Research
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Sub-Saharan Africa Markets Guide 2016

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FOREWORD

We are pleased to present this, our latest annual guide to Sub-Saharan African markets. The aim is to provide a comprehensive overview of the investible markets of the continent, which, despite prevailing challenges, has been the world's second-fastest growing economy over the past two decades.

Perhaps the most valuable aspect of the guide is its structure, where quick and accessible summaries of the policy environments, the social, political and business backdrops, and the macro outlooks, set the scene for institutional investors and corporates looking to gain exposure to the continent's potential. It also serves as a source of reference for the different products, trading conventions and regulatory environments across the covered countries' FX, domestic rates, equity and sovereign credit markets.

Since our first edition of this guide in 2006, investor attention towards Sub-Saharan Africa has broadened and the region has become an increasingly important part of EM investors' diversified portfolios. Interest has broadened over this time from FX to rates and equities, and more recently to sovereign credit. Recognising the increased importance and focus of sovereign credit, we first introduced coverage of the region's credit markets in the 2014 guide. In 2015, we added Ethiopia to our growing list of sovereign credits under coverage and this year, we added Cameroon. We also reverted back to focusing only on Sub-Saharan African markets, which now include 19 of the continent's most investible markets that had a cumulative GDP of around USD1.3trn in 2015 (around 90% of the SSA region's total GDP).

We trust that you will find this product and country coverage relevant to your decision-making process, and we look forward to Sub-Saharan Africa's further market development in 2016.

Jeff Gable

Head of Research, Barclays Africa

CONTENTS

19 FEATURED MARKETS

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FIGURE 1
Sub-Saharan Africa Markets Guide 2016

	Policy environment	Macro	FX	Rates	Equities	Credit
Angola	x	x				x
Botswana	x	x	x	x	x	
Cameroon	x	x				x
Cote d'Ivoire	x	x				x
Ethiopia	x	x				x
Gabon	x	x				x
Ghana	x	x	x	x	x	x
Kenya	x	x	x	x	x	x
Mauritius	x	x	x	x	x	
Mozambique	x	x	x	x		x
Namibia	x	x	x	x	x	x
Nigeria	x	x	x	x	x	x
Rwanda	x	x				x
Senegal	x	x				x
Seychelles	x	x	x	x		x
South Africa	x	x	x	x	x	x
Tanzania	x	x	x	x	x	x
Uganda	x	x	x	x	x	
Zambia	x	x	x	x	x	x

Source: Barclays Research

FIGURE 2
Sub-Saharan Africa coverage

Source: Barclays

SUB-SAHARAN AFRICA CREDIT MARKETS

Sub-Saharan Africa: Signs of pain, pockets of resilience

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We expect economic growth in the SSA region to average 3.0% in 2016, marginally above the 2.8% recorded in 2015. Commodity producers' prospects have been hit particularly hard, although some pockets of resilience exist, mainly in West and East Africa. Debt dynamics are likely to deteriorate further, but a light eurobond maturity profile should keep the risk of an imminent surge in defaults contained. We advocate exposure to the more resilient credits, Cote d'Ivoire, Senegal and Namibia. We have also turned positive on Ghana from a medium-term risk/reward perspective and, more tactically, think that Ethiopia's underperformance is overdone.

Commodity producers' economic outlook increasingly under pressure

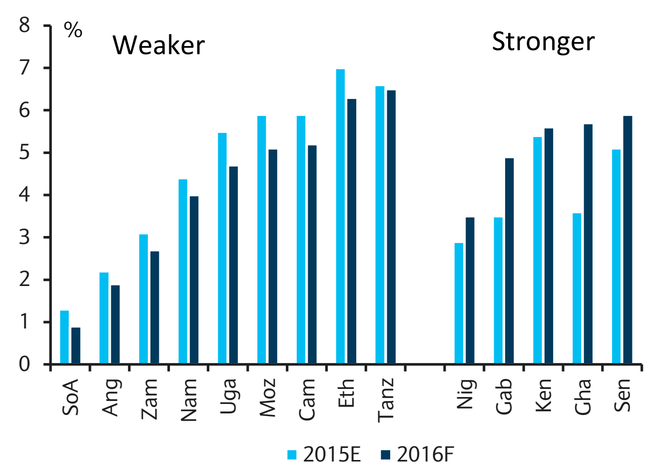
A barrage of shocks caused economic growth in Sub-Saharan Africa to decline markedly in 2015. Economic fundamentals, particularly of commodity producing markets, have weakened considerably following the steep fall in commodity prices over the past eighteen months. However, US monetary policy developments, unfavourable weather conditions as a result of the El Nino phenomenon, fiscal overspending and weak policies or lack of policy clarity sapped growth in 2015 more broadly, thereby denting investor confidence. With exchange rates weakening, inflation has risen sharply, resulting in significantly tighter monetary policy in many of our SSA-focused countries.

Nigeria, Angola, Gabon, Zambia and Botswana hit particularly hard

Weaker commodity prices have had an especially strong impact on the fundamentals of commodity-heavy markets such as Nigeria, Angola, Gabon, Zambia and Botswana. In Nigeria, the impact of lower oil revenues on fiscal balances and implementation of a set of growth-restrictive FX policies to protect FX reserves have dented the outlook. Despite Angola's devaluation and policy adjustments, economic growth is also under severe pressure, while Gabon is adjusting to lower oil prices with larger fiscal deficits and delays in its infrastructure outlays. Zambia has been hit by the combination of severe electricity shortages and sharply lower copper prices, which has resulted in mining closures and a large fiscal deficit that rules out counter-cyclical fiscal policies. As a result, growth in 2016 is likely to be less than half that recorded in 2014 (we forecast 2.7% versus 5.6% in 2014).

FIGURE 1

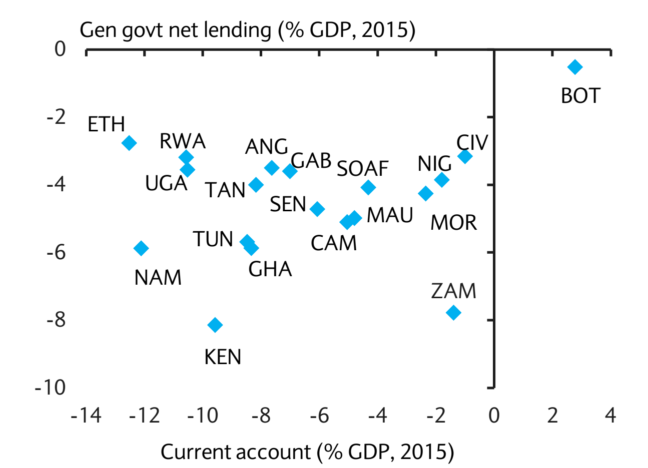
GDP growth likely to be weaker in many key SSA countries in 2016



Source: Central Banks, IMF, Barclays Research

FIGURE 2

The fall in commodities has created large fiscal and external imbalances in many SSA credits



Source: IMF, Barclays Research

Weaker diamond demand has also caused economic growth to collapse in Botswana where recessionary risks have increased.

In countries where investment in the extractive industries remains large, such as Ghana, Namibia and Mozambique, the impact of lower commodity prices has been muted. The latter two markets continue to enjoy strong investment into their resources sectors, with their respective growth outlooks remaining solid, despite risks to the downside. In turn, South Africa's outlook has weakened as electricity constraints, the drought and weak consumer demand weigh on the outlook; we forecast growth of less than 1% in 2016.

Growth outlook more resilient in parts of West and East Africa

Nonetheless, there are some resilient growth stories, with West African markets such as Senegal, Cote d'Ivoire and Ghana likely to produce strong growth rates this year. The completion of the TEN project in July 2016 is likely to see Ghana's economic expansion accelerate to close to 6%, in our view, while continued strong infrastructure investment should again buoy Cote d'Ivoire's growth rate. East African countries are also looking to continue recent firm growth, with Kenya, Ethiopia and Tanzania standing out.

Overall, we expect the region to grow 3.0% in 2016, marginally up from 2.8% in 2015. Downside risk related to global headwinds (US monetary policy, China, commodity prices, etc) and domestic factors (elections, adverse weather conditions) remain acute, with large commodity producing countries most exposed. In addition, the bearish outlook for currencies, elevated inflation and tighter fiscal and monetary policies are likely to further weigh on the economic outlook.

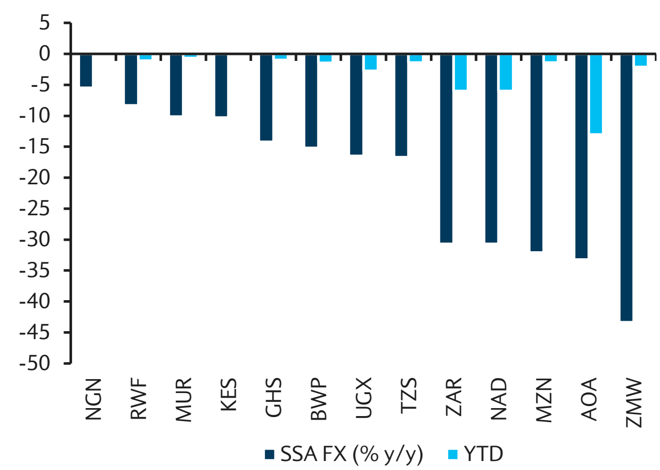
Growth rates do not tell the full story amid deteriorating public finances

Debt dynamics continue to deteriorate

Common themes amongst rating agencies that have downgraded SSA countries over the past year include deteriorating fiscal and external balances and worsening debt metrics. Pressure on public finances as result of lower tax revenues has raised fiscal financing requirements. The larger financing needs have therefore translated into increased borrowing, both domestic and offshore, raising concerns about fiscal and debt sustainability in several markets. While Ghana has in recent years stood out as having the highest debt ratio after years of fiscal slippages, the IMF-backed fiscal consolidation efforts are starting to yield positive results and recent progress has been encouraging. In contrast, there has been a rapid deterioration in debt metrics in countries such as Zambia, Angola, Mozambique, Cameroon and Gabon, while Kenya and Ethiopia continue to struggle with high debt ratios, too. The speed at which debt dynamics deteriorated in some countries,

FIGURE 3

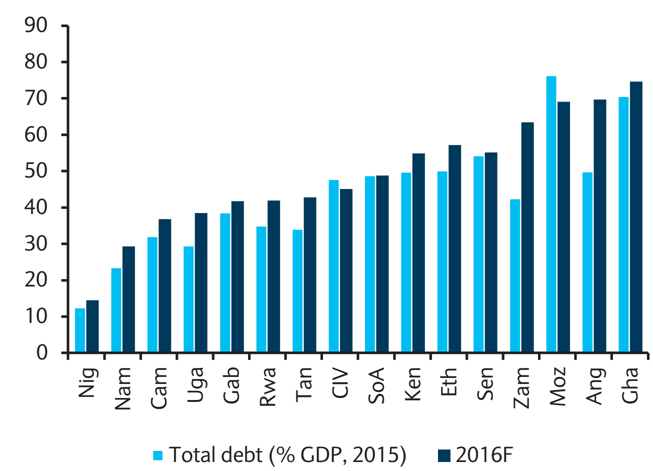
FX depreciation…



Note: % depreciation vs USD. Source: Barclays Research

FIGURE 4

…has pushed public debt ratios higher



Source: IMF, Barclays Research

notably Zambia, Mozambique and Angola is probably the major concern. Cameroon is also seen as having a high risk of debt distress by the IMF.

We expect these countries to look at international markets for financing, using all options available. This includes issuing eurobonds (Ghana, Nigeria and Angola have recently re-confirmed plans to issue eurobonds; see credit section), borrowing from development partners and multilaterals. Our expectation of further exchange rate depreciations remains an important risk to interest cost repayments on sovereign debt of many countries. All in all, we expect the debt dynamics across the region to worsen further in 2016, which suggests further ratings downgrades. Countries most at risk of further negative rating action include South Africa, Zambia, Gabon, Angola, Nigeria, Mozambique and Cameroon, while Senegal, Rwanda and Cote d'Ivoire are well placed to maintain their ratings, at the very least.

Local market opportunities still limited

Against this backdrop, navigating local markets is likely to remain challenging. There has been an outflow of portfolio capital across the region in 2015 and given current global and domestic challenges, many offshore investors are likely to remain cautious as currency risks are considerable. Moreover, yields remain unexciting in many countries and in those countries that do offer very high local market yields, such as Zambia and Ghana, FX risks and questions about fiscal policies may deter investors. While we have turned more upbeat on Ghana's macroeconomic outlook, currency risk remains significant. Given FX pressures and rising inflation in many markets across SSA, we believe monetary policy largely carries a tightening bias, which suggests upside to yields. In countries where significant policy tightening has already occurred (eg, Uganda, Kenya and Ghana), central banks are likely to maintain tight stances for the foreseeable future, in our view, as inflation risks linger. However, we think that recent market moves have created select opportunities in external debt markets, which we discuss in the next section.

Sub-Saharan Africa credit: Opportunities in adversity

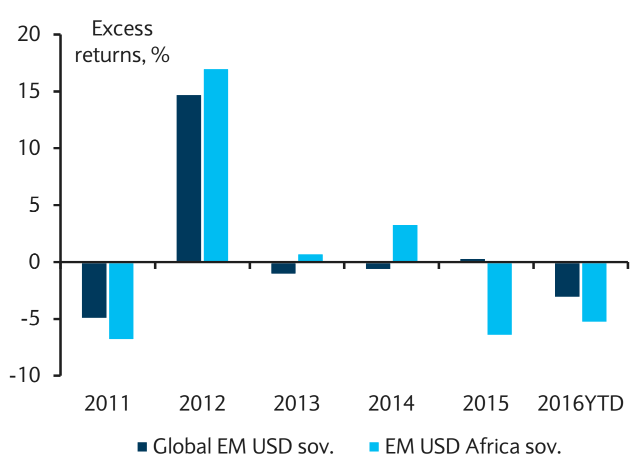
Fundamental and technical factors point to more pressures…

SSA at the centre of concerns for EM credit investors

Africa in many ways epitomises the concerns investors appear to have about Emerging Markets more broadly: a high reliance on commodity exports, close links to a slowing Chinese economy, rising (external) indebtedness and higher financing needs. Reflecting this,

FIGURE 5

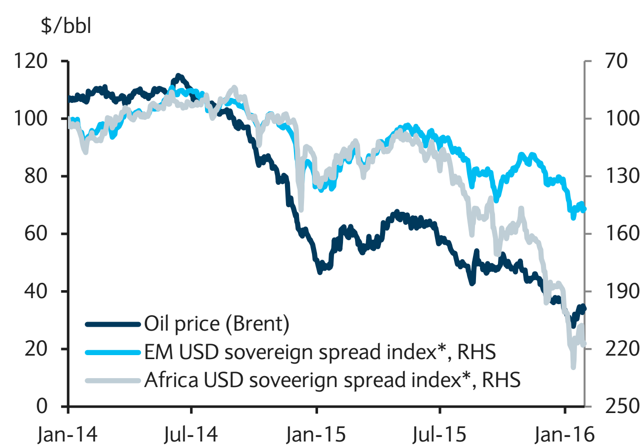
Africa has underperformed Global EM sovereigns since 2015…



Source: Barclays Research

FIGURE 6

…dragged down by falling commodity prices



Note: Index of relative spread changes since Jan 2014 (=100). Source: Bloomberg, Barclays Research

Africa credit has underperformed the Global EM sovereign space meaningfully since summer 2015 (Figure 5). Given the large share of commodity exporters within the African credit universe, it is also no surprise that African credit spreads have traded with a particularly high correlation to oil prices (Figure 6).

Underperformance largely justified by fundamental and technical factors

We think the underperformance of African credit is largely justified by both fundamental and technical factors. Fundamentals have deteriorated almost everywhere on the continent, as discussed above. Partly related to this, technical factors for African credit do not seem supportive either. Africa countries, especially those in Sub-Saharan Africa, have increasingly accessed international debt markets over the past few years, facilitated by an environment of ample liquidity and record low capital in developed markets, pushing capital into EM and allowing African issuers to issue at very favourable rates. As commodity prices have fallen, financing needs have increased and we, hence, expect supply from the continent to continue to rise (Figure 7).

Light redemption profiles should mitigate imminent default risks

Given that African credit is still a relatively young asset class, redemptions on the other hand are light, ie, any gross issuance will essentially be net issuance. While the limited maturities may contain the risk of imminent defaults, in an environment of less ample liquidity and challenged fundamentals, issuers will likely need to offer sizeable new issuance premia to attract demand for new supply, which should in turn pressure spreads in secondary markets.

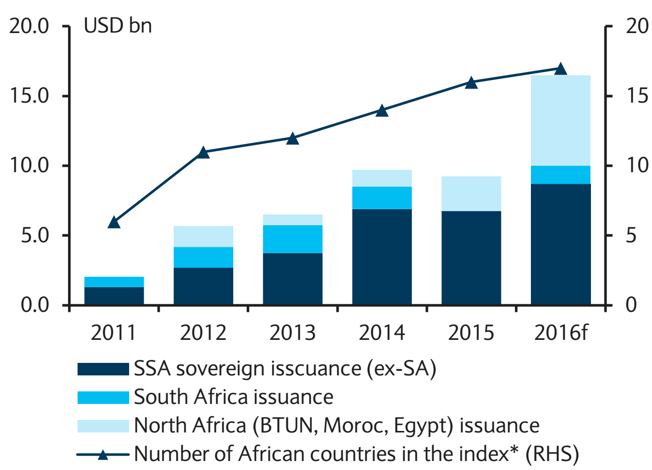
In the *African Markets Guide 2015*, we highlighted that, as a consequence of the growing share of Africa in Global EM credit markets, Africa credit had gained relevance. But on the flipside, this has also translated into higher correlation with global factors and with the Global EM credit index. In other words, Africa has increasingly developed into a higher-beta version of the Global EM sovereign space. Given our cautious view on the outlook for Global EM credit over the next few months, it seems likely that more pain may be in store for African credit.

…but valuations have created select opportunities

However, our generally cautious outlook does not mean that there are no opportunities for longs. As in most episodes of market turmoil, volatility creates opportunities in names that have (i) unduly widened with the general trend, despite more resilient fundamentals; and/or (ii) where valuations have adjusted to levels that leave risk/reward positively skewed from a medium-term and total return perspective.

FIGURE 7

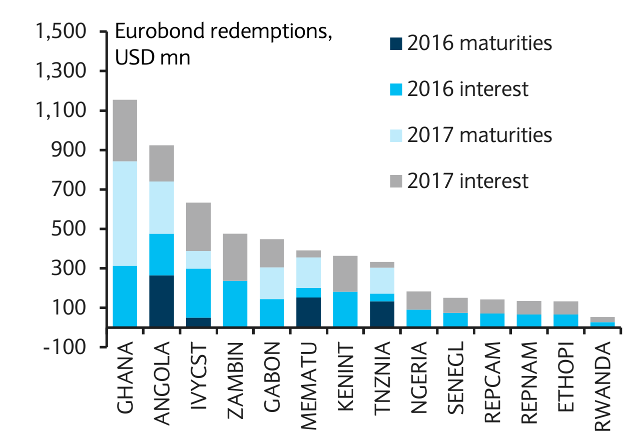
African eurobond issuance set to rise further…



Note: *Barclays USD EM sovereign index. Source: Bloomberg, Barclays Research

FIGURE 8

…even though maturities are still light in 2016-17



Source: Bloomberg, Barclays Research

Cote d'Ivoire, Senegal, Namibia remain fundamentally sound credits, in our view…

We think that Cote d'Ivoire and Senegal fall into the first category on account of their limited exposure to hydrocarbon and metals commodities and overall prudent economic management under IMF guidance. We have also highlighted recently that we believe Namibia's underperformance is not justified fundamentally (see *Four trade ideas in EEMEA/LatAm sovereign credit*, 13 January 2016) and we continue to see current spread levels as an opportunity to add to exposure.

…and we think that Ethiopia's underperformance is overdone

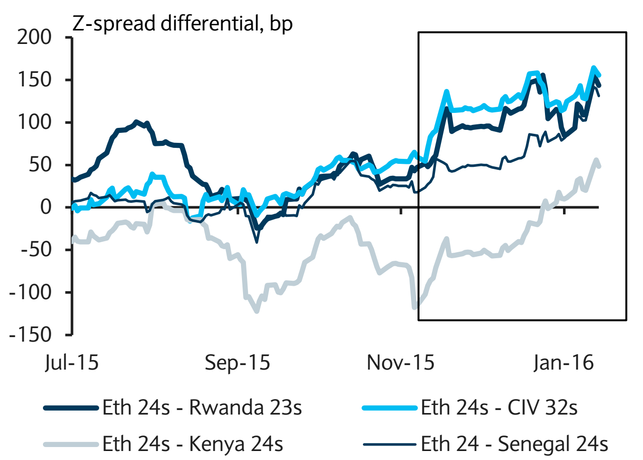
Finally, we think that Ethiopia offers value on a relative basis. News headlines have been difficult as Ethiopia suffers from severe drought conditions and famine in parts of the country. The authorities' intention to issue another eurobond and increasing indebtedness at the SOE level have also raised investor concerns. However, Ethiopia should be among the beneficiaries of lower commodity prices. Moreover, with growth prospects remaining strong and Chinese investment concentrated in the manufacturing sector (rather than natural resources sector as in many other African countries), Ethiopia should be relatively resilient to current adverse global factors. Hence, we think that recent underperformance (Figure 9) has created an opportunity to add, in secondary markets (Ethiopia '24s) and/or when primary market issuance materialises.

Ghana now offers favourable risk/reward in the medium term

In the category of most challenged countries that now screen as favourable from a medium-term risk/reward perspective, we highlight Ghana, specifically the low cash-price Ghana '26s. As discussed in *Oil and EM Credit: Strategy drilling*, 28 January 2016, Ghana's more limited reliance on a single commodity makes it less vulnerable to recent oil and copper price moves than other African credits trading with yields above 10% (such as Angola, Gabon or Zambia). Moreover, Ghana screens as vulnerable on some stock metrics (especially the high public indebtedness). However, the policy measures implemented under the IMF programme have resulted in a stabilisation or improvement in a number of variables: compared with 2013, Ghana's fiscal deficit has declined by about 4pp of GDP, while the current account deficit has narrowed by 5pp of GDP since then. A lasting turnaround in Ghana's outlook will depend on the continued willingness of policymakers to implement reform measures (and these not being derailed by the presidential elections in late-2016), but should such a scenario become reality, the upside for Ghana valuations could be significant, in our view. In contrast, we think that even in a worst-case scenario (ie, if Ghana were to be forced into some kind of debt restructuring eventually), the country's solid medium-term growth prospects would most likely ensure relatively high recovery values. Hence, we think that risk/reward, specifically on Ghana's low cash price '26s bonds, has turned favourable.

FIGURE 9

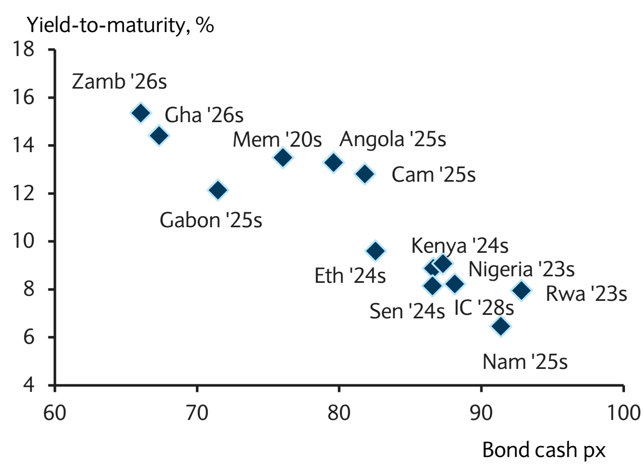
Ethiopia has underperformed peers recently – we think spreads look attractive now from an RV perspective



Source: Bloomberg, Barclays Research

FIGURE 10

Many 10y African benchmark bonds now trade in distressed territory: we see positive risk/reward in Ghana '26s



Source: Bloomberg, Barclays Research

Country Chapters

ANGOLA

Policy environment

Credit rating	
Long-term foreign currency rating	B (S&P) B+ (Fitch) Ba2 (Moody's)

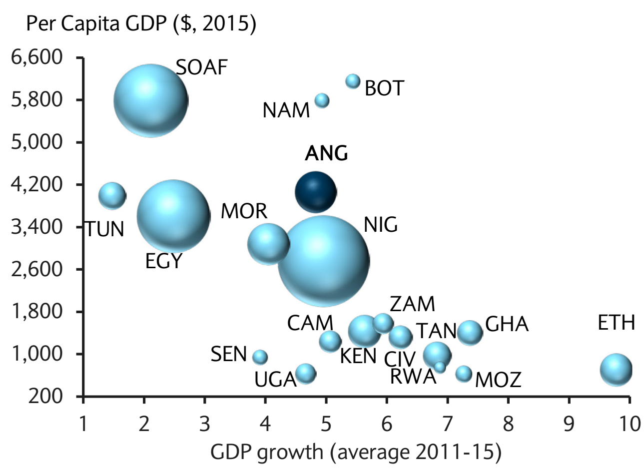
Source: Bloomberg

- **The significantly lower oil prices have dented the country's growth prospects for 2016 considerably.**
- **We expect Angola's current account deficit to rise sharply in 2016, while further currency devaluations are likely.**

Monetary policy: The National Bank of Angola's (BNA) main objectives are currency and price stability. The exchange rate is the main anchor of monetary policy. The BNA introduced a benchmark interest rate in October 2011. The policy rate serves as a guide for monetary policy and acts as a reference rate for commercial bank lending rates. The Monetary Policy Committee meets on a monthly basis to assess policy and make adjustments if necessary. In addition, the bank also uses open market operations and adjustments to reserve requirements to manage liquidity. The inflation target for 2016 was set at 11-13%, up from the previous year's 7-9%. Following record low inflation rates in 2014, the devaluation of the kwanza during 2015 pushed inflation significantly higher. Headline inflation rose from 7.4% y/y in January 2015 to 14.3% by year-end, resulting in a cumulative 200bp increase in the policy rate. The inflation outlook is clouded by the sharply higher fuel, water and electricity prices after the government reduced their respective subsidies at the beginning of 2016. The 15% FX devaluation in early January 2016 and our expectations for further devaluations in 2016 suggest further upside pressure on inflation. As a result, our projections indicate that inflation may rise to above 17% in the near-term before easing in the latter part of the year. Against this backdrop, we believe that further policy tightening is likely in addition to last year's policy tightening and the 100bp increase at the 30 January 2016 MPC meeting. In addition, monetary policymakers have stated publically that financial regulation will be also be tightened.

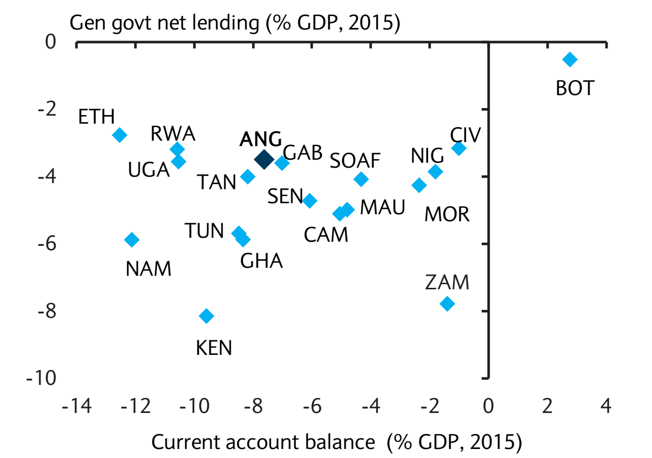
Exchange rate policy: The exchange rate regime is classified by the IMF as a "stabilised arrangement". The BNA uses the auction system as its main tool for setting the exchange rate. FX regulations were changed in 2013 when the BNA introduced a new law aimed at ensuring that export proceeds from the country's oil sector are directed through the local banking system. The kwanza (AOA) was devalued twice in 2015, resulting in a 24% depreciation against the USD over the full year. The currency was devalued for a third time

FIGURE 1
Angola: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2
Angola: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

on 4 January 2016 when it was moved 15% weaker against the USD. The FX reserve decline has slowed in recent months, with FX reserves at USD24.9bn at the end of November 2015 from USD26.9bn at the beginning of the year. The BNA has had to impose import restrictions to protect FX reserves. Looking ahead, we expect further devaluations while additional policy restrictions to protect limited reserves are also likely.

Fiscal policy: Despite recent attempts to diversify the country's revenue sources, Angola's main source of revenues remains oil (traditionally around two-thirds of revenues). The sharp fall in oil prices have hit fiscal revenues hard and government has been forced to reduce spending at all levels, including infrastructure spending. Government has also reduced expensive fuel, water and electricity subsidies, resulting in a surge in prices for these commodities. Authorities reduced the 2015 budget oil price to USD40/bbl in February 2015 (from the initial USD81/bbl), though the 2016 budget assumes an average oil price of USD45/bbl and production of 1.8mbpd. After an estimated fiscal deficit of around 6% of GDP in 2015, the 2016 budget targets a fiscal deficit of 5.5% of GDP and economic growth of 3.3%. However, with the prevailing oil price below the budgetary assumptions and oil production targets well above last year's level of below 1.7mpbd, the likelihood that revenue targets could be missed are considerable. Finance Minister Grace was also cited by Bloomberg as saying that fiscal revenues have declined 26% since January 2014. To cushion the impact of lower fiscal revenues, the government revealed that it is considering issuing another Eurobond in 2016 following the issuance of the 10 year, USD1.5bn Eurobond at 9.5%, in November 2015. Angola's debt metrics have deteriorated in recent years and we estimate that public debt may reach c. 70% of GDP at the end of 2016 compared with 50% at the end of 2015.

Regulatory and tax environment: Angola has exchange control regulations, with the BNA managing and supervising controls. Purchases of foreign currency can only be used to pay for imports (services and goods). The tax on government and corporate bonds for foreign investors is 10%; capital may be repatriated with prior approval. Dividends are transferable annually after approval by the BNA, while a dividend withholding tax of 10% applies.

Political environment: Angola held only its second election since independence in 1975 in August 2012. Though the ruling Popular Movement for the Liberation of Angola (MPLA) won the election with 72% of the vote, it lost some support to the opposition UNITA, which received 19% of the vote, double its support in the 2008 election. President Jose Eduardo Dos Santos retained his position which allowed him to extend his reign to 35 years. A new constitution, adopted in February 2010, limits the president's term to two five-year terms in office and applies only from the term following the adoption of the new constitution, which implies Dos Santos could remain in power until 2022. Despite the impact lower oil prices are having on the economy, along with growing discontent about poverty, unemployment and corruption (a third of the population lives below the poverty line while unemployment is estimated at 26%), we expect political stability to continue.

Development framework: The country is still recovering from its 27-year civil war with the government gradually rebuilding infrastructure. In 2012, the government adopted a medium-term National Development Plan (2013-2017), which focuses on support for trade by developing basic infrastructure, poverty reduction, promoting entrepreneurship and economic diversification, and better access to education (World Bank). The plan has four priority "clusters", including the food and agro-industry, water and electricity, housing as well as transport and logistics. NDP 2013-17 is guided by "Angola 2025", which is the country's long-term development strategy.

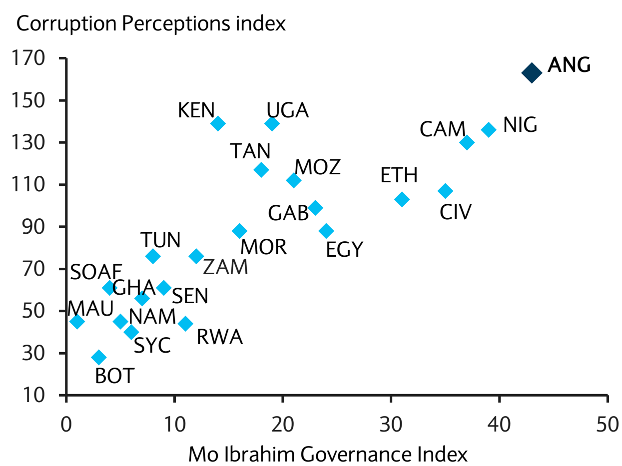
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Jose dos Santos (since September 1979)
Ruling political party	Popular Movement for the Liberation of Angola (MPLA)
Main opposition party	National Union for the Total Independence of Angola (UNITA)
Elections	Parliamentary elections were held on 31 August 2012, with the MPLA winning 72% of the votes. The new constitution, adopted in January 2010, abolished presidential elections in favour of having the leader of the party that wins a majority in the parliamentary elections appointed as president. The next elections are due in August 2017.
Demographics	
Population	25.0mn (2015E), 3.1% growth rate (UN)
Life expectancy	53.7 years
Main ethnic groups	Ovimbundu, Kimbundu, Bakongo
Main language	Portuguese (official) and other languages
Adult literacy	70.6%
Urban population	43%
Economic structure	
GDP	USD112bn (2015E); USD128bn (2014); 8.4% average real growth rate for 2006-15
GDP per capita	USD 4,062 (2015E); USD5,304 (2014)
GDP by sector	Oil and gas (43%), trade service (21%), agriculture (10%), construction (10%)
Main industries	Petroleum drilling and refining, mining, cement, fish processing, food processing
Business development indicators	
2015 Corruption Perceptions Index ranking	163 (out of 168)
2014-15 Global Competitiveness Index ranking	140 (out of 144)
2015 Ease of Doing Business ranking	181 (out of 189)
2014 Human Development Index ranking	149 (out of 188)
2015 Mo Ibrahim Index of African Governance	43 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Barclays Research

FIGURE 3

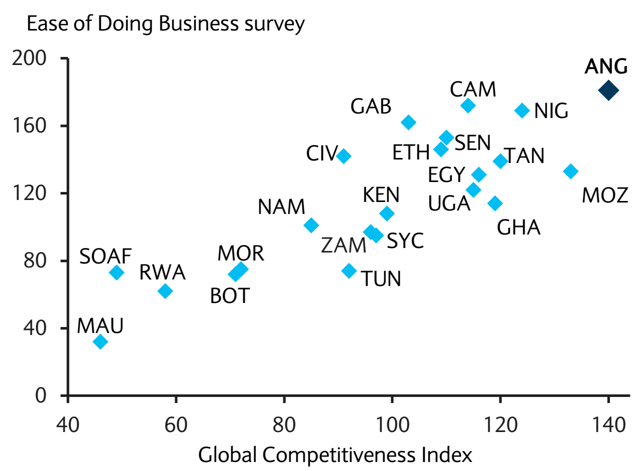
Angola: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Angola: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2014-15, Barclays Research

Overview of key indicators

- **Sharply lower oil revenues are having a severe impact on fiscal revenues and the balance of payments.**
- **The outlook for inflation remains clouded by the currency. After three devaluations since the beginning of 2015, we think further devaluations are likely in 2016, which suggest upside risk to the inflation outlook.**

Key indicators to watch

Indicator	Data availability	Rationale
Oil price and production	Production statistics are published monthly by OPEC. Authorities' commentary also guides prospects.	Oil accounts for more than 95% of export receipts and about 70% of government revenues. Angola is also the second-largest oil producer in Africa.
Inflation	Published monthly by the INE (statistics office). Typically by the 15th day of the following month.	The official target for inflation is 11-13% for 2016. After easing to record levels in 2014, inflation picked up steadily in 2015, ending the year at 14.3% y/y.
Exchange rate	BNA/ Reuters/ Bloomberg	The exchange rate is an anchor for monetary policy. The BNA is the main supplier of FX. During 2015, more restrictive FX policies were implemented to protect FX reserves, while the currency was devalued twice in 2015 and again in early 2016. Further devaluations are likely.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	3.9	5.2	6.8	4.8	2.2	1.9	4.2
Nominal GDP (USD bn)	104.1	115.3	124.2	128.4	112.8	83.6	88.9
CPI (pavg, % y/y)	13.5	10.3	8.8	7.3	10.3	17.7	11.1
Oil production (mbpd)	1.66	1.74	1.74	1.65	1.75	1.80	1.80
Brent crude (USD/bbl)*	111	112	109	100	54	37	60
Fiscal balance (% GDP)	8.7	4.6	-0.3	-6.4	-6.1	-5.8	-3.9
Revenue (% GDP)	48.8	45.9	40.5	34.6	25.5	24.5	28.6
Expenditure (% GDP)	40.2	41.3	40.8	41.1	31.6	30.3	32.5
Public debt (% GDP)	32.2	30.3	34.7	39.7	50.0	69.7	61.0
Current account balance (% GDP)	12.6	12.0	6.7	-2.9	-10.3	-17.3	-3.8
Trade balance (% GDP)	45.2	41.1	33.7	23.8	11.6	9.1	25.2
Oil exports (% GDP)	62.0	59.7	52.8	44.6	29.1	27.6	42.1
USD/AOA (pavg)	93.9	95.5	96.5	98.3	120.1	176.6	191.8
Policy rate (%, eop)*	10.50	10.25	9.25	9.00	11.00	13.00	12.00
Official reserves (USD bn, eop)	27.5	32.2	32.2	27.8	24.5	19.0	…
Months of imports	7.8	8.6	8.1	6.2	7.0	6.7	…

Note*: Barclays Commodities Research forecasts.
Source: IMF, BNA, Ministry of Finance, INE, OPEC, Barclays Research

Foreign trade flows*

- **Angola is the second-largest oil producer on the continent, after Nigeria. Oil accounts for over 95% of total exports. Government aims to push production to an average 1.8mbp in 2016.**
- **Weaker oil prices are likely to continue to weigh on the balance of payments in 2016.**

Exports

Top product groups	USD bn	% y/y
Crude Oil	56.4	-14.1
Diamonds	1.3	14.4
Refined Oil	0.7	-3.6
Gas	0.6	2.0

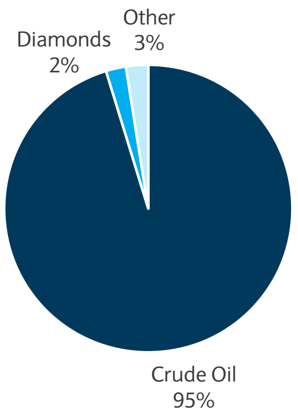
Note: *2014. Source: BNA, Barclays Research

Imports

Top product groups	USD bn	% y/y
Consumption goods	16.7	8.8
Capital goods	8.4	8.1
Intermediate goods	3.4	8.2

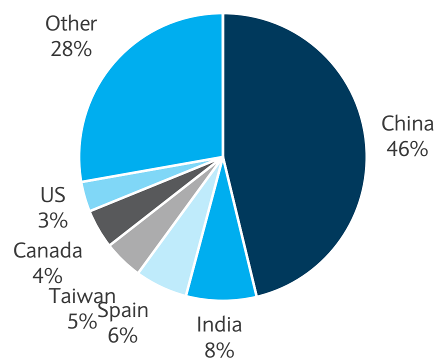
Source: BNA, Barclays Research

FIGURE 5
Main export groups



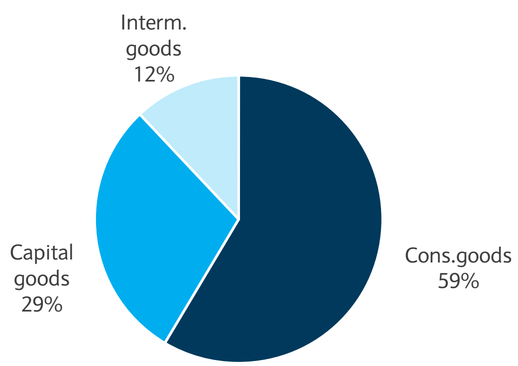
Source: BNA, Barclays Research

FIGURE 6
Main export destinations



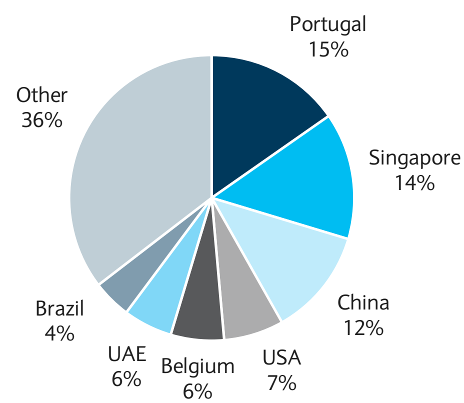
Source: BNA, Barclays Research

FIGURE 7
Main import groups



Source: BNA, Barclays Research

FIGURE 8
Main origins of imports



Source: BNA, Barclays Research

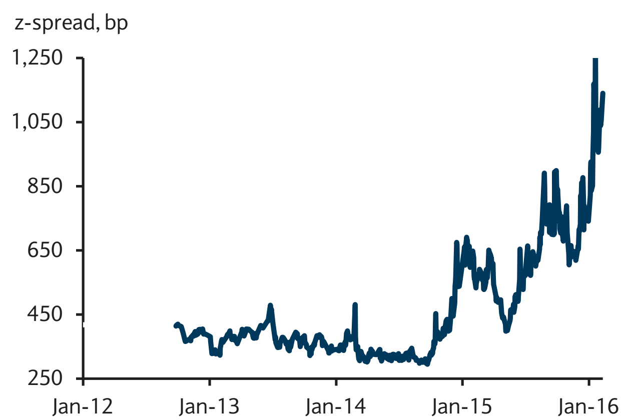
External credit snapshot

Overview	Angola currently has two trading international securities, the 2019s (issued in 2012) and 2025s (issued in 2015).
Credit rating	Standard & Poor's downgraded Angola's rating by a further single notch to 'B' on 12 February 2016, considering weak global oil prices and their impact on the economy. The outlook is now "stable" from "negative" previously. Fitch downgraded Angola to 'B+' with a stable outlook in September 2015 as it was concerned about the impact of the lower oil prices and rising debt, falling FX reserves and weaker growth. Moody's rating is at 'Ba2', with a negative outlook (since March 2015). Downgrades risks remain this year given a weaker growth outlook and worsening debt metrics and external balances.
Coverage centre	Research in London and South Africa.

