5.86	4.83	5.00	4.79	4.62	4.53

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% y-o-y)	3.5	6.1	5.7	5.4	5.9	6.1	6.6
Monetary policy rate (%)	5.5	5.5	5.0	5.0	5.5	5.5	5.5
Foreign reserves (US$bn)	43.83	48.86	50.74	49.59	49.45	49.56	49.21
91-day treasury bill rate (% eop)	6.01	6.16	5.27	5.25	5.85	5.85	5.80
ZAR/US$ (eop)	6.60	8.07	8.45	10.45	10.52	10.47	10.57
Platinum (US$/oz, eop)	1,767.50	1,393.00	1,537.32	1,367.50	1,409.20	1,422.00	1,444.70

Sources: Reuters, Bloomberg, SARB

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

swaziland



Demographics	
Population	1 419 623 (July 2014 est.)
Population: world ranking	155 out of 240 countries (CIA)
Life expectancy (years)	Total population: 50.54; male: 51.04; female: 50.04 (2014 est.)
Main ethnic groups	African 97%, European 3%
Business languages	English (official, used for government business), siSwati (official)
Urban population	21.2%
Population below national poverty line	63% (2009 est.)

Sources: CIA, World Bank

Geography	
Area in sq km	17 364
Area: World ranking	159 out of 252 countries (CIA)
Climate	Varies from tropical to near temperate
Natural resources	Asbestos, coal, clay, cassiterite, hydropower, forests, small gold and diamond deposits, quarry stone, and talc

Sources: CIA, World Bank

Sovereign ratings	
S&P	N/R
Fitch	N/R
Moody's	N/R

Source: NKC Research

Economy in 2013			
Nominal GDP (US$bn)	3.35	Total government debt as % of GDP	19.85
Nominal GDP: World ranking	156 out of 188 countries (IMF)	Total external debt as % of GDP	13.64
Real GDP (% change, y-o-y)	0.20	Consumer price inflation (average, %)	5.63
GDP growth: World ranking	108 out of 189 countries (IMF)	Current account balance as % of GDP	5.58
GDP per capita (US$)	2,682.60	Equity market: Size in US$	US$194m
Agriculture as % of GDP	8.08	Equity market: Listed companies	7 primary listings
Industry as % of GDP	45.56	Bond market size	US$282m govt bonds outstanding in the domestic market
Services as % of GDP	46.36		

Sources: IMF, NKC Research

Political environment	
Government type	Absolute monarchy
Head of state	King MSWATI III
Head of government	Prime Minister Barnabas Sibusiso Dlamini
Ruling political party	No political parties by law
Main opposition parties	African United Democratic Party (AUDP), Imbokodvo National Movement (INM), Ngwane National Liberatory Congress (NNLC), People's United Democratic Movement (PUDEMO)
Elections	Legislative non-party elections last held during 2013 (due next in 2018)

Source: NKC Research

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013F	2014F	2015F
Real GDP (% change)	1.27	1.87	0.30	-1.50	0.20	0.93	1.13
Nominal GDP (US$bn)	3.16	3.69	3.97	3.74	3.35	3.18	3.52
Consumer price inflation (average, %)	7.45	4.51	6.11	8.95	5.63	6.28	6.07
Budget balance, incl grants (% of GDP)	-4.82	-12.98	-5.74	0.25	-3.72	-2.35	-1.65
- Revenue (% of GDP)	36.01	25.28	25.95	38.75	37.23	39.70	41.16
- Expenditure (% of GDP)	40.82	38.26	31.69	38.50	40.95	42.05	42.81
Government debt (% of GDP)	11.95	15.73	15.55	17.24	19.85	21.64	22.74
Current account balance (% of GDP)	-12.98	-10.90	-9.28	3.52	5.58	5.51	4.97
Trade balance (% of GDP)	-3.84	-4.06	-1.11	2.08	4.21	7.08	4.26
SZL/US$	8.47	7.32	7.26	8.21	9.62	10.70	10.35
Short-term interest rate (%)	11.38	9.75	9.00	8.75	8.50	8.50	8.75
Foreign reserves (US$bn)	0.88	0.68	0.52	0.67	0.76	0.85	0.95
Months of import cover	4.26	2.98	2.24	2.92	4.34	4.70	4.81

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (%, y-o-y)	4.52	7.76	8.30	4.40	5.1	N/A	N/A
Monetary policy rate (discount rate, %)	5.5	5.5	5.0	5.0	5.0	5.0	5.0
Foreign reserves (US$bn)	4.50	4.18	5.58	7.91	N/A	N/A	N/A
91-day treasury bill rate (%, eop)	5.80	6.81	6.51	5.78	5.65	5.65	5.63
SZL/US$ (eop)	6.60	8.07	8.45	10.45	10.52	10.47	10.57
Sugar (USc/lb, eop)	35.30	22.63	20.34	16.73	18.13	17.72	17.38

Sources: CBS, Reuters, NKC Research

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

tanzania



Demographics	
Population	49 639 138 (July 2014 est.)
Population: world ranking	26 out of 240 countries (CIA)
Life expectancy (years)	Total population: 61.24; male: 59.91; female: 62.62 (2014 est.)
Main ethnic groups	Mainland - African 99% (of which 95% are Bantu consisting of more than 130 tribes), other 1% (consisting of Asian, European, and Arab); Zanzibar - Arab, African, mixed Arab and African
Business language	English
Urban population	27.2%
Population below national poverty line	28.2% (2012 est.)

Sources: CIA, World Bank

Geography

Area in sq km	947 300
Area: World ranking	31 out of 252 countries (CIA)
Climate	Varies from tropical along coast to temperate in highlands
Natural resources	Hydropower, tin, phosphates, iron ore, coal, diamonds, gemstones, gold, natural gas, nickel

Sources: CIA, World Bank

Sovereign ratings

S&P	N/R
Fitch	N/R
Moody's	N/R

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	31.98	Total government debt as % of GDP	45.30
Nominal GDP: World ranking	92 out of 188 countries (IMF)	Total external debt as % of GDP	41.26
Real GDP (% change y-o-y)	7.0	Consumer price inflation (average, %)	7.87
GDP growth: World ranking	24 out of 189 countries (IMF)	Current account balance as % of GDP	-14.61
GDP per capita (US$)	649.26	Equity market: Size in US$	US$3.9bn
Agriculture as % of GDP	26.04	Equity market: Listed companies	12 primary listings
Industry as % of GDP	25.63	Bond market size	US$3.97bn (end Mar-14) govt bonds outstanding in the domestic market
Services as % of GDP	48.33		

Sources: IMF, NKC Research

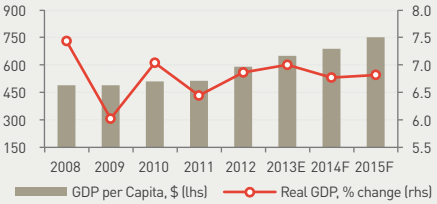
Political environment

Government type	Republic
Head of state	President Jakaya Kikwete
Head of government	President Jakaya Kikwete
Ruling political party	Chama Cha Mapinduzi (CCM)
Main opposition parties	Chama Cha Demokrasia na Maendeleo (Chadema), Civic United Front (CUF), National Convention for Construction and Reform – Mageuzi (NCCR-M)
Elections	Last held on 31 October 2010 (next to be held in 2015)

Source: NKC Research

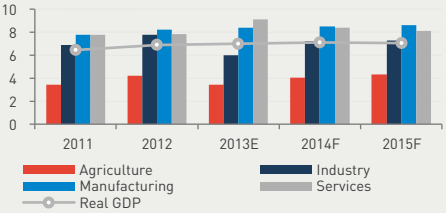
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



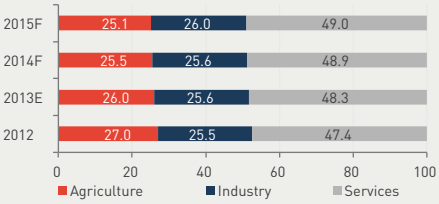
Source: NKC Research

The Tanzanian economy has consistently expanded at a robust pace in recent years. Real GDP growth averaged 6.8% per annum between 2006 and 2012 within a narrow range of 6% (2009) and 7.4% (2008). The services and industrial sectors in particular have shown strong growth. The performance of the agricultural sector, however, remains far below potential. The primary sector's real growth rate was below 5% in every year since 2005, averaging just below 4% per annum during 2005-12. The sector is crucial for poverty alleviation, as employment in agriculture accounts for around 80% of the total.

Key drivers of economic growth in Tanzania over the forecast period will be banking, telecommunications, trade, construction, electricity, manufacturing, and mining, and over the longer term, natural gas and commercialised agriculture. Real GDP growth is forecast to remain high, averaging 6.9% per annum during 2014-16, from 6.8% per annum during 2011-13. Despite strong real GDP growth, Tanzania's development challenges remain immense. Rapid population growth also means that the benefits of economic expansion are not felt as strongly, as the dependent population remains quite large. According to the United Nations (UN) Population Division, the proportion of Tanzania's population under the age of 15 was 44.8% in 2010, compared to a global average of 26.6%.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

An important milestone is the completion of the pipeline transporting gas from Mtwara to Dar es Salaam, which should ease electricity constraints.

President Kikwete has stated that, if the pipeline is completed on time, the country should be able to double its electricity output to 3 000 MW by 2015. (The pipeline is expected to be completed by the end of this year.) This is expected to benefit all sectors of the economy, particularly manufacturing.

As such, we expect the manufacturing sector's performance to be robust over the forecast period, averaging 8.55% per annum during 2014-15, up from 8.3% per annum in 2012-13. Although Tanzania's manufacturing sector has performed well in recent years, there is still significant room for expansion, especially by increasing the extent of value addition of current manufactured goods, as well as by starting to manufacture products higher up the value chain.

International trade

The current account deficit widened to an estimated US$4.7 billion (14.6% of GDP) last year from US$3.5 billion (12.4% of GDP) in 2012. This was mainly caused by lower gold exports and a sharp increase in oil-related imports. Gold exports declined due to a reduction in prices, as well as lower volumes as some mines closed down. Meanwhile, the increase in oil imports was predominantly due to higher import volumes. In turn, this was caused by an increase in the demand for petroleum for electricity-generating purposes due to low levels at many hydropower dams. Total exports of goods declined by 9.2% last year to US$5.3 billion. Apart from gold, there were also declines in tobacco, fish, coffee, and cotton exports. In turn, total imports of goods increased by 6.9% last year, as the sharp increase in oil imports was partly offset by lower imports of machinery, industrial raw materials, and food. Therefore, the trade deficit last year amounted to US$5.7 billion (17.8% of GDP), the largest on record and significantly wider than 2012's US$4.4 billion (15.7% of GDP).

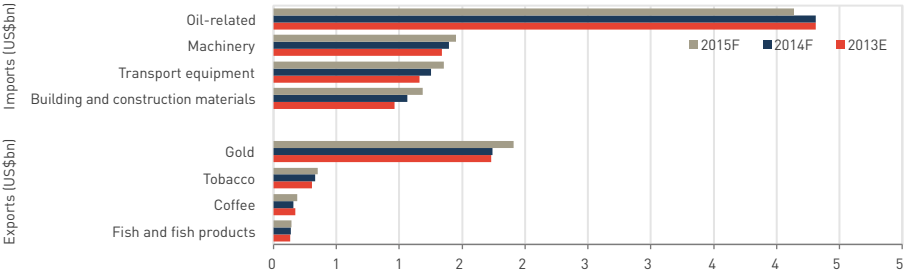
Foreign trade flows, 2013

Main exports	(US$ billion)	Main imports	(US$ billion)
Gold	1.73	Oil-related	4.31
Tobacco	0.31	Machinery	1.34
Coffee	0.17	Transport equipment	1.16
Fish and fish products	0.13	Building and construction materials	0.96

Source: NKC Research

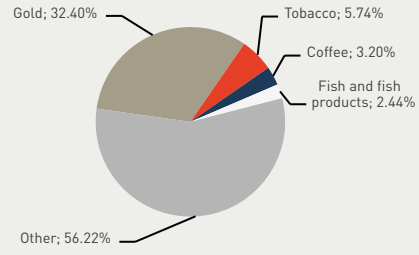
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Tanzania top four exports and imports (US$ billion)



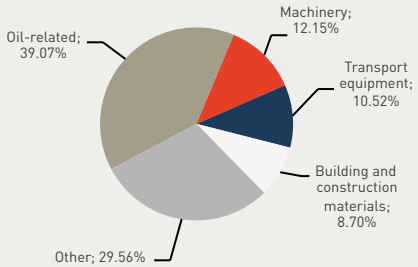
Source: NKC Research

2013 exports (% of total)



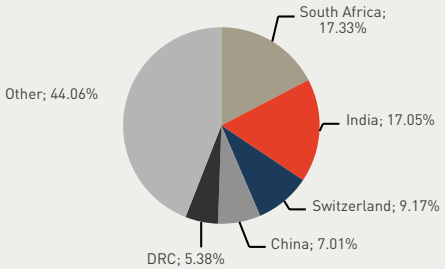
Source: NKC Research

2013 imports (% of total)



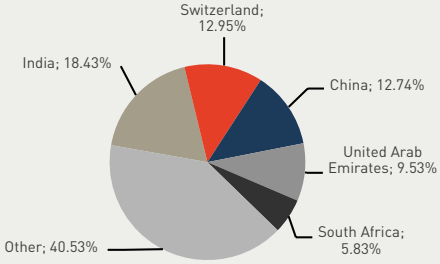
Source: NKC Research

2013 top destinations of exports (% of total)



Source: Trade Map

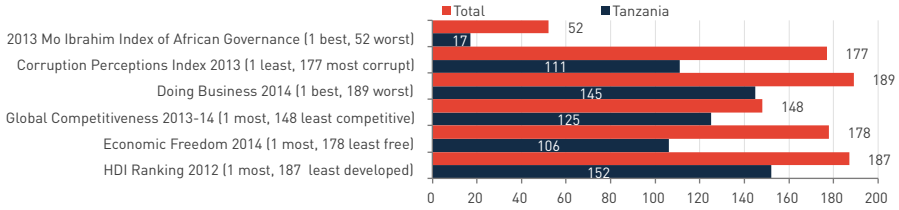
2013 top origins of imports (% of total)



Source: Trade Map

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

The Bank of Tanzania (BoT, the central bank) uses reserve money targeting as its main monetary policy tool. The growth rate in extended broad money supply reached 10% y-o-y by the end of last year, down from 12.5% y-o-y in December 2012. Growth in credit extended to the private sector is also down, from 18.2% y-o-y in December 2012 to 15.3% y-o-y in December 2013. Despite these factors supporting a stable inflation outlook, we expect to see some intensification of price pressures this year, mainly due to higher electricity tariffs and an increase in government spending. Monetary policy is expected to remain tight this year, but may be loosened in 2015 in the run-up to elections. Banks' claims on the government totalled TSh64.9 trillion last year, 30.6% higher than in the previous year. Increased lending to the government by commercial banks is likely to crowd out credit to the private sector. CPI inflation is expected to average 8.1% this year, before rising to 8.5% in 2015.