Issuer	Maturity	Announced	Amount	Coupon	Series	Additional information
Republic of Angola	16 Aug 2019	10 Aug 2012	$0.9bn	7.0% S/A	REGS/144A	
Republic of Angola	12 Nov 2025	04 Nov 2015	$1.5bn	9.5% S/A	REGS/144A	

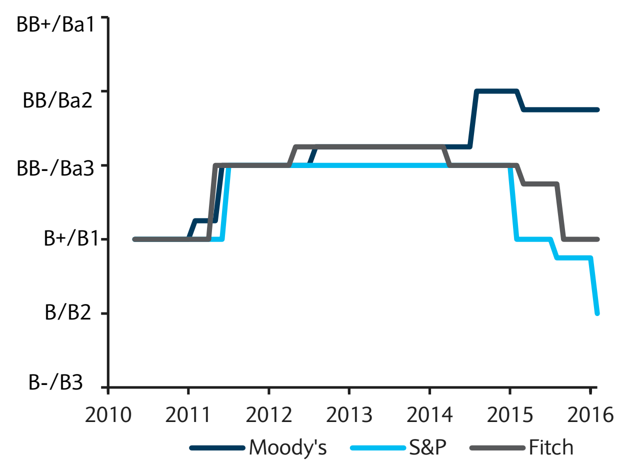
Source: Bloomberg, Barclays Research

FIGURE 9
Angola: Eurobond performance



Source: Bloomberg, Barclays Research

FIGURE 10
Angola: Credit rating history



Source: Bloomberg, Moody's, S&P, Fitch, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
National Bank of Angola:	www.bna.ao
Ministry of Finance:	www.minfin.gov.ao
Instituto Nacional de Estatistica:	www.ine.gov.ao
International Monetary Fund:	http://www.imf.org/external/country/AGO/index.htm

BOTSWANA

Credit rating	
Long-term foreign currency rating	A- (S&P) A2 (Moody's)

Source: Bloomberg

Policy environment

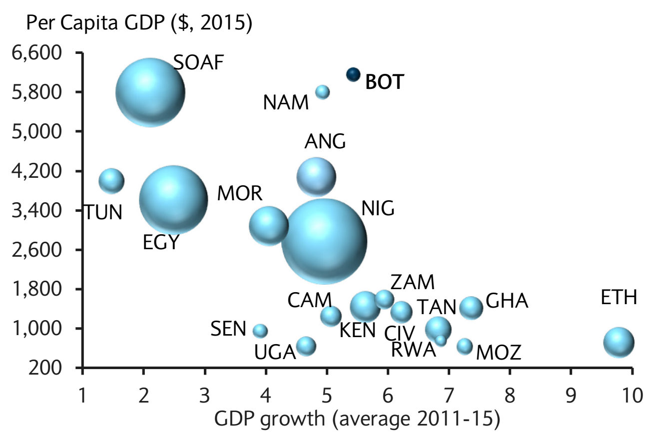
- **Botswana is the world's largest diamond producer with the economy overly exposed to the sector. Diversification of the economy is a long-standing policy theme.**
- **The upcoming eleventh National Development Plan (NDP11) and "Vision 2036" will establish the tone for policy priorities through the next five years.**

Monetary policy: The Bank of Botswana's (BoB) primary objective is to maintain price stability. BoB defines price stability as inflation in the 3-6% range, over a medium-term horizon of up to three years. The BoB signals its policy stance through the Bank Rate (the policy interest rate) and supports this signal by using open-market operations to influence monetary conditions. The policy rate is decided by the BoB's Monetary Policy Committee, which meets approximately every two months (policy meeting dates are not announced ahead of time). The Bank reduced its policy rate by a further 150bp in 2015, maintaining a rate-cutting cycle which commenced in December 2008. To boost liquidity in the banking system, the BoB also reduced the primary reserve requirement (PRR) to 5% from 10% in March 2015 (the previous change in the PRR was in 2011). The sustained easing of monetary policy in 2015 was against a backdrop of subdued inflation, which averaged an historical low of 3.1% in the year (2014: 4.4%), the lower-end of the 3-6% objective. Possibility of renewed food price pressures and base effects could drive inflation higher in 2016 though we expect it to remain within 3-6%. The projected upward trend in inflation and substantial rate cuts delivered hitherto suggest that the BoB may not ease further in the current cycle, though the policy stance is likely to remain growth-supportive.

Exchange rate policy: The pula (BWP) operates under a crawling band exchange rate regime against the IMF SDR and the South African rand (ZAR). The pula basket constitutes 50% ZAR and 50% SDR currencies, after being changed from 55% ZAR and 45% SDR in January 2015. The rate of crawl is determined from the differential between the BoB's inflation objective and forecast inflation for trading partner countries, with the aim of stabilising the real effective exchange rate. Considering the ZAR projections, we expect the pula's depreciation against the USD to slow in 2016 after ending 2015 14.2% y/y weaker.

FIGURE 1

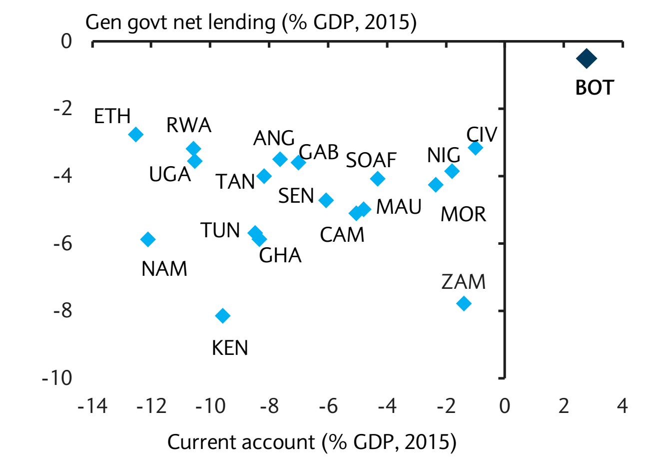
Botswana: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2

Botswana: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

Fiscal policy: Botswana's fiscal management is anchored in multi-year national development plans (NDPs). The tenth NDP (NDP10: 2010 to 2016) was approved in 2009 and its duration was extended to March 2017 (from March 2016). The fiscal year is April to March, and the budget is delivered annually in early February. Revenues from the Southern African Customs Union (SACU) and the mining sector are all-important in the budget (combined, accounting for over 60% of total revenues), which leaves the country vulnerable to sharp declines from these sources of revenue. The possibility that the downturn in the global diamond market may be prolonged further suggests that mineral revenues are likely to remain under pressure in 2016. For the upcoming fiscal year (April 2016 – March 2017), the government expects the budget deficit to widen to 3.8% of GDP from an estimated 2.7% in FY 2015-16. Total revenues are expected to decline by 6.5% y/y while spending is projected to be 2.7% lower compared to FY 2015-16. Despite the planned lower aggregate spending, the 2016-17 budget sees the implementation of the Economic Stimulus Package (ESP) announced in 2015. The ESP is set out to stimulate growth and create job opportunities. The budget deficit will be funded through a drawdown of savings and/or borrowing. Botswana's public debt remains relatively low, estimated at about 21% of GDP (including government guarantees).

Regulatory and tax environment: Foreign investors can repatriate all capital, profits and income freely. There is a withholding tax of 7.5% on dividend income and 15% on interest earned. The withholding tax rate varies between 5% and 15% for foreign investors from countries with double taxation agreements with Botswana. In these cases, generally the statutory 7.5% prevails as a maximum where the DTA rate is higher than 7.5%. Foreign investors are charged a capital gains tax of 25% on 75% of the gain on disposal of moveable property and on 25% of immoveable property. For countries with double-taxation agreements, the tax is levied in the country of residence.

Political environment: Botswana gained independence in 1966 and has since been ruled by the Botswana Democratic Party (BDP). As a multi-party democracy, the country holds elections every five years. The last elections were held in October 2014 when the BDP was able to extend its reign, winning 37 of the 57 elected seats. However, the party lost ground on the previous election when it won 45 seats. The coalition Umbrella for Democratic Change (UDC) received 17 seats while the Botswana Congress Party (BCP) obtained three. The BDP's win allowed President Ian Khama a second term in office. The elections went smoothly and were considered free and fair. The ruling party's strongest support appeared to be in rural areas, while the two main opposition parties managed to capture the support of urban voters. The country continues to struggle with high rates of youth unemployment while the lack of economic diversification remains a significant challenge.

Development framework: Since independence, the government has outlined short- to medium-term development initiatives through a series of National Development Plans (NDPs). Amid vast mineral wealth, NDPs have helped to propel Botswana into upper middle-income country status. NDP10, the tenth in the series, was approved in 2009, for the period April 2010 – March 2016. The duration of NDP10 has been extended to March 2017 with the government allowing more time for the preparation and consultations on NDP11, which will also aim to address constraints experienced under NDP10. The policy thrust is to reduce the government's dominance within the economy, with the aim of moving towards more private sector-led economic growth. Outside the NDP framework, the government launched an Economic Stimulus Programme (ESP) in 2015, targeted at boosting growth, promoting economic diversification and job creation. The ESP will be implemented in FY 2016-17. With Vision 2016, a long-term plan for Botswana set out in 1997, coming to an end, the government is currently developing the next vision – "Vision 2036." It is expected to be launched in September 2016, coinciding with celebrations for the country's 50th anniversary of independence (MoFDP).

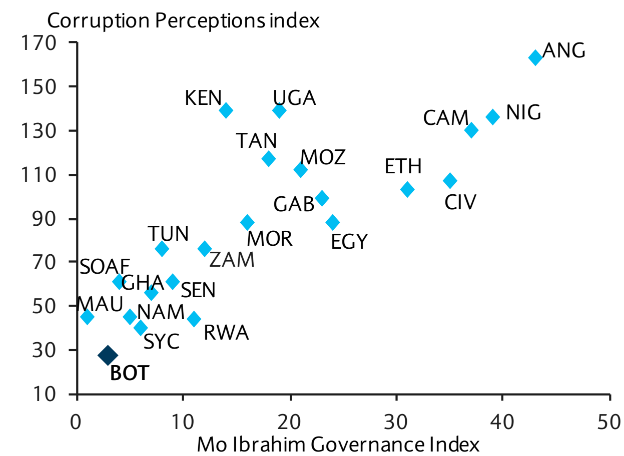
Country snapshot

Indicator	Latest
Government	
Government type	Republic, parliamentary democracy
Head of state	President Ian Khama (since April 2008)
Ruling political party	Botswana Democratic Party (BDP)
Main opposition party	Umbrella for Democratic Change (UDC, alliance consisting the BMD, BNF and BPP parties), Botswana Congress Party (BCP)
Elections	Botswana has held free and fairly contested elections since independence in 1966. The ruling BDP lost support in the October 2014 elections when it won 37 seats (of 57) versus 45 in 2009. President Khama retained the presidency as the leader of the political party that wins a parliamentary majority in the elections. Elections occur every five years.
Demographics	
Population	2.3mn (2015E), 0.9% growth rate (UN)
Life expectancy	64.6 years
Main ethnic groups	Tswana (79%), Kalanga (11%), Basarwa (3%)
Official language	Setswana, English, others
Adult literacy	86.7%
Urban population	57%
Economic structure	
GDP	GDP USD14.6bn (2015E); USD15.9bn (2014); 4.8% average real growth rate for 2006-2015
GDP per capita	USD 6,150 (2015E); USD 7,233 (2014)
GDP by sector	Mining (24%), general government (14%), trade services (14.8%), finance (13.5%)
Main industries	Mining, tourism, textiles, construction, beef processing, chemical products, food
Business development indicators	
2015 Corruption Perceptions Index ranking	28 (out of 168)
2015-16 Global Competitiveness Index ranking	71 (out of 144)
2015 Ease of Doing Business ranking	72 (out of 189)
2014 Human Development Index ranking	106 (out of 188)
2015 Mo Ibrahim Index of African Governance	3 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Barclays Research

FIGURE 3

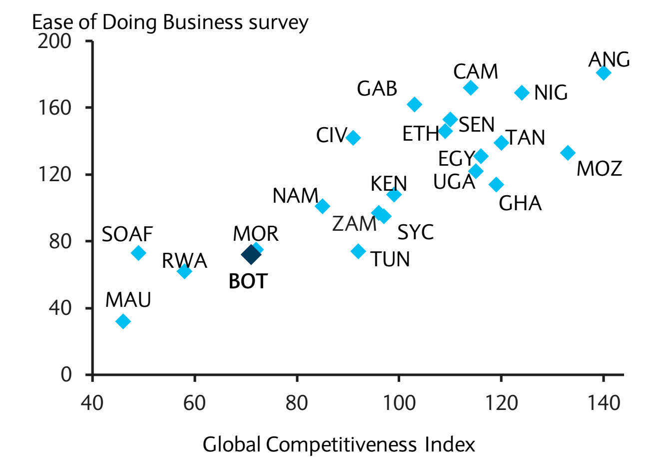
Botswana: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Botswana: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **Weak demand for diamonds, electricity shortages and drought continue to weigh on the growth profile.**
- **Receipts from the Southern African Customs Union are important for balance of payments and fiscal accounts.**

Key indicators to watch

Indicator	Data availability	Rationale
Diamonds	Trade statistics are published monthly by Statistics Botswana (around the 25th) and the BoB.	The mining sector is the lifeblood of the Botswana economy, accounting for around a fifth of GDP and over 80% of exports. Diamond sales have contributed to the relatively large FX reserves in the country. The move of the DTC from London to Botswana has boosted trade activity.
Copper and Nickel	Trade developments in these commodities published by Statistics Botswana.	Copper and Nickel accounted for 6% of export earnings in 2014.
CPI	Released on the 15th day of the month.	Central for monetary policy. Bank of Botswana's medium-term inflation objective is 3-6%.
Monetary policy meetings	The Bank of Botswana MPC meets every two months. Meeting dates are not published.	The MPC guides the stance of monetary policy, principally by setting the Bank Rate. Following each meeting a statement is issued.
ZAR and SDR currencies	Reuters/Bloomberg/Others	The BWP trades in a crawling peg against a basket of currencies comprising the ZAR and SDR.
Annual government budget	Delivered in early February each year.	Sets out the course of fiscal policy.
Annual Monetary Policy Statement and Mid-Term Review	The Annual MPS is published by the BoB in February.	Provides an assessment of monetary conditions and the inflation outlook over the next 12 months and the measures to be taken to achieve policy targets.
GDP	Published quarterly, with a lag of about three months.	

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	6.0	4.5	9.9	3.2	0.8	1.2	3.9
Nominal GDP (USD bn)	15.7	14.7	14.8	15.9	14.6	13.2	14.1
CPI (pavg, % y/y)	8.5	7.5	5.9	4.4	3.1	3.7	5.4
Fiscal balance (% GDP)*	-7.1	-0.2	0.8	5.6	3.7	-2.7	-3.8
Revenue and grants (% GDP)*	34.8	35.2	36.6	37.8	38.4	33.6	30.3
Expenditure (% GDP)*	41.9	35.3	35.8	32.2	34.8	36.4	34.1
Government domestic debt (% GDP)*	6.6	6.7	5.5	5.3	5.0	5.2	5.4
Government external debt (% GDP)*	13.7	13.1	13.7	12.2	12.4	11.1	10.1
Current account balance (% GDP)	3.0	0.2	8.9	16.0	7.8	-1.9	4.2
Trade balance (% GDP)	-4.5	-13.6	-2.3	3.3	-0.6	-10.3	-4.0
USD/BWP (pavg)	6.84	7.62	8.40	8.98	10.11	11.68	12.09
Policy rate (%, eop)	9.50	9.50	7.50	7.50	6.00	6.00	7.00
Official reserves (USD bn)	8.1	7.6	7.7	8.3	7.5	7.0	…
Months of imports	12.9	10.6	10.6	12.1	14.0	13.8	…

Note: * Fiscal year-ending 31 March. Source: BoB, Statistics Botswana, MoFDP, IMF, Barclays Research

Foreign trade flows*

- **Trade activity is largely concentrated in the diamond sector and has been boosted by the relocation of the Diamond Trading Company to Gaborone (from London) in 2012.**
- **Diamonds are the largest single export (over 80% of total exports) and constitute about 30% of imports (for cutting, sorting, polishing, etc.).**

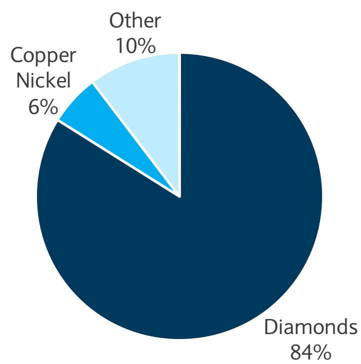
Main Exports		
Top product groups	USD mn	% y/y
Diamonds	5,726	-24.0
Copper nickel	391	-17.2
Other	706	19.1

Note*: Year to October 2015. Source: Statistics Botswana, Barclays Research

Main Imports		
Top product groups	USD mn	% y/y
Diamonds	2,027	-32.3
Fuel	1,004	-15.2
Machines and electrical equipment	924	1.7
Food, beverages and tobacco	648	-4.9

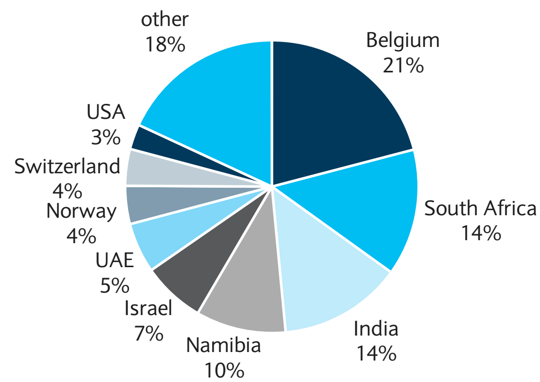
Source: Statistics Botswana, Barclays Research

FIGURE 5
Main export groups



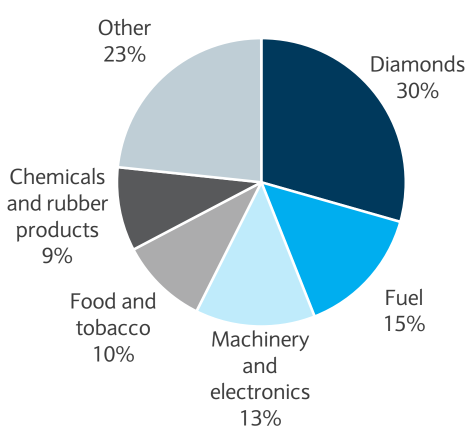
Source: Statistics Botswana, Barclays Research

FIGURE 6
Main export destinations



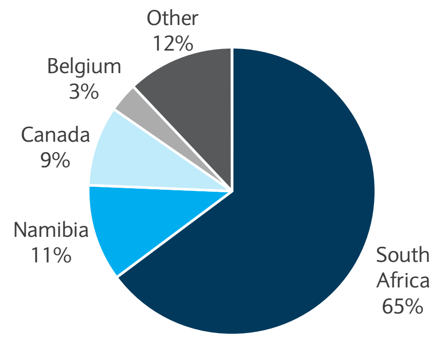
Source: Statistics Botswana, Barclays Research

FIGURE 7
Main import groups



Source: Statistics Botswana, Barclays Research

FIGURE 8
Main origins of imports



Source: Statistics Botswana, Barclays Research

FX markets

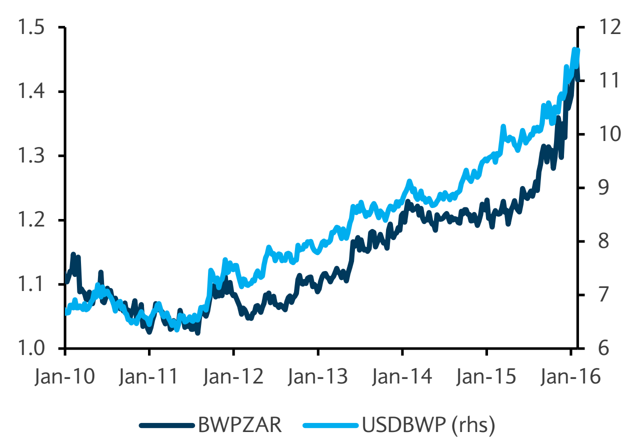
Overview	The pula operates under a crawling band exchange rate regime against the IMF SDRs and the South African rand with a view to achieving a stable real exchange rate. In order to become more transparent, in February 2013 the Botswana authorities revealed for the first time the weights as follows: ZAR 55%, SDR 45%. In January 2015, the authorities changed the basket weights to 50% ZAR and 50% SDR. The forthcoming change in the SDR basket (effective from 1 October 2016) to include the Chinese Renminbi carries implications for the BWP, though we expect a limited effect with the ZAR likely to remain the primary driver. The RMB will carry a weight of 10.92% in the SDR basket.
Market access/convertibility	There are no restrictions on foreign exchange. Exchange controls were discontinued to allow full repatriations of sale proceeds and income. The offshore pula market is small, so locally-arranged FX is usually more effective. The BoB requires reporting of transactions for reconciliations with expectations on underlying economic activity. However, there are no rules barring trading position transactions.
Tax regime	Returns on FX trades are not subject to tax.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation	Reuters page	Additional information
Spot	Very Liquid		T+2	PULA	Main cross is BWP/USD, but it is also quoted against GBP, ZAR and EUR.
Forwards	Liquid to 1 year	Up to 1 year	Points T+2	ABAF=	Mostly BWP versus USD, but it can be against any G7 currency. Typical size is $5mn up to 12 months. Spread mainly due to less developed yield curve.
Swaps	Liquid to 1 year	Up to 1 year	T+2		Mostly BWP versus USD, but can be against any G7 currency. Typical size is $5mn.

Source: Barclays, Barclays Research

FIGURE 9

Botswana: Pula cross-rates



Source: Reuters, Barclays Research

FIGURE 10

Botswana: Pula cross-rates

Source: Reuters, Barclays Research

Rates products

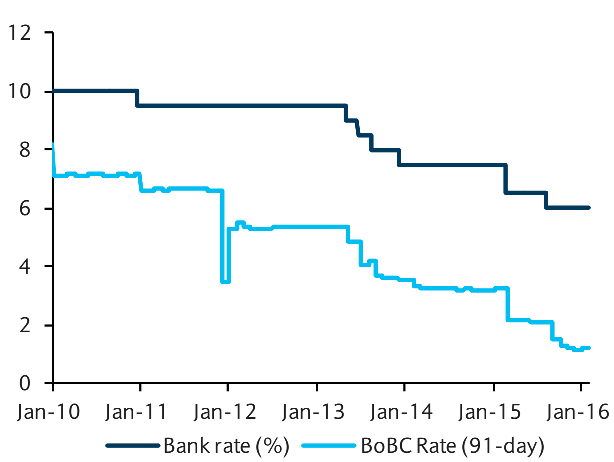
Overview	The interest rate market comprises cash deposits, Treasury bills and BoBCs, and bonds that are mainly government, quasi-sovereign and corporate bonds. The cash market is mainly over the counter, with deposits ranging from overnight to one year. The BoBC market is highly liquid; however, non commercial banks have been excluded by the central bank from investing in BoBCs since March 2006. The bond market is less liquid, as most investors tend to buy and hold.
Market access/convertibility	Treasury bonds are sold quarterly and can be bought and sold through the commercial banks which have been granted primary dealership by the Central Bank. These bonds are listed on the BSE for easier secondary market trading. Trading on the Botswana Stock Exchange (BSE) is done through one of the BSE members. All primary dealers have "special membership" on the BSE for dealing in government bonds. Foreign investors are allowed to purchase both government bonds and corporate bonds. Money market cash deposits can be done through Reuters.
Tax regime	There is a withholding tax of 7.5% applied to dividends for residents and non-residents, while there is a 10% for residents and 15% for non-residents on interest income. All deposits in local currency attract a reserve requirement of 10%.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation/ settlement	Reuters page	Additional information
Cash deposits	OTC	O/N to one year			Money Market Cash deposits can be done via Reuters code BWPF=
BoBC		14 and 91d	T+3	PULB	Bank of Botswana Certificates (BOBC) are not open to foreign investors.
Bonds	Less liquid	2017, 2018, 2020,2025, 2031, 2040	Trades in yield T+3	BBBONDS	Primary dealers deal in government bonds in both the primary and secondary markets.
Treasury Bills	Very Illiquid	6m	T+3	BBBONDS	Both T-bills and government bonds are issued through Dutch-Auctions where only yields at or below the central bank stop-out yields receive partial or full allotment.

Source: Barclays Botswana, Barclays Research

FIGURE 11

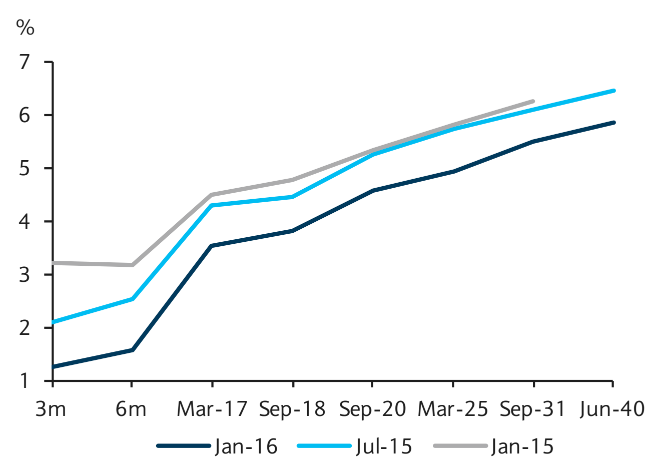
Botswana: Short-term interest rates



Source: BoB, Barclays Research

FIGURE 12

Botswana: Government bond yield curve



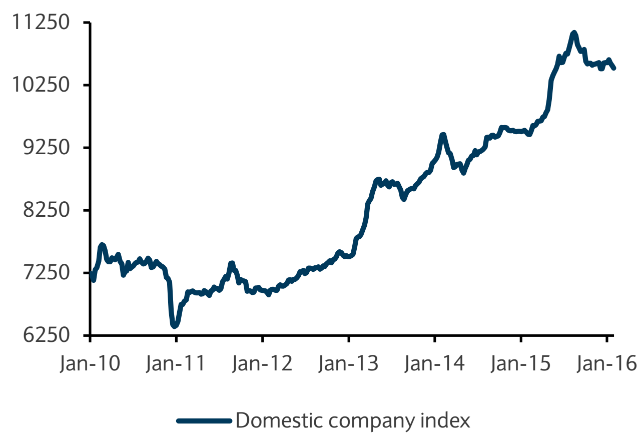
Source: BoB, Barclays Research

Equity market snapshot

Market size	The market capitalisation of the Botswana Stock Exchange (BSE) was USD4.3bn (excluding cross-listed companies) as of January 2016.
Main indicator	There are two main indices, the Domestic Company Index (DCI) – incorporating companies that are primarily listed on the BSE – and the Foreign Company Index (FCI).
Listed companies	There are 32 companies listed on the BSE's main board.
Top listed companies	First National Bank of Botswana; Letshego; Choppies Enterprises; BIHL; Sechaba; Barclays Bank of Botswana (Domestic Companies).
Taxation	15% withholding tax on dividends.
Foreign ownership limits	None.

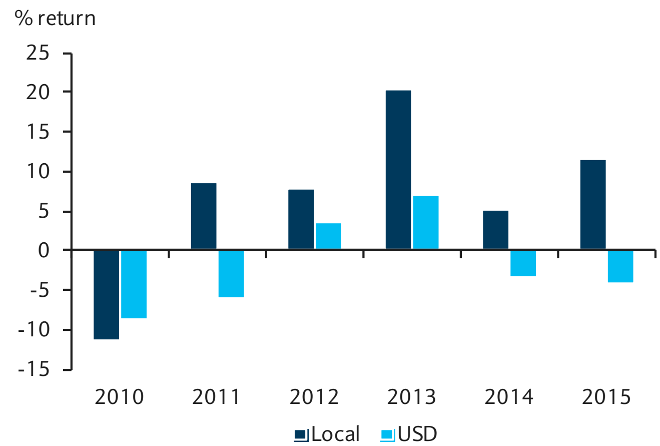
Source: Botswana Stock Exchange, Barclays Africa Equity Trade Yearbook, Barclays Research

FIGURE 13
BSE Domestic Company Index



Source: Reuters, Barclays Research

FIGURE 14
Domestic Company Index historical returns



Source: Reuters, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
Bank of Botswana:	www.bankofbotswana.bw
Government of Botswana:	www.gov.bw
Ministry of Finance:	www.finance.gov.bw
Statistics Botswana:	www.cso.gov.bw
Botswana Stock Exchange:	www.bse.co.bw
International Monetary Fund:	www.imf.org/external/country/BWA/index.htm

CAMEROON

Credit rating	
Long-term foreign currency rating	B (S&P) B (Fitch)

Source: Bloomberg

Policy environment

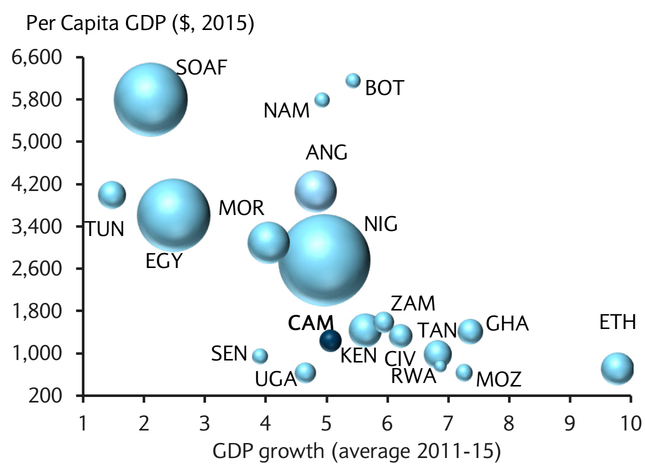
- **Cameroon's economic growth has been strong in recent years, though weaker commodity prices were a drag on growth in 2015.**
- **The focus on investment spending continues to underpin growth but has resulted in deteriorating debt metrics.**

Monetary policy: Cameroon is one of six member countries comprising the Economic and Monetary Community of Central Africa (or CEMAC, with other members being Central African Republic, Chad, Equatorial Guinea, Gabon and Republic of Congo). Monetary policy is managed by the regional central bank, the Banque des Etats de l'Afrique Centrale (BEAC), which has currency and price stability as its main objective. Monetary policy is set by the Monetary Policy Committee, which defines the objectives for net foreign assets, credit growth, money supply and other targets for each of its member states. To achieve its objectives, the Bank uses indirect monetary policy instruments, including liquidity management and the imposition of reserve requirements. Monetary policy is influenced by that of the European Central Bank as a result of the CFA's peg to the euro. Following policy easing at the ECB, the Bank adopted an easing stance in mid-2014, with its most recent reduction in the policy rate coming in July 2015, reducing it a further 50bp to 2.45%. At its most recent MPC in December 2015, the BEAC noted a marginal decline in inflationary pressures for the region. Bucking the trend, Cameroon experienced increasing inflationary pressures in 2015 as average inflation rose from 1.9% y/y in 2014 to an estimated 3.0% in 2015 partly as a result of higher transport costs. In terms of monetary policy for the CEMAC region, we expect the focus to remain on economic growth, which suggests further policy easing remains an option in an effort to support regional growth.

Exchange rate policy: The CFA franc (XAF) is pegged to the euro (1 EUR = 655.957 XAF) and used by the six CEMAC countries. Therefore, the FX rate against the USD moves in line with the EURUSD FX rate. The XAF depreciated 11% against the USD in 2015, ending the year at XAF610.20/USD. Given our expectation for the EUR to weaken against further against the USD in 2016, we expect the XAF to depreciate in tandem against the USD.