Exchange rate policy:

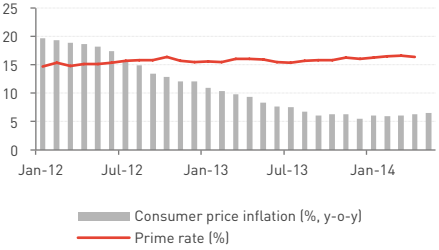
Generally, the Tanzanian shilling has a weakening bias due to large structural twin deficits. After reaching a low of above TSh1,800/US$ in October 2011, the Tanzanian shilling made a strong comeback in the subsequent 12 months. The sharp depreciation in the shilling in 2011 (as was seen in other East African countries also), was caused by a notable increase in imports due to higher fuel and food prices and a regional drought. After being under a bit of pressure during the first half of 2013, the shilling stabilised in H2. The depreciatory pressures during 2012 Q4 to 2013 H1 were caused by delays in the disbursements of non-concessional loans and increased demand for forex to pay energy supplier arrears. In response, the central bank intervened in the market in order to prevent 'excessive downward momentum' of the exchange rate.

Fiscal policy:

According to the finance ministry, total fiscal expenditure for the 2014/15 fiscal year (FY, starting in July) is expected to reach TSh19.9 trillion, reflecting a 9.1% increase compared to the 2013/14 FY. According to the budget, recurrent expenditure will amount to TSh13.4 trillion (around 68% of the total budget), while the remaining TSh6.4 trillion will be directed towards development projects. The government plans to borrow around TSh1.3 trillion from external commercial lenders and TSh3 trillion from domestic sources.

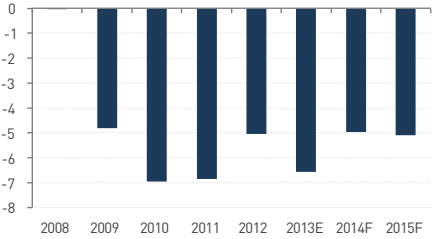
Furthermore, as one of Africa's biggest per capita aid recipients, the government expects to receive TSh2.9 trillion in loans and grants from development partners in FY 2014/15. The government intends to keep the budget deficit for the coming FY at or below 4.9% of GDP. The finance ministry expects real GDP growth to come in at 7.2% this year and 7.7% per annum in the medium term. We are much more circumspect, projecting growth of 6.8% for this year, and 6.9% per annum in 2015-17. As a result, we expect that domestic revenue collection may underperform, thereby necessitating lower-than-planned spending in order for the budget deficit target to be maintained.

Consumer price inflation and monetary policy rate



Sources: Bank of Tanzania, National Bureau of Statistics

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

Over the past few years, Tanzania has been moving in the wrong direction on the World Bank's Doing Business surveys, with other countries in the world reforming much faster. In the 2014 edition of the index, Tanzania moved nine positions weaker from the previous year to a ranking of 145th out of 189 countries. The corporate income tax rate in the country is 30% of profit. There is also a 10% tax on gross salaries for social security contributions, in addition to a 6% labour tax, also on gross salaries. The value-added tax (VAT) rate is quite high at 18%. Interest is taxed at 10% and capital gains (included in business/investment income) at 30%.

A company operating in an Export Processing Zone (EPZ) receives a number of benefits, including exemption from exchange control, corporate income tax for 10 years, and from withholding tax on rent, dividends, and interest for 10 years.

Political environment

Tanzania celebrated its 50th anniversary as a united country in 2014. Concerns about the strength of the union, and moves from Zanzibar to gain greater autonomy from the union government, are part of the public discourse in Tanzania, but this year's Golden Jubilee does seem to come at a time when these energies are more visible than usual. The main concern is the apparent failure (at least temporarily) of the constitutional review process: the opposition walked out of the constituent assembly in April 2014, and said that it does not plan to join talks when they resume in August.

The main point of contention is the triangular relationship between Tanganyika, Zanzibar and the overall United Republic of Tanzania. The opposition wants a tricameral system, with Zanzibar and Tanganyika each having a legislative assembly, and a third chamber for the union, while the government prefers to maintain the existing two-government system.

This means that it is not yet clear what the legal framework for the union will be in future, which leaves in place the potential for arguments about Zanzibar's autonomy especially in the context of exploration for oil around the islands. While developments in the constitutional review process may yet prove destabilising, the way the process has been conducted up to now is reason enough to be optimistic that participants will take the time necessary to deliver a legitimate text that has the buy-in of as many Tanzanians as possible. Talk of strains on the union or even civil war is overblown. Apart from the constitution, most political activity is preparation for the October 2015 election, in which the opposition will seek to further weaken the ruling party's grip on power.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Economic environment

Ratings:

At present, Tanzania remains unrated by any of the major global rating agencies. The government plans to issue a Eurobond after securing a rating from Standard & Poor's, Fitch Ratings, and/or Moody's Investors Service (two out of the three).

The government had hoped to obtain a rating by the end of last year, but there have been delays. On 31 January 2014, the finance ministry said that the process is being finalised. However, on 7 February 2014, Finance Ministry Permanent Secretary, Servacius Likwelile, said that the government is yet to apply for a credit rating due to a risk assessment by Citigroup not being finalised. On a previous occasion, the director of economic policy and research at the BoT, Joseph Massawe, stated that authorities expect to receive a rating of at least 'B+'. Meanwhile, Mr Likwelile said that the government expects a rating of at least 'BB'. We believe that both these expectations are unrealistic, and we would be surprised if Tanzania gets a rating better than 'B'.

Key indicators to watch	
Gold prices	Gold accounted for 32.4% of Tanzania's goods exports in 2013. A protracted slump in bullion prices could result in some mining expansion projects being delayed.
Forex reserves and exchange rate	The shilling tends to depreciate gradually, with inflation in Tanzania being much higher than in trading partners. Reserve levels are expected to remain adequate over the forecast period, despite a widening current account shortfall during 2014-16.
Monetary policy and inflation	The little pressure on CPI inflation that there currently is is coming from food prices, with non-food price inflation at a four-year low. Surplus food stocks from last year continue to be released on the market, which should help to keep food price inflation under control in the near term.

Source: NKC Research

Key vulnerabilities	What is the government doing to address this?
Large twin deficits	The government has access to precautionary financing from the International Monetary Fund (IMF).
The country is vulnerable to weather shocks and fluctuating commodity prices.	The government is aiming to boost the amount of land under irrigation from 350 000 ha currently to one million ha by 2015. The economy is also becoming increasingly diversified, with services and manufacturing growing strongly.
The electricity sector potentially poses a significant contingent liability to the government.	From 2015 onwards, a new gas pipeline will begin operations, which will boost the supply of cheaper power.

Source: NKC Research

Market participation	
Foreign investors	Foreign investors are currently not allowed to participate in either treasury bill or treasury bond auctions. Investments in corporate bonds listed on the Dar es Salaam stock exchange are permitted.
Local investors	Local investor participation is made up of the banking and pension fund industry. Retail investors access the market mainly through collective investment schemes, while bid submissions can be made through primary dealers through the maintenance of sub-accounts.

Source: NKC Research

Financial market

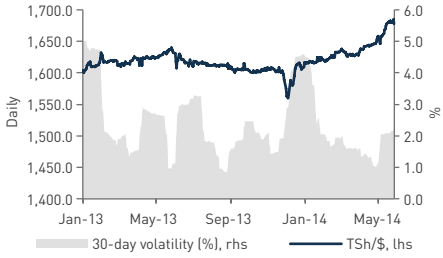
Foreign exchange

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/ maturity	Quotation/ settlement	Reuters page	Additional information
Spot	US$0.25m to US$1m	US$5 to US$20m	10 bps	-	T+2	TZS=	Main cross is US$/TZS
Forwards (deliverable)	US$1m to US$3m	US$0m to US$5m	300 bps to 600 bps	Illiquid up to 1 year	T+2	-	Main benchmark is US$/TZS
Swaps	US$0.25m to US$1.5m	US$0m to US$10m	300 bps to 600 bps	Illiquid up to 1 year	T+2	-	Main benchmark is US$/TZS

Sources: NKC Research, Reuters, Bloomberg

Exchange rate

Tanzanian shilling



Source: Reuters

The shilling has been depreciating steadily in 2014 on the back of strong forex demand from importers.