FIGURE 1

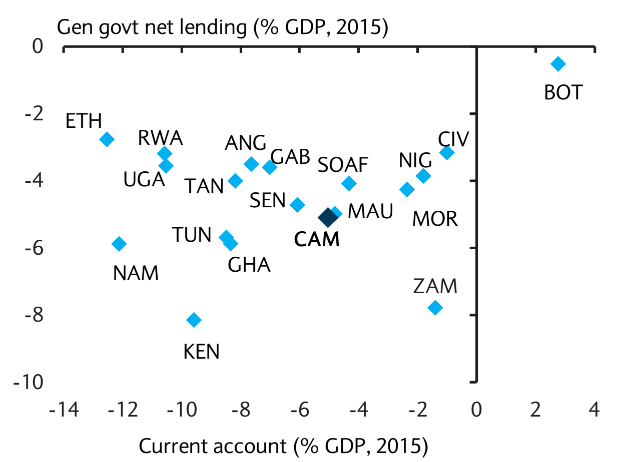
Cameroon: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2

Cameroon: Fiscal and current accounts in regional context



Source: IMF WEO (October 2015), Barclays Research

Fiscal policy: Cameroon's fiscal strategy is driven by its 2010-20 Growth and Employment Strategy Paper (GESP), which covers the first ten years of the broader development plan, Vision 2035. The 2015 budget was focussed on investment into priority sectors of the economy, with the development budget raised 15% to meet its objectives. Two areas that have been prioritised were the extension of the road network and the appointment of additional teachers. Oil revenues were expected to contribute 25% of total domestic revenues in the 2015 budget, though it is not yet clear whether this was achieved. New oil fields have come on stream but were more than offset by the significant decline in oil prices. After the fiscal deficit deteriorated in 2014 to 4.8% of GDP amid lower oil revenues, the IMF estimated that public finances may have weakened further in 2015 to record a deficit of 5.4%. Authorities faced several challenges in 2015 in addition to lower oil prices, including higher military spending as security forces undertook operations against militants in the north of the country. Cameroon issued an inaugural USD750mn Eurobond in November 2015 to finance infrastructural development. The increased focus on accelerating infrastructure investment is expected to push the fiscal deficit wider to a peak exceeding 7.0% of GDP. The Fund noted in its December 2015 Article IV Report that "with current large borrowing plans and lower oil exports, Cameroon's risk of external debt distress has risen from "low" to "high" in the space of less than three years". Public debt is expected to rise to 42% of GDP by 2020, which is more than twice the level at the end of 2013, according to the Fund. Debt service is also expected to double over this period.

Regulatory and tax environment: Exchange controls are supervised by the BEAC. Withholding tax applies on dividends and interest received by resident and non-resident companies, while a 15% withholding tax applies to dividends paid by residents to non-resident companies.

Political environment: Cameroon continues to enjoy political stability despite the historically more volatile region in which it is located. In 2008, the presidential term was extended from five years to seven years. Though the country became a multiparty democracy in 1990, the ruling People's Democratic Movement (CPDM) is the dominant party and has been in power since independence in 1960. The president is elected for a seven-year term in office, while parliamentary elections are held every five years. President Paul Biya, 83, has been in office since November 1982 and was re-elected for a sixth term in office in 2011, securing 78% of the votes. The constitution was amended in 2008 to eliminate term limits. Parliamentary and local government elections were held in 2013, resulting the ruling CPDM winning 148 seats in the 180-seat National Assembly. In turn, the main opposition party, the Social Democratic Front, won only 18 seats. Despite the political stability, the country has seen various protests in the past two decades as opposition parties oppose the Biya regime. Opposition parties alleged serious irregularities in the 2011 elections. In line with the election schedule, both parliamentary and presidential elections are expected to be held in 2018.

Development framework: Cameroon's development strategy is guided by Vision 2035, with the Growth and Employment Strategy (GESP) focuses on the first ten years of development, ie, 2010-20. Vision 2035 aims include: ensuring a stable and strong democracy; a prosperous economy; lower unemployment; fair distribution of resources; and independency for the judiciary. More broadly, the objective is to become an emerging country over the next 20-30 years by: alleviating poverty; becoming a middle income country; becoming an industrialised country; and consolidating democracy and national unity. In turn, the GESP focuses on accelerating growth, creating formal employment and reducing poverty by increasing average annual growth 5.5% over 2010-20, reducing the unemployment rate from 75.8% to less than 50% by 2020 and reducing the income poverty rate from 39.9% in 2007 to 28.7% by 2020.

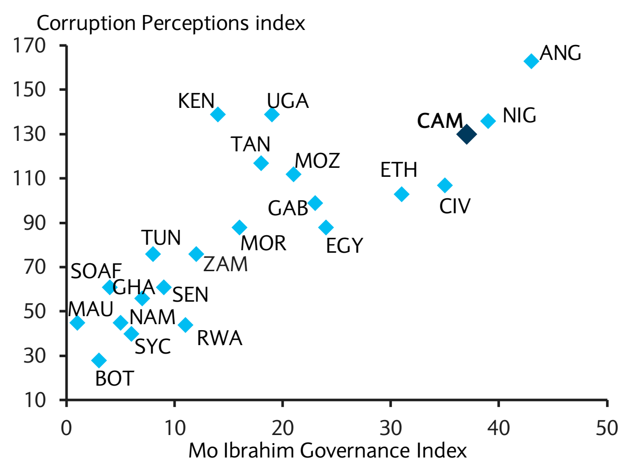
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Paul Biya (since 6 November 1982)
Ruling political coalition	Cameroon's People's Democratic Movement (CPDM)
Main opposition party	Social Democratic Front (SDF)
Elections	President Paul Biya directly elected by simple majority popular vote for a 7-year term (no term limits). Prime minister appointed by the president: Philemon YANG in June 2009. The last election was held on 9 October 2011 (next to be held in October 2018).
Demographics	
Population	23.3mn (2015E); 2.5% growth rate
Life expectancy	57 years
Main ethnic groups	Cameroon Highlanders 31% (including the Bamoun and Bamileke), Equatorial Bantu 19%, Kirdi 11%, Fulani 10%, Northwestern Bantu 8%, Eastern Nigritic 7%, other African 13%, non-African less than 1%
Main languages	24 major African language groups, English (official), French (official)
Adult literacy	71.3%
Urban population	54%
Economic structure	
GDP	USD28.5bn (2015E); USD31.8bn (2014); 4.0% average real growth rate for 2006-15
GDP per capita (USD)	USD1,234 (2015E); USD1,410(2014)
GDP by sector	Primary (21%), Secondary (27%), Tertiary (43%)
Main industries	Cocoa, rubber, coffee, palm oil, cotton, crude oil
Business development indicators	
2015 Corruption Perceptions Index ranking	130 (out of 168)
2015-16 Global Competitiveness Index ranking	114 (out of 144)
2015 Ease of Doing Business ranking	172 (out of 189)
2014 Human Development Index ranking	153 (out of 188)
2015 Mo Ibrahim Index of African Governance	37 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Barclays Research

FIGURE 3

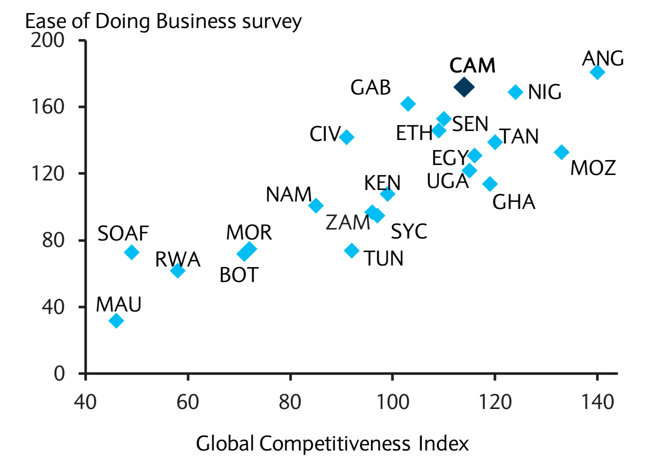
Cameroon: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index.



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Cameroon: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **Lower commodity prices and strong investment spending are likely to put upside risk to fiscal and debt metrics in 2016.**
- **The IMF warned in December 2015 that Cameroon's risk of external debt distress had risen from "low" to "high" in less than three years.**

Key indicators to watch

Indicator	Data availability	Rationale
Cocoa prices and production	ICCO/Reuters/Bloomberg/CACAO	Cameroon is the world's fifth largest cocoa producer, and it remains an important source of FX revenue for the country. Production was about 232,000 tons in the 2014/15 season.
Oil prices and production	Announcement from oil firms/ Reuters/Bloomberg/BCEAO reports	Cameroon's oil production rose from about 60,000bpd in 2014 to more than 100,000bpd in 2015. Production is expected to rise further in 2016. Historically, about one-third of fiscal revenues derived from oil.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	4.1	4.6	5.6	5.9	5.9	5.2	5.0
Nominal GDP (USD bn)	26.6	26.5	29.6	31.8	28.5	30.8	33.5
Brent crude (USD/bbl)*	111	112	109	100	54	37	60
CPI (pavg, % y/y)	2.9	2.4	2.1	1.9	2.8	2.2	2.2
Fiscal balance (% GDP)	-2.6	-1.6	-4.1	-4.8	-5.4	-7.2	-5.8
Revenue and grants (% GDP)	17.9	17.9	18.0	18.4	17.8	16.7	16.7
Expenditure (% GDP)	20.5	19.5	21.9	23.1	23.0	23.9	22.5
Public debt (% GDP)	13.2	15.4	19.0	26.6	32.6	36.8	39.3
o/w external	7.6	9.0	12.1	17.8	21.7	24.5	26.6
Total investment (% GDP)	20.2	20.7	21.6	21.7	21.9	21.9	21.4
Current account balance (% GDP)	-2.7	-3.6	-3.9	-4.4	-5.1	-5.3	-5.3
Trade balance (% GDP)	-1.6	-1.0	-0.7	-1.4	-2.2	-2.4	-2.6
Gross imputed reserves (XOF bn)	3.5	3.3	3.4	3.2	2.8	2.8	2.6

Note: *Barclays Commodities Research forecasts. Source: IMF, BCEAO, Barclays Research

Foreign trade flows*

- **Petroleum products, cocoa and other agriculture products (timber, coffee, cotton, etc) account for the bulk of exports.**
- **The government's infrastructure development focus is expected to result in continued strong capital imports, which are likely to keep the current account under pressure.**

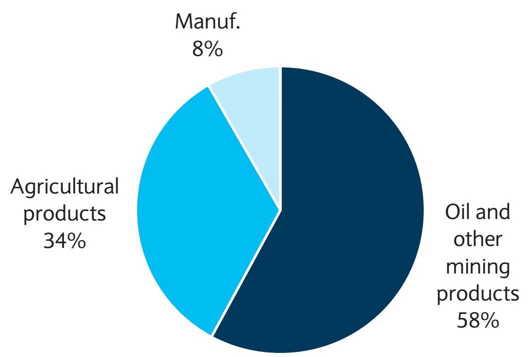
Exports		
Top product groups	USD bn	% y/y
Oil and other mining products	2.8	15.9
Agricultural products	1.6	19.1
Manufactures	0.4	10.2

Note: *2014. Source: WTO, Barclays Research

Imports		
Top product groups	USD bn	% y/y
Manufactures	3.3	0.2
Oil and other mining products	2.3	1.0
Agricultural products	1.4	-2.7

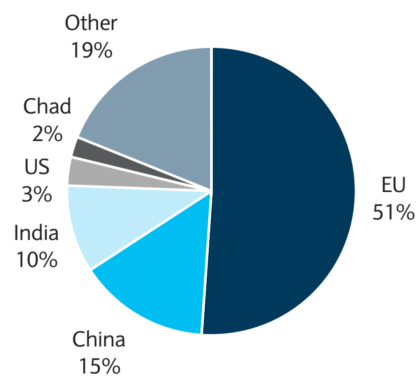
Source: WTO, Barclays Research

FIGURE 5
Main export groups



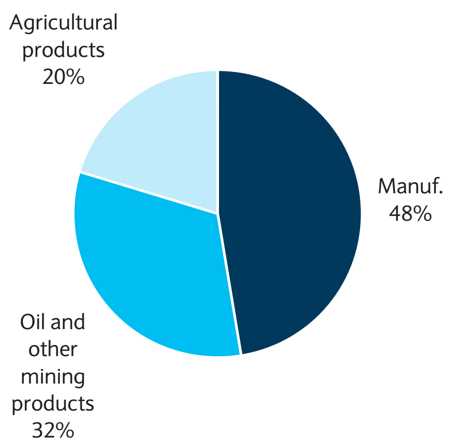
Source: WTO, Barclays Research

FIGURE 6
Main export destinations



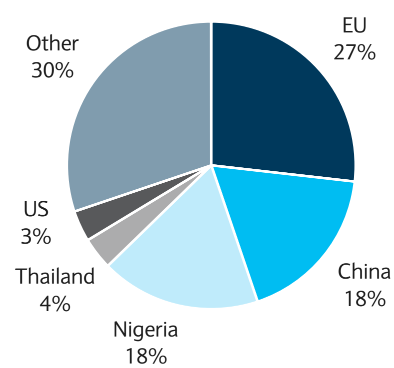
Source: WTO, Barclays Research

FIGURE 7
Main import groups



Source: WTO, Barclays Research

FIGURE 8
Main origins of imports



Source: WTO, Barclays Research

External credit snapshot

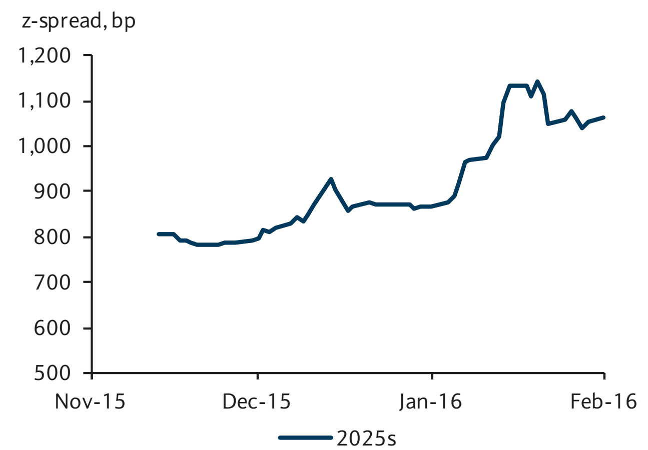
Overview	Cameroon issued its inaugural Eurobond worth USD750mn (2025s) in November 2015.
Credit rating	Cameroon's long-term foreign currency debt is rated 'B' by both S&P and Fitch Ratings. Both agencies assigned a stable outlook in their most recent rating reviews. Key drivers of the ratings include the low income per capita, structural weaknesses which include governance and political risks while public finances are seen deteriorating further due to rising government spending and declining oil revenues.
Market participants	Cameroon's eurobond attracts interest from global institutional investors.
Coverage centre	Research in London and South Africa.

Issuer	Maturity	Announced	Amount	Coupon	Series	Additional information
Cameroon	19 Nov 2025	12 Nov 2015	USD750mn	9.5% S/A	REGS/144A	

Source: Bloomberg, Barclays Research

FIGURE 9

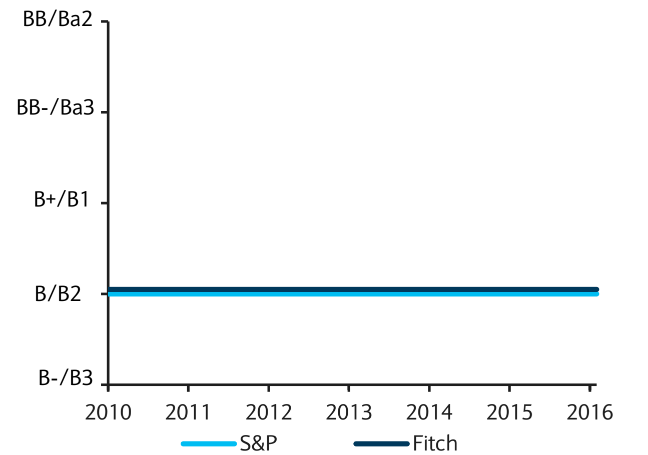
Cameroon: Eurobond performance



Source: Bloomberg, Barclays Research

FIGURE 10

Cameroon: Credit rating history



Source: Bloomberg, Moody's, Fitch, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
Government of Cameroon:	www.spm.gov.cm
Ministry of Finance:	www.dgtcfm.cm
Regional stock exchange:	http://www.brvm.org
BEAC (regional central bank):	www.beac.int
International Monetary Fund:	http://www.imf.org/external/country/CMR/index.htm

COTE D'IVOIRE

Credit rating	
Long-term foreign currency rating	Ba3 (Moody's) B+ (Fitch)

Source: Bloomberg

Policy environment

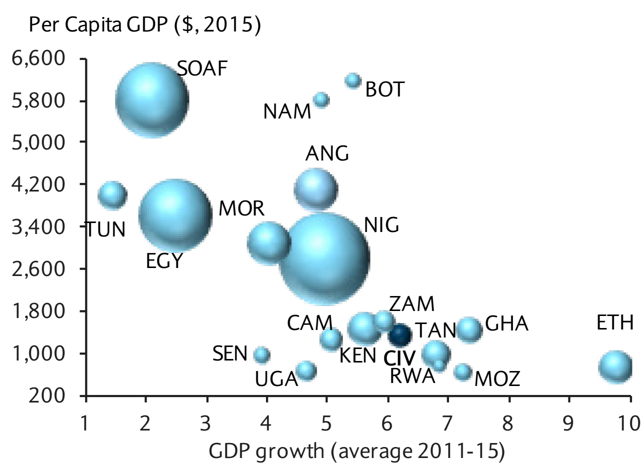
- **Cote d'Ivoire's economy gained further momentum in 2015 as strong investment in infrastructure underpinned growth.**
- **With the elections out of the way, we expect a further acceleration in infrastructure investment in 2016.**

Monetary policy: Cote d'Ivoire is the largest of the eight economies that comprise the West African Economic and Monetary Union (WAEMU) – Benin, Burkina Faso, Guinea-Bisseau, Mali, Niger, Senegal, Togo and Cote-d'Ivoire. Monetary policy is conducted by the regional central bank, the Banque Central des Etats d'Afrique de l'Quest (BCEAO). The BCEAO's primary monetary policy objective is to ensure price stability in support of sustainable economic growth. It relies on a range of policy instruments to achieve its objectives, though it uses the repurchase rate to indicate its policy direction. Monetary policy is strongly influenced by that of the European Central Bank (ECB) as the CFA franc (XOF) is pegged to the euro. This explains the relatively modest inflation rates across the WAEMU region. The BCEAO cut its base rate and marginal lending rate by 25bp in September 2013 to 2.50% and 3.50%, respectively, and has left policy unchanged since then. However, the WAEMU region's inflation rate had risen from 0.4% y/y in January 2015 to 1.7% in October and is expected to track higher in subsequent months. After falling 0.1% y/y in 2014 (on average), WAEMU inflation has picked up in 2015, and we estimate that it may have averaged 1.2% in 2015. Similarly, Cote d'Ivoire's inflation averaged 1.4% y/y in 2015, higher than the 0.5% recorded the preceding year as the weaker FX impacted negatively. The BCEAO's MPC, noted during its 2 December 2015 meeting that WAEMU inflation may rise to an average 2.0% over a 24-month period, though this remains in line with its medium-term objectives. With inflationary pressures building, the BCEAO will remain cautious and a tighter policy stance cannot be excluded, particularly if average regional inflation breaches the 3% ceiling.

Exchange rate policy: The XOF is pegged to the euro (1 EUR = 655.957 XOF) and used by eight countries in West Africa. As such, the FX rate against the USD moves in line with the EURUSD FX rate. The XOF weakened from 542/USD at the end of 2014 to 609/USD at

FIGURE 1

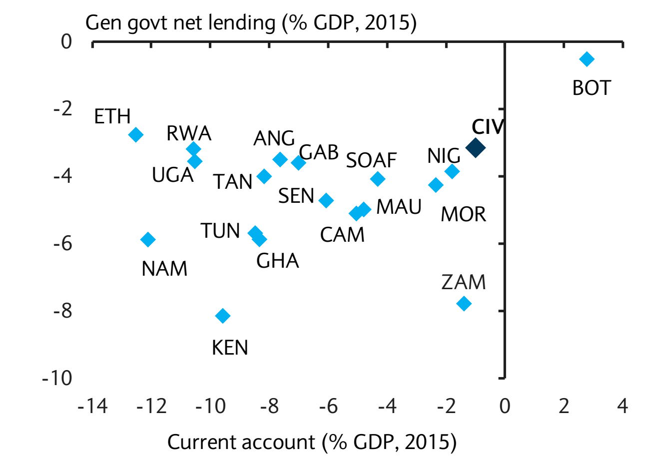
Cote d'Ivoire: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2

Cote d'Ivoire: Fiscal and current accounts in regional context



Source: IMF WEO (October 2015), Barclays Research

the end of 2015, which translates into an annual depreciation of 11% against the USD (-12% in 2014). The outlook remains bearish for the XOF, particularly as we expect further EUR weakness against the USD in the coming months.

Fiscal policy: Cote d'Ivoire's fiscal spending is driven by the new National Development Plan, adopted in 2012. Given the need to rebuild infrastructure, government has adopted an expansionary fiscal stance in recent years. Multilateral support has been key to the country's rebuilding with the Ouattara regime enjoying favourable relationships with multilaterals. Fiscal performance was strong in 2015, according to the IMF, with higher fuel and cocoa taxes and a special once-off tax underpinning the performance. The Fund estimated the overall fiscal deficit for 2015 to be 3.7% of GDP, which is likely to narrow in 2016. However, downside risks to economic growth remain a risk to government's fiscal target of 3.5% of GDP. Cote d'Ivoire issued a USD750mn Eurobond in 2014 and followed that with another USD1bn bond in 2015. Government also issued a CFA150bn Sukuk at the end of 2015 and plans to issue a similarly sized Sukuk in 2016. The IMF noted that after the 2015 Eurobond, no further such bonds are planned "except to refinance the 2014 and 2015 Eurobonds which mature in 2024-28". The country's debt dynamics remain sustainable according to the Fund, with the risk of debt distress remaining moderate. Though gross public debt has been rising in recent years, reaching an estimated 47.9% of GDP at the end of 2015, the debt ratio is expected to ease in subsequent years.

Regulatory and tax environment: Exchange controls are being administered by the BCEAO and Ministry of Economy and Finance. There are no controls on capital flows within WAEMU. Interest paid to residents and non-residents is subject to a withholding tax of 25% on bearer bonds, 6% on long-term government bonds and 15% on other bonds. Dividends distributed by a listed company to a resident or non-resident attract a 10% tax. There is an 18% tax on distributions that are exempt from the tax on industrial and commercial profits; otherwise, the tax rate is 12%.

Political environment: President Ouattara, leader of the RDR, took office in 2011 after a short period of instability following the December 2010 elections. Ouattara retained the presidency in October 2015, when he won the elections with an overwhelming majority. Compared with Ouattara's 84% of the vote, ex-Prime Minister Pascal Affi N'Guessan was the closest contestant, receiving only 9% as he ran on behalf of the Ivorian Popular Front (the party of former President Laurent Gbagbo who lost to Ouattara in the 2011 election). Several candidates withdrew over concerns that it was not being held in conditions conducive to free and fair elections. However, the elections were seen to go peacefully and smoothly by observers with around 55% of the voting population turning out. Though there has been significant progress in recent years, Ouattara continues to struggle to reunite the country, while the disarmament process has been regarded as slow. Moreover, the trial against former President Gbagbo risks fuelling political tensions further. Gbagbo pleaded not guilty for crimes against humanity when his trial started on 28 January 2016. Meanwhile, President Ouattara retained his Prime Ministership with Daniel Duncan as head of government and finance minister.

Development framework: Cote d'Ivoire's National Development Plan (2012-15) foresees investment of more than USD20bn, about 60% of which will be focused on the private sector. The plan aims to raise the overall level of investment, predominantly in agriculture, transport, manufacturing and education. Cote d'Ivoire is closely supported by the IMF in its effort to rebuild the country. An extended credit facility (ECF) programme worth USD616mn has been in place since 2011 and officially ended in November 2014 though it was extended by a year. The ECF ended on 31 December 2015 though a successor program is expected to be negotiated in early 2016.

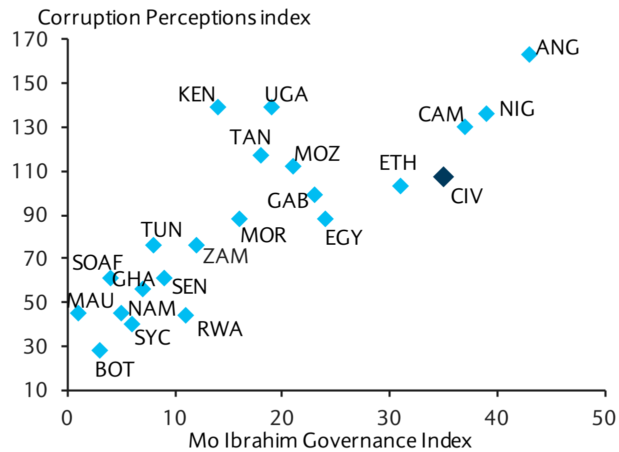
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Alassane Outtara (since December 2010)
Ruling political coalition	Rassemblement Des Republicains (RDR) and Parti Democratique de Cote d'Ivoire (PDCI)
Main opposition party	Front Populaire Ivoiriem (FPI)
Elections	President Ouattara re-elected in October 2015. Mr Daniel Kablan Duncan was appointed Prime Minister (and Finance Minister) in November 2012 and re-appointed in both positions in January 2016. Presidential and parliamentary elections occur every five years (the next presidential election is expected in 2020).
Demographics	
Population	22.7mn (2015E); 2.3% growth rate
Life expectancy	52.8 years
Main ethnic groups	Akan (42.1%), Voltaiques or Gur (17.6%), Northern Mandes (16.5%) and others
Main languages	French, Dioula
Adult literacy	41.0%
Urban population	53%
Economic structure	
GDP	USD31.3bn (2015E); USD33.7bn (2014); 4.2% average real growth rate for 2006-2015
GDP per capita (USD)	USD1,319 (2015E); USD1,460(2014)
GDP by sector	Primary (28 %), Secondary (27 %), Tertiary (44 %)
Main industries	Cocoa, rubber, coffee, palm oil, cotton, crude oil
Business development indicators	
2014 Corruption Perceptions Index ranking	107 (out of 168)
2015-16 Global Competitiveness Index ranking	91 (out of 144)
2015 Ease of Doing Business ranking	142 (out of 189)
2014 Human Development Index ranking	172 (out of 188)
2015 Mo Ibrahim Index of African Governance	35 (out of 54)

Source: National Sources, IMF, World Bank, United Nations Statistics Division, Barclays Research

FIGURE 3

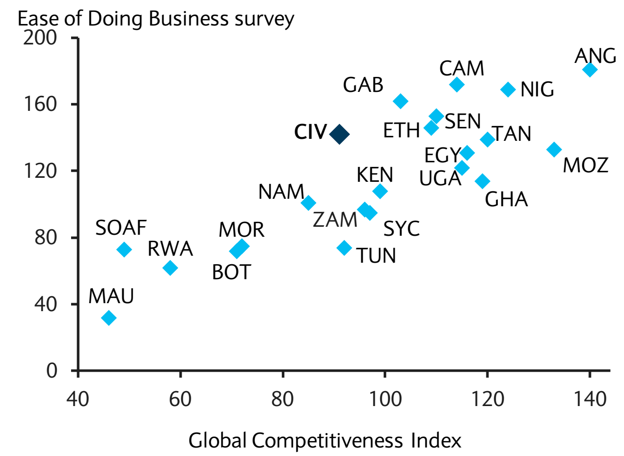
Cote d'Ivoire: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Cote d'Ivoire: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **Lower commodity prices remain a threat to the economy and fiscal performance in 2016.**
- **Cote d'Ivoire issued its first CFA150bn Sukuk at the end of 2015 and plans to issue another, similarly-sized one in 2016.**

Key indicators to watch

Indicator	Data availability	Rationale
Cocoa prices and production	ICCO/Reuters/Bloomberg/CACAO	Cote d'Ivoire is the largest cocoa producer in the world and an important export revenue earner.
IMF programmes	IMF website	Important signposts for policy formation, implementation and relations with international donors. The three-year ECF programme with the IMF ended in November 2014, though authorities requested the arrangement to be extended to 31 December 2015. This too has now ended and a successor program will be discussed in early 2016.
Oil prices and production	Announcement from oil firms/ Reuters/Bloomberg/BCEAO reports	Petroleum is key in the export basket.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	-4.4	10.7	8.7	7.9	8.4	8.4	8.1
Nominal GDP (USD bn)	25.4	27.2	31.1	33.7	31.3	34.8	38.9
Cocoa production ('000 tonnes)	1,559	1,449	1,746	1,741	1,770	…	…
CPI (pavg, % y/y)	4.9	1.3	2.6	0.4	1.4	2.0	2.0
Fiscal balance (% GDP)	-4.0	-3.1	-2.3	-2.3	-3.7	-3.5	-3.4
Revenue and grants (% GDP)	14.4	18.9	19.8	19.8	21.2	20.7	20.9
Expenditure (% GDP)	18.4	22.1	22.1	22.0	24.8	24.2	24.3
Public debt (% GDP)	93.3	44.5	43.6	47.0	47.9	45.1	44.1
Total investment (% GDP)	10.5	16.5	17.0	16.8	18.4	19.9	20.7
Current account balance (% GDP)	10.5	-1.2	-1.4	-0.7	-2.3	-2.9	-3.7
Trade balance (% GDP)	13.6	11.3	9.6	10.9	9.2	8.5	8.7
Gross imputed reserves (XOF bn)	2.1	1.3	1.3	1.6	1.8	2.2	2.5
Months of imports	5.6	2.6	2.7	2.6	2.9	3.2	3.3

Source: IMF, BCEAO, Barclays Research

Foreign trade flows*

- **Petroleum products (crude and refined oil products) and cocoa account for the bulk of exports.**
- **Along with weaker commodity prices, the focus on infrastructure investment, which implies continued strong capital imports, is likely to keep the current account balance in a small deficit.**

Exports		
Top product groups	USD bn	% y/y
Agricultural products	7.5	16.2
Manufactures	2.7	-27.4
Fuel and other mining products	1.9	-33.9

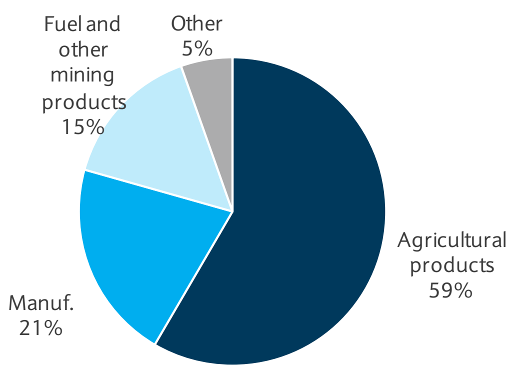
Note: *2014. Source: WTO, Official offices, Barclays Research

Imports		
Top product groups	USD bn	% y/y
Manufactures	5.9	-20.2
Fuel and other mining products	3.0	-10.1
Agricultural products	1.9	1.8

Source: WTO, Official offices, Barclays Research

FIGURE 5

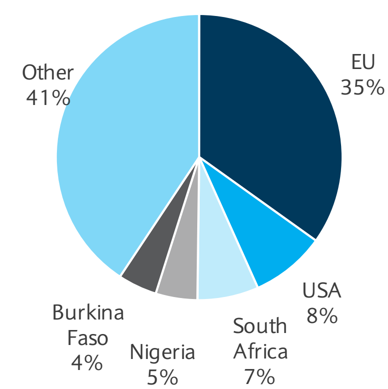
Main export groups



Source: WTO, Official offices, Barclays Research

FIGURE 6

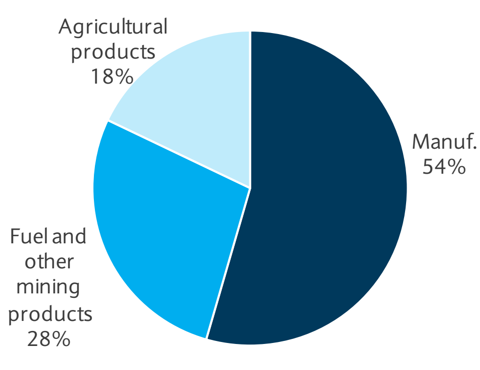
Main export destinations



Source: WTO, Official offices, Barclays Research

FIGURE 7

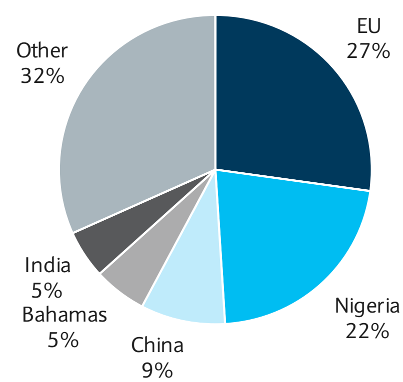
Main import groups



Source: WTO, Official offices, Barclays Research

FIGURE 8

Main origin of imports



Source: WTO, Official offices, Barclays Research

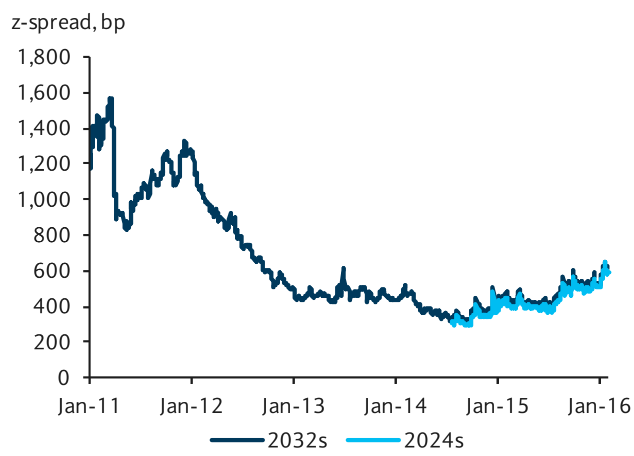
External credit snapshot

Overview	Cote d'Ivoire currently has three trading Eurobonds, the USD2.5bn 2032s issued in 2010; the USD750mn 2024s issued in July 2014; and the USD1bn 2028s issued in 2015.
Credit rating	Moody's Investor Service and Fitch Ratings both assigned their first credit ratings to Cote d'Ivoire in July 2014. Fitch assigned a B long-term foreign currency debt rating to the country, while Moody's rating was B1/B+. Moody's upgraded Cote d'Ivoire's rating to Ba3 with a stable outlook on 5 November 2015, while Fitch upgraded its rating to B+ in December 2015. On the upgrade of its ratings, Moody's noted the consolidation of political stability following successful presidential elections (25 October 2015), a positive trend in the country's public finances (supported by very strong growth prospects) as well as an improvement in governance and institutional strength. Relative stability in debt metrics and political risks is expected over the medium term.
Market participants	Cote d'Ivoire Eurobonds attract interest from global institutional investors.
Coverage centre	Research in London and South Africa.

Issuer	Maturity	Announced	Amount	Coupon	Series
Cote d'Ivoire	31 Dec 2032	15 Mar 2014	USD2.518bn	5.75% S/A	REGS/144A
Cote d'Ivoire	23 Jul 2024	16 Jul 2014	USD750mn	5.375% S/A	REGS/144A
Cote d'Ivoire	03 Mar 2028	24 Feb 2015	USD1bn	6.375% S/A	REGS/144A

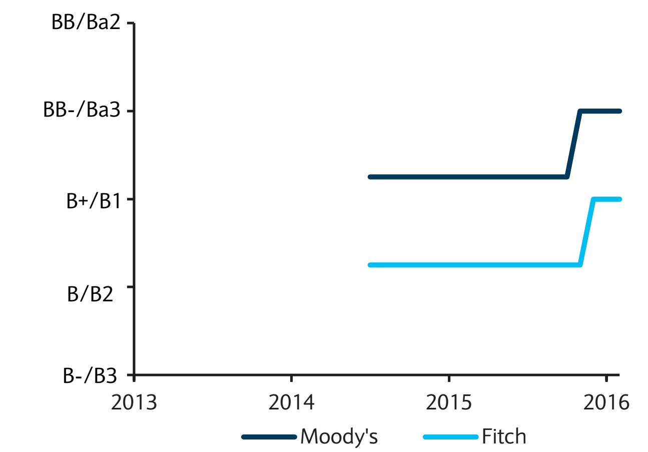
Source: Bloomberg, Barclays Research

FIGURE 9
Cote d'Ivoire: Eurobond performance



Source: Bloomberg, Barclays Research

FIGURE 10
Cote d'Ivoire: Credit rating history



Source: Bloomberg, Moody's, Fitch, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
Government of Cote D'Ivoire:	www.gouv.ci
Ministry of Finance:	www.finances.gouv.ci
Regional stock exchange:	http://www.brvm.org
International Monetary Fund:	http://www.imf.org/external/country/CIV/index.htm

ETHIOPIA

Credit rating	
Long-term foreign currency rating	B (Fitch)
	B (S&P)
	B1 (Moody's)

Source: Bloomberg

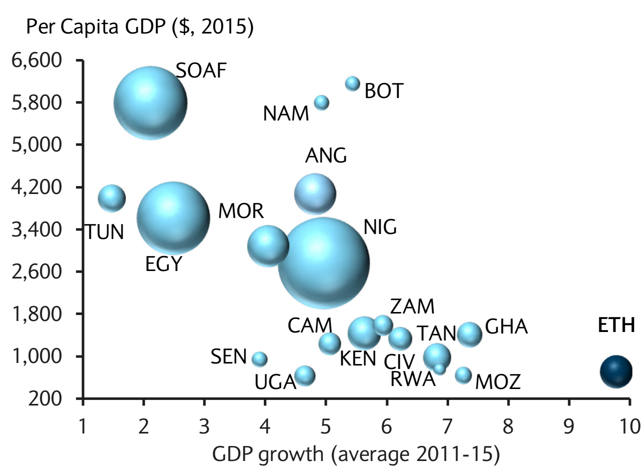
Policy environment

- **Ethiopia's economic growth remains amongst the strongest in the African continent, averaging 10.4% over the past decade.**
- **Authorities aim to keep the fiscal deficit within 3% of GDP. Debt levels have increased significantly in recent years.**

Monetary policy: The main objectives of the National Bank of Ethiopia's (NBE) monetary policy are to maintain price and exchange rate stability, to foster a sound financial system and to support sustainable economic growth. In achieving these objectives, the Bank uses reserve money as the nominal anchor and broad money supply as the intermediate target. Money supply is typically planned to expand in line with nominal GDP growth. Accordingly, in 2014-15, reserve money increased by 14.7% while broad money supply rose by 24.7%. The NBE's policy stance succeeded in restricting core inflation (non-food) to single digits, dropping to 8.0% in FY 2014-15 from 10% in FY 2013-14. In policy discussions with authorities in the 2015 Article IV Consultation, the IMF noted that monetary policy should remain geared towards keeping core inflation below 10%. The Fund affirmed that reserve money continues to serve as an effective nominal anchor given that monetary instruments are not yet in effective use and, more generally, the economy's weak monetary transmission mechanism. With risks to the outlook for core inflation, the Fund recommended reserve money growth below that of nominal GDP and the phasing out of NBE advances to the government (c.1% of GDP in FY 2014-15). Non-food inflation was 7.9% y/y at end-2015, easing from 9.6% at end-2014. Meanwhile, overall inflation was 10.1% y/y and 7.4% at the respective periods as severe drought pushed food prices significantly higher (food inflation more than doubled to end 2015 at 12.1% y/y). FX depreciation and food price pressure continue to pose a risk to the inflation outlook and we expect the Bank to maintain a cautious stance through 2016.