The shilling depreciated by 4.9% against the US dollar during the first five months of the year. We expect the shilling to depreciate to an average of TSh1,665/US$ this year, and further to TSh1,730/US$ in 2015. This will be driven by large and widening current account and budget deficits, and an inflation rate that is higher than that of trading partners.

Equities

The Dar es Salaam Stock Exchange (DSE) All Share Index (ALSI) has gradually trended upward since mid-2011. The exchange is small, with a market capitalisation of some US$3.9 billion, and with only 12 primary listings and a further six cross listings.

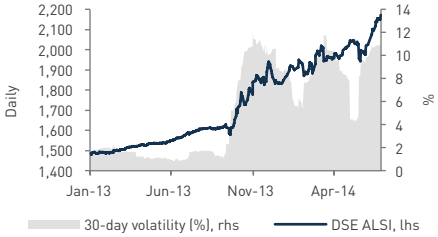
The most recent listing was that of Maendeleo Bank on the Enterprises Growth Market (EGM) on 4 November 2013. The bourse's market capitalisation has increased notably of late, mainly due to additional shares being sold by Tanzania Breweries Limited. Total market cap stood at a much smaller US$2.6 billion in September 2013.

Turnover on the DSE increased almost five-fold in 2013 relative to the average of the previous three years. According to the DSE's quarterly report, this can be attributed to a reduction in the settlement cycle (from T + five days to T + three days), longer trading hours, the switch to a Wide Area Network, as well as public education and awareness programmes.

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Dar es Salaam Exchange	12 primary listings	Low	US$3.9bn	T+3	Banking, food and beverages	1.15m shares

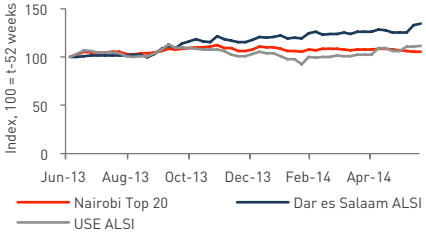
Sources: Bloomberg, Dar es Salaam Stock Exchange

Dar es Salaam Stock Exchange - ALSI



Source: Bloomberg, NKC Research, Reuters

EAC (Kenya, Tanzania and Uganda) SEs performance indices



Source: NKC Research, Reuters

Top-five listed companies	Market capitalisation
Tanzania Breweries	US$1.5bn
National Microfinance Bank	US$987m
Tanzania Cigarette Company	US$608m
CRDB Bank	US$407m
Tanzania Portland Cement Company	US$264m

Source: Bloomberg

Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bill	35, 91, 182 and 364 day	Fortnightly	High	T+1	Commercial banks and brokers	100 bps to 300 bps
Treasury bonds	2, 5, 7, and 10 years	Fortnightly	Medium	T+1	Commercial banks and brokers	50 bps to 200 bps

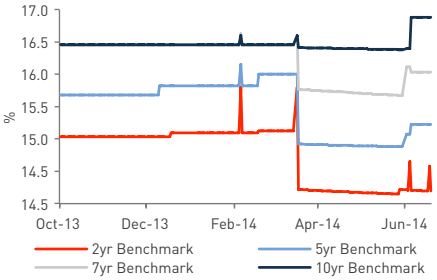
Sources: Reuters, Bloomberg, NKC Research

Treasury bills are issued by the BoT on behalf of the government for deficit financing and liquidity management. Meanwhile, treasury bonds are currently issued primarily as fiscal policy instruments, but also serve to lengthen the maturity profile of government debt and the yield curve, as well as to increase liquidity. In an African context, Tanzania has a fairly well-developed debt market. The government debt curve extends up to 10 years and auctions occur fairly regularly. In addition, several instruments are also traded on the local bourse. According to the African Development Bank's Fixed Income Guidebook, foreigners may invest in corporate bonds that are listed on the DSE, but not in government securities. The market for non-government debt is still in its infancy, with parastatals and corporate issuers not actively issuing debt at present, and with limited liquidity in the secondary market.

After increasing slightly during 2013, Tanzania's treasury bill yields declined in the first quarter of 2014. A decline in consumer price inflation has been partially offset by higher financing requirements by the government to fund its widening budget deficit. The government is planning to issue its maiden Eurobond in the second half of this year to fund infrastructure projects, although the process has been held up by a delay in getting a credit rating. If the Eurobond does not materialise, it is likely to be replaced by other external borrowing. Finance Ministry Permanent Secretary, Servacius Likwelile, has stated that, due to the postponement of the Eurobond to the following fiscal year, the government is seeking syndicated loans of up to US$700 million.

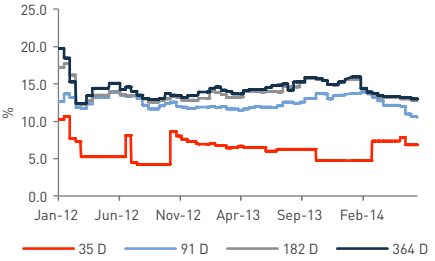
Tanzania's international bond has been added to JP Morgan's Emerging Markets Bond Index (EMBI). Tanzania raised US$600 million in February 2013 through the issuance of a seven-year amortising bond at a yield of 600 basis points above the London Interbank Offer Rate (Libor). The dollar-denominated Regulation S (Reg S) bond has an amortising structure and average maturity of five years, with the final due date set at 8 March 2020. The principal will amortise in nine semi-annual instalments commencing on the notes' third anniversary.

Tanzania treasury bonds (secondary market)



Sources: NKC Research, Reuters

Tanzania treasury bills (primary market)



Sources: NKC Research, Reuters

According to Joseph Massawe, the director of economic research and policy at the BoT, 'almost all restrictions on the capital account' will be removed by 2015 'for investors even from beyond East Africa'. Promises of removing restrictions on the movement of capital have, in the past, not come to fruition. This time, a more definite deadline has been given, and this, along with fears of being excluded further from regional integration, could persuade policymakers to follow through with their pledge. This would enable a deepening of the capital market. Currently, foreign investors are not allowed to invest in Tanzanian government securities or on the equity market, and partly as a result of this, very little trading takes place in the secondary market. Removing restrictions on capital movements beyond East Africa may, however, take longer than the suggested target date of 2015.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012E	2013E	2014F	2015F
Real GDP (% change)	6.02	7.04	6.45	6.86	7.00	6.78	6.82
Nominal GDP (US$bn)	21.37	22.90	23.85	28.25	31.98	35.00	39.37
Consumer price inflation (average, %)	12.14	6.20	12.69	16.00	7.87	8.11	8.49
Budget balance, incl grants (% of GDP)	-4.81	-6.96	-6.85	-5.03	-6.56	-4.98	-5.09
- Revenue (% of GDP)	21.26	20.51	21.09	22.07	20.94	21.73	22.88
- Expenditure (% of GDP)	26.07	27.47	27.95	27.10	27.50	26.71	27.97
Government debt (% of GDP)	38.39	40.94	44.68	42.61	45.30	45.08	43.40
Current account balance (% of GDP)	-8.47	-8.56	-16.74	-12.39	-14.61	-13.73	-12.57
Trade balance (% of GDP)	-11.87	-12.41	-19.83	-15.68	-17.76	-16.88	-15.69
TZS/US$	1,320.31	1,438.22	1,582.80	1,581.41	1,612.01	1,665.00	1,730.00
Short-term interest rate (%)	15.03	14.55	14.96	15.46	15.82	16.00	16.10
Foreign reserves (US$bn)	3.47	3.90	3.73	4.07	4.68	4.95	5.50
Months of import cover	5.51	5.17	3.72	3.85	4.13	4.09	4.29

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% y-o-y)	5.55	19.76	12.06	5.56	6.07	6.29	6.49
Bank prime loan rate (%)	14.55	14.96	15.46	15.82	16.63	16.43	N/A
Foreign reserves (US$bn)	3.91	3.73	4.07	4.68	4.62	4.65	N/A
91-day treasury bill rate (% eop)	5.48	12.82	11.92	13.55	12.17	12.17	10.95
TZS/US$ (eop)	1,333.00	1,577.00	1,580.00	1,582.00	1,633.00	1,642.00	1,660.00
Gold (US$/oz, eop)	1,419.45	1,563.80	1,674.34	1,204.94	1,283.64	1,291.29	1,250.69

Sources: NKC Research, Reuters, Bloomberg, Bank of Tanzania, National Bureau of Statistics

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

zambia



Demographics

Population	14 638 505 (July 2014 est.)
Population: world ranking	71 out of 240 countries (CIA)
Life expectancy (years)	Total population: 51.83; male: 50.24; female: 53.48 (2014 est.)
Main ethnic groups	African 99% (includes Bemba, Tonga, Chewa, Lozi, Nsenga, Tumbuka, Ngoni, Lala, Kaonde, Lunda, and other African groups), other 1% (includes Europeans, Asians, and Americans) (2010 Census)
Business language	Bemba, Nyanja, Tonga, Lozi, Lunda, Kaonde, Luvale, English
Urban population	39.6%
Population below national poverty line	60.5% (2010 est.)

Sources: CIA, World Bank

Geography

Area in sq km	752 618
Area: World ranking	39 out of 252 countries (CIA)
Climate	Tropical; modified by altitude; rainy season (October to April)
Natural resources	Copper, cobalt, zinc, lead, coal, emeralds, gold, silver, uranium, hydropower

Sources: CIA, World Bank

Sovereign ratings

S&P	B+/Negative
Fitch	B/Stable
Moody's	B1/Stable

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	26.80	**Total government debt as % of GDP**	26.68
Nominal GDP: World ranking	104 out of 188 countries (IMF)	**Total external debt as % of GDP**	25.57
Real GDP (% change y-o-y)	6.71	**Consumer price inflation (average, %)**	6.98
GDP growth: World ranking	31 out of 189 countries (IMF)	**Current account balance as % of GDP**	0.81
GDP per capita (US$)	1,843.40	**Equity market: Size in US$**	US$8.79bn
Agriculture as % of GDP	10.17	**Equity market: Listed companies**	21 primary listings (LuSE)
Industry as % of GDP	27.06	**Bond market size**	N/A
Services as % of GDP	62.77		

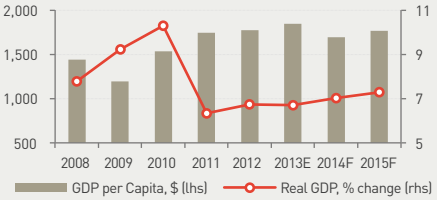
Sources: IMF, NKC Research, LuSE, Bloomberg

Political environment	
Government type	Republic
Head of state	President Michael Sata
Head of government	President Michael Sata
Ruling political party	Patriotic Front (PF)
Main opposition parties	Movement for Multiparty Democracy (MMD), United Party for National Development (UPND)
Elections	Last held on 20 September 2011 (next to be held in 2016)

Source: NKC Research

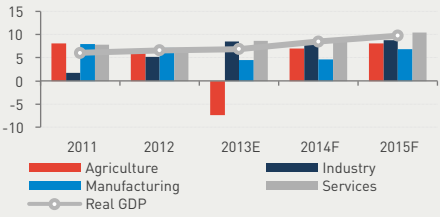
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



Source: NKC Research

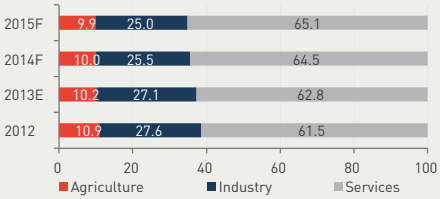
The Central Statistics Office (CSO) updated the base year for GDP calculation from 1994 to 2010 during the first quarter of 2014.

The statistical revision reflects dramatic changes in the structure of the economy, with significant growth in the mining industry over the last decade, as well as the inclusion of new industries (information technology) and a fragmentation of certain industries (e.g. electricity and water supply). According to the revised GDP methodology, Zambia posted real GDP growth of 6.7% in 2013, 0.2 percentage points higher than previously estimated. In terms of economic output, the services sector contributed an estimated 62.8% to GDP in 2013 (prior to the rebasing, the services sector accounted for an estimated 43.7% of GDP).

The contribution of the industrial sector was revised to an estimated 27% of rebased GDP in 2013 (against an earlier estimate of 36.8%), while the agricultural sector saw its contribution to GDP decline to 10.2% (against a previous estimate of 19.5%). We project that real GDP growth will reach 7% in 2014, before quickening to 7.3% in 2015 and 7.7% in 2016. Underpinning our forecast trajectory is the continued development of the extractive sector, the timeous addressing of the power capacity and road infrastructure shortfalls, and continued focus on the diversification of economic income streams.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

However, downside risk stems from a soft copper market, weak agricultural output, substantial power and infrastructure shortages, and political risk, which may adversely influence foreign direct investment (FDI) flows and private sector capital formation.

International trade

The merchandise trade account continues to be shaped by developments in the extractive sector and the government's infrastructure programme. Merchandise trade performance deteriorated markedly since the first half of last year, brought about by rising import pressure stemming from infrastructural development projects. Albeit still in positive digit territory, the merchandise trade balance continued to deteriorate during the second quarter of the year due to rising capital goods imports. Building on the sluggish merchandise trade performance during the first four months of the year, the short-term outlook for the trade balance remains bleak. However, we forecast that the merchandise trade account will return to health over the medium term, driven by increased copper and cobalt output as various projects come on-stream. The outlook for Zambia's terms of trade is, however, constrained by the invisibles account, which is forecast to remain in negative territory throughout the medium term. Underpinning the forecast is a projected increase on equity and interest payments, and a slowdown in both services receipts and current transfer inflows. In relative terms, the current account is expected to move into deficit territory, reaching 3.16% of GDP in 2014, and widen further to 3.85% of GDP in 2015, from an estimated surplus of 0.8% of GDP in 2013. The revision encompasses rebased GDP figures, as well as data revisions on the invisibles account.

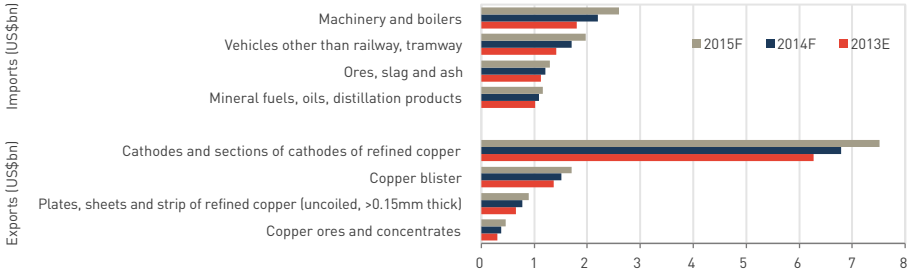
Foreign trade flows, 2013

Main exports	(US$ billion)	Main imports	(US$ billion)
Cathodes and sections of cathodes of refined copper	6.27	Machinery and boilers	1.80
Copper blister	1.37	Vehicles other than railway, tramway	1.42
Plates, sheets and strip of refined copper (uncoiled, >0.15mm thick)	0.65	Ores, slag and ash	1.13
Copper ores and concentrates	0.30	Mineral fuels, oils, distillation products	1.02