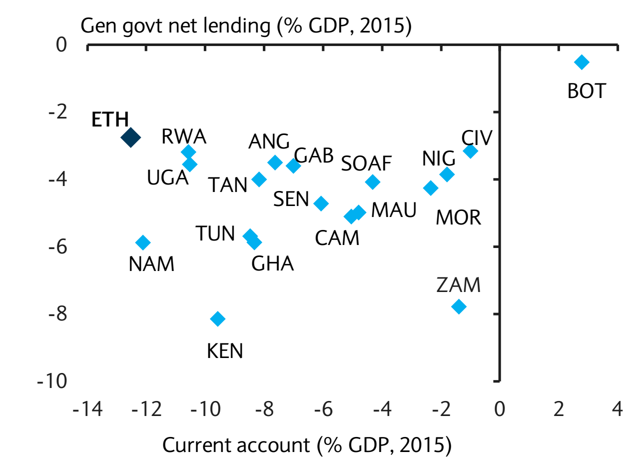
Exchange rate policy: The local currency is the birr (ETB). The exchange rate regime is defined as a "crawl-like arrangement" (IMF). The country has a history of currency devaluations, the last being in September 2010, when the birr was devalued by 17%. Since then, the currency has weakened steadily, depreciating by 22% over the past five years

FIGURE 1
Ethiopia: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2
Ethiopia: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

(4.4% in 2015). The IMF recently affirmed that the exchange rate appears overvalued in real effective terms and encouraged authorities to allow greater (exchange rate) flexibility in order to facilitate external adjustment. The economy is characterised by a persistently large current account deficit and low FX reserves (less than two months of import cover) which imply further depreciation risk for the birr.

Fiscal policy: Ethiopia's fiscal strategy is largely driven by The Growth and Transformation Plan (GTP). Under GTPII, which was launched in 2015, the government continues to aim to keep the fiscal deficit within 3.0% of GDP in the medium term. Informed by its pro-poor growth policy, over 70% of the government's budget is allocated to priority areas including education, agriculture, health, rural electrification and urban development. With a view to financing a growing part of spending through domestic sources, the government aims to improve tax collection and administration. Revenue (excluding grants) is estimated to have risen to 15% of GDP in FY 2014-15 from 14% in the previous fiscal year. Considering expenditure of 19.2% of GDP, the fiscal deficit was estimated at 2.8% of GDP in FY 2014-15. In the current fiscal year (FY 2015-16), the budget deficit is projected to remain at about 2.8% of GDP (IMF). Although the deficit is expected to remain contained, the IMF noted in its 2015 Article IV Consultation that external non-concessional public borrowing should slow down, in light of an increase in the risk of external debt distress from "low" to "moderate", caused by higher-than-expected non-concessional borrowing and export underperformance in 2014-15. Public debt (central government and state entities, excluding Ethiopian Airlines) was 50.2% of GDP in FY 2014-15 and is projected to total 57.1% of GDP in FY 2015-16 (IMF). The increase in debt reflects a sharp rise in borrowing by state-owned enterprises to finance their investments in line with the GTP, while the country also issued its maiden eurobond worth USD1bn at the end of 2014, which was earmarked for infrastructure spending.

Political environment: Historically, the political landscape has been volatile but it stabilised after the 2005 elections which were marred by post-election violence. The ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) has been in power since 1991. The last parliamentary elections were held in May 2015, which were the fifth since 1995. The elections were judged to have been calm, peaceful and credible by the AU observer mission which was the only international observer present on the ground. The EPRDF won 500 of the 547 seats available while the party's allies won the remainder. There is no effective opposition since other smaller parties have joined the EPRDF in an alliance. Notwithstanding the ruling party's overwhelming electoral wins, political volatilities persist with reported intimidation of opposition parties and sporadic sectarian clashes.

Development framework: The long-term development framework is underpinned by five-year Growth and Transformation Plans (GTPs). The second GTP (GTPII, which covers the fiscal years 2015-16 to 2019-20) was endorsed by the parliament in December 2015 and has an overarching objective of elevating the country to middle income status by 2025. GTPII builds on GTPI, which focused on strengthening the agricultural sector and improving infrastructure. GTPII aims to achieve an annual average real GDP growth rate of 11% within a stable macroeconomic environment, while at the same time pursuing aggressive measures towards rapid industrialisation and structural transformation. Achievement of the GTPII objectives is hinged on several strategic pillars including sustained rapid growth (as in the GTPI period), bridging critical infrastructure gaps, enhancing the transformation of the domestic private sector as well as improving productivity and competitiveness. Amongst a wide range of targets, GTPII will pursue several energy and transport sector projects while also increasing the share of manufacturing in the overall economy.

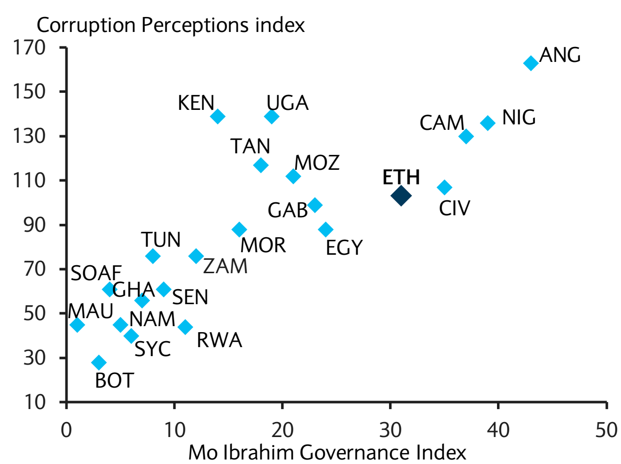
Country snapshot

Indicator	Latest
Government	
Government type	Federal Republic
Head of state	Prime Minister Hailemariam Desalegn (since 2012)
Ruling political party	Ethiopian People's Revolutionary Democratic Front (EPRDF)
Main opposition	No opposition as the EPRDF and its allies won all seats in the May 2015 elections.
Elections	Elections are held every five years. The EPRDF won the 2015 elections by an overwhelming margin. The next elections are scheduled for 2020.
Demographics	
Population	99.3mn (2015E); 2.6% growth rate
Life expectancy	65.7 years
Main ethnic groups	Oromo 34.4%, Amhara (Amara) 27%, Somali (Somalie) 6.2%, Tigray (Tigrinya) 6.1%, Sidama 4%
Main languages	Oromigna, Ahmaric, Somali, English, Arabic
Adult literacy	39%
Urban population	19%
Economic structure	
GDP	USD63bn (2015E); USD54.8bn (2014); 10.4% average real growth rate for 2006-2015
GDP per capita (USD)	USD702 (2015E); USD620(2014)
GDP by sector	Services (47%); Agriculture (39%); Industry (15%)
Main industries	Agriculture (coffee, livestock); textile and leather
Business development indicators	
2015 Corruption Perceptions Index ranking	103 (out of 168)
2015-16 Global Competitiveness Index ranking	109 (out of 144)
2015 Ease of Doing Business ranking	146 (out of 189)
2014 Human Development Index ranking	174 (out of 188)
2015 Mo Ibrahim Index of African Governance	31 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, Official offices, Barclays Research

FIGURE 3

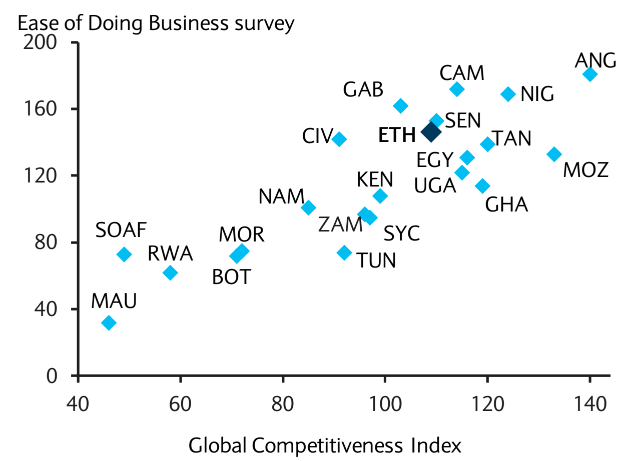
Ethiopia: Relative ranking in the Corruption Perceptions Index and Ibrahmin Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Ethiopia: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **Real GDP growth is broadly expected to remain robust at above 8% in the medium term while inflation is projected to average close to 10% y/y.**
- **Coffee remains a key export product (about a fifth of total exports). Current account deficits remain sizeable, posing a risk to the exchange rate.**

Key indicators to watch

Indicator	Data availability	Rationale
Aid flows/multilateral assistance	IMF/World Bank/Ministry of Finance/BNR.	Important signposts for policy formation, implementation and relations with international donors.
Annual government budget	Delivered in June each year.	Sets out the course of fiscal policy.
NBE Quarterly Bulletin	Published quarterly by the NBE.	Provides an assessment of overall economic developments and key data updates.
Inflation	Data released monthly by the CSA.	Ethiopia has a history of high inflation.

Source: Barclays Research

Key macro data

	2010-11	2011-12	2012-13	2013-14	2014-15F	2015-16F	2016-17F
GDP (real, % y/y)	11.4	8.7	9.8	10.3	8.7	8.1	7.6
Nominal GDP (USD bn)	32.0	43.1	47.5	54.8	61.8	69.7	77.1
CPI (pavg, % y/y)	17.9	33.9	13.5	8.1	7.7	10.4	8.5
Total investment (% GDP)	31.2	30.8	35.6	36.8	40.0	37.1	35.9
Fiscal balance (% GDP)	-1.6	-1.2	-1.9	-2.6	-2.8	-2.8	-2.6
Revenue and grants (% GDP)	16.6	15.5	15.9	15.1	16.4	15.7	16.1
o/w grants (% GDP)	3.3	1.7	1.5	1.1	1.4	1.0	1.1
Expenditure (% GDP)	18.2	16.6	17.8	17.7	19.2	18.5	18.7
Public debt (% GDP)*	37.8	32.7	36.9	41.2	50.3	57.2	61.2
o/w Domestic	15.6	14.8	16.6	19.1	24.1	28.4	30.2
External	22.2	17.9	20.3	22.1	26.2	28.8	31.0
Current account balance (% GDP)	-2.5	-6.9	-5.9	-8.0	-12.8	-9.4	-8.5
Trade balance (% GDP)	-17.2	-18.2	-17.6	-19.1	-21.8	-18.9	-17.9
Official reserves (USD bn)	3.0	2.3	2.4	2.5	3.3	2.8	2.9
Months of imports	2.7	2.0	1.8	1.5	2.0	1.6	1.5

Note*: General government and state-owned enterprises (ex. Ethiopian Airlines). Source: IMF, Barclays Research

Foreign trade flows

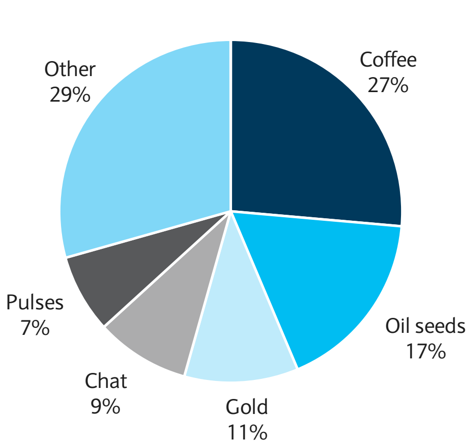
Exports		
Top product groups	**USD mn**	**% y/y**
Coffee	781	9.3
Oil seeds	510	-21.8
Gold	319	-30.1
Chat	272	-8.4

Note: FY 2014-15. Source: NBE, Barclays Research

Imports		
Top product groups	**USD mn**	**% y/y**
Capital goods	6,882	42.0
Consumer goods	4,511	22.1
Semi-finished goods	2,578	15.5
Fuel	2,041	-20.7

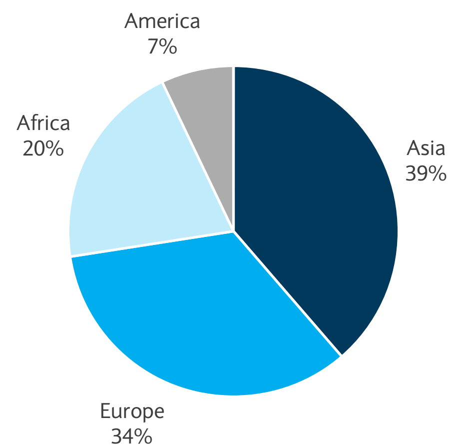
Note: FY 2014-15. Source: NBE, Barclays Research

FIGURE 5
Main export groups



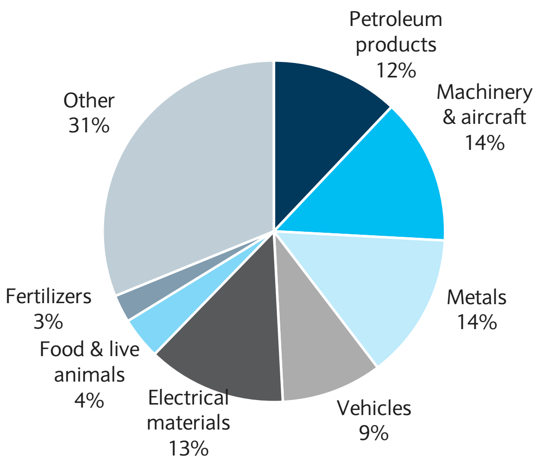
Note: 2014-15. Source: NBE, Barclays Research

FIGURE 6
Main export destinations



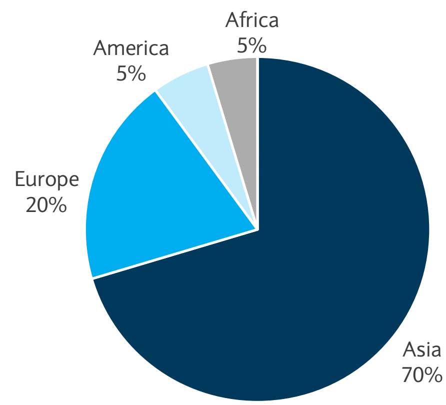
Note: 2014-15. Source: NBE, Barclays Research

FIGURE 7
Main import groups



Note: 2014-15. Source: NBE, Barclays Research

FIGURE 8
Main origins of imports



Note: 2014-15. Source: NBE, Barclays Research

External credit snapshot

Overview	Ethiopia launched its maiden eurobond, a USD1bn 10y issue, in December 2014. The issue is rated B by Standard & Poor's and B1 by Moody's.
Credit rating	Ethiopia is currently rated B by Standard & Poor's and Fitch, both with stable outlooks. Moody's credit rating is a notch higher at B1/B+ (stable). All three ratings were first assigned in May 2014. Key drivers of the agencies' ratings on Ethiopia include strong economic growth over the past decade (c.10.5%), weak institutional strength, low per capita income and vulnerability to shocks. Ethiopia's debt ratios have also improved significantly since HIPC debt relief in 2005-2007. Susceptibility to event risks mainly relates to the country's location in the Horn of Africa, which is prone to instability and geopolitical risk (Moody's).

Issuer	Maturity	Announced	Amount	Coupon	Series	Additional information
Federal Rep of Ethiopia	11 Dec 2024	4 Dec 2014	USD1bn	6.625% S/A	REGS/144A	

Source: Bloomberg, Barclays Research

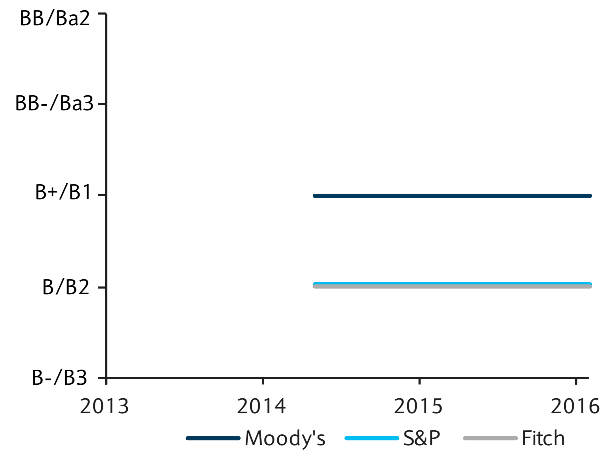
FIGURE 9

Ethiopia: Eurobond performance

Source: Bloomberg, Barclays Research

FIGURE 10

Ethiopia: Credit rating history



Source: Bloomberg, S&P, Fitch, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
Central Statistical Agency:	http://www.csa.gov.et
National Bank of Ethiopia:	http://www.nbe.gov.et/
Ministry of Finance and Economic Development:	http://www.mofed.gov.et
Ethiopian Government Portal:	http://www.ethiopia.gov.et
International Monetary Fund:	http://www.imf.org/external/country/ETH/index.htm

GABON

Credit rating	
Long-term foreign currency rating	B (S&P) B+ (Fitch) Ba3 (Moody's)

Source: Bloomberg

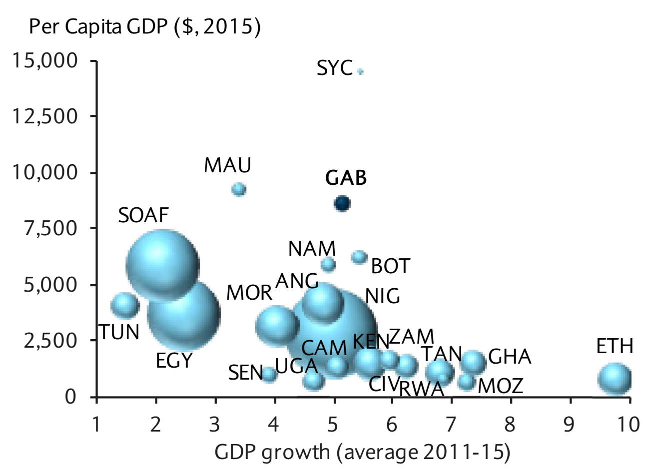
Policy environment

- **Gabon's economic outlook has worsened further ahead of its elections towards the end of 2016.**
- **The deteriorating economy has seen political tensions increase, while the country's sovereign rating was also lowered by S&P in January 2016.**

Monetary policy: Gabon is one of six member countries comprising the Economic and Monetary Community of Central Africa (or CEMAC, with other members being Cameroon, Central African Republic, Chad, Equatorial Guinea and Republic of Congo). Monetary policy is managed by the regional central bank, the Banque des Etats de l'Afrique Centrale (BEAC), which has currency and price stability as its main objective. Monetary policy is set by the Monetary Policy Committee, which defines the objectives for net foreign assets, growth of credit, money supply and other targets for each of its member states. To achieve its objectives, the Bank uses indirect monetary policy instruments, including liquidity management and the imposition of reserve requirements. Monetary policy is influenced by that of the European Central Bank as a result of the CFA's peg to the euro. Following policy easing at the ECB, the Bank adopted an easing stance in mid-2014, with its most recent reduction in the policy rate coming in July 2015, when it reduced the policy rate a further 50bp to 2.45%. Gabon's inflation trajectory has shifted downwards in 2015: after recording an average inflation rate of 4.8% y/y in 2014, inflation was negligible in H1 15. With FX pressures affecting inflation in H2, we estimate inflation at about 1% for the year as a whole. At its most recent MPC in December 2015, the BEAC noted a marginal decline in inflationary pressures for the region. In terms of monetary policy, we expect the focus to remain on economic growth, which suggests further policy easing remains an option in an effort to support regional growth.

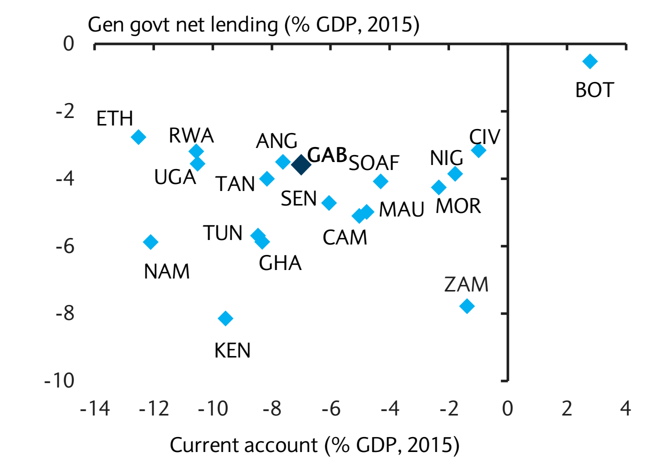
Exchange rate policy: The CFA franc (XAF) is pegged to the euro (1 EUR = 655.957 XAF) and used by the six CEMAC countries. Therefore, the FX rate against the USD moves in line with the EURUSD FX rate. The XAF depreciated 11% against the USD in 2015, ending the year at XAF610.20/USD. Given our expectation for the EUR to weaken against further against the USD in 2016, we expect the XAF to depreciate in tandem against the USD.

FIGURE 1
Gabon: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2
Gabon: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

Fiscal policy: Gabon has adopted a very ambitious infrastructure investment programme, called the National Infrastructure Master Plan (PDNI). However, the 15-year plan is putting significant strain on public finances given that oil revenues and oil production are under severe pressure. With oil historically accounting for about 60% of total fiscal revenues, the sharp fall in oil prices is having a significant effect on public finances. After the government revised its initial budget assumptions to take into account the lower oil prices, the World Bank estimated the projected oil revenues were 42% lower than in the initial 2015 budget. As a result, the fiscal deficit for 2015 was projected at 3.3% of GDP from a healthy surplus in the preceding year – the first deficit since 1998. The larger funding gap saw government issuing a USD500mn Eurobond in June 2015, while spending was reined in drastically during the year. The draft 2016 budget assumes additional cuts to both current and development spending. The IMF proposed that Gabon not only widen the tax base and reduce subsidies but also seek private funding for some of its projects. Development spending fell sharply in recent years due to lower revenues and difficulties implementing some of the projects, though public sector wages continued to rise. The government is also reviewing its draft 2016 budget following the fall in oil prices since it was first discussed in October 2015. Public debt has risen from 29% of GDP at the end of 2014 above the government's ceiling of 35% in 2015. The World Bank estimates that public debt may have increased to about 37% of GDP at the end of 2015, still below the CEMAC ceiling of 60%. The deteriorating fiscal outlook was one of the reasons S&P downgraded the country's sovereign rating to 'B' from 'B+' (stable outlook) at the end of January 2016.

Regulatory and tax environment: Exchange controls are supervised by the BEAC. Withholding tax applies on dividends and interest received by resident and non-resident companies, while a 15% withholding tax applies to dividends paid by residents to non-resident companies.

Political environment: Although Gabon remains a stable country, it has a history of social tensions and political volatility. Presidential elections are held every seven years. President Ali-Ben Bongo Ondimba has been in power since 2009 after his party, the Gabonese Democratic Party (PDG), won the August 2009 elections with 42% of the vote. The otherwise stable political environment has been disrupted occasionally by unrest and challenges to President Bongo's presidency. Moreover, opposition leaders continue to challenge the legitimacy of President Bongo's presidency. 2014 also saw a wave of protests and strikes in the oil sector amid increasing frustrations about living conditions and the rising cost of living. The next presidential elections are likely to be in late 2016, and we expect social and political tensions to rise ahead of the elections.

Development framework: Gabon's strategic plan, the Emerging Gabon Strategic Plan (PSGE), aims to transform the country into an emerging and diversified economy by 2025. The government seeks to obtain this target by the rapid development of infrastructure. To this extent, the National Infrastructure Master Plan (PDNI) was developed and outlines a strategy for infrastructural development. The PDNI comprises 21 major projects that will be developed over six years and includes a range of sectors such as electricity, transport, tourism, housing and mining. According to the government, the ambitious plan is likely to cost a total of USD11bn, and the country will need assistance in funding the cost of the project. Gabon is attempting to diversify the economy away from oil, which has seen production decline steadily in recent years. The country is seeking closer relationships with China (it already exports timber, oil and manganese to China), while its relationship with France has weakened in recent months.

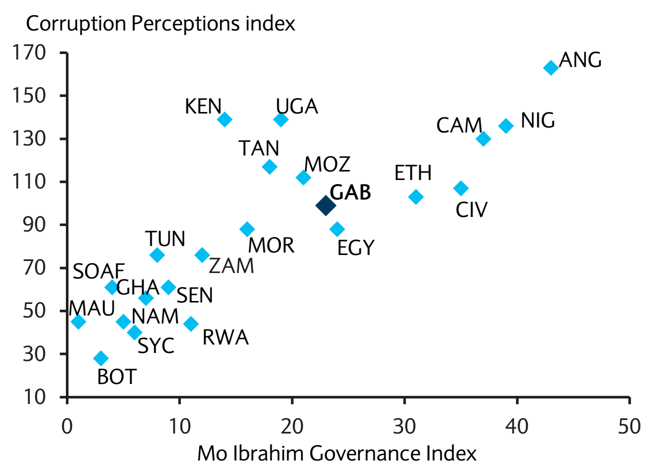
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Ali Bongo Ondimba (since October 2009)
Ruling political coalition	Gabonese Democratic Party (PDG)
Main opposition party	UPG, UGDD,
Elections	The President is elected by popular vote for a seven-year term. The next elections are due in 2016.
Demographics	
Population	1.6mn (2015E); 0.3% growth rate
Life expectancy	66 years
Main ethnic groups	Fang, Bapounou, Nzebi, Obamba and others
Main languages	French (official), Fang, Myene, Nzebi Bapounou/Eschira, Bandjabi and others
Adult literacy	82.3%
Urban population	87%
Economic structure	
GDP	USD13.8bn (2015E); USD18.2bn (2014); 3.6% average real growth rate for 2006-2015
GDP per capita (USD)	USD8,581 (2015E); USD11,484 (2014)
GDP by sector	Services (33%), Agriculture (4%), Industry (63%)
Main industries	Petroleum extraction and refining, manganese, gold, chemicals, shipping, textiles, cement
Business development indicators	
2014 Corruption Perceptions Index ranking	99 (out of 168)
2015-16 Global Competitiveness Index ranking	103 (out of 144)
2015 Ease of Doing Business ranking	162 (out of 189)
2014 Human Development Index ranking	110 (out of 188)
2015 Mo Ibrahim Index of African Governance	23 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, Official offices, Transparency International, Barclays Research

FIGURE 3

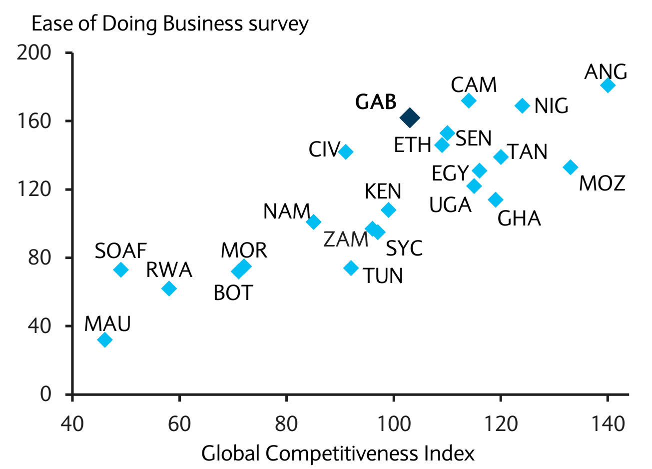
Gabon: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Gabon: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **Pressure on the oil sector remains significant as a result of weaker prices and labour disputes.**
- **The focus has shifted to diversifying the economy away from oil through Gabon's very ambitious industrialisation drive.**

Key indicators to watch

Indicator	Data availability	Rationale
Oil prices and production	Announcement from oil firms and government	Oil accounts for the bulk of government and export revenues.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014F	2015F	2016F	2017F
GDP (real, % y/y)	7.1	5.3	5.6	4.3	3.5	4.9	5.1
Nominal GDP (USD bn)	18.2	17.2	17.6	18.2	13.8	14.2	15.5
Brent crude (USD/bbl)*	111	112	109	100	54	37	60
Total investment (% GDP)	30.6	23.3	26.5	26.8	31.9	31.5	32.1
CPI (period average, % y/y)	1.3	2.7	0.5	4.8	0.6	2.5	2.5
Fiscal balance (% GDP)	2.5	1.6	1.8	2.7	-3.6	-2.5	-1.4
Revenue and grants (% GDP)	29.0	30.1	30.2	26.1	21.5	23.4	23.8
Expenditure (% GDP)	26.5	28.5	28.4	23.5	25.1	25.9	25.2
Public debt (% GDP)	17.9	19.9	29.2	28.9	38.7	41.7	39.1
Current account balance (% GDP)	12.8	15.9	12.3	8.3	-7.0	-4.2	-3.0

Note*: Barclays Commodities Research forecasts. Source: IMF, EIA, Barclays Research

Foreign trade flows*

Exports

Top product groups	USD mn	% y/y
Oil and other mining products	7,953	-8.0
Agricultural products	652	14.0
Manufactures	277	11.7

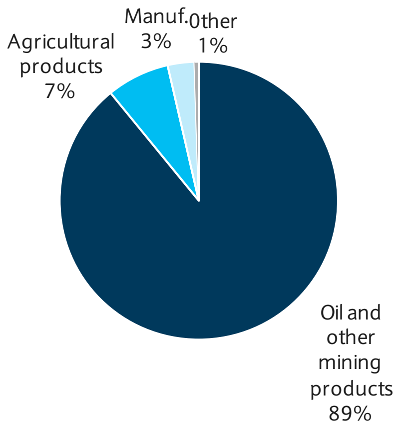
Note: * 2014. Source: WTO, Barclays Research

Imports

Top product groups	USD mn	% y/y
Manufactures	2,230	-23.7
Agricultural products	533	-23.0
Fuel	218	-10.6

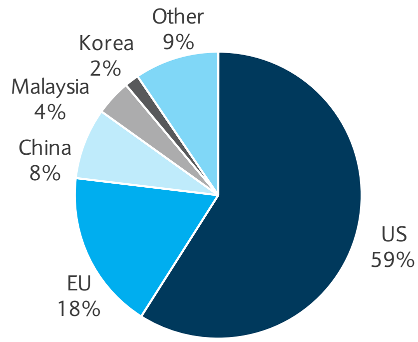
Source: WTO, Barclays Research

FIGURE 5
Main export groups



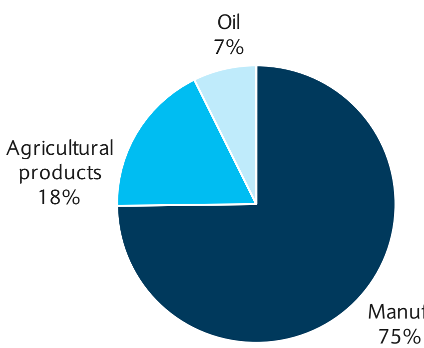
Source: WTO, Barclays Research

FIGURE 6
Main export destinations



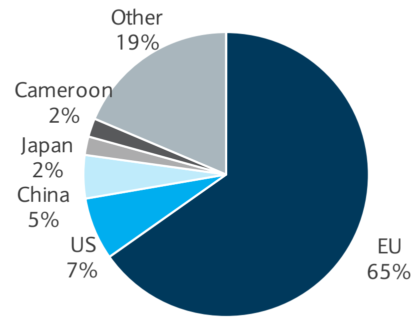
Source: WTO, Barclays Research

FIGURE 7
Main import groups



Source: WTO, Barclays Research

FIGURE 8
Main origins of imports



Source: WTO, Barclays Research

External credit snapshot

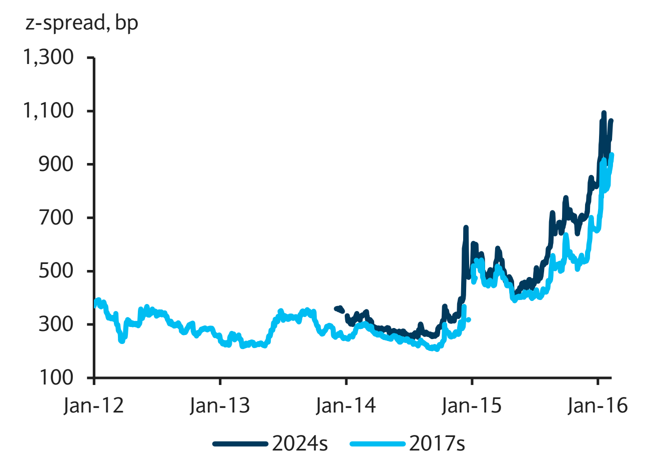
Overview	Gabon currently has three eurobonds in issue, the USD1.5bn 2024 that was issued in December of 2013; the older USD185mn 2017 (original issue size USD1bn); and the USD500mn 2025s, issued in June 2015.
Credit rating	Gabon's long-term foreign currency debt rating is currently B+/Ba3 at Fitch and Moody's. Moody's assigned its first time rating for the country in December 2014 (stable outlook). Fitch Ratings revised its outlook to negative in the same month and maintained the rating in November 2015 with a stable outlook. Standard & Poor's lowered its rating on the country by a single notch to B+ on February 2015 and further to 'B' (outlook stable) as the agency adjusted for lower oil price assumptions, expressing concerns about the country's external and fiscal imbalances. Gabon's vulnerability to the oil sector is an overriding ratings driver. The oil sector accounts for the bulk of fiscal and export revenues and close to half of GDP. The country's low debt burden and high GDP per capita are supportive factors for the ratings. Low economic governance and socioeconomic disparities are constraints.
Coverage centre	Research in South Africa and London.

Issuer	Maturity	Announced	Amount outstanding	Coupon	Series	Additional information
Gabonese Republic	12 Dec 2024	4 Dec 2013	$1.5bn	6.375% S/A	REGS/144A	Bond repays in three equal tranches in 2022/23/24.
Gabonese Republic	12 Dec 2017	5 Dec 2007	$161mn	8.2% S/A	REGS/144A	Original issue size was $1bn.
Gabonese Republic	16 Jun 2025	09 Jun 2015	$500mn	6.95% S/A	REGS/144A	

Source: Bloomberg, Barclays Research

FIGURE 9

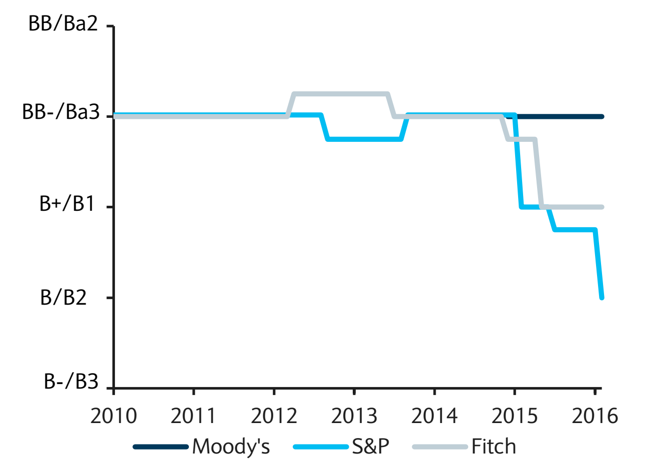
Gabon: Eurobond performance



Source: Bloomberg, Barclays Research

FIGURE 10

Gabon Long-term foreign currency credit rating history



Source: Bloomberg, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
Government of Gabon:	www.en.legabon.org
Ministry of Finance:	www.finances.gouv.ga
Banque des Etats de l'Afrique Centrale:	www.beac.int
International Monetary Fund:	www.imf.org/external/country/GAB/index.htm

GHANA

Credit rating	
Long-term foreign currency rating	B- (S&P) B (Fitch) B3 (Moody's)

Source: Bloomberg

Policy environment

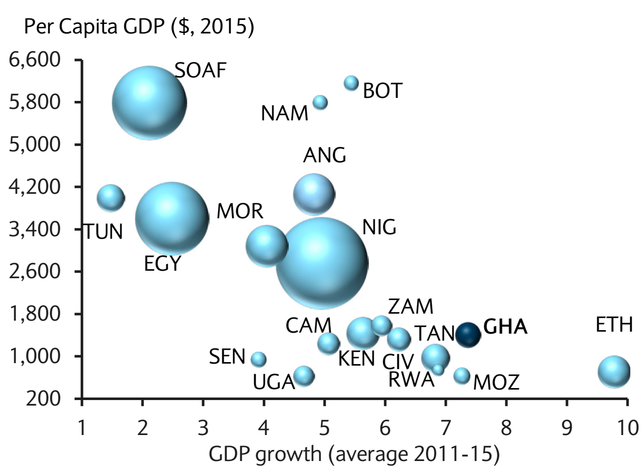
- **Following a challenging 2015, we view the expected completion of the TEN project by mid-2016 as positive for Ghana's economic outlook.**
- **Despite the IMF-backed reforms, fiscal challenges continue to be significant and it remains to be seen whether the government will be able to maintain discipline ahead of the elections.**

Monetary policy: The Bank of Ghana's (BoG) main policy objective is to ensure price stability, which is determined by the government's inflation target. This target is announced annually in the Budget statement. For 2016, the government set the inflation target in line with the medium-term target which is a year-end rate of 8.0% y/y with a band of +/-2pp. This is markedly lower than the year-end 2015 inflation target of 11.5% y/y with a band of +/-2pp. Headline inflation remained well above the target band during 2015, increasing from 16.4% y/y in January to 17.7% at the end of the year. Food inflation continued to rise (December: 8.0% y/y) while non-food inflation remained above 20% y/y. The sharp depreciation of the cedi, particularly in H1 15, underpinned the rise in inflation and remains a risk in 2016 alongside rising utility, transport and food prices. The Public Utilities Regulatory Commission's (PURC) approval of steep water (up to 89%) and electricity (+59%) price increases in December 2015 is likely to drive inflation higher into 2016 despite the positive impact of lower oil prices. After hiking the policy rate by 500bp in 2015, the MPC of the Bank of Ghana (BoG) resisted further policy tightening at its January meeting. However, with inflation edging closer to 20%, the bias remains towards further policy tightening in coming months.