Source: NKC Research

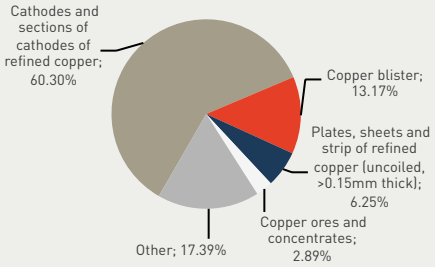
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Zambia top four exports and imports (US$ billion)



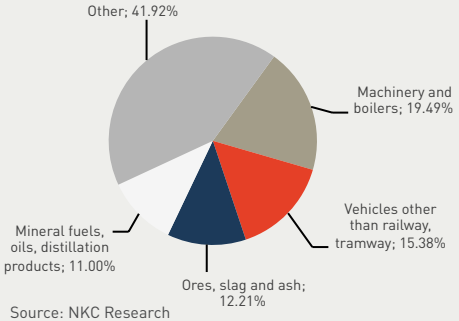
Source: NKC Research

2013 exports (% of total)



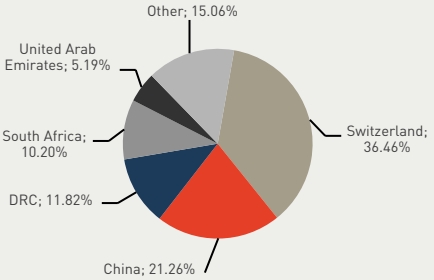
Source: NKC Research

2013 imports (% of total)



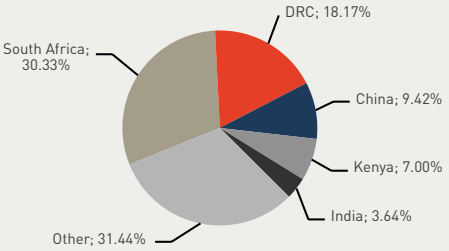
Source: NKC Research

2013 top destinations of exports (% of total)



Source: Trade Map

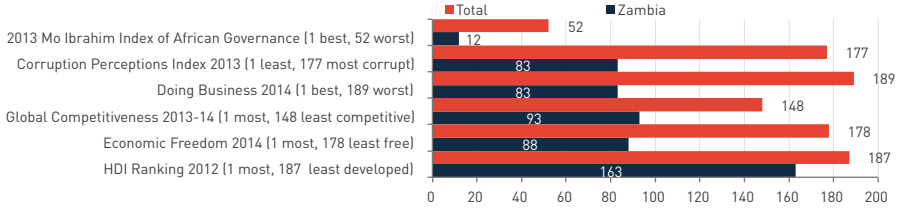
2013 top origins of imports (% of total)



Source: Trade Map

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

The Bank of Zambia (BoZ, the central bank) tightened monetary policy considerably during the first five months of 2014. In addition to raising the benchmark policy rate by a cumulative 225 basis points during the first four months of the year, the statutory reserve ratio was raised by 600 basis points to 14%, while the overnight lending rate spread above the policy rate was raised by four percentage points to 10%. Notwithstanding a high interest rate environment, consumer price inflation rose to the highest level in three-and-a-half years in April, a level which was maintained in May. The overall inflation rate was registered at 7.8% y-o-y in May, identical to the reading in April, and only 0.1 percentage points higher than March's inflation figure. The second-round effects of kwacha volatility, regional food supply concerns and high fiscal expenditure may impede a notable decline in consumer price inflation in the near term.

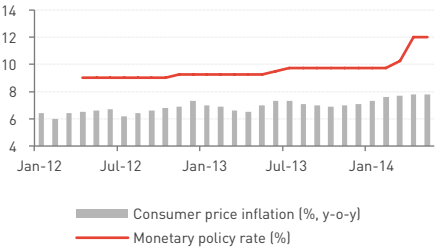
Exchange rate policy:

Zambia employs a de facto managed float exchange rate policy, with the monetary regulator intervening in the foreign exchange market to provide dollar liquidity via direct sales to the banking sector, as well as aligning policy in support of the kwacha. Zambia lifted two laws on foreign currency with immediate effect on 21 March 2014. The Zambian government has revoked SI 33 that enforced the use of local currency in all local transactions, as well as SI 55, which allowed the central bank to monitor foreign currency flows. The revocation of the SIs in recent months may have resulted in a structural break that allows for an increase in baseline portfolio outflows over the medium term. Subsequently, we expect the downside bias to the kwacha to persist due to substantial capital flight risk, as well as strong import pressure, a lower copper price environment and resultant reduced foreign receipts.

Fiscal policy:

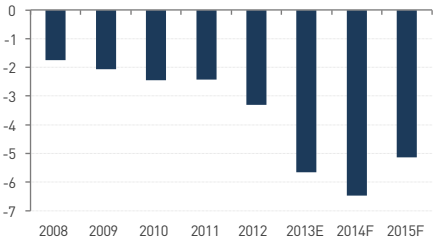
Zambia's state budget for the 2014 (Jan to Dec) fiscal year (FY), titled, *Moving Forward to Consolidate Growth and Social Justice in Peace and Unity*, encompasses the government's vision to accelerate broad-based growth and diversify the economy's income streams. The Zambian government announced an expansionary fiscal policy for the 2014 FY in order to meet capital expenditure targets, especially in terms of addressing the large infrastructure shortfall. The 2014 budget is focussed on achieving real GDP growth of above 7%, whilst limiting the overall fiscal deficit to 5.2% of rebased GDP. However, in light of infrastructural expenditure and a deterioration in fiscal discipline, we are circumspect of the government's ability to adhere to the fiscal target and project an overshooting in 2014. In extension of the previous budget's pro-poor stance, the state reiterated its goal to create a minimum of 200 000 jobs in 2014 in 'an ambitious and transparent manner'. Stemming from the expansionary stance, we project that the fiscal budget will remain firmly in deficit territory throughout the medium term.

Consumer price inflation and monetary policy rate



Sources: Central Bank of Zambia

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

The Zambian tax year commences on 1 April. Zambia introduced a number of changes to the tax environment during 2012 in order to broaden the tax base and encourage the diversification of economic income streams. Changes included an increase in the mineral royalties tax rate by three percentage points to 6%, whilst the tax rate for businesses in the agricultural sector was reduced by five percentage points to 10%. In 2013, a tax rate of 10% was introduced on the transfer or sale of mining rights, whilst capital allowances was reduced from 100% to 25%. In terms of the mining tax structure, a 10% export duty on semi-processed metals and base metals was introduced in 2014. Furthermore, profit distributions by foreign companies' branches are liable for a 15% withholding tax, while the property transfer tax rate has been increased from 5% to 10%. On the foreign exchange front, Zambia lifted two laws on foreign currency with immediate effect in March 2014. The Zambian government has revoked SI 33 (implemented in 2012), which enforced the use of local currency in all local transactions, as well as SI 55 (introduced in 2013), which allowed the central bank to monitor foreign currency flows.

Political environment

There are concerns over signs that the human rights environment is deteriorating, and over increasingly irrational behaviour by senior members of the ruling Patriotic Front (PF), such as an attempt by the Director of Public Prosecutions to prosecute former president, Rupiah Banda. Both the German and American embassies have issued statements expressing concern over deteriorating human rights in the country. Local media in Zambia are still able to operate relatively freely, but there are suspicions that the situation may not prevail for much longer. Donor issues may arise as a consequence if the situation is not addressed.

There are also worries about the health of President Michael Sata, and in June 2014, senior Cabinet and party members were talking about a succession plan as Vice President Guy Scott was not widely seen as an acceptable replacement. If the president were to die in office without an acceptable replacement ready to take over, some sort of constitutional crisis is a possibility.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Economic environment

Ratings:

Standard & Poor's (S&P) affirmed Zambia's sovereign credit rating at 'B+' with a negative outlook on 4 April, after downgrading the outlook on the rating in October 2013. According to S&P, the rising public debt burden is linked to lacklustre fiscal consolidation efforts, while a limited stock of foreign exchange reserves to support the currency have rendered Zambia increasingly vulnerable to a further deterioration in its terms of trade. Furthermore, S&P notes that downside risks to Zambia's creditworthiness persist, particularly stemming from potential external developments. Similarly, Moody's Investors Services awarded Zambia's local and foreign credit ratings a 'B1' with a stable outlook on 6 November 2012. Underpinning the credit ratings was the assumption of continued resilience in economic growth, a stable political environment and the continuance of a prudent macroeconomic framework. However, the rating agency views the significant infrastructure shortfall as credit-negative. In turn, Fitch Ratings affirmed Zambia's sovereign credit risk rating at 'B' with a stable outlook on 21 March, after lowering it by one notch in October 2013. The affirmation reflects the rating agency's belief that a robust economic growth trajectory stands in juxtaposition to vulnerability as a result of single-commodity dependence and uncertainty arising from an expansionary fiscal policy. Fitch downgraded Zambia's sovereign credit risk rating in October 2013 amid concerns of a rapidly widening fiscal deficit. On a positive note, Fitch expects that strong infrastructural spending and growth in copper production will culminate in strong GDP growth in the medium term.

Key indicators to watch	
Copper prices	Copper exports account for three-quarters of total goods export receipts annually, rendering the balance of payments position and strength of the kwacha exchange rate vulnerable to copper price dynamics.
Forex reserves and exchange rate	The Zambian kwacha displayed large volatility around a downward trajectory in recent months, in apparent disregard of aggressive monetary policy actions to curb excess liquidity.
Monetary policy and inflation	CPI inflation remains elevated in reflection of the expansionary fiscal stance, kwacha weakness and vulnerability to the agrarian sector. Strong fiscal spending may impede the attainment of the year-end target of 6.5% y-o-y for a third consecutive year in 2014.

Source: NKC Research

Key vulnerabilities	What is the government doing to address this?
Copper sector accounts for majority of export earnings, rendering the economy vulnerable to fluctuating global demand and price dynamics.	The government offers tax incentives for investment in priority sectors (e.g. manufacturing and agriculture). In addition, a robust infrastructural development programme is underway to address bottlenecks and diversify the economy away from copper.

Key vulnerabilities	What is the government doing to address this?
Financial integration remains low.	The BoZ raised the cap on commercial lending rates to 28% on 17 June in response to a higher interest rate environment. The commercial interest rate cap of 18.25% was introduced in December 2012 in a bid to curb high borrowing costs.
Infrastructural challenges remain, particularly road and rail transport infrastructure.	The government allocated a substantial portion of the 2014 state budget to road and rail upgrading and maintenance under the umbrella programme of Link Zambia 8 000.

Source: NKC Research

Market participation	
Foreign investors	Foreign investors are restricted from obtaining kwacha funding with a maturity of less than one year. Foreign exchange flows have been liberalised with the revocation of statutory instruments (SI) 33 and 55 in March 2014.
Local investors	No specific restrictions imposed on local investors in the domestic debt or equity markets. The domestic banking sector and pension funds account for the vast majority of government security holders, while retail investors tend to participate indirectly via the fund management sector.

Source: NKC Research

Financial market

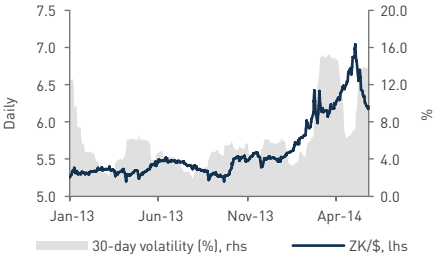
Foreign exchange

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/ maturity	Quotation/ settlement	Reuters page	Additional information
Spot	US$0.5m to US$1m	US$10m – US$30m	40 bps for US$0.5m to US$1m	-	Two-way quote T+2	ZMW=	Main cross is US$/ ZMW
Forwards (deliverable)	US$1m to US$5m	US$2m – US$10m	200 bps to 350 bps on US$1m	Up to 1 year	Two-way quote T+2	-	-

Sources: Reuters

Exchange rate

Zambian kwacha



Source: Reuters

The kwacha has had a tumultuous ride of late, shedding 18.6% of its value over a 12-month period and slumping by 15% y-t-d by June 2014. The local unit attained a y-t-d low of ZMK7.04/US$ by the end of May 2014 amid investors' concerns regarding the fiscal debt path and weak merchandise trade performance. The currency, however, has clawed back some losses since June on the back of reduced interbank liquidity. Notwithstanding a higher interest rate environment, the outlook for the kwacha exchange rate remains contingent on copper sector performance due to Zambia's single-commodity dependence and the red metal's position as primary earner of foreign receipts. Furthermore, policy amendments and the revocation of statutory instruments in recent months may have resulted in a structural break that allows for an increase in baseline portfolio outflows over the medium term. Subsequently, the downside bias to the kwacha may persist over the medium term due to capital flight risk, strong import pressure, a lower copper price environment and resultant reduced foreign receipts.

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Lusaka Stock Exchange (LuSE)	21	Limited	ZMK62bn	T+3	Financial, Industrial and Consumer staple	N/A

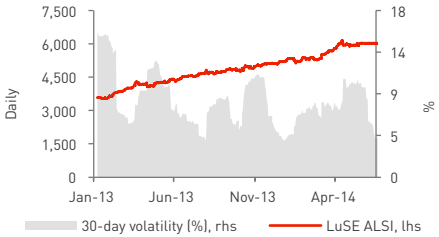
Source: LuSE

The All Share Index (LASI) of the Lusaka Stock Exchange (LuSE) was introduced with a base of 100 points (pts) on 2 January 1997. By 5 June, the LASI closed at 6,038.38 pts according to Reuters data, which translates into an increase of 13% y-t-d and 37% y-o-y. Market capitalisation stood at nearly ZMK62 billion by 5 June, according to LuSE data. There are currently 21 listed companies trading on the LuSE and listed financial instruments include equity, unit trusts, corporate and government bonds. While performance has generally been robust, several impediments to growth remain. In a speech delivered earlier this year, LuSE Chairman, Friday Ndhlovu, cited a narrow capital base, lack of diversity in listed products, weak liquidity conditions and a low free float ratio as key challenges which needed to be addressed in order to promote Zambia as an attractive investment platform.

Top-five listed companies	Market capitalisation
Lafarge Cement	US$857m
China Nonferrous Metal Mining	US$855m
Standard Chartered	US$552m
Zambian Brewer	US$517m
ZANACO	US$428m

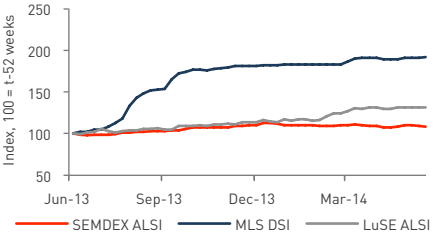
Source: Bloomberg

Lusaka Stock Exchange - LuSE ALSI



Source: Reuters

Mauritius, Malawi and Zambia SEs performance indices



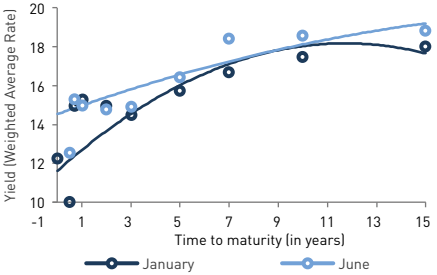
Source: NKC Research, Reuters

Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bill	91, 182, and 273	Fortnightly	Moderate to Low	T+2	Licenced primary dealer and market makers (PDMMs)	50 bps – 300 bps (secondary market)
Treasury bonds	364 day	Quarterly	Moderate to Low	T+2	Licenced primary dealer and market makers (PDMMs)	-