Exchange rate policy: Ghana maintains a managed floating exchange rate regime for the cedi, with no pre-announced path for the exchange rate. The currency remains vulnerable to persistently large twin deficits, which has resulted in large, double-digit depreciations annually against the USD since 2008. After selling off heavily in H1 15, the cedi found support from Eurobond and Cocobod inflows in H2 15 to record a 15% depreciation overall against the USD. Lower prices for Ghana's key commodities imply another large current account deficit in 2016, which, in addition to further USD-strength, suggest a bearish outlook for the currency. Potential additional oil production from the TEN field is likely to be FX supportive in H2 16.

FIGURE 1

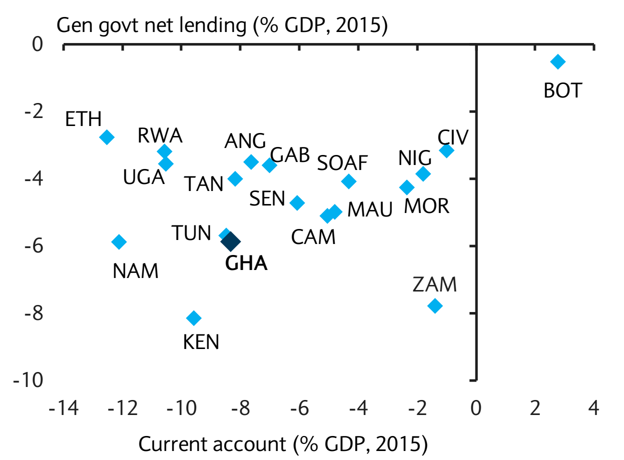
Ghana: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2

Ghana: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

Fiscal policy: Ghana's fiscal strategy is based on its three-year Medium Term Development Plans, which has been developed using the Ghana Shared Growth and Development Agenda II, (2014-2017). Following several years of fiscal slippage, deteriorating economic conditions forced Ghana into an IMF programme to help with fiscal reforms and return to macroeconomic stability. Reforms include the development of a Treasury Single Account (TSA, not implemented as yet) and several expenditure management initiatives. The 2015 budget, presented on 15 November, demonstrated encouraging progress in returning to fiscal sustainability as Ghana was on track to achieve 7.3% of GDP fiscal deficit. Fiscal authorities revised the initial target of 6.5% of GDP in the Mid-Term Review after it became clear that both revenue and spending challenges would likely result in missing its target. For 2016, the government is targeting an overall budget deficit of 5.3% of GDP which would bring it on course for its medium-term target of 3.0% by 2018. The government is facing significant challenges this year as election-related spending and likely revenue disappointments on the back of lower commodity prices remain key upside risks to the deficit. Total oil receipts are estimated at GHS2bn (1.3% of GDP or 5.3% of total revenues) though this assumes a benchmark crude oil price of USD53/bbl, well above the prevailing price of about USD30/bbl as of the time of writing. Another major concern is the large financing gap, with authorities planning to once again tap international markets. In December 2015, the National Assembly approved the issuance of a fifth Eurobond (USD1bn bond) sometime in 2016 dependent on market conditions. Meanwhile, total debt is around 71% of GDP and expected to rise further in 2016.

Regulatory and tax environment: Foreign investors in listed stocks and all fixed income instruments with an original tenor of two years or more can remit capital, profits and related income freely. Interest on government bonds is exempt from withholding tax. Interest earned on corporate bonds attracts a withholding tax of 8% for both resident and non-resident investors save for individuals and resident financial institutions. No withholding tax applies to dividends earned on listed companies. However, dividends from all other companies are taxed at 10%. There is no capital gains tax on bonds and no stamp duty on the transfer of shares. An 8% withholding tax and a 15% capital gains tax applies to equities.

Political environment: Ghana remains one of Africa's most stable democratic states following several successful and peaceful transitions in power. The last presidential and parliamentary elections were held on 7 December 2012, when the incumbent President Mahama of the ruling National Democratic Congress (NDC) won the election. The next election is due to be held on 7 November 2016, a month earlier than the previous election to cater for the possibility of a run-off election. The main contenders are expected to be incumbent President Mahama (ruling NDC) and Nana Akufo-Addo, leader of the opposition New Patriotic Party (NPP). Discontent over the NDC's management of the economy could be a key determinant in the upcoming election, in our view. The election takes place against a backdrop of high unemployment, electricity shortages, significantly weaker currency and rising cost of living.

Development framework: Ghana's policy framework is based on the Ghana Shared Growth and Development Agenda (GSGDA). The latest development agenda (known as GSGDA II) for 2014-17 was completed in 2014 and operates within the context of the Better Ghana Agenda. The Agenda is aimed at ensuring and sustaining macroeconomic stability; enhancing private sector competitiveness; accelerating agricultural modernisation; oil and gas development; infrastructure, energy and human settlement development; and transparent and accountable governance. The GSGDA II: 2014-17 has a broadly similar focus as it attempts to pursue economic stability, the creation of the right fiscal space for accelerated investments in key priority programmes and the sustainable exploration of natural resources in the agricultural, minerals and gas sectors. Ghana's policy reforms are also guided by the three-year, USD918mn Extended Credit Facility (USD344mn disbursed hitherto) with the IMF which aims to return the country to macroeconomic stability.

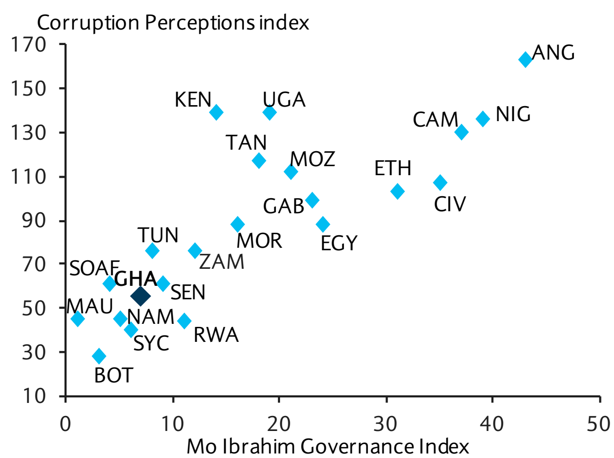
Country snapshot

Indicator	Latest
Government	
Government type	Constitutional democracy
Head of state	President John Mahama (since July 2012, re-elected in December 2012)
Ruling political party	National Democratic Congress (NDC)
Main opposition party	New Patriotic Party (NPP)
Elections	President Mahama came to power in July 2012 following the death of President John Atta Mills. Mahama then contested the December 2012 presidential election, receiving 50.7% of the votes. Presidential and parliamentary elections occur every four years (next due on 7 November 2016).
Demographics	
Population	27.4mn (2015E); 2.1% growth rate (UN)
Life expectancy	62 years (UN)
Main ethnic groups	Akan 47.5%, Mole-Dagbon 16.6%, Ewe 13.9%, Ga-Dangme 7.4%, Gurma 5.7%, Guan 3.7%
Main languages	English (official), Asante, Ewe, Fante, Others
Adult literacy	71.5%
Urban population	53%
Economic structure	
GDP	USD35bn (2015E); USD37.2bn (2014); 7.1% average real growth rate for 2006-2015
GDP per capita (USD)	USD1,401 (2015E); USD1,473 (2014)
GDP by sector	Services (52%), Agriculture (25%), Industry (23%)
Main industries	Mining, timber, light manufacturing, fishing, tourism
Business development indicators	
2015 Corruption Perceptions Index ranking	56 (out of 168)
2015-16 Global Competitiveness Index ranking	119 (out of 144)
2015 Ease of Doing Business ranking	114 (out of 189)
2014 Human Development Index ranking	140 (out of 188)
2015 Mo Ibrahim Index of African Governance	7 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Ghana Statistical Service, African Elections Database, Official offices, Barclays Research

FIGURE 3

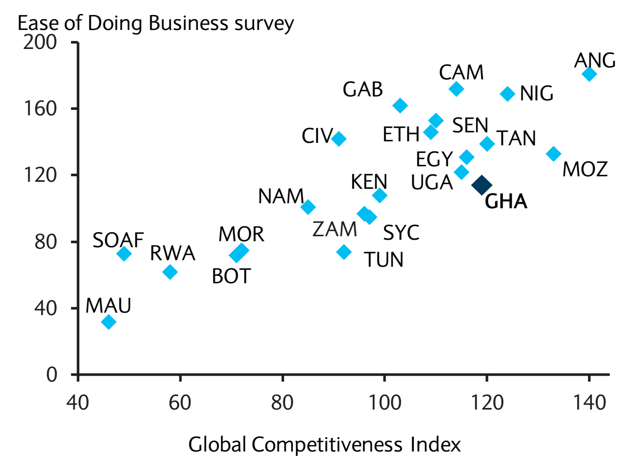
Ghana: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index.



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Ghana: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **Despite our projection of an improved current account in 2016 as a result of expectations of oil production at the TEN field coming on stream this year, weaker commodity prices for all three of Ghana's key commodities (oil, gold and cocoa) suggest a larger current account deficit in 2016.**
- **Debt dynamics remain under pressure as Ghana's debt ratio has increased from around 36% of GDP in 2009 to 71% at the end of 2015. However, authorities anticipate that fiscal reforms will succeed in stemming further increases in the debt ratio.**

Key indicators to watch

Indicator	Data availability	Rationale
Cocoa prices and production	Production figures published on an ad hoc basis. Look out for statements from the Cocobod.	Ghana is the world's second-largest exporter of cocoa, accounting for 23% of the country's total merchandise exports in 2015.
Monthly CPI	CPI is published on the second Wednesday of each month and on the third when the 15th falls on a Wednesday.	The medium-term inflation target is 8% +/-2pp.
Gold price and production	Production estimates are published by the BoG and the Ghana Chamber of Mines.	Gold is the largest export item, accounting for 29% of merchandise export receipts in 2015.
Private remittances	Published by the BoG on a quarterly basis.	Inward remittances are an important source of external financing. They are attributed to the relatively large diaspora and mainly come from the US, UK and Canada.
Oil prices and production	Announcements from oil firms.	Oil production began in December 2010. Output at the Jubilee field averaged 102,000bpd in 2015 and is expected to average 101,000bpd in 2016. The expected completion of the TEN field in mid-2016 would add a further potential 23,000bpd to total output in H2 16 (max. Output is 80,000bpd).
Domestic debt/GDP	Ministry of Finance and BoG MPC statements.	Nominal anchor for fiscal policy.
Monetary Policy Statement	The BoG MPC meets bi-monthly.	Discusses the Bank's monetary policy stance. The MPS incorporates updates on several macro indicators, including current and fiscal account balances.
National Accounts	Published by the GSS on a quarterly basis.	
FX reserves	Published by the BoG, on a monthly basis.	

Source: BoG, GSS, Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	14.0	9.3	7.3	4.0	3.6	5.7	7.9
Nominal GDP (USD bn)	39.6	41.9	47.8	37.2	35.2	34.0	38.2
CPI (avg, % y/y)	8.7	9.2	11.7	15.5	17.2	18.0	12.0
Fiscal balance (% GDP, incl. grants)	-4.0	-11.6	-10.5	-9.3	-7.5	-6.2	-4.2
Revenue (% GDP)	19.1	18.5	16.7	21.8	22.7	23.8	23.8
Expenditure (% GDP)	23.1	30.1	27.3	31.1	30.1	30.0	28.0
Total public debt (% GDP)	39.7	48.0	55.5	67.1	70.7	74.6	68.6
Current account balance (% GDP)	-9.0	-11.7	-11.9	-9.9	-7.3	-7.7	-4.5
Trade balance (% GDP)	-7.7	-10.0	-8.0	-3.7	-6.1	-6.0	-2.1
USD/GHS (pavg)	1.51	1.80	1.95	3.05	3.78	4.51	4.77
Policy rate (%, eop)	12.50	15.00	16.00	21.00	26.00	27.00	20.00
Official reserves (USD bn)	5.4	5.3	5.6	5.5	5.9	5.0	…
Months of imports	3.3	3.0	3.1	3.2	3.5	3.1	…

Source: BoG, IMF, MoFEP, GSS, Barclays Research

Foreign trade flows

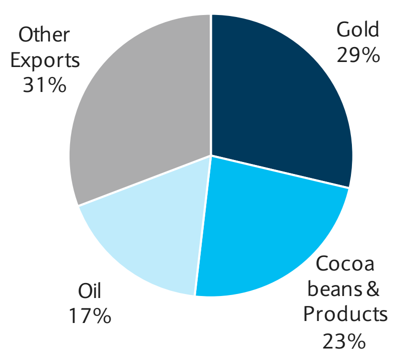
- **Lower prices for Ghana's three key commodities put exports under pressure in 2015.**
- **We expect lower prices to result in further deterioration in the current account in 2016 despite the lower oil price benefiting imports.**

Main Exports		
Top product groups	USD bn	% y/y
Gold	3.2	-26.8
Cocoa beans and products	2.6	-0.8
Crude oil	1.9	-47.8
Other exports	3.5	38.5

Note: 2015. Source: BoG, Barclays Research

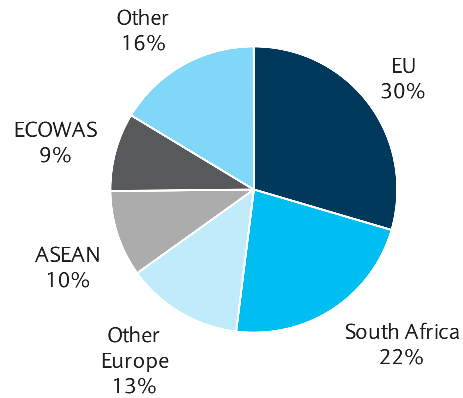
Main Imports		
Top product groups	USD bn	% y/y
Non-oil	12.0	9.7
Oil	2.1	-43.8

FIGURE 5
Main export groups



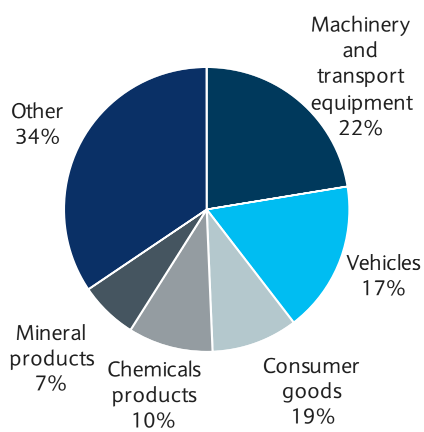
Source: BoG (2015), Barclays Research

FIGURE 6
Main export destinations



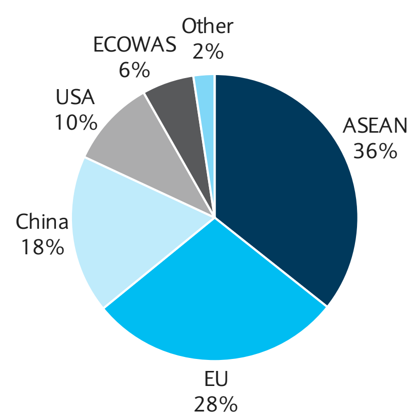
Source: GSS (2013), Barclays Research

FIGURE 7
Main import groups



Source: GSS (2013), Barclays Research

FIGURE 8
Main origins of imports



Source: GSS (2013), Barclays Research

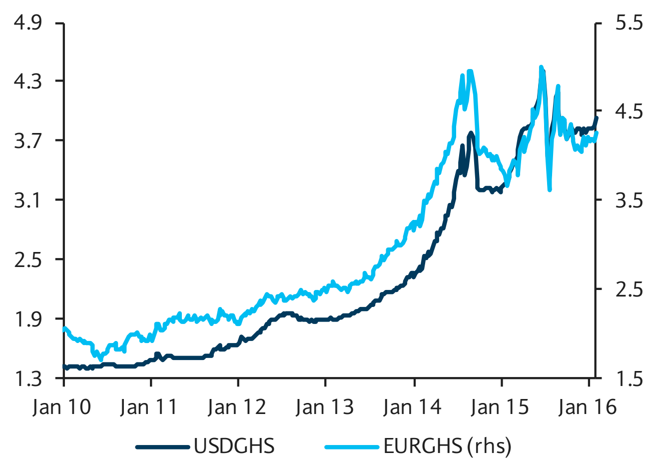
FX markets

Overview	The Ghanaian Cedi is a managed floating currency.
Market access/convertibility	The foreign exchange market does not operate under a completely free market system. The BoG regularly comes to the market to sell FX aimed at supporting local corporate demand. Central bank intervention is aimed at preventing extreme market volatility. The BoG also supports the FX requirement behind particular transactions such as crude oil imports, agrochemicals and government bond transactions. The interbank market is growing, with 10 active market makers. The exchange control regulations allow banks to externalise funds affecting convertibility once there is proof that the beneficiary originally brought funds into the economy.
Tax regime	There is no tax on currency transactions.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation	Reuters page	Additional information
Spot	Yes		Growing two-way market.	GHS01=	Market transactions are invariably backed by customer demand.
Forwards	N/A	Generally up to one year, though longer tenors can be structured.	Limited two-way quotes.	ABAF=	Outright forward market not developed, though large volumes can be manufactured up to 3y.

Source: Barclays Bank Ghana

FIGURE 9
Ghana: Cedi cross-rates



Source: Reuters, Barclays Research

FIGURE 10
Ghana: Cedi real effective exchange rate

Source: IMF, Bloomberg, Barclays Research

Rates products

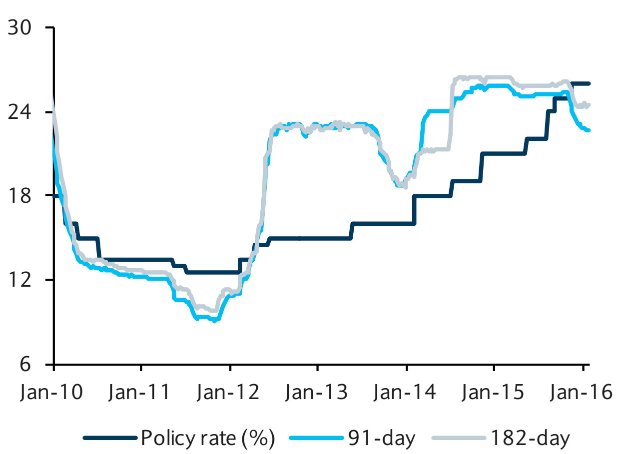
Overview	Foreign investors are allowed to invest in government bonds with original tenors of 2y or more. There is no restriction on investment in corporate paper.
Market access/convertibility	Treasury instruments are available from BoG. Investors must go through licensed primary dealers. All government bonds above 2y are listed on the stock exchange and can be traded through licensed secondary dealers.
Tax regime	Foreign investors do not pay tax on interest earned on government bonds. Interest earned on corporate bonds for foreign investors attracts a withholding tax of 8%. There is no capital gains tax on bonds.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation/ settlement	Reuters page	Additional information
Treasury bills	Liquid	91- and 182-day	T+1	BOGH01	Available through BoG, but foreign investors are not permitted to buy Treasury bills.
Treasury notes	Moderate	1y and 2y	T+1	BOGH01	
Treasury bonds	Moderate	2y 3y 5y 7y	T+1 T+2 (3y and 5y bond)	BOGH01	Foreign investors are allowed to participate in bonds with original tenors of 2y and above only. All bonds are listed on the Ghanaian stock exchange.
Corporate bonds	Illiquid		T+3		Trading takes place on the Ghana stock exchange.

Source: Barclays Bank Ghana, Barclays Research

FIGURE 11

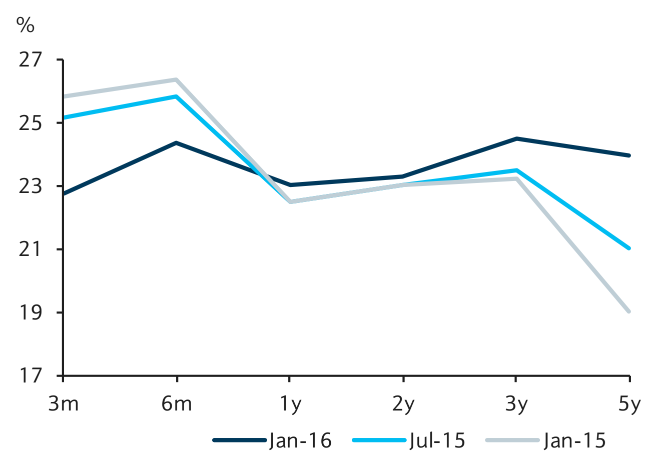
Ghana: Short-term interest rates



Source: BoG, Barclays Research

FIGURE 12

Ghana: Government bond yield curve



Source: BoG, Barclays Research

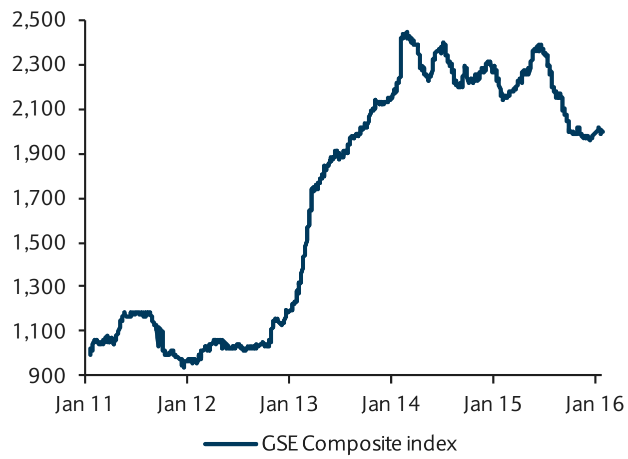
Equity market snapshot

Market size	The market capitalisation of the Ghana Stock Exchange (GSE) stood at USD14.4bn as of January 2016 (including dual listings).
Main indicator	The GSE Composite Index (GSE-CI).
Listed companies	There are 42 companies listed on the exchange. Tullow Oil Plc and AngloGold Ashanti Ltd (dual listings) are the largest listed companies making up around 44% and 26% of the GSE's total market capitalisation, respectively.
Top listed companies	Tullow Oil; AngloGold Ashanti; Ecobank Ghana; Standard Chartered Ghana; Ghana Commercial Bank.
Taxation	8% withholding tax on dividends and 5% capital gains tax.

Source: Ghana Stock Exchange, Barclays

FIGURE 13

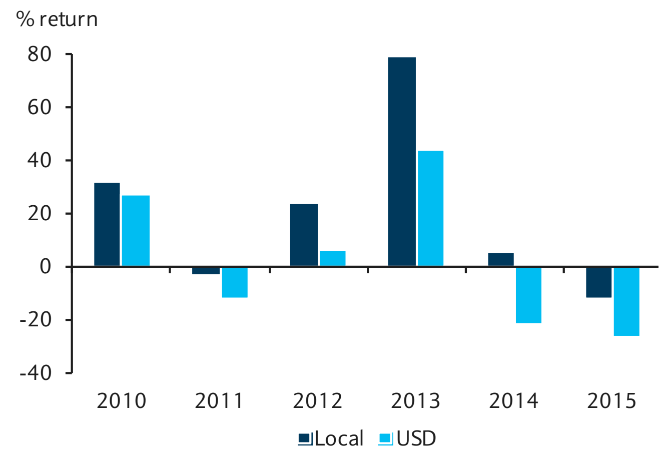
GSE Composite Index



Source: Reuters, Barclays Research

FIGURE 14

GSE Composite Index return



Source: Reuters, Barclays Research

External credit snapshot

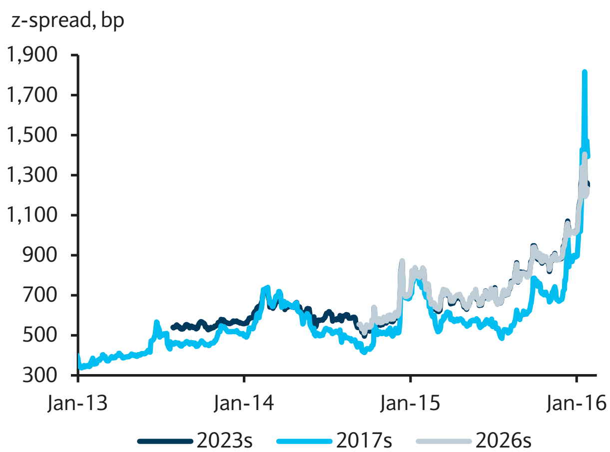
Overview	Ghana currently has four trading eurobonds: the 2017s, 2023s, 2026s (amortising) and the 2030s (amortising). The last issuance was in October 2015 and parliament has approved plans for further issuance in 2016 (up to USD1bn).
Credit rating	Ghana is currently as the bottom-end of the rating scale amongst countries in our coverage area with B3/B- long-term foreign currency ratings from Moody's (negative outlook) and S&P (stable outlook), respectively. Fitch's rating is a notch higher at B, with a negative outlook. Moody's initiated on Ghana with a B1 foreign currency issuer rating in December 2012, and the ratings outlook was downgraded to negative in December 2013. The agency lowered its Ghana credit rating to B2 in June 2014 and further to B3 in March 2015. Standard & Poor's downgraded Ghana's long-term debt rating to B in August 2010, having initiated the country at B+ back in 2003. S&P further lowered its rating to B- in October 2014, assigning a stable outlook. Fitch downgraded the country's rating to B in October 2013 from B+ earlier. In September 2015 the agency retained its negative outlook on the country's credit rating. Fiscal consolidation, supported under the current three-year ECF-program with the IMF, is a supportive factor for the country's credit ratings prospects. Further improvement in the external position would also be a positive. In contrast, deterioration in the fiscal and external balances would keep downward pressure on the ratings.
Coverage centre	Research in London and South Africa.

Issuer	Maturity	Announced	Amount due	Coupon	Series	Additional information
Republic of Ghana	4 Oct 2017	27 Sep 2007	$530mn	8.5% S/A	REGS/144A	
Republic of Ghana	7 Aug 2023	25 Jul 2013	$1bn	7.875% S/A	REGS/144A	
Republic of Ghana	18 Jan 2026	11 Sep 2014	S1bn	8.125% S/A	REGS/144A	Amortising from Jan 2024
Republic of Ghana	14 Oct 2030	07 Oct 2015	$1bn	10.75% S/A	REGS/144A	Amortising from Oct 2028

Source: Bloomberg, Barclays Research

FIGURE 15

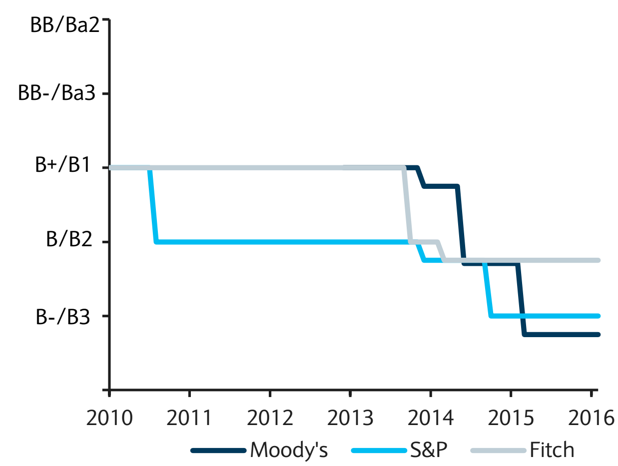
Ghana: Eurobond performance



Source: Bloomberg, Barclays Research

FIGURE 16

Ghana: Credit rating history



Source: Bloomberg, Moody's, S&P, Fitch, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
Government of Ghana:	www.ghana.gov.gh
Bank of Ghana:	www.bog.gov.gh
Ministry of Finance:	www.mofep.gov.gh
Ghana Stock Exchange:	www.gse.com.
International Monetary Fund:	http://www.imf.org/external/country/GHA/index.htm

KENYA

Credit rating	
Long-term foreign currency rating	B+ (Fitch) B+ (S&P) B1 (Moody's)

Source: Bloomberg

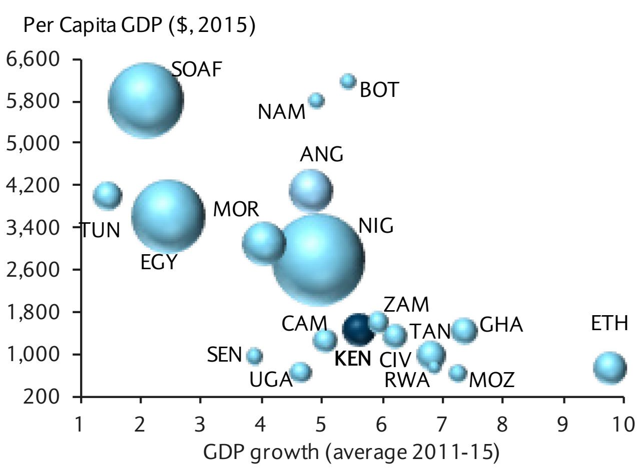
Policy environment

- **With real GDP growth at 5-6% over our forecast period, we believe Kenya's economic prospects remain favourable, boosted by infrastructure development.**
- **Twin deficit challenges are likely to persist even as lower global oil prices alleviate external vulnerabilities and fiscal consolidation is planned for the medium term.**

Monetary policy: The Central Bank of Kenya's (CBK) primary objective is to achieve and maintain price stability. The government has set a medium term inflation target of 5% with an allowable margin of 2.5pp either side of this central target. The CBK uses the central bank rate (CBR) to signal its policy stance while it also manages money supply growth. The CBR is set by the monetary policy committee (MPC) which typically meets every second month, beginning January each year (additional meetings are convened if requested by at least four members). The CBR impacts the pricing of commercial bank loan products through the Kenya Banks' Reference Rate ("KBRR", introduced in July 2014), which is calculated as an average of the CBR and 91-day Treasury bill rates. After keeping its policy rate unchanged since May 2013, the CBK resumed a tightening cycle in 2015, hiking its policy rate by a cumulative 300bp in the year (the last move being a 150bp increase in July 2015). The tightening was against the backdrop of heightened FX pressures and increased inflation risks. Amid the tighter monetary conditions, the shilling appreciated in the latter half of the year, stabilising at about 102/USD. Meanwhile, headline inflation continued to increase to end 2015 at 8.0% y/y (end-2014: 6.0% y/y), exceeding the upper-end of the target range. At its January 2016 meeting, the MPC viewed that the current inflation pressures are temporary and that policy measures in place are containing demand pressures in the economy. Our expectation for inflationary pressures to persist this year suggests that monetary policy will likely remain tight.

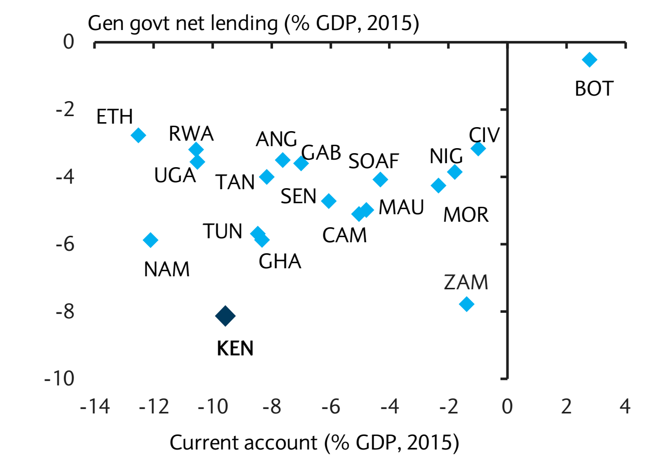
Exchange rate policy: The CBK maintains a managed-float exchange rate regime with intermittent intervention by the bank. The bank targets reserves of four months of import cover. Over the last five years, FX reserves have been boosted by external issuance (including USD2.75bn in eurobonds in 2014), IMF-related flows (2013) and direct FX buying by the CBK. FX reserves declined in the first three quarters of 2015, amid increased

FIGURE 1
Kenya: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2
Kenya: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

depreciation pressure on the shilling, though they recovered to about USD7.6bn (about 4.5 months of imports) in Q4. The KES has been stable in recent months, although it remains vulnerable given the large current account deficit and expectation for further USD strength in 2016. We project a continued weakening trend in upcoming months.

Fiscal policy: The government's fiscal strategy is contained in its medium-term fiscal framework, which projects revenues and expenditures over a rolling three-year period. The annual budget is delivered in early June each year, though the constitution requires that the National Treasury submit budget estimates for the next fiscal year by 30 April. The Budget Review and Outlook Paper (published by end-September) and quarterly budget reviews are also important in assessing fiscal developments. IMF programmes (currently a SBA/SCF precautionary facility is in place – due to expire in March while a new facility is being negotiated) also provide an anchor for policy. The budget deficit is estimated to have been 8.6% of GDP in FY 2014-15 (from a targeted 10.1%) with both spending and revenues lower than expected. The government expects the deficit to remain wide at 8.9% of GDP in the current fiscal year (7.1% excluding SGR project expenditure). Lower deficits are projected over the medium term. Deterioration in fiscal metrics in recent years, although partly driven by increased development spending, has weighed on the country's credit profile (both Fitch and S&P changed their outlooks to negative in 2015). Medium-term fiscal consolidation is critical.

Regulatory and tax environment: Foreign investors are able to repatriate all capital, profits and income freely, subject to foreign currency reserves being available. There is a 15% withholding tax on both treasury bills and bonds of less than 10y tenor and a 10% withholding tax on treasury bonds of more than 10y. A 10% withholding tax on dividends also applies.

Political environment: The last national elections were held in March 2013, which were judged to be free and fair by international observers. It was the first election under the new 2010 constitution and was won by President Kenyatta, who received 50.51% of the votes as part of the Jubilee coalition. His closest rival Raila Odinga (Coalition for Reform and Democracy/ODM) captured 43.7% of the votes. President Kenyatta's first year in office was marred by the ICC charges against him for alleged crimes against humanity relating to the 2007 post-election violence, although the charges were withdrawn at the end of 2014. The case against Deputy President Ruto is ongoing. Kenya's overall security environment remains under threat from Al Shabaab militants who have carried out several attacks against the country in recent years, including the Westgate Mall attacks in September 2013. Tourism has been severely impacted as a result of the insecurity, particularly along the tourist areas in and around Mombasa. The next elections are scheduled for August 2017.

Development framework: Kenya's development is being driven by its long-term development document called Vision 2030, which aims to make the country a globally competitive and prosperous nation by 2030. The plan is anchored on three key pillars: economic; social; and political governance. Over 120 transformational and cross-sector flagship projects that have been implemented are credited to the development plan. Vision 2030 is executed through five-year medium term plans (MTPs), the second one being for the period 2013 – 2017. The current MTP is themed "Transforming Kenya: Pathway to devolution, socio-economic development, equity and national unity". Key development partners include the World Bank, the African Development Bank and China, which provided the bulk of financing for the Standard Gauge Railway project. Kenya also currently has a programme with the IMF (a precautionary SBA/SCF facility which was extended to March 2016 and a new arrangement is being considered) which provides a policy anchor for continued macroeconomic and institutional reforms.