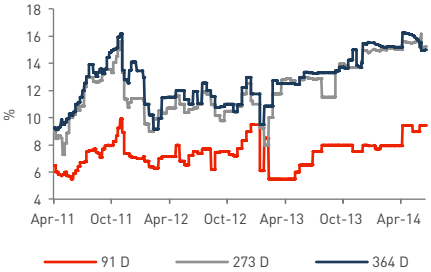
Sources: BoZ, Bloomberg, Reuters

Zambia yield curve (secondary market)



Sources: NKC Research, Reuters

Zambia treasury bills (secondary market)



Sources: NKC Research, Reuters

Zambia's ability to source domestic funding from the primary market remains weak, as illustrated by the dismal subscription rates recorded during the second quarter of the year. Furthermore, significant currency risk deterred foreign investment in the domestic primary debt capital market. A narrow capital base, in conjunction with aggressive monetary action to curb excess liquidity on the interbank market and successive increases in the policy rate, has resulted in a marked upward shift in the yield curve y-t-d. Considerable downside risk to the currency exists in the event of a substantial and prolonged copper price shock, especially with consideration of the mounting public external debt burden. Looking forward, weak aggregate treasury bill appetite may leave little alternative to accepting higher bid rates in the short term. The conservative monetary policy stance encompassing positive real interest rates may support an upward movement in short-term borrowing costs. Furthermore, Zambia's fiscal deficits may be structural in nature. Borrowing needs that stem from a structural fiscal deficit will lead to a higher interest rate environment and higher yields on the domestic primary market. In addition, the tail-end of the debt curve is furthermore exposed to uncertainty pertaining to perceived political risk and the direction of economic policy.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012E	2013E	2014F	2015F
Real GDP (% change)	9.22	10.30	6.34	6.73	6.71	7.03	7.27
Nominal GDP (US$bn)	15.33	20.31	23.73	24.94	26.80	25.43	27.37
Consumer price inflation (average, %)	13.40	8.50	6.43	6.58	6.98	7.45	7.39
Budget balance, incl grants (% of GDP)	-2.06	-2.45	-2.43	-3.31	-5.67	-6.47	-5.13
- Revenue (% of GDP)	18.85	19.57	22.47	20.83	19.18	17.97	19.08
- Expenditure (% of GDP)	21.31	22.64	25.46	24.84	24.84	24.44	24.20
Government debt (% of GDP)	22.87	22.30	22.57	24.09	26.68	32.24	30.91
Current account balance (% of GDP)	3.80	5.94	2.97	3.22	0.81	-3.16	-3.85
Trade balance (% of GDP)	7.07	16.70	9.29	5.82	5.23	2.46	4.93
ZMW/US$	5.05	4.79	4.86	5.15	5.40	6.38	6.57
Short-term interest rate (%)	22.06	20.92	18.84	17.10	16.28	20.40	20.70
Foreign reserves (US$bn)	1.89	2.09	2.32	3.04	2.68	3.57	3.30
Months of import cover	5.57	4.50	3.69	3.99	3.03	3.53	2.97

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% y-o-y)	7.90	6.00	7.30	7.10	7.70	7.80	7.80
Monetary policy rate (%)	N/A	N/A	9.25	9.75	10.25	12.00	12.00
Foreign reserves (US$bn)	2.09	2.32	3.04	2.68	N/A	N/A	N/A
91-day treasury bill rate (%eop)	7.51	7.00	9.48	7.95	7.95	9.45	9.45
ZMW/US$ (re-based) (eop)	4.78	5.12	5.19	5.54	6.14	6.30	6.82
Copper (US$/tonne, eop)	7,543.04	8,813.19	7,958.33	7,328.00	6,650.00	6,659.50	6,919.00

Sources: NKC Research, Reuters, Bloomberg, BoZ

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.

zimbabwe



Demographics	
Population	13 771 721 (July 2014 est.)
Population: world ranking	72 out of 240 countries (CIA)
Life expectancy (years)	Total population: 55.68; male: 55.4; female: 55.97 (2014 est.)
Main ethnic groups	African 98% (Shona 82%, Ndebele 14%, other 2%), mixed and Asian 1%, white less than 1%
Business languages	English, Shona, Sindebele
Urban population	39.1%
Population below national poverty line	72.3% (2011 est.)

Sources: CIA, World Bank

Geography	
Area in sq km	390 757
Area: World ranking	61 out of 252 countries (CIA)
Climate	Tropical; moderated by altitude; rainy season (November to March)
Natural resources	Coal, chromium ore, asbestos, gold, nickel, copper, iron ore, vanadium, lithium, tin, platinum group metals

Sources: CIA, World Bank

Sovereign ratings	
S&P	N/R
Fitch	N/R
Moody's	N/R

Source: NKC Research

Economy in 2013			
Nominal GDP (US$bn)	11.05	Total government debt to GDP (%)	85.99
Nominal GDP: World ranking	124 out of 188 countries (IMF)	Total external debt to GDP (%)	107.56
Real GDP (% change, y-o-y)	3.2	Consumer price inflation (average, %)	1.64
GDP growth: World ranking	101 out of 189 countries (IMF)	Current account balance as % of GDP	-29.69
GDP per capita (US$)	780.76	Equity market: Size in US$	US$4.6bn
Agriculture as % of GDP	14.59	Equity market: Listed companies	75 primary listings
Industry as % of GDP	39.60	Bond market size	N/A
Services as % of GDP	45.81		

Sources: IMF, NKC Research, Bloomberg

Political environment	
Government type	Semi-presidential republic
Head of state	President Robert Gabriel Mugabe
Head of government	President Robert Gabriel Mugabe
Ruling political party	Zimbabwe African National Union-Patriotic Front (ZANU-PF)
Main opposition parties	Movement for Democratic Change (MDC-T), Movement for Democratic Change (MDC-N)
Elections	Presidential, legislative and local authority; harmonised elections last held on 31 July 2013 (and due next in 2018)

Source: NKC Research

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013F	2014F	2015F
Real GDP (% change)	5.87	9.63	10.57	4.44	3.20	3.47	4.87
Nominal GDP (US$bn)	6.13	7.43	8.87	9.80	11.05	12.49	14.23
Consumer price inflation (average, %)	6.00	3.10	3.50	3.72	1.64	-0.20	1.52
Budget balance, incl grants (% of GDP)	-2.8	-1.5	-3.0	-1.6	-3.3	-4.0	-4.2
- Revenue (% of GDP)	15.99	29.61	32.92	35.71	31.05	28.83	28.12
- Expenditure (% of GDP)	18.76	31.09	35.96	37.35	34.40	32.84	32.34
Government debt (% of GDP)	108.17	97.51	89.86	86.74	85.99	83.56	80.31
Current account balance (% of GDP)	-19.70	-16.91	-25.36	-17.66	-29.69	-14.78	-15.43
Trade balance (% of GDP)	-26.10	-24.83	-34.57	-27.10	-38.92	-24.03	-24.61
LCU/US$	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Short-term interest rate (%)	472.00	36.00	25.00	11.50	9.72	9.30	9.50
Foreign reserves (US$bn)	0.31	0.20	0.18	0.14	0.17	0.15	0.17
Months of import cover	1.03	0.42	0.27	0.24	0.25	0.26	0.25

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% yoy)	3.20	4.90	2.91	0.33	-0.91	-0.26	-0.19
Monetary policy rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign reserves (US$bn)	0.20	0.18	0.14	0.17	N/A	N/A	N/A
91-day treasury bill rate (%eop)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exchange rate (eop)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Platinum (US$/oz, eop)	1,767.50	1,393.00	1,537.32	1,367.50	1,409.20	1,422.00	1,444.70

Sources: NKC Research, Reuters, IMF

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.





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We welcome further discussion on the contents of this Africa handbook or the company in general.

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