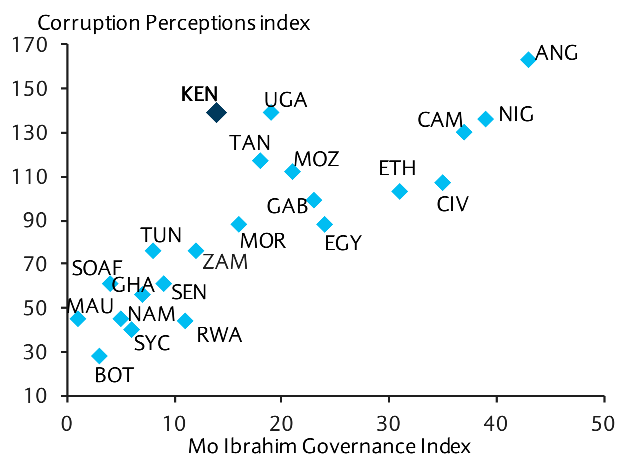
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Uhuru Kenyatta (since April 2013)
Ruling political party	Jubilee Coalition, including the URP, TNA and NARC parties. Coalition for Reforms and Democracy (CORD), including the ODM, Ford-K, WDM, FPK and several other parties
Elections	Kenya held its first election under the new constitution (adopted in 2010) in March 2013. Jubilee Coalition candidate Kenyatta won the presidential election with 50.5% of the vote. The next elections are scheduled to take place on 8 August 2017.
Demographics	
Population	46.0mn (2015E); 2.7% growth rate (UN)
Life expectancy	63.3 years
Main ethnic groups	Kikuyu (22%), Luhya (14%), Luo (13%), Kalenjin (12%) and others
Main language	Kiswahili (official), English (official), numerous indigenous languages
Adult literacy	72.2%
Urban population	26%
Economic structure	
GDP	USD61.1bn (2015E); USD60.9bn (2014); 5.3% average real growth rate for 2006-2015
GDP per capita (USD)	USD1,432 (2015E), USD1,420 (2014)
GDP by sector	Services (46%), Agriculture (27%), Manufacturing (10%), Mining and construction (5.6%)
Main industries	Milling, petroleum products, beverages, cement, textiles, paper and light manufacturing
Business development indicators	
2015 Corruption Perceptions Index ranking	139 (out of 168)
2015-16 Global Competitiveness Index ranking	99 (out of 144)
2015 Ease of doing Business ranking	108 (out of 189)
2014 Human Development Index ranking	145 (out of 188)
2015 Mo Ibrahim Index of African Governance	14 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Barclays Research

FIGURE 3

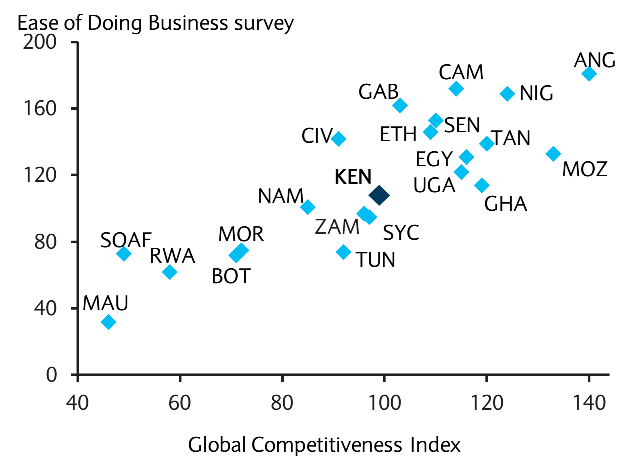
Kenya: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays

FIGURE 4

Kenya: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- A strong focus on infrastructure investment is likely to underpin growth in the medium term.
- Increased development spending has contributed in the widening of fiscal deficits in recent years.

Key indicators to watch

Indicator	Data availability	Rationale
IMF programs	IMF website	Kenya's progress within, and adherence to, its IMF and World Bank programmes provides important signposts for policy formation, implementation and relations with international donors. The IMF in February 2015 approved a USD497mn Stand-by Arrangement and a USD191mn Stand-by Credit Facility for Kenya. The SBA/SCF was extended to March 2016. Both facilities are precautionary.
Weather conditions	FEWS NET, Kenya Meteorological Service, FAO.	Agriculture is crucially important for inflation, the trade balance and overall economic growth.
Inflation	Published monthly by the KNBS. Typically on the last working day of the month.	Influences the direction of monetary policy. The official inflation target is 5% +/-2pp.
Monetary Policy Statement	Issued by the CBK twice a year (June and December)	The statement details the CBK's view on an appropriate monetary policy stance for the short and medium term.
Monthly Economic Review	Published monthly by the CBK.	The monthly review covers developments in inflation, credit, interest rates, real sector, external sector, government budget and public debt.
Annual budgets and Medium-Term Budget Strategy Paper	The budget speech is delivered in early June detailing plans for the next fiscal year (July-June).	Provides the outlook for fiscal policy.
MPC Press Releases	The CBK MPC meets bi-monthly (typically in January and then every second month thereafter)	Update on macro developments and guidance on the future path of monetary policy.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	6.1	4.6	5.7	5.3	5.4	5.6	6.3
Nominal GDP (USD bn)	42.0	50.4	54.9	60.9	61.1	61.6	65.7
CPI (pavg, % y/y)	14.0	9.4	5.7	6.9	6.6	8.5	7.9
Fiscal balance (% GDP)*	-4.1	-5.0	-5.3	-5.9	-8.6	-9.0	-6.6
Revenue and grants (% GDP)*	19.0	19.2	19.3	19.8	20.2	22.2	22.1
Expenditure (% GDP)*	23.0	24.2	24.6	25.8	28.8	31.2	28.7
Government domestic debt (% GDP)*	20.3	20.3	22.1	24.0	23.8	25.8	25.4
Government external debt (% GDP)*	19.3	18.0	18.1	20.3	23.6	29.1	31.1
Current account balance (% GDP)	-7.9	-8.4	-8.7	-10.0	-7.6	-7.8	-9.1
Trade balance (% GDP)	-21.5	-20.9	-20.4	-20.3	-17.9	-18.7	-19.6
USD/KES (pavg)	88.81	84.53	86.12	87.92	98.21	111.09	118.79
Policy rate (%, eop)	18.00	11.00	8.50	8.50	11.50	12.50	12.00
Official reserves (USD bn)	4.2	5.7	6.6	7.9	7.6	6.9	…
Months of imports	3.7	4.3	4.5	5.1	4.7	4.2	…

Note: * Fiscal year-ending 30 June. Source: CBK, IMF, KNBS, MoF, Barclays Research

Foreign trade flows*

- Tea is the largest single export, constituting about 20% of total exports.
- Imports are more than twice the value of exports, keeping the current account in a large deficit.

Exports

Top product groups	USD mn	% y/y
Tea	1,122	4.5
Horticulture	729	-11.0
Miscellaneous manufactured artides	599	-4.0
Manufactured goods	536	-13.5
Chemical products	436	-5.0

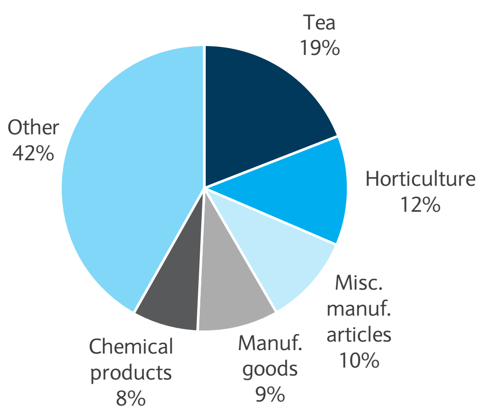
Note*: 12 months to October 2015. Source: Source: CBK, Barclays Research

Imports

Top product groups	USD mn	% y/y
Machinery & transport equipment	5,565	-1.5
Oil	2,765	-33.8
Manufactured goods	2,745	3.3
Chemicals	2,461	4.3

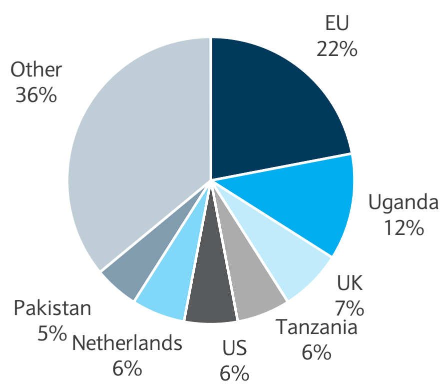
Source: Source: CBK, Barclays Research

FIGURE 5
Main export groups



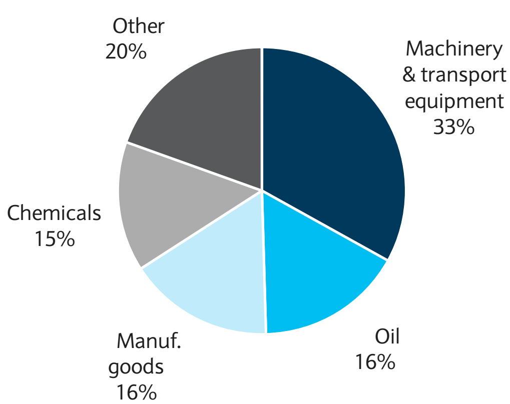
Source: CBK, Barclays Research

FIGURE 6
Main export destinations



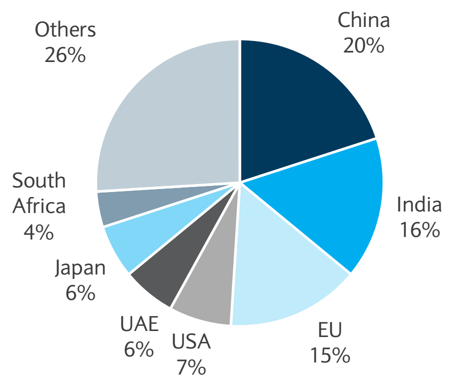
Source: CBK, Barclays Research

FIGURE 7
Main import groups



Source: CBK, Barclays Research

FIGURE 8
Main origins of imports



Source: CBK, Barclays Research

FX markets

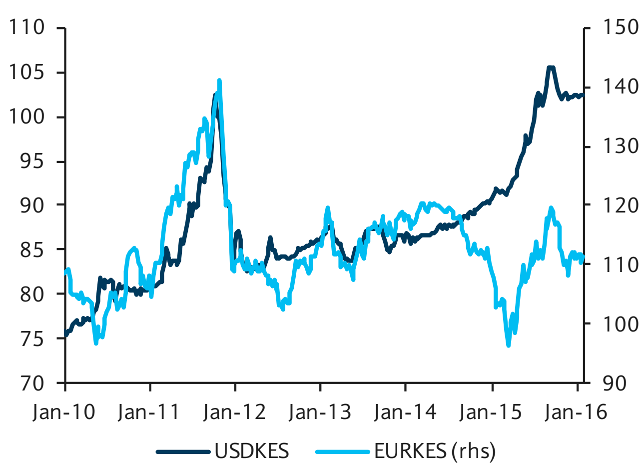
Overview	The shilling is a free-floating unitary exchange rate. The exchange rate is sensitive to corporate flows. In a stable market, liquidity is high. The Central Bank also follows the rates keenly and does intervene from time to time.
Market access/convertibility	Only fully-licensed authorised dealers may deal in foreign exchange in Kenya. The central bank discourages speculative activity.
Tax regime	A 10% withholding tax is charged on dividend income for non-residents and a 5% withholding tax on dividend income for residents.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation	Reuters page	Additional information
Spot	Liquid		T+2	KES1=	Main cross is USDKES; larger banks do quote EURKES, GBPKES.
Forwards	A growing product although interest tends to be on one side	T/N to 3m, although 12m possible	Points T+2	ABAF1=	Forwards are manufactured. Local bank counterparties would rarely give prices beyond three months in both outrights and swaps. Offshore players are only allowed to trade swaps above one year in tenor.
Options	A growing product offering especially by Multi-nationals				Very limited liquidity.

Source: Barclays Kenya

FIGURE 9

Kenyan Shilling global cross-rates



Source: Reuters, Barclays Research

FIGURE 10

Kenyan Shilling regional cross-rates

Source: Reuters, Barclays Research

Rates products

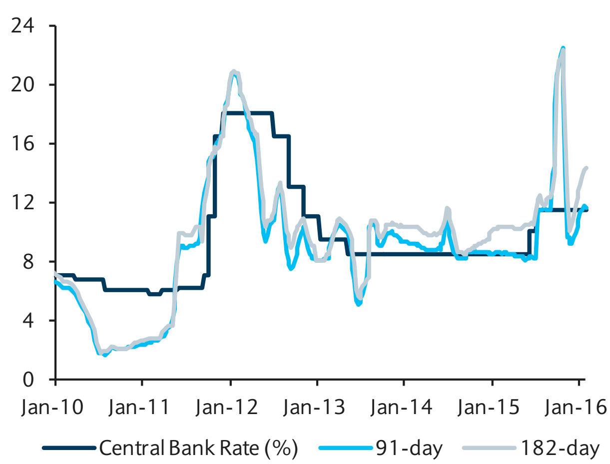
Overview	The money market is generally liquid. The bond market is also fairly liquid and continues to deepen. Trading in the interbank repo commenced in 2010, thereby providing another source of liquidity in the market.
Market access/convertibility	There are no exchange controls covering the rates markets.
Tax regime	There is a 15% withholding tax on treasury bills and treasury bonds of less than 10y tenor and a 10% withholding tax on Treasury bonds of over 10y. Infrastructure bonds are tax exempt.
Coverage centre	Research in South Africa.

Source: Barclays, Barclays Research

Security	Liquidity	Tenor/maturity	Quotation/ settlement	Reuters page	Additional information
Cash deposits	Liquid	Cash up to 1w. Beyond this spread is 100 pips up to 1m.	T+0	CBK02	
Treasury Bills	Illiquid	3m, 6m and 1y	T+4	CBK03	Treasury bill auctions are weekly. On offer are: 91,182 and 364-day bills. No primary dealership in place. However, plans are in place to introduce primary dealership and promote interbank treasury bill trading.
Treasury bonds	Fairly liquid	2y, 5y, 9y, 10y, 12y, 15y, 20y, 25y and 30y	T+3	BBK BONDS	Open to all CDS account holders or through your commercial bank as an agent. No primary dealership in place.
Corporate bonds	Low	5-7y fixed and floating coupon	T+5		

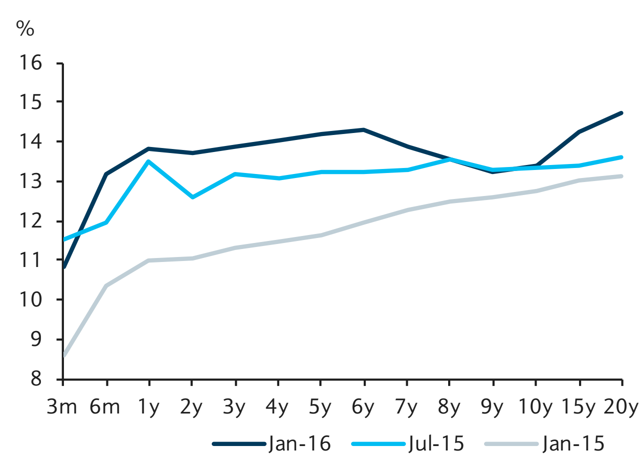
Source: Barclays, Barclays Research

FIGURE 11
Kenya: Short-term interest rates



Source: CBK, Barclays Research

FIGURE 12
Kenya: Yield curve



Source: Reuters, CBK, Barclays Research

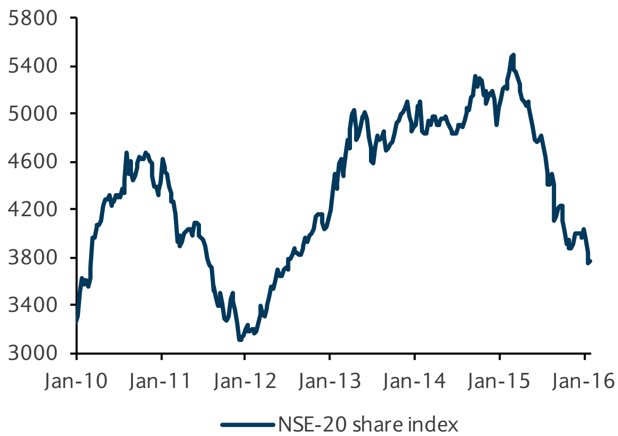
Equity market snapshot

Market size	The Nairobi Securities Exchange (NSE) is one of the largest and liquid exchanges in Sub-Saharan Africa with a total market capitalisation of USD18.8bn as of end-January 2016 (including dual listings).
Main indicator(s)	The NSE-20 share index, which tracks the performance of the top 20 blue-chip stocks, is the key indicator. The NSE All Share index (NASI) tracks the overall market performance. FTSE NSE Kenya 15 and FTSE NSE Kenya 25 indices, measure the performance of major capital and industry segments of the exchange.
Listed companies	There are 62 companies listed on the NSE. Shares are categorised into 10 sectors, including Agriculture, Commercial and Services, Finance and Investment, and Industrial and Allied sectors
Top listed companies	Safaricom; East African Breweries; Equity Bank; Kenya Commercial Bank; Co-operative Bank of Kenya
Taxation	10% withholding tax on dividends.

Source: Nairobi Stock Exchange, Barclays Research

FIGURE 13

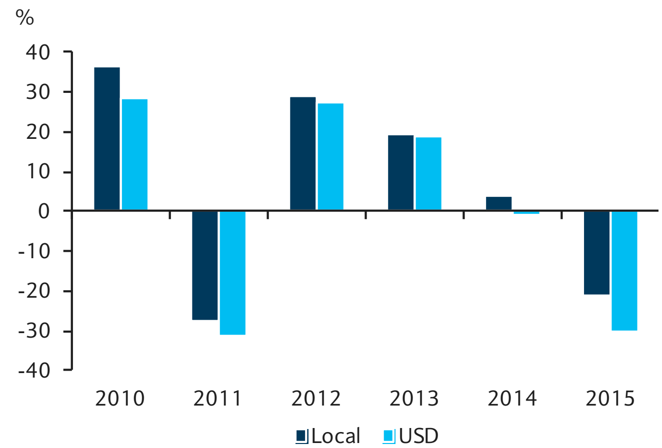
Performance of Kenyan equity market



Source: Reuters , Barclays Research

FIGURE 14

Total return of NSE 20



Source: Reuters, Barclays Research

External credit snapshot

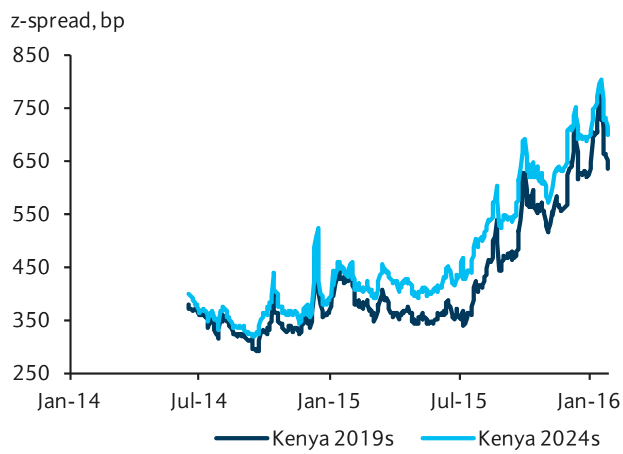
Overview	Kenya debuted in the eurobond market in June 2014 with a USD1.5bn 10y issue and a USD500mn 5y issue. The country tapped the tenors for USD500mn and USD250mn, respectively, in December 2014, bringing the total amount outstanding in the 2024s to USD2bn and in the 2019s to USD750mn.
Credit rating	All three major rating agencies have Kenya's long-term foreign currency debt rating at B+/B1. Moody's has a stable outlook on the ratings while Fitch and S&P revised their outlooks to negative (from stable) in July and October 2015, respectively. The revision of the outlooks largely reflected a deteriorating trend in public finances. Supportive factors for Kenya's current ratings include economic diversification, robust growth rates and satisfactory monetary flexibility. Constraints on the ratings include weak GDP per capita, weak social and governance indicators, high government debt and vulnerability to balance of payments pressures.
Market participants	Kenyan eurobonds attract interest from global institutional investors.
Coverage centre	Research in London and South Africa.

Issuer	Maturity	Announced	Amount	Coupon	Series	Additional information
Republic of Kenya	24 Jun 2019	16 Jun 2014	USD750mn	5.875% S/A	REGS/144A	
Republic of Kenya	24 Jun 2024	16 Jun 2014	USD2bn	6.875% S/A	REGS/144A	

Source: Bloomberg, Barclays Research

FIGURE 15

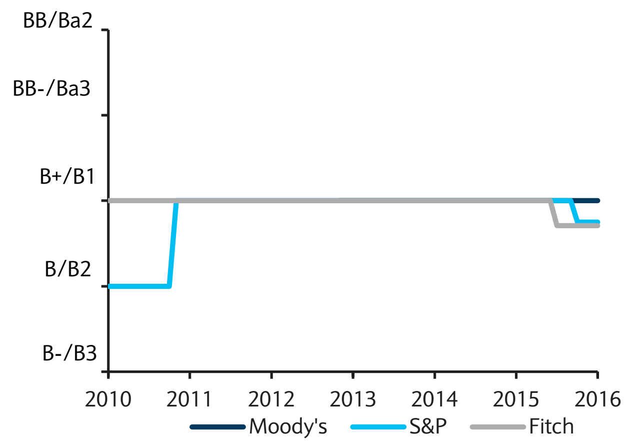
Kenya: Eurobond performance



Source: Bloomberg, Barclays Research

FIGURE 16

Kenya: Credit rating history



Source: Bloomberg, Moody's, S&P, Fitch, Barclays Research

Useful links

Barclays Research:	https://live.barcap.com
Central Bank of Kenya:	www.centralbank.go.ke
Central Bureau of Statistics:	www.cbs.go.ke
National Treasury:	www.treasury.go.ke
Nairobi Stock Exchange:	www.nse.co.ke
International Monetary Fund:	http://www.imf.org/external/country/KEN/index.htm

MAURITIUS

Credit rating	
Foreign currency rating	Baa1 (Moody's)

Source: Bloomberg

Policy environment

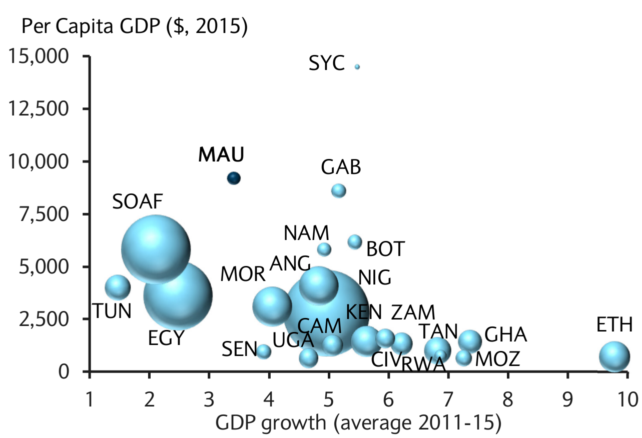
- **Economic growth is below the historical trend, impacted by weak external demand and investment. We expect growth of c.3.5% in 2016, rising in 2017.**
- **The growth-supportive monetary policy stance is likely to persist through H1 16 while the fiscal deficit is expected to decline over the medium term.**

Monetary policy: The Bank of Mauritius' (BoM) primary goals are to maintain price stability and promote orderly and balanced economic development. In the implementation of its monetary policy, the BoM relies on a 'hybrid inflation-targeting' approach. The Bank does not have an explicit inflation target, though it generally aims to keep it within low single digits. The Bank's Monetary Policy Committee (MPC) meets once a quarter and uses the key repo rate (KRR) as its main policy tool. Detailed minutes are released two weeks after the MPC meeting. As part of its monetary policy operations the BoM issues its own notes (reintroduced in May 2015) and makes adjustments to the Cash Reserve Ratio (CRR) to manage liquidity in the banking system (the CRR was last changed in May 2014). The BoM has been on a rate-cutting cycle since December 2011, reducing the KRR by a further 25bp in November 2015. The most recent rate cut was underpinned by growth concerns with the Bank expecting inflation to remain moderate. Headline inflation averaged 1.3% in 2015, below the BoM's revised projection of 1.6% and the 2014 outcome of 3.2%. For 2016, the Bank currently expects inflation to average 3.0%, with a year-end rate of 3.3% y/y. In our projections, inflation may average 1.5%, though with a higher year-end rate of 3.7%. Highly volatile food prices (especially for vegetables) are likely to continue influencing the inflation trajectory while lower global oil prices are favourable. Given benign inflation and risks to economic growth, we believe the BoM will maintain a growth-supportive stance through H1 16. Nonetheless, a tightening bias could ensue later in the year where we expect an acceleration in inflation and improvement in growth prospects.

Exchange rate policy: The BoM operates a managed-float regime, intervening in the foreign exchange rate market intermittently. The rupee (MUR) depreciated by 12% against the USD in 2015, though the currency was largely stable in the latter half of the year. The Bank continued to accumulate FX reserves through most of the year, taking them to USD4.3bn at end-2015 (c. 7.5 months of imports) from USD3.9bn at end-2014. While FX reserves are

FIGURE 1

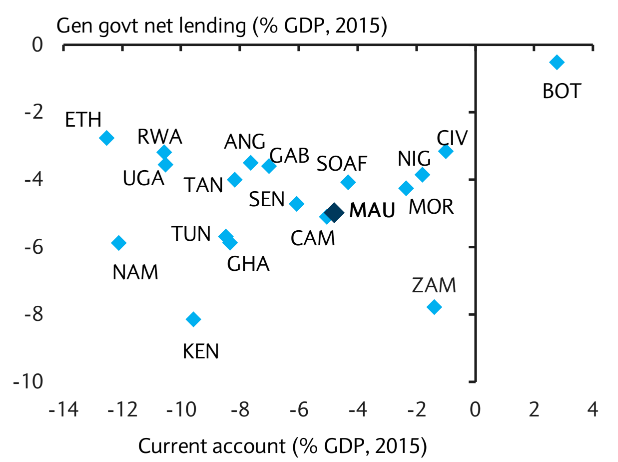
Mauritius: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2

Mauritius: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

comfortable, further USD strength and the persistently large currency account deficit remain vulnerabilities for the rupee. We look for a continued depreciation trend in 2016.

Fiscal policy: The annual budget is formulated on a medium-term expenditure framework. The fiscal year is currently July – June after having previously reported on a calendar year basis between 2010 and 2014. The three-year framework envisages a gradual narrowing in the fiscal deficit from a projected 3.5% of GDP in FY 2015-16 (July 2015 – June 2016) to 1.5% in FY 2017-18. One of the main objectives of the budget is to “steer the economy towards a path of high investment and high employment” over the upcoming years. The government tabled 13 ‘mega’ projects for which it aims to attract c.MUR120bn (USD3.3bn) in private and foreign direct investments towards their implementation. While the government seeks to attract higher private investment, it has limited space for debt-financed increases in capital spending. Beyond allocations to parastatals, the general government’s capital spending is expected to remain at about 3% of GDP in the current fiscal year and average 2.7% of GDP over the medium term. Government borrowing is guided by the Public Debt Management Act (2008) which stipulates that public sector debt cannot exceed 60% of GDP in any year before 2018. In its fiscal consolidation plan, the government is seeking to reduce the debt-to-GDP ratio to 50% by end-2018, which is set to remain the ceiling thereafter. These targets exclude exceptional circumstances (such as natural disasters). Total central government debt was estimated at 58.1% of GDP at end 2015 compared with 56.1% at end-2014.

Regulatory and tax environment: Exchange controls were suspended in 1994, allowing foreign investors to repatriate all capital, profits and income freely. Withholding taxes are applicable for non-residents, but income is subject to tax at the applicable treaty or non-treaty rate depending on the investor’s country of residence. Investors are required to appoint a local tax advisor to assess their tax obligations and prepare an annual report of income received during the year.

Political environment: Mauritius ranks as among Africa’s most stable and vibrant democracies and has topped the rankings of the Ibrahim Index of African Governance for the past few years. Notwithstanding, the island is known for its shifting political landscape as changing alliances and political manoeuvring continue to typify its politics. Indeed, in a move to position himself before the December 2014 elections, former President Jugnauth resigned his position in April 2012 to take up the leadership of the main opposition party. He then led the opposition coalition (Alliance Lepep) and steered it to a landslide victory over the ruling PTR-MMM, winning 47 of the 62 seats as voters rejected the former ruling party’s plans to boost presidential powers, while also amending the constitution so the president would be directly elected (the largely ceremonial position is currently elected by parliament). The 84-year old Jugnauth was then appointed Prime Minister by President Purryag. Purryag resigned as expected in May 2015 and current President Ameenah Gurib-Fakim was unanimously endorsed by parliament as president in June 2015. Gurib-Fakim became the country’s first female President and the sixth since the republic was formed in 1992.

Development framework: A committee on achieving the “Second Economic Miracle and Vision 2030” was launched by Prime Minister Jugnauth in August 2015. Core areas of the development plan include revamping the manufacturing base, leveraging on the Exclusive Maritime Economic Zone to develop the Ocean industry, revisiting the services sector and strengthening the innovation, technology and communication sector. The country will also build on its “Africa Strategy”, which is aimed at transforming the economy into a regional platform for trade, investment and services. In the main, the government aims to create 100,000 new jobs within the coming five years in 10 sectors of the economy through major investment projects (amounting to MUR183bn) and achieving an average growth rate of 5.5% annually from 2017.

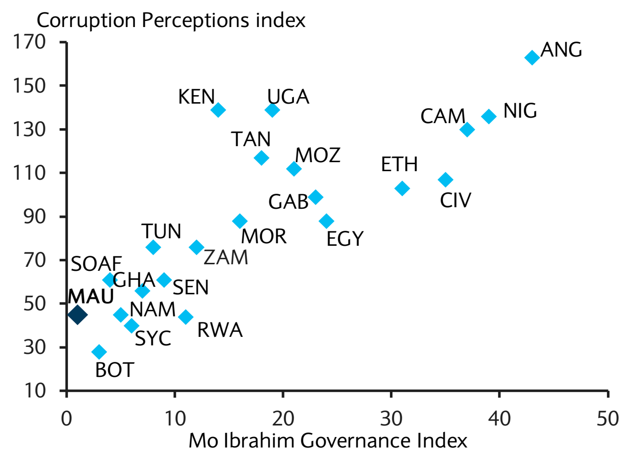
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Ameenah Gurib-Fakim (since 5 June 2015)
Ruling political party	Alliance Lepep (coalition consisting of the MSM, PMSD and ML parties)
Main opposition parties	Labour Party, MMM
Elections	The president and the vice president are elected by the national assembly for five-year terms. Alliance Lepep won the December 2014 general elections obtaining 47 of 62 seats (next to be held in 2019). The president appoints the prime minister who is the head of Government. Current Prime Minister, Sir Anerood Jugnauth, was appointed in December 2014.
Demographics	
Population	1.2mn (2015E), 0.4% growth rate (UN)
Life expectancy	75 years
Main ethnic groups	Indo-Mauritian 68%, Creole 27%, Sino-Mauritian 3%, Franco-Mauritian 2%
Main language	Creole (86.5%), Bhojpuri (5.3%), French (4.1%)
Adult literacy	89.2%
Urban population	40%
Economic structure	
GDP	USD11.6bn (2015E); USD12.6bn (2014); 4.1% average real growth rate for 2006-2015
GDP per capita	USD9,187 (2015E), USD 9,999 (2014)
GDP by sector	Manufacturing (16.3%), Trade services (12.6%), Finance (10.3%), Accommodation and food services (6.6%), Public administration (6.7%)
Main industries	Manufacturing, tourism, agriculture
Business development indicators	
2015 Corruption Perceptions Index ranking	45 (out of 168)
2015-16 Global Competitiveness Index ranking	46 (out of 144)
2015 Ease of doing Business ranking	32 (out of 189)
2014 Human Development Index ranking	63 (out of 188)
2015 Mo Ibrahim Index of African Governance	1 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Barclays Research

FIGURE 3

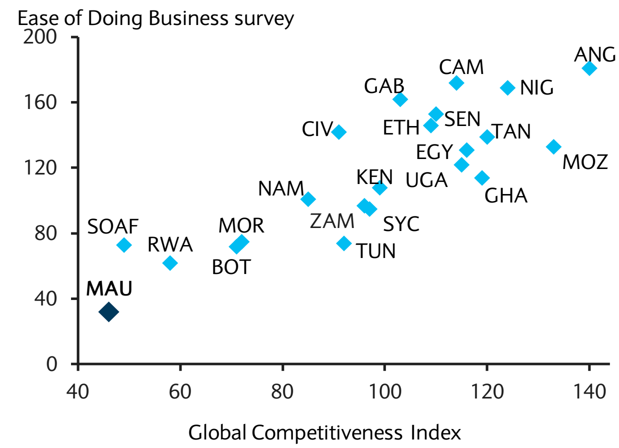
Mauritius: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Mauritius: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015/16, Barclays Research

Overview of key indicators

- **Tourism arrivals rose by 10.9% y/y to a record 1,151,723 in 2015. Europe remains the main source of tourists, accounting for 55% of last year's total, followed by Africa (25%) and Asia (17%).**
- **Headline inflation eased significantly in 2015 (average: 1.3%) and is likely to remain benign in H1 16.**

Key indicators to watch

Indicator	Data availability	Rationale
Monthly Statistical Bulletin	Available monthly from the Bank of Mauritius	The BoM releases a monthly review that covers recent developments in inflation, credit, interest rates, real sector, external sector, government budget and public debt.
Tourism earnings and tourist arrivals	Available monthly from the Bank of Mauritius and Statistics Mauritius	Tourism is an important foreign exchange earner. Data are released in the BoM Monthly Statistical Bulletin.
Annual national budget	The Finance Ministry publishes data on fiscal developments.	Tables the fiscal outlook
BoM Annual Report	BoM	This report reviews recent economic developments. The bank also publishes a bi-annual inflation report whereby it details its inflation outlook and a basis for monetary policy over the subsequent two quarters ending June and December.
Foreign trade	Available monthly from Statistics Mauritius	The export sector is highly concentrated in sugar, fish products and textiles and is sensitive to the international trade environment. About 60% of exports are to European countries.
Consumer Price Index	Available monthly from Statistics Mauritius	The BoM does not have an explicit inflation target but aims to move to an inflation-targeting framework in the medium term. Inflation remains subdued (1.3% at end-2015) allowing for a continued growth-supportive monetary policy stance.
Monetary Policy Statements	The BoM typically meets quarterly – for 2016, the first meeting is on 16 February.	Indicates the BoM's policy stance. A communiqué is published after each MPC sitting while minutes are published two weeks later.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	3.9	3.2	3.2	3.6	3.7	3.5	3.9
Nominal GDP (USD bn)	11.3	11.4	11.9	12.6	11.6	11.2	11.5
CPI (pavg, % y/y)	6.5	3.9	3.5	3.2	1.3	1.5	4.0
Fiscal balance (% GDP, FY)	-3.2	-1.8	-3.5	-3.2	-3.5	-3.0	-1.6
Revenue (% GDP, FY)	21.4	21.4	21.4	20.6	20.9	20.1	20.1
Expenditure (% GDP, FY)	24.6	23.3	24.9	23.8	24.4	23.1	21.6
Central government debt (% GDP, FY)	52.2	51.4	53.8	56.1	57.2	56.6	54.8
o/w Domestic	42.5	41.0	40.9	42.8	44.1	44.3	42.8
o/w External	9.7	10.5	12.9	13.3	13.1	12.4	12.0
Current account balance (% GDP)	-13.8	-7.3	-6.3	-5.6	-5.1	-4.9	-6.3
Trade balance (% GDP)	-23.0	-23.6	-19.0	-17.9	-17.0	-15.9	-17.2
Tourism earnings (USD mn)	1,488	1,477	1,321	1,447	1,433	1,410	…
Tourist arrivals (000s)	965	965	993	1,039	1,152	1,190	…
USD/MUR (avg)	28.71	30.05	30.70	30.62	35.06	38.39	40.40
Repo rate (%)	5.40	4.90	4.65	4.65	4.40	4.65	5.50
Official reserves (USD bn)	2.8	3.0	3.5	3.9	4.3	4.1	…
Months of imports	4.6	4.9	5.2	6.2	7.3	7.1	…

Source: Bank of Mauritius, Statistics Mauritius, MoFED, IMF, Barclays Research

Foreign trade flows*

- **The total value of imports remains nearly twice that of exports, putting the CA deficit under significant pressure.**
- **Europe is the main destination for Mauritian exports, accounting for about 60% of the total.**

Exports		
Top product groups	**USD mn**	**% y/y**
Articles of apparel and clothing accessories	805	5.8
Ship's Stores and Bunkers	444	-15.7
Fish and fish products	455	-4.3
Cane sugar	252	-18.4
Textile yarns and fabrics	120	5.5

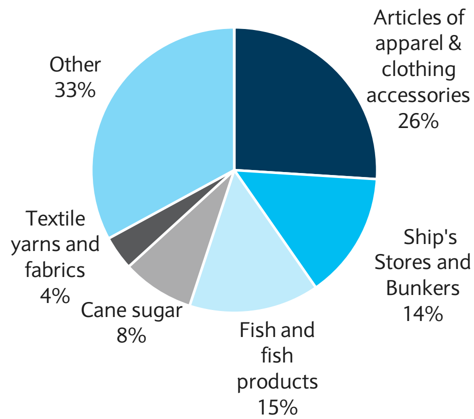
Note*: 2014. Source: Statistics Mauritius, Barclays Research

Imports		
Top product groups	**USD mn**	**% y/y**
Machinery and transport equipment	1,372	29.4
Food and live animals	1,024	-0.4
Refined petroleum products	892	-12.4
Manufactured goods	901	-3.3
Miscellaneous manufactured articles	482	2.4

Source: Statistics Mauritius, Barclays Research

FIGURE 5

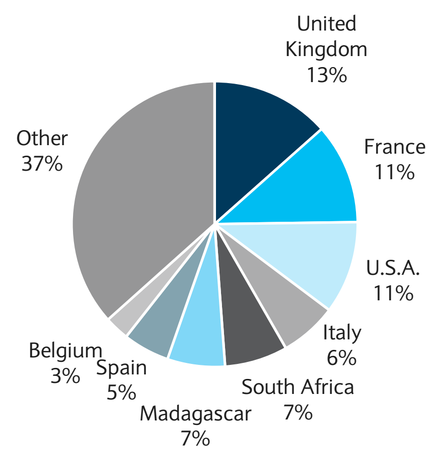
Main export groups



Source: Statistics Mauritius, Barclays Research

FIGURE 6

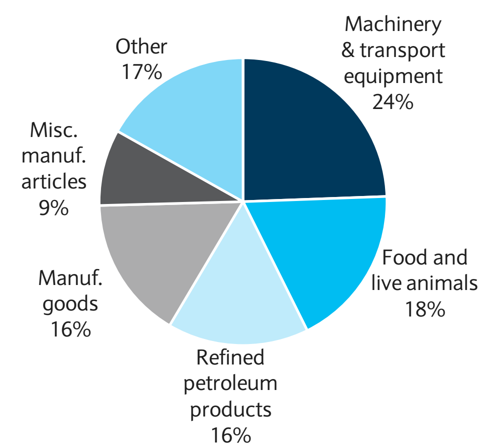
Main export destinations



Source: Statistics Mauritius, Barclays Research

FIGURE 7

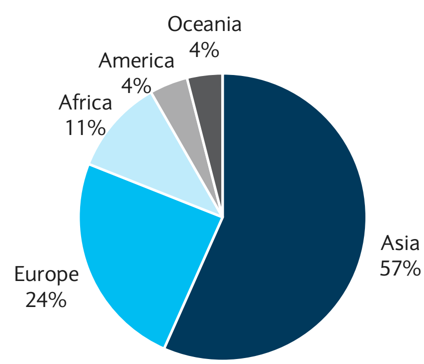
Main import groups



Source: Statistics Mauritius, Barclays Research

FIGURE 8

Main origins of imports



Source: Statistics Mauritius, Barclays Research

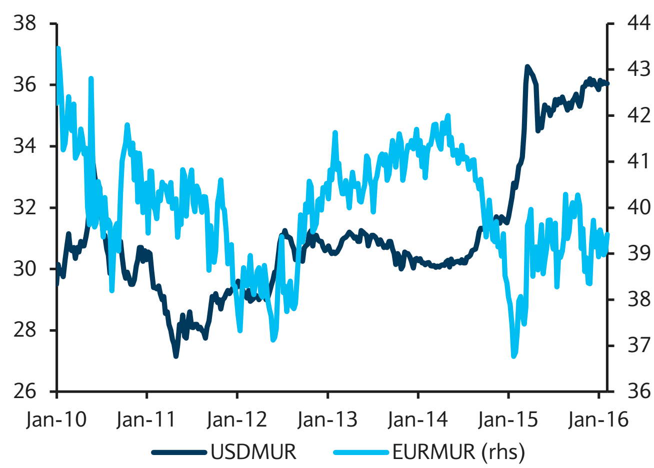
FX markets

Overview	The official unit of exchange of Mauritius is the rupee, which is a managed floating unitary exchange rate. The volatility in the rupee depends upon macro-economic factors that have different degrees of importance, namely trade flows and capital flows with other economies, domestic inflation, interest rate differentials with other countries and some soft 'controls' in terms of central bank intervention. The central bank has instated some policy measures with respect to trade finance, swap transactions, excess liquidity, foreign exchange market, and public debt management to further reinforce the local market.
Market access/convertibility	Only fully-licensed dealers may deal in foreign exchange in Mauritius.
Tax regime	Non-residents are subject to tax on income derived from a source in Mauritius, subject to double taxation agreements. Dividends are exempt from tax. There is no withholding tax for non-residents.
Market participants	Banks and corporates (tourism, sugar and textile sectors) are key participants.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation	Reuters page	Additional information
Spot	Moderate/ cyclical		T+2	MUR=	Most of the export-receipts are in euros, while the majority of payments are in US dollars.
Forwards	Moderate	Up to 24 months	T+2	ABAF1=	Forward sales of foreign exchange are limited to 24 months.
Options	Very low	Up to 12 months		N/A	Options in MUR have only been recently launched. Fairly new market and therefore low liquidity

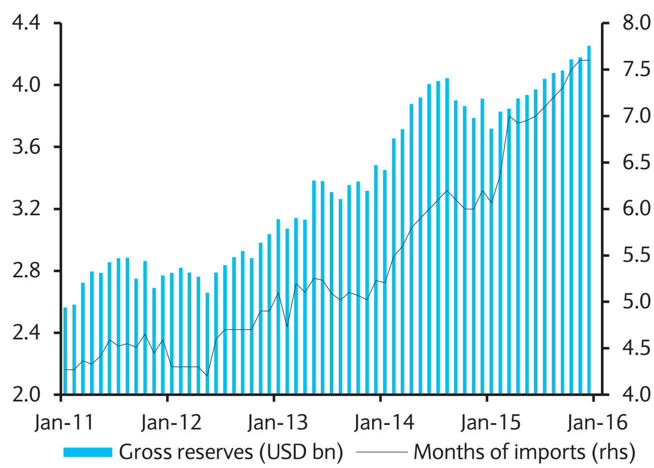
Source: BoM, Barclays

FIGURE 9
Mauritius: Rupee cross-rates



Source: Reuters, Barclays Research

FIGURE 10
Mauritius: Movement in FX reserves



Source: IHS, BoM, Barclays Research

Rates products

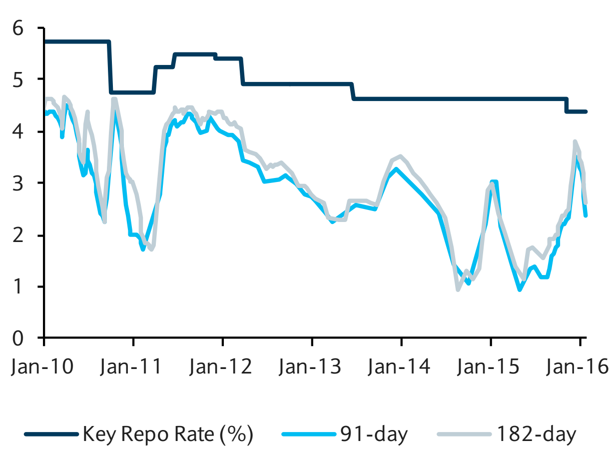
Overview	The Ministry of Finance issues treasury bills, notes, bonds and inflation linked instruments. Banks have a preference for short term duration instruments. The central bank also issues its own bonds to mop up excess liquidity across the market. The FX swap market is developing gradually across wholesale banking locally.
Market access/convertibility	There is a primary dealer system in treasury bills. Secondary market activity in bonds and other government securities is limited, but there is demand for such investments, primarily from institutional investors (though other financial institutions are also allowed to bid directly from the central bank).
Tax regime	Non-residents are subject to tax on income derived from a source in Mauritius, subject to double taxation agreements. Dividends are exempt from tax. There is no withholding tax for non-residents.
Market participants	Local banks and financial institutions
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation/ settlement	Reuters page	Additional information
Cash deposits	Liquid	Cash up to 1 week. Beyond this the spread is 250 pips up to 1 month.	T+0	BBMR	Depends on liquidity of market
Treasury Bills	Liquid	Up to 1y	T+1	BBMR	Interbank
Treasury Notes	Fairly liquid	3y	T+1	BBMR	Limited stakeholders but tradable.
Treasury Bonds	Fairly liquid	5y	T+1	BBMR	Banks and non banks
Long-term Bonds & Inflation linked bonds	Fairly Liquid	10, 15y, 20y	T+1	BBMR	Mostly insurance companies/Non banks
Corporate bonds	Fairly liquid				Few banks have positioned as facilitator

Source: Barclays Bank Mauritius, Barclays Research

FIGURE 11

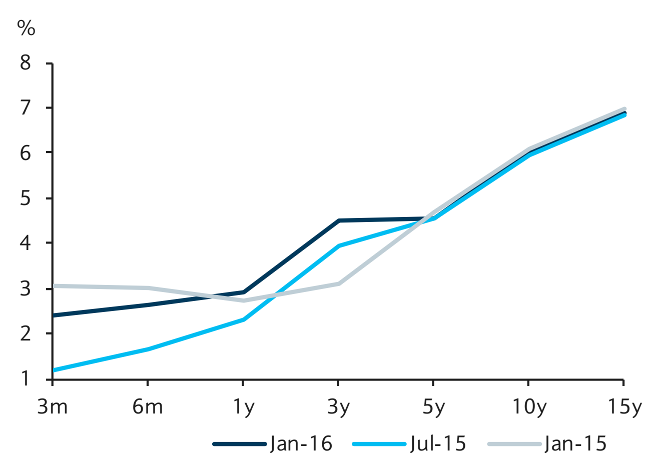
Mauritius: Short-term interest rates



Source: BoM, Barclays Research

FIGURE 12

Mauritius: Yield curve*



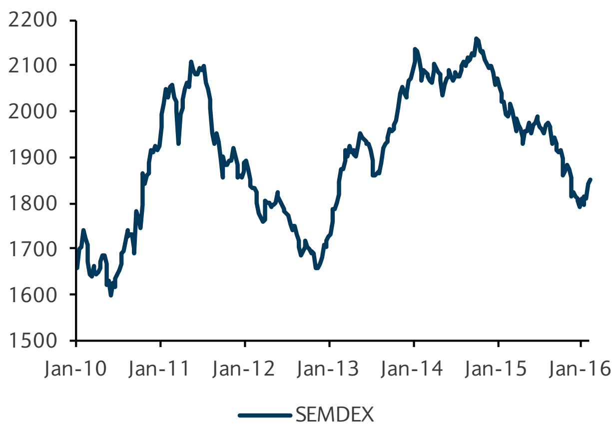
Note: * Latest auction yields. Source: BoM, Barclays Research

Equity market snapshot

Market size	The market capitalisation of the Stock Exchange of Mauritius was USD5.7bn as of end-January 2016.
Main indicator	The SEMDEX is the benchmark index of prices of all listed shares. The SEM-10 index tracks the ten largest shares in terms of market capitalisation, liquidity and investibility. The SEMTRI is a total return index that tracks the performance of the local market.
Listed companies	There are 42 companies listed on the official market, while 49 are listed in the development and enterprise market.
Top listed companies	Mauritius Commercial Bank; State Bank of Mauritius; New Mauritius Hotels; ENL Land Ltd; and CIEL Ltd,
Taxation	None.

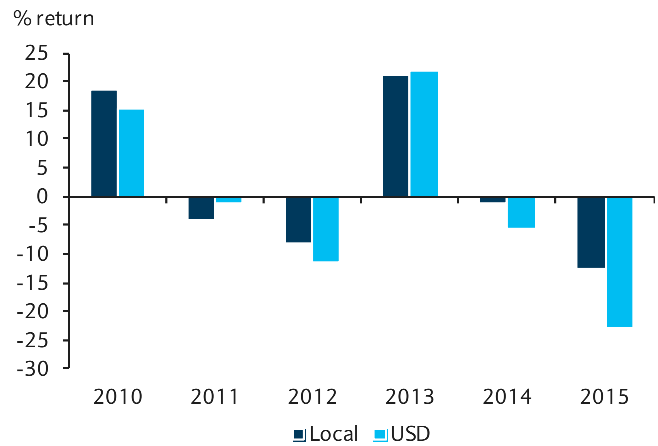
Source: The Stock Exchange of Mauritius, Barclays

FIGURE 13
SEMDEX performance



Source: Reuters, Barclays Research

FIGURE 14
SEMDEX total return



Source: Reuters, Barclays Research

Useful links

Barclays Research:	https://live.barcap.com
Bank of Mauritius:	www.bom.mu
Statistics Mauritius:	http://statsmauritius.govmu.org
Ministry of Finance and Economic Development:	http://mof.govmu.org
The Stock Exchange of Mauritius:	www.stockexchangeofmauritius.com
International Monetary Fund:	http://www.imf.org/external/country/MUS/index.htm

MOZAMBIQUE

Policy environment

Credit rating	
Long-term foreign currency rating	B (Fitch) B2 (Moody's) B- (S&P)

Source: Bloomberg

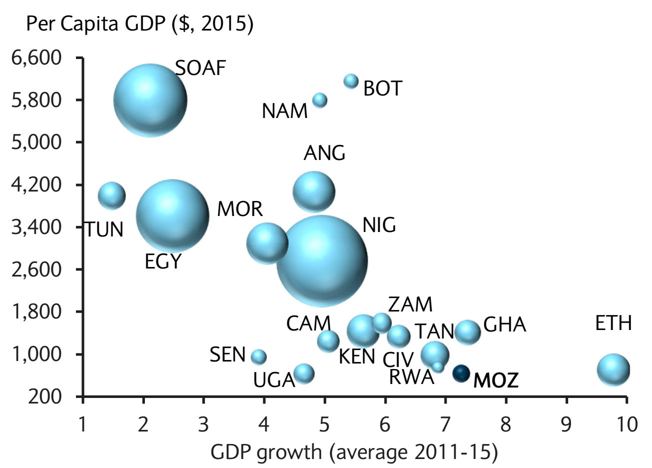
- **We believe real GDP growth may remain below trend in 2016, with a faster pace of expansion likely from 2017. Prospective development of the LNG sector is a bright spot.**
- **Fiscal consolidation is expected to continue, under an IMF-supported program, though risk of further credit rating downgrades linger.**

Monetary policy: The Bank of Mozambique's (BoM's) primary objective is price stability, while promoting a sound and efficient financial sector. The policy framework is based on monetary targets, with reserve money set as the operational target. The bank uses open market operations and reserve requirement adjustments for liquidity management purposes. The Monetary Policy Committee meets monthly and signals its monetary policy stance by setting interest rates on its standing lending and deposit facilities. It also announces the reserve money targets and adjusts the reserve requirement ratio (less frequent). In its policy implementation, the BoM considers macroeconomic objectives set out by the government annually. For 2016, an annual inflation rate of 5.6%, real GDP growth of 7.0% and maintenance of an "adequate" level of international reserves are targeted. A sharp acceleration in inflation and heightened FX pressures led to the BoM resuming a tightening cycle in October 2015. Headline inflation (based on the Maputo CPI) jumped to 11.1% y/y in December from a 16-year low of -0.8% y/y in May 2015. In response, the BoM has increased its standing lending (SLF/FPC) and deposit (SDF/FPD) rates by a cumulative 325bp and 275bp to 10.75% and 4.25%, respectively, since October 2015. The reserve requirement ratio has been increased to the current 10.5% from 8.0% in September. In our view, further policy tightening is likely in 2016 given elevated inflation. Lagged effects of FX depreciation, food price pressures and adjustment to administered prices suggest that the 5.6% inflation objective for 2016 is unlikely to be met.

Exchange rate policy: Mozambique operates a managed-float exchange-rate regime, with intervention aimed at preventing large fluctuations rather than targeting a particular exchange rate level. Following significant monetary policy tightening in Q4 15 and implementation of changes to FX regulations (including the placing of limits to offshore credit card transactions), pressure on the MZN eased in December. The currency ended the year at about 28% y/y weaker against the USD. Given a tighter policy environment, we look for a

FIGURE 1

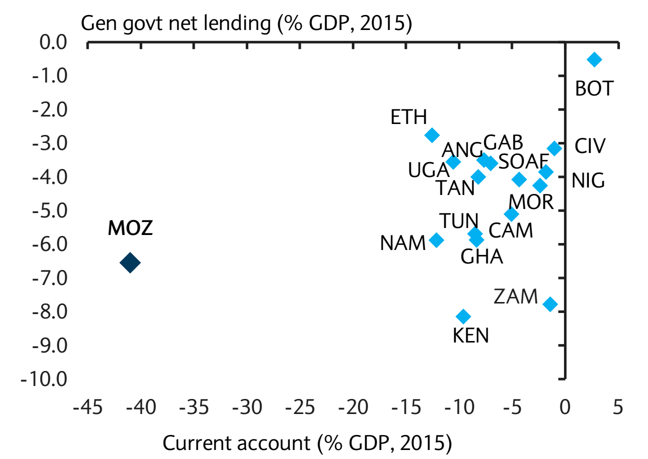
Mozambique: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2

Mozambique: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

less pronounced depreciation in the metical in 2016. The large current account deficit (exacerbated by export weakness) and expected broad-based strength in the USD in the month ahead remain risks to the currency's performance. Moreover, sharply lower FX reserves (which fell by about USD1bn in 2015) further limit the BoM's scope to intervene.

Fiscal policy: The government's medium-term economic programme is supported by the IMF under a three-year Policy Support Instrument (PSI) arrangement, which was approved in June 2013. The IMF also approved a Stand-by Credit Facility (SCF; expires in June 2017) for Mozambique in December 2015 to supplement the PSI. The SCF "aims to alleviate the external balance of payments shocks and, through strengthening macroeconomic stability, to achieve the government's goals on poverty reduction and inclusive growth". Under the PSI programme with the IMF, the deficit is projected to be reduced to about 4% of GDP in 2016; this adjustment is expected to be driven by a c.1.5pp reduction in expenditure relative to 2015 (IMF). The deficit reduction is set to improve public debt dynamics, with the debt-to-GDP ratio having risen to above 70% of GDP in 2015, partly on account of sharp FX depreciation. The planned fiscal consolidation in 2016 builds on 2015 where the budget deficit is estimated to have declined to about 6.0% of GDP (2014: 10.7%).

Regulatory and tax environment: Under the foreign exchange regulation that took effect from July 2011, central bank approvals for current account payments and receipts (export/import of goods and services, income and current transfers) are waivered. Inward and outward payments in the capital account still require central bank authorisation, though the process is now more flexible. The regulation requires the remittance of the proceeds of exports and offshore investments within 90 days of export and receipt of income. However, as much as 50% of such proceeds may be kept by exporters or investors in a domestic account or used to fund foreign obligations. There is a 20% withholding tax on government and corporate bonds for foreign investors.

Political environment: The political scene is dominated by the ruling Frente de Libertação de Moçambique (FRELIMO) party, which has been in power since independence in 1975. The most recent parliamentary and presidential elections were held on 15 October 2014 and passed smoothly despite the political tensions that preceded the elections. RENAMO pulled out of the 1992 peace accord at the end of 2013 amid heightened political tensions, though it continued to engage in talks with the government. The parties signed another truce in August 2014, paving the way for successful elections. FRELIMO won 144 parliamentary seats (191 previously and from a total of 250 available seats), while RENAMO increased its seats to 89 from 51. Incumbent President Filipe Nyusi won 57.3% of the votes versus 36.6% for RENAMO'S Dhlakama. RENAMO rejected the results and demanded the formation of a unity government. Tensions between FRELIMO and RENAMO persist, with intermittent fighting particularly at the Sofala region, one of RENAMO'S strongholds. The government continues to call for dialogue while also seeking to disarm RENAMO militia.

Development framework: The government sets five-year programmes (Programa Quinqeunal do Governo) around the start of each parliament. The current five-year plan (2015-19) was approved by the new parliament in April 2015. The plan has five priority areas, namely: i) consolidation of national unity, peace and sovereignty; ii) development of human and social capital; iii) promotion of employment, productivity and competitiveness; iv) development of economic and social infrastructure; and v) sustainable and transparent management of natural resources and the environment. The plan is implemented through the government budget while it is also aligned with objectives of "Agenda 2025". Amongst other targets, the government seeks to achieve real GDP growth of 7-8% in the medium-term. Funding from multilateral institutions and country donors (particularly the "G19" which includes The World Bank, the AfDB and European Commission) is key to the national development framework, although donor dependence is expected to decline over time.

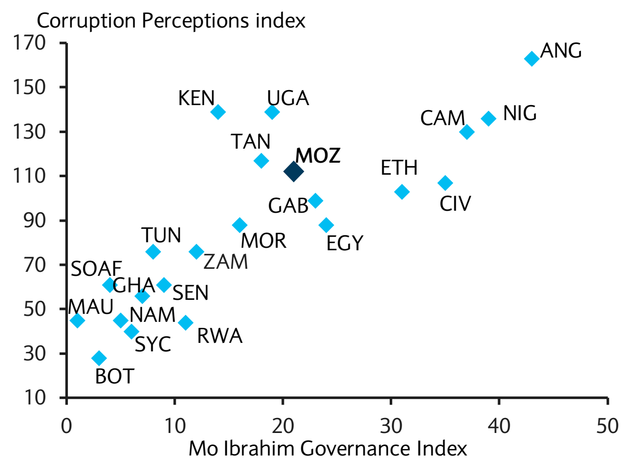
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Filipe Nyusi (since January 2015)
Ruling political party	Frente de Libertação de Moçambique (FRELIMO)
Main opposition party	Resistencia Nacional Mocambicana (RENAMO)
Elections	President Nyusi was sworn in on 15 January 2015, after winning the presidential election in October 2014. Nyusi took over from President Guebuza who had served a constitutional two terms. Parliamentary and presidential elections occur every five years (next due in 2019).
Demographics	
Population	27.9mn (2015E); 2.5% growth rate (UN)
Life expectancy	56.2 years
Main ethnic groups	African 99.66% (Makhuwa, Tsonga, Makonde Lomwe, Shangaan, Sena, Ndau and others)
Main languages	Emakhuwa 25.3%, Portuguese (official) 10.7%, Xichangana 10.3%, Cisena 7.5%, Elomwe 7%, Echuwabo 5.1%
Adult literacy	50.6%
Urban population	32%
Economic structure	
GDP	USD14.6bn (2015E); USD16.9bn (2014); 7.2% average real growth rate for 2006-2015
GDP per capita	USD626 (2015E), USD630 (2014)
GDP by sector	Primary (27.5%), Secondary (14.5%), Tertiary (50.7%)
Main industries	Aluminium, petroleum products, textiles, tobacco, chemicals
Business development indicators	
2015 Corruption Perceptions Index ranking	112 (out of 168)
2015-16 Global Competitiveness Index ranking	133 (out of 144)
2015 Ease of Doing Business ranking	133 (out of 189)
2014 Human Development Index ranking	180(out of 188)
2015 Mo Ibrahim Index of African Governance	21 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Barclays Research

FIGURE 3

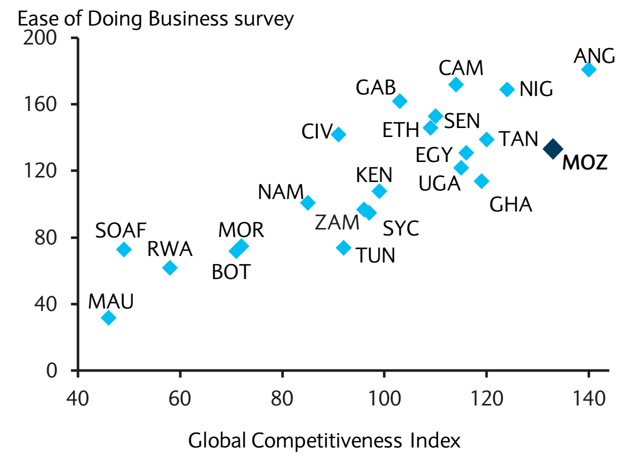
Mozambique: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index.



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Mozambique: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **Fiscal dynamics may improve in 2016 while the current account deficit is likely to remain at over 40% of GDP.**
- **Weak commodity prices are weighing on GDP growth. We look for a slower economic expansion this year, with stronger growth likely in upcoming years.**

Key indicators to watch

Indicator	Data availability	Rationale
Inflation	Published monthly by the INE. This is typically within the first 10 days of the month.	The BoM aims to maintain single-digit inflation. The inflation objective is set (and announced) by the government on an annual basis. The target for 2016 is 5.6%. Headline inflation (Maputo CPI) rose sharply in the second half of 2015 to 11.1% y/y in December from 0.1% at mid-year.
Money supply	The BoM MPC announces money supply targets in its monthly statements.	The BoM uses the broad money supply (M3) as the intermediate target and the reserve money as the operational target of monetary policy.
Net international reserves	Published by BoM.	Given Mozambique's vulnerability to external shocks, stemming from a significant trade deficit, building sufficient reserves as a buffer is a necessity.
Aluminium price/export volumes	Reuters/Bloomberg	Aluminium makes up about a quarter of Mozambique's total exports.
Extractive sector	Announcements from the mining companies and the government.	Historically, aluminium has been Mozambique's primary export but coal exports are gaining prominence. Mozambique is expected also to be a major producer of natural gas within the next decade. Mining is an important driver of economic growth.
Real GDP growth	Published quarterly by the INE.	Mozambique has recorded impressive macroeconomic growth over the past few years. Growth averaged above 7% p.a. over the past 10 years.
FDI	BoM and company announcements.	FDI into Mozambique is large by regional standards (c.USD6bn in 2014). Despite declining in 2015, it is expected to remain elevated in the medium-term due to large projects in the country. FDI provides sufficient financing for the large current account deficits, which are largely due to FDI-related imports.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	7.1	7.2	7.1	7.4	6.3	5.2	7.2
Nominal GDP (USD bn)	13.1	15.3	16.0	16.9	14.6	12.5	13.1
CPI (pavg, % y/y)	10.4	2.1	4.2	2.3	2.4	12.8	9.0
Fiscal balance (% GDP)	-4.8	-3.9	-2.7	-10.7	-6.3	-4.9	-4.7
Revenue (% GDP)	27.3	21.9	26.3	27.6	26.3	25.2	24.3
Grants (%GDP)	7.5	5.1	5.2	4.3	4.2	3.7	2.8
Expenditure (% GDP)	32.2	30.7	34.0	42.5	36.7	33.8	31.8
Government domestic debt (% GDP)	6.3	5.5	8.6	8.6	10.4	8.6	6.6
Government external debt (% GDP)	31.2	34.5	42.4	48.5	66.1	60.5	57.4
Current account balance (% GDP)	-25.3	-44.5	-39.0	-38.2	-43.9	-45.4	-49.8
Trade balance (% GDP)	-17.1	-26.5	-27.2	-27.5	-32.2	-33.5	-34.0
FDI (% GDP)	27.1	36.9	38.5	36.4	31.8	33.8	…
USD/MZN (pavg)	29.07	28.37	30.10	31.35	39.51	54.49	60.00
Official reserves (USD bn, eop)	2.4	2.8	3.1	2.9	2.0	2.3	…
Months of imports	3.8	2.7	3.0	2.5	1.9	2.6	…

Source: IMF, BoM, INE, Barclays Research

Foreign trade flows*

- **Weaker aluminium and coal prices have added to pressure on external balances. Imports remain elevated at about twice the value of exports.**
- **Though aluminium is the largest single export, coal is expected to significantly grow its share in the export basket over the medium term as logistical hurdles are alleviated.**

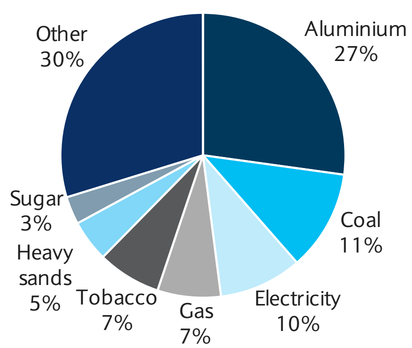
Exports		
Top product groups	USD mn	% y/y
Aluminium	992	-2.5
Coal	415	-18.2
Electricity	343	3.2
Tobacco	263	4.8
Gas	262	-12.3

Note*: 12 months to September 2015. Source: BoM, Barclays Research

Imports		
Top product groups	USD mn	% y/y
Capital goods	1,735	0.6
Fuel	814	-24.8
Vehicles	405	-29.2
Cereals	366	3.3
Electricity	262	1.4

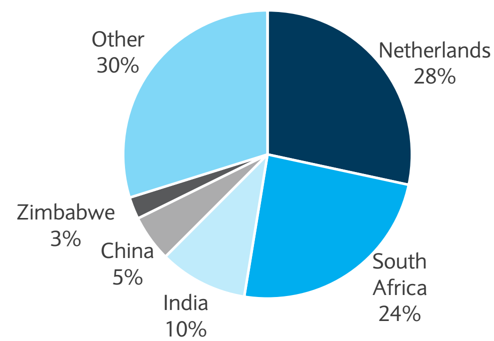
Source: BoM, Barclays Research

FIGURE 5
Main export groups



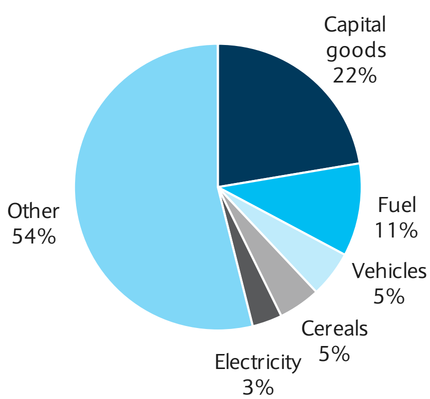
Source: BoM (12 months to September 2015), Barclays Research

FIGURE 6
Main export destinations



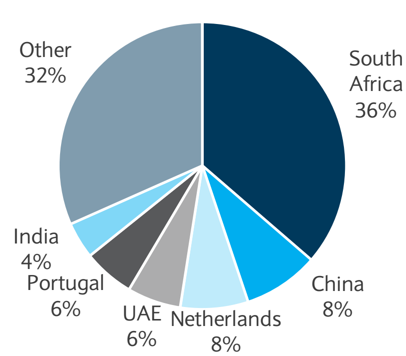
Source: BoM (2014), Barclays Research

FIGURE 7
Main import groups



Source: BoM (12 months to September 2015), Barclays Research

FIGURE 8
Main origins of imports



Source: BoM (2014), Barclays Research

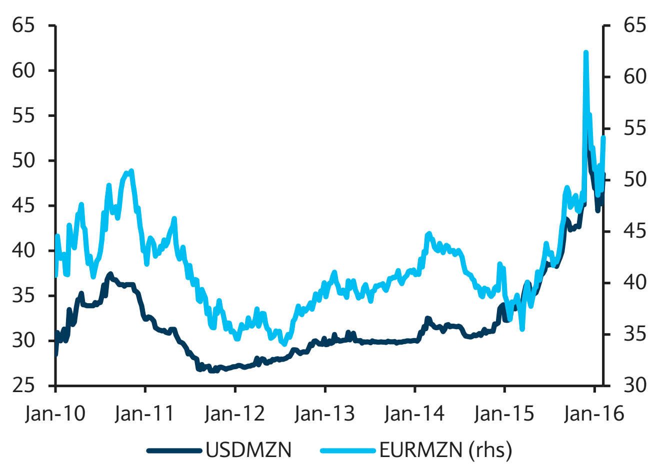
FX markets

Overview	The Mozambican metical is a managed floating currency.
Market access/convertibility	All inward payments can only be credited into the beneficiary accounts after the receiver of the funds has informed the bank of the nature of the funds for the correct classification of the transaction. Since 50% of export (goods/services) or foreign investment proceeds must be converted to metical, the banks have the obligation to verify and classify every foreign currency inflow. However, with the exception of export/ foreign investment proceeds, all incoming funds may be fully deposited in foreign currency accounts and converted at the discretion of the receiver of the funds – preferably, these funds should all be registered at the central bank (FDI, loans). The commercial banks only sell currency for outward payments against valid documentation; hence, the sale of currency by banks for a domestic payment is not allowed.
Tax regime	While there is no tax on currency transactions per se, a withholding tax of 10-20% applies for international payments related to interest and investment income. A capital gains tax of 32% also applies. Current account transfers are tax free.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation	Reuters page	Additional information
Spot	Liquid		Limited two-way quotes	BMMX	Proprietary trading limited.
Forwards	Limited liquidity but developing	Up to one year but flexible	Very limited two-way quotes. Non-deliverable forward transactions permitted.	ABAF	Forwards market growing. Increasing demand has been stimulating market growth.
Swaps	Limited liquidity but growing	Up to 1-year but flexible	Very limited two-way prices		Swap market is limited, but deals up to USD10mn are possible. Exposures can be hedged via manufactured forward techniques.

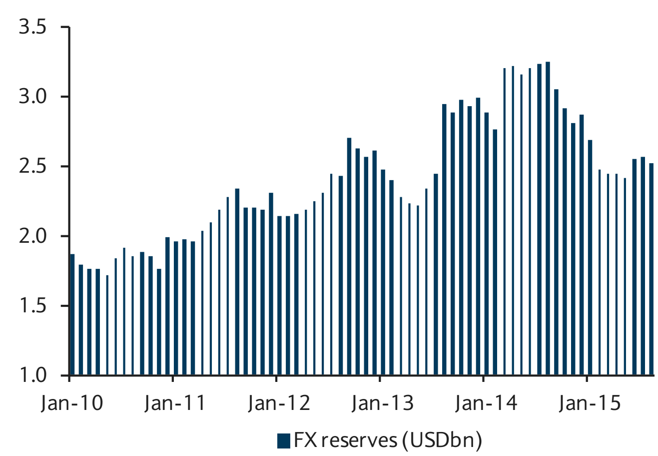
Source: Barclays Mozambique, BoM

FIGURE 9
Mozambique: Metical cross-rates



Source: Reuters, Barclays Research

FIGURE 10
Mozambique: FX reserves



Source: IFS-Global Insight

Rates products

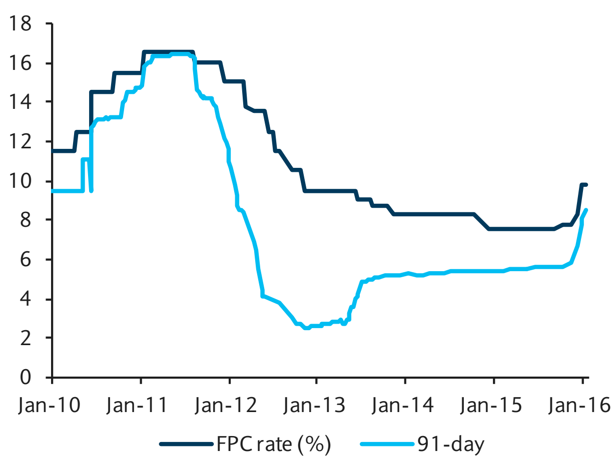
Overview	The treasury bill and repo markets in Mozambique are restricted to local investors. Foreign investors are generally allowed to invest in bonds via the Mozambican Stock Exchange or accrue interest on term deposits. However, the National Treasury may invite non-residents to participate in private bond placements via local banks, which act as placement brokers.
Market access/convertibility	Investments via the stock exchange or term deposits via banks do not require central bank sanctioning. These investments are dealt with the commercial banks.
Tax regime	Withholding tax on government and corporate bonds for foreign investors is 20%.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/ maturity	Quotation/ settlement	Reuters page	Additional information
Repos/reverse repos	Liquid	1-7, 14, 28 and 63 days	N/A		
Treasury bills	Liquid	91, 182 and 364 days	N/A	MOZMM	Available through the central bank, but foreign investors are not allowed. Local investors may buy T-bills for investment portfolio. With-holding tax of 20% applies.
Treasury bonds/treasury obligations (yield instrument with zero-coupon floating rate)	Very illiquid but all bonds/ obligations listed on stock exchange.	Primary issues 3-10y	N/A		Foreign investors may buy debt securities from the stock exchange via registered Primary Dealers. All script is dematerialised, and broker/dealer will hold the central register for all investments via the broker/dealer.
Corporate bonds	Very illiquid	5-10y	N/A		Script dematerialised, Coupons S/A, repricing S/A. Quoted on BVM (stock exchange) 20% withholding tax applicable
Bank bonds	Private placements for funding and T2 capital	3-5y	N/A		Script dematerialised, Coupons S/A, repricing S/A. Quoted on BVM (stock exchange) 20% withholding tax applicable

Source: Barclays Mozambique, BVM, BoM

FIGURE 11

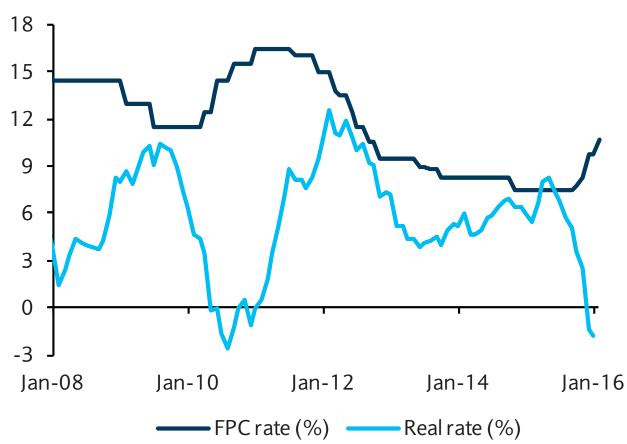
Mozambique: Short-term interest rates



Source: BoM, Barclays Research

FIGURE 12

Mozambique: Nominal and real policy rate movements



Source: BoM, Barclays Research

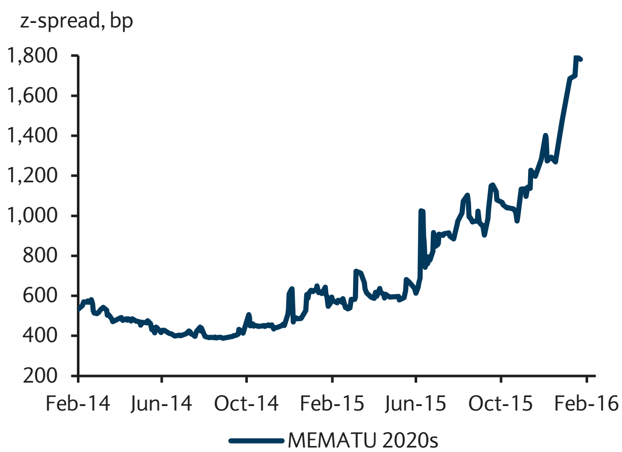
External credit snapshot

Overview	Mozambican credit exposure debuted in September 2013 in the international market with a USD850mn 2020 bond issued by EMATUM but with the Republic of Mozambique as Obligor.
Credit rating	The credit ratings trend was negative through 2015 with downgrades on the country being announced by all major rating agencies in the year. The Government is rated as B/B2 by Fitch (stable outlook) and Moody's (negative) after downgrades in August and October 2015, respectively. Following a one notch downgrade to B in February 2014, S&P lowered its long-term debt rating on the country further to B- in July 2015. In September 2015, the agency reviewed the sovereign's credit outlook to negative from Creditwatch negative, the latter being placed in July 2015. A marked deterioration in fiscal dynamics, increased pressure on external balances and a possible restructure of EMATUM debt have collectively weighed on the ratings. S&P noted that it may lower the ratings in 2016 if the EMATUM sovereign-guaranteed debt were restructured or exchanged on certain terms. Sustained fiscal consolidation over the medium-term (leading to a decline in the debt/GDP ratio) and decreased external pressures would be favourable for prospects on the ratings. Rating challenges remain given structural fiscal and current account deficits, weak diversification and institutional strength, as well as low GDP per capita.
Coverage centre	Research in London and South Africa.

Issuer	Maturity	Announced	Amount Outstanding	Coupon	Series	Additional information
EMATUM	11 Sep 2020	5 Sep 2013	$774mn	6.305% S/A	REGS/144A	Amortising

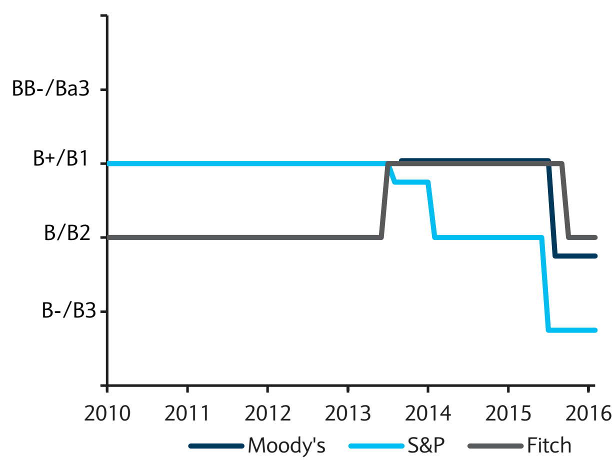
Source: Bloomberg, Barclays Research

FIGURE 13
Mozambique: Eurobond performance



Source: Bloomberg, Barclays Research

FIGURE 14
Mozambique: Credit rating history



Source: Bloomberg, Moody's, S&P, Fitch, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
Bank of Mozambique:	www.bancomoc.mz
Ministry of Planning and Development:	www.mpd.gov.mz
Instituto Nacional de Estatistica:	www.ine.gov.mz
Government of Mozambique:	http://www.portaldogoverno.gov.mz/
International Monetary Fund:	http://www.imf.org/external/country/MOZ/index.htm

NAMIBIA

Credit rating	
Long-term foreign currency rating	BBB- (Fitch) Baa3 (Moody's)

Source: Bloomberg

Policy environment

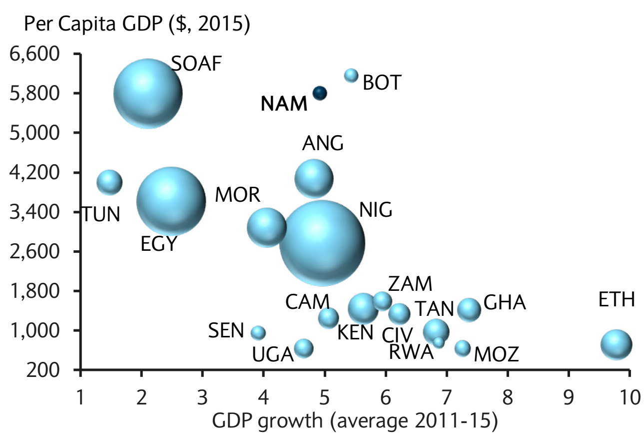
- **Despite weather-related challenges, Namibia's economy continues to benefit from ongoing investment by the government in infrastructure and the resources sector.**
- **Fiscal questions remain although high development spending suggests flexibility to reduce spending if required.**

Monetary policy: The Bank of Namibia's (BoN) ultimate objective is price stability. The monetary policy framework is underpinned by the fixed currency peg to the South African rand (ZAR), within the context of membership of the Common Monetary Area (CMA). The South African Reserve Bank (SARB) leads in setting monetary policy in the CMA, yet the BoN has some level of policy discretion, enabling it to maintain a repo rate, its main policy tool, different from that of the SARB. While focusing on achieving its price stability objective, the BoN has an intermediate target of promoting an economic and financial environment that should ensure that the parity between the Namibian dollar (NAD) and ZAR is not threatened. The BoN's Monetary Policy Committee meets every two months to set the repo rate in line with its objective to maintain an inflation rate between 3% and 6%. During 2015, the MPC continued with its policy tightening, raising the policy rate a cumulative 50bp in addition to the 50bp hike in 2014. Though inflation has remained well within the target range, averaging 3.4% over the year, the MPC has been concerned about the declining FX reserves. We expect the BoN's focus to remain on protecting limited FX reserves, while rising headline inflation also affirms a tightening bias on monetary policy. With private sector credit extension remaining at unacceptable levels and the central bank determined to contain the importation of particularly luxury goods, we believe further policy tightening is likely in 2016.

Exchange rate policy: Namibia is a member of the CMA with South Africa, Lesotho and Swaziland. The Namibian dollar is pegged at par to the South African rand. The rand is also legal tender in Namibia.

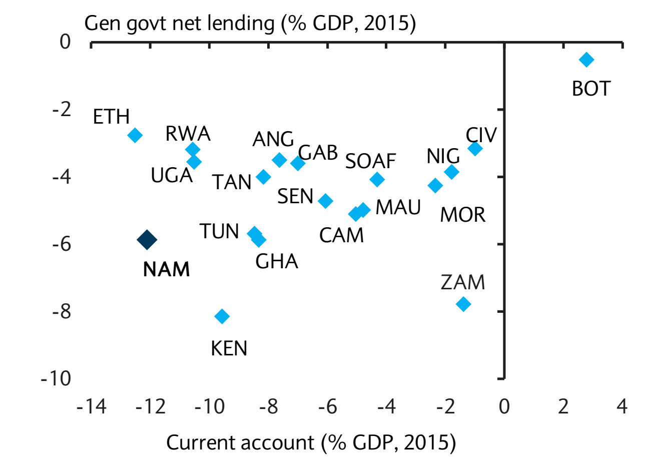
Fiscal policy: Namibia's fiscal strategy is premised on fiscal counter cyclicality, promotion of economic development, fiscal sustainability and the optimisation of social welfare. The fiscal strategy is guided by a three-year medium-term expenditure framework (MTEF), while the

FIGURE 1
Namibia: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2
Namibia: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

fiscal year runs from April to March (the budget is typically presented in February/March each year). The government's large public investment programme, undertaken in 2011, has been responsible for the larger fiscal deficit of recent years. The Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) sought to boost economic growth and job creation, but as it was a three-year programme, its final year of implementation was in 2013/14. However, in line with the objectives of the Fourth National Development Plan (NDP4), infrastructure outlays continue, with the most prominent project being the Mass Housing Development Initiative. Therefore, the development budget was much larger in the FY 2015-16 budget, which resulted in a targeted fiscal deficit of 5.3% of GDP. This is well above the 3.8% of GDP deficit proposed over the MTEF period. Though economic growth is likely to ease, our estimates suggest that the FY 2016-17 budget deficit is likely to be in line with the previous year's outcome. To relieve pressure on public finances, Namibia suspended its plans to build the Kudu gas-to-electricity project to save around NAD10bn over the next three years. The 1,050MW gas-fired electricity plant is seen as unfeasible given current economic realities which would impact on electricity supply challenges over the longer term. Medium-term fiscal risks include the lower commodity price environment and ongoing investment spending, while the risk of lower SACU (Southern African Customs Union) revenues remains an important longer-term threat. The larger fiscal deficits in recent years have pushed public debt higher, reaching an estimated 29.3% of GDP by the end of the 2015-16 fiscal period. We expect the debt ratio to increase further in 2016, though fiscal consolidation in coming years should see this rate stabilise as the MTEF dictates that public debt remains below the 35% of GDP ceiling.

Regulatory and tax environment: Foreign investors are subject to a non-resident withholding tax of 10-20% for dividends, 10% for interest income (government securities are excluded), 10% on royalties and 25% on services. Oil companies will be granted exchange control exemption and can operate without any restrictions on the nature of transactions. There are few restrictions on inward investment by foreigners, and profits may be fully repatriated.

Political environment: The country has a stable political environment, with risks considered low. The domestic political environment is dominated by the ruling South West Africa People's Organization (SWAPO), which extended its dominance over other parties during the November 2014 elections. After receiving more than 74% of the votes in the national assembly elections in 2009, SWAPO received 80.1% of the votes in the 2014 elections, while its presidential candidate, Hage Geingob, won 86.7% of the votes. President Geingob, who replaced President Pohamba in March 2015, is the third president of the country though he was prime minister from 1990 to 2002. Geingob is under pressure to resolve the land redistribution challenges, address poverty and create employment. The President is focussing on promoting accountability in his government while promising to build a strong and unified Namibia, tackling poverty and improving transparency. In an effort to improve efficiency and effective service delivery, the President required his cabinet to sign performance agreements last year.

Development framework: Namibia's five-year development plan, the fourth National Development Plan (NDP4), was launched in 2012 and was designated for the five-year period up to FY 2016-17. NDP4 is the fourth of seven development plans set out towards the achievement of Vision 2030, which is the country's long-term plan for industrialisation. The philosophy behind the plan is to provide direction as regards "high-level national priorities, desired outcomes and strategic initiatives". NDP4 highlights three overarching goals, including high and sustained economic growth, increased income equality and employment creation. The plan prioritised the transport, tourism, manufacturing and agricultural sectors.

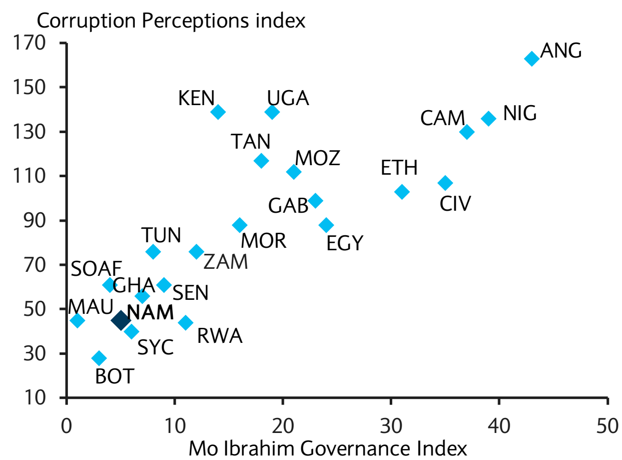
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Hage Geingob (since 21 March 2015)
Ruling political party	South West Africa People's Organization (SWAPO)
Main opposition parties	Democratic Turnhalle Alliance, Rally for Democracy and Progress (RDP)
Elections	President-elect Hage Geingob was sworn in March 2015, after winning the November 2014 elections. SWAPO received 80% of the votes in the parliamentary elections. Elections are held every five years.
Demographics	
Population	2.4mn (2015E), 1.9% growth rate (UN)
Life expectancy	65.3 years
Main ethnic groups	Ovambo (50%), Kavangos (9%), Herero (7%) and others
Main language	English (official), Afrikaans, German and other indigenous languages
Adult literacy	76.5%
Urban population	46%
Economic structure	
GDP	USD11.8bn(2015E); USD13bn (2014); 4.8% average real growth rate for 2006-2015
GDP per capita	USD5,787 (2015E); USD6,188 (2014)
GDP by sector	Primary industry (18.0%), secondary (17.7%) and tertiary (57.7%)
Main industries	Mineral processing and extraction, fish processing, manufacturing, food
Business development indicators	
2015 Corruption Perceptions Index ranking	45 (out of 168)
2015-16 Global Competitiveness Index ranking	85 (out of 144)
2015 Ease of Doing Business ranking	101 (out of 189)
2014 Human Development Index ranking	126 (out of 188)
2015 Mo Ibrahim Index of African Governance	5 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Transparency International, Barclays Research

FIGURE 3

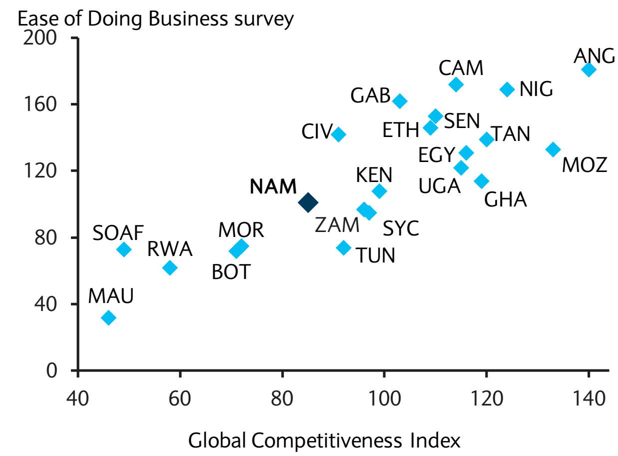
Namibia: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index.



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Namibia: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **While lower commodity prices remain a key risk, several mines (uranium, copper and gold) have come on stream and are likely to result in an increase in commodity production in Namibia in 2016.**
- **Concern about strong imports and the impact on limited FX reserves could see the MPC of the Bank of Namibia hiking the policy rate further in 2016.**

Key indicators to watch

Indicator	Data availability	Rationale
South African rand and monetary policy	South African Reserve Bank	The Namibian dollar is pegged to the South African rand, and Namibian policy rates tend to follow those in South Africa. Market participants in the region seeking higher returns are sensitive to interest rate differentials. The Bank of Namibia's repo rate is currently 6.50%, 25bp below that of the South African Reserve Bank.
International reserves	Published by the BoN. BoN Quarterly Bulletins provide an update of balance of payments developments.	Similar to other commodity-based countries, an adequate level of FX reserves is needed as a buffer against external shocks.
Monetary policy statements	Bank of Namibia	The Monetary Policy Committee does not publish its inflation forecasts but it gives an indication of its expected inflation trends in its meeting minutes. Conventionally, the MPC meets six times a year.
Diamond and uranium exports	BoN publishes volume and exports statistics quarterly. The NSA publishes monthly statistics.	Diamonds and uranium jointly account for more than a third of exports.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	5.2	5.1	5.7	6.4	4.4	4.0	4.9
Nominal GDP (USD bn)	12.4	13.0	12.8	13.0	11.8	10.1	10.7
CPI (avg, % y/y)	5.0	6.7	5.6	5.4	3.4	6.0	5.9
Fiscal balance (% GDP, incl. grants)[1]	-4.6	-6.6	0.2	-3.7	-5.2	-5.3	-4.6
Revenue (% GDP)[1]	28.1	29.6	34.5	31.9	35.0	35.5	35.1
Expenditure (% GDP)[1]	32.7	36.2	34.3	35.5	40.1	40.8	39.7
Government domestic debt (% GDP)[1]	12.7	18.0	16.1	15.0	15.1	19.2	22.3
Government foreign debt (% GDP)[1]	3.9	7.8	8.2	8.5	8.6	10.2	10.6
Current account balance (% GDP)	-2.9	-5.6	-4.0	-8.6	-9.6	-7.2	-4.9
Trade balance (% GDP)	-9.1	-16.5	-15.5	-21.0	-22.6	-17.7	-14.8
USD/NAD (pavg)	7.26	8.21	9.66	10.85	12.94	16.46	17.25
Policy rate (%, eop)	6.00	5.50	5.50	6.00	6.50	7.50	7.75
Official reserves (USD bn)	1,762	1,705	1,515	1,209	841	866	…
Months of imports	3.8	3.0	2.6	1.9	1.7	1.9	…

Note[1]: Fiscal year-ending 31 March. Source: BoN, NSA, MoF, IHS-Global Insight, Barclays Research

Foreign trade flows*

- **Diamond and uranium are key components of the export basket. Namibia is the world's fifth-largest uranium producer. The Husab mine, completed at the end of 2015, is expected to become the world's second largest uranium mine.**
- **The bulk of Namibia's imports are from South Africa.**

Exports

Top product groups	USD mn	% y/y
Diamonds	1,290	6.5
Manufactured products	888	16.2
Uranium	387	-26.7
Other minerals	284	18.3
Food and live animals	381	-16.2

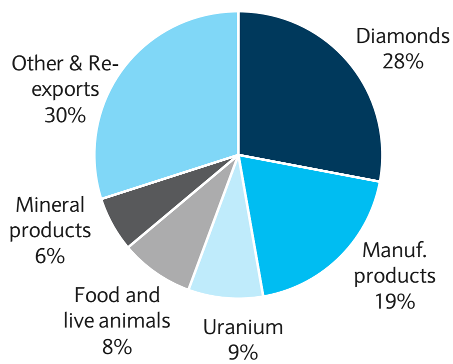
Note: *2014. Source: BoN, Barclays Research

Imports

Top product groups	USD mn	% y/y
Machinery	1,453	29.4
Vehicles	1,039	22.2
Ships and boats	1,020	108.3
Mineral fuels	531	-30.2
Precious metals	357	-18.3

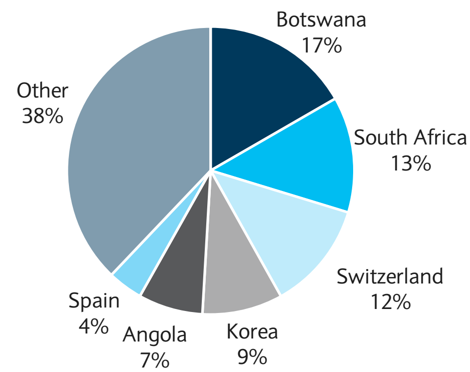
Source: BoN, NSA, Barclays Research

FIGURE 5
Main export groups



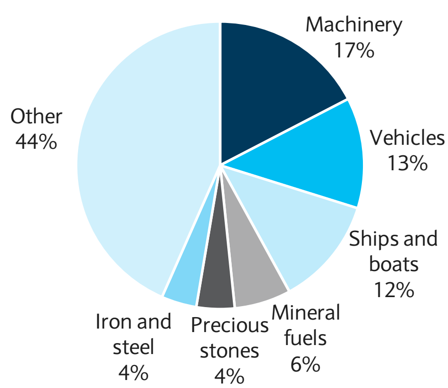
Source: BoN, Barclays Research

FIGURE 6
Main export destinations



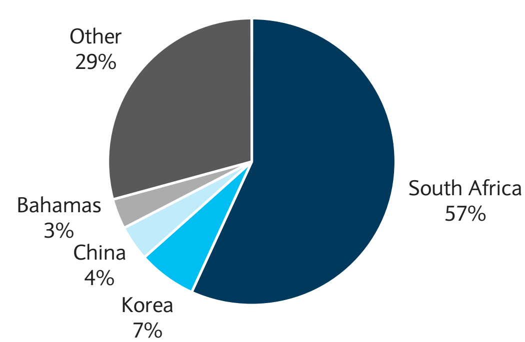
Source: NSA, BoN, Barclays Research

FIGURE 7
Main import groups



Source: NSA, Barclays Research

FIGURE 8
Main origins of imports



Source: NSA, Barclays Research

FX markets

Overview	The Namibian Dollar forms part of the Common Monetary Area (CMA) and is pegged at parity to the South African rand. Forex spot deals are settled in rand.
Market access/convertibility	Only fully licensed authorised dealers are permitted to deal in FX in Namibia.
Tax regime	There is a 10% withholding tax for dividends paid to non-residents who do not carry out business in the country (see bilateral double tax treaties). There is no tax on currency transactions.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation	Reuters page	Additional information
Spot	High (ZAR settlement)		T+2	ZAR= (NAD=)	Pegged to ZAR
Forwards	Illiquid forwards are manufactured	12 month	Points T+2	ZARF=	Forwards on ZAR are used in forward dealing.
Options	Back-to-back with SA banks	12 months			Locally limited liquidity

Source: Barclays Research

Rates Products

Overview	The money market is generally liquid but the bond market is not. Most institutions have a buy-and-hold strategy.
Market access/convertibility	Exchange controls do not restrict trading in government-issued paper.
Tax regime	There is a 10% withholding tax on interest income applicable to individuals and non-Namibian companies. The tax currently does not apply to government debt securities, however.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation/ settlement	Reuters page	Additional information
NCDs	Liquid	3-12 months	T+0		
Treasury bills	Liquid	3, 6, 9 and 12m	T+1		Auctioned weekly
Government bonds	Illiquid	2015 to 2045 maturities; linkers: 2022, 2025	T+1		Auctioned twice a month. Linkers were introduced in 2015.

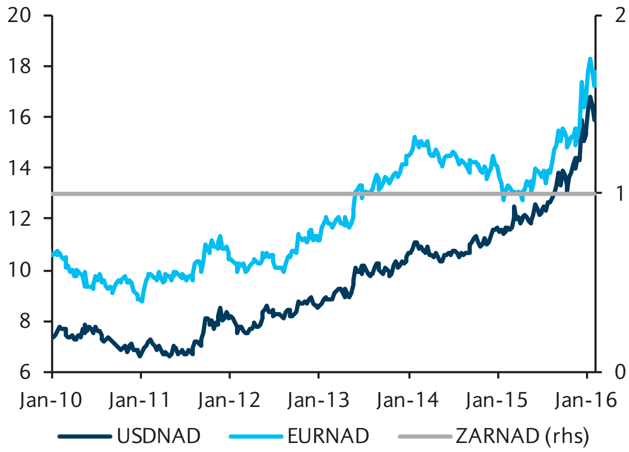
Source: Barclays Research

Equity Market

Market size	The Namibian stock exchange features a heavy weighting of dual-listed global companies. Total market capitalisation was around USD84bn at the end of January 2016.
Main indicator	The NSX Overall index and NSX local index.
Listed companies	There are 38 companies listed on the main board, which include 4 commodity ETFs. A large proportion of the companies are secondary listings, primarily of companies also listed on the LSE, JSE, ASX and TSX.
Top 5 listed companies	FNB Namibia; Bidvest Namibia; Namibia Breweries; Oryx Properties; and Trustco (ex dual listings).

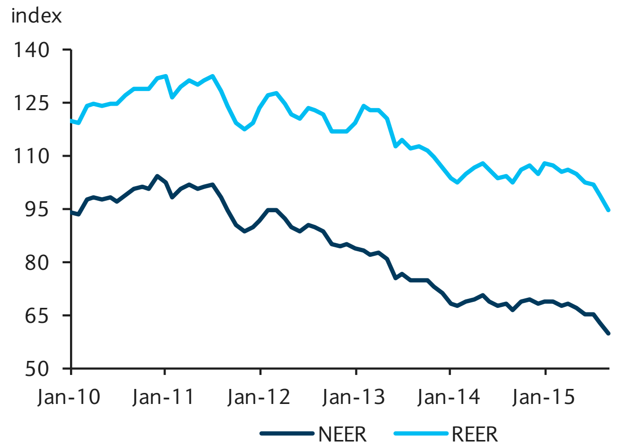
Source: Bloomberg, NSX, Barclays Research

FIGURE 9
Namibia: Dollar cross rates



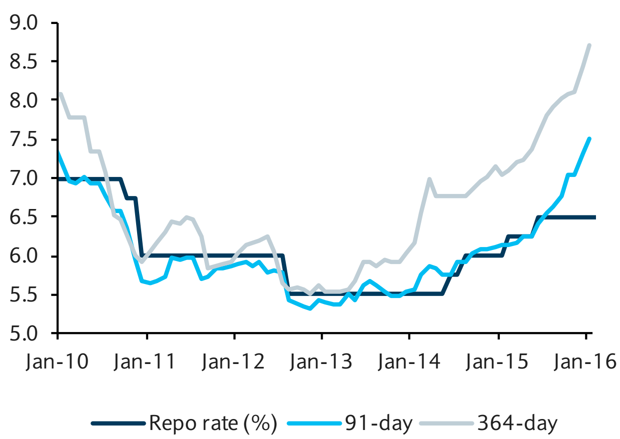
Source: Reuters, Barclays Research

FIGURE 10
Namibia: Dollar real effective exchange rate



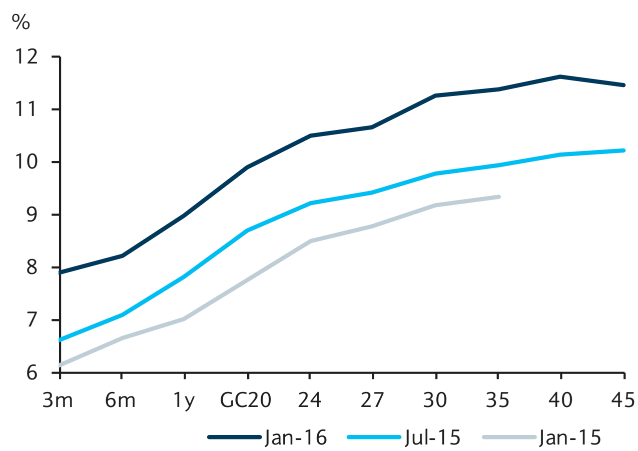
Source: BoN, Barclays Research

FIGURE 11
Namibia: Short rates



Source: BoN, Barclays Research

FIGURE 12
Namibia: Yield curve*

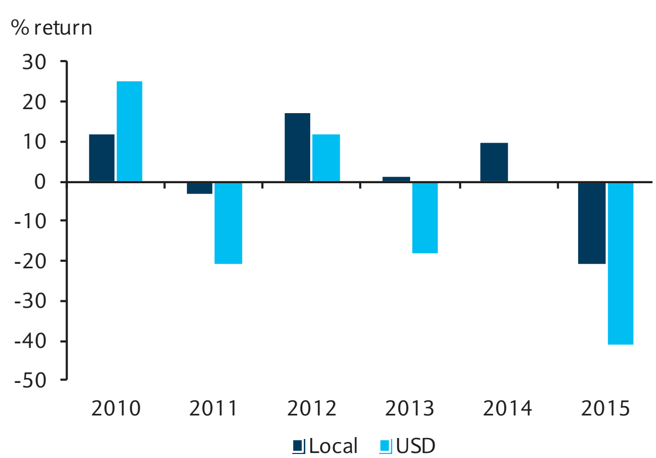


Note: *Latest auction yields. Source: Bloomberg, Barclays Research

FIGURE 13
NSX Overall Index

Source: Reuters, Barclays Research

FIGURE 14
NSX total returns



Source: Reuters, Barclays Research

External credit snapshot

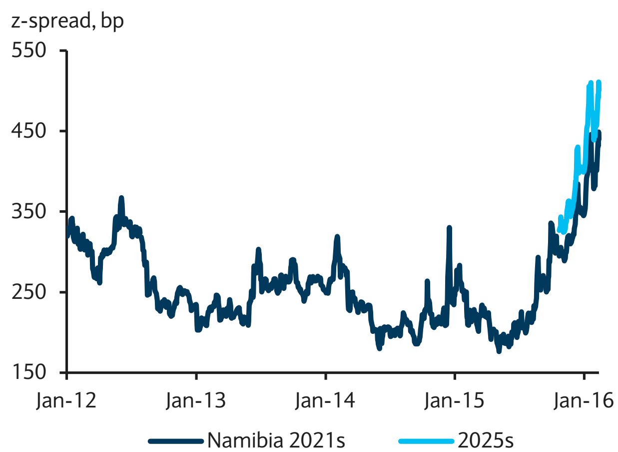
Overview	Namibia currently has two trading Eurobond, the USD500mn 2021 that was issued in 2011 and the USD750mn 2025 issued in October 2015.
Credit rating	Namibia's long-term foreign currency debt is currently rated at Baa3 by Moody's and BBB- by Fitch. Both agencies have a stable outlook on the credit ratings. Namibia's significant endowment of natural resources, low public debt and stable political system are generally seen as credit strengths. Credit challenges include very high unemployment, high income inequality, and vulnerability to volatile commodity prices. Namibia is also heavily dependent upon SACU payments for fiscal receipts.
Coverage centre	Research in London and South Africa.

Issuer	Maturity	Announced	Amount	Coupon	Series	Additional information
Republic of Namibia	3 Nov 2021	27 Oct 2011	$500mn	5.5% S/A	REGS/144A	
Republic of Namibia	29 Oct 2025	22 Oct 2015	$750mn	5.25% S/A	REGS/144A	

Source: Bloomberg, Barclays Research

FIGURE 15

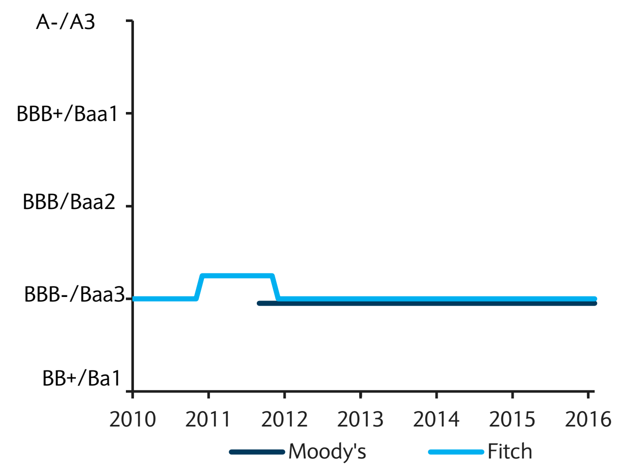
Namibia: Eurobond performance



Source: Bloomberg, Barclays Research

FIGURE 16

Namibia: Credit rating history



Source: Bloomberg, Moody's, Fitch, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
Bank of Namibia:	www.bon.com.na
Ministry of Finance:	www.mof.gov.na
National Planning Commission:	www.npc.gov.na
Namibian Stock Exchange	www.nsx.com.na
International Monetary Fund:	http://www.imf.org/external/country/NAM/index.htm

NIGERIA

Credit rating	
Long-term foreign currency rating	B+ (S&P) BB- (Fitch) Ba3 (Moody's)

Source: Bloomberg

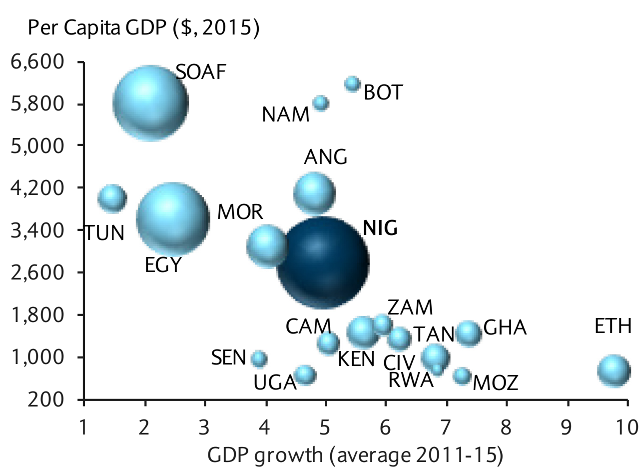
Policy environment

- **Nigeria's economic outlook continues to weaken as a result of low oil prices, while FX restrictions to protect FX reserves have further dampened the outlook.**
- **The Central Bank of Nigeria has introduced a set of unorthodox policies to address current challenges, which include resisting market calls to devalue the currency.**

Monetary policy: The Central Bank of Nigeria's (CBN) key objective is to ensure monetary and price stability. The central bank does not officially set inflation targets, but did announce an indicative target range of 6-9% in 2014, which was maintained in 2015. There has been no indication in the 2016 budget that this target has been either adjusted or removed, which suggests it may remain the target for the coming year. Headline inflation rose by only 1.4pp throughout the year, ending 2015 at 9.6% y/y. This is despite a 10% devaluation of the currency in February 2015 and FX restrictions on 41 items that prevent importers sourcing FX in the official market in order to purchase them. Core inflation showed a more pronounced increase as it ended the year at 8.7% y/y, up from 6.8% in January 2015. Though our inflation projections indicate a rise above 10% y/y in the coming months, the MPC appears to be more concerned about weaker economic growth. The Committee reduced the policy rate by 200bp to 11% at its November 2015 meeting despite the uptrend in inflation, noting that it is concerned about the low economic growth rate and rising unemployment. It also reduced the cash reserve requirement (CRR) to 25% from 31% with the aim of encouraging lending by commercial banks to the private sector in order to stimulate growth. Though the MPC added that it is still fine-tuning its policy framework, current growth concerns among MPC members suggest an easing bias on the policy rate. However, excess liquidity conditions in the market may convince policymakers that no further policy easing is necessary over the medium term.

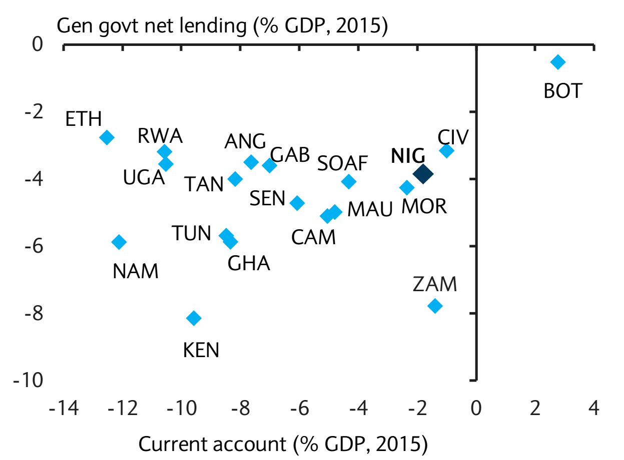
Exchange rate policy: The CBN operates a managed floating exchange rate regime and aims to maintain a stable exchange rate. The policy environment was fluid during 2015 with a series of changes throughout the year in an effort to protect limited FX reserves (USD28.3bn on 25 January 2016, or around six months of imports). On 18 February 2015, the CBN cancelled its RDAS/WDAS FX auctions and devalued the currency by 10% against

FIGURE 1
Nigeria: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2
Nigeria: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

the USD. In June 2015, it banned importers from sourcing FX in the official market for the purchase of 41 consumer and construction-related items. Further regulatory changes followed while it maintained the official exchange rate at around NGN199/USD, despite the widening gap with the unofficial rate, which traded at NGN306/USD by late January 2015. President Buhari continues to support the current policy mix, despite calls from the IMF to end restrictive policies to allow a more flexible policy regime amid increased concerns by the National Assembly. With oil prices expected to remain well below last year's levels (we estimate at least 30% lower on average), the possibility of a devaluation cannot be excluded, particularly if growth weakens further.

Fiscal policy: The federal government's fiscal strategy is based on the Medium Term Expenditure Framework and Fiscal Strategy Paper. Oil revenues have traditionally accounted for over two-thirds of gross federal revenue though they are expected to have declined considerably in 2015. While the 2015 budget targeted a fiscal deficit of 0.8% of GDP, we estimate a deficit of 2.4% for 2015 on account of disappointing oil revenues. For 2016, the government projected a fiscal deficit of 2.2% of GDP in the budget speech but, as the prevailing oil price has been well below the assumed benchmark oil price of USD 38/bbl, it was revised to 3.0% in January 2016 (oil production is expected to average 2.2mbpd). Total oil revenues are expected to contribute only around 21% of total revenues in the 2016 budget. Given the uncertainties in the oil market, we believe there is significant upside risk to the 2016 fiscal deficit projection. Authorities expect to issue a Eurobond this year though details have not yet been released. Overall debt is expected to rise to 14% of GDP in 2016.

Regulatory and tax environment: Nigeria permits 100% foreign ownership, with the exception of petroleum companies and national security-related activities. Investment in banks, mining, gas and insurance are subject to additional laws, while residents and non-residents may hold foreign exchange accounts. Some capital transactions are subject to documentation requirements and restrictions. The top corporate tax rate is 30% – capital gains and interest income are also taxable.

Political environment: On 28 March 2015, Nigeria held its fifth general election since the end of military rule in 1999. Though there were claims of irregularities in some states, the All Progressive Party (APC), an alliance of four parties, won the election with its presidential candidate, Muhammed Buhari, receiving 54% of the votes, well ahead of the 45% that then President Goodluck Jonathan received. The political transition was smooth, with President Buhari inaugurated on 29 May amid strong market sentiment that the country's dwindling economic fortunes would likely be turned around. President Buhari, during his election campaign, promised improved security, fighting corruption and reviving economic growth. While there was significant progress on the corruption and security matters, the country's economic woes continued to deepen. It took nearly six months to put a cabinet in place, while the lack of policy clarity further dented investor confidence. Nonetheless, successes on the security front in the north east of the country has seen Boko Haram retreat, while the fight against corruption has been well received. Elections are held every four years.

Development framework: Nigeria's economy is guided by the Vision 20:2020 plan which aims for the country to become one of the 20 largest economies in the world by 2020. This multi-year development plan intends to sustain social and economic progress and to accelerate the country's growth. The strategy is anchored in three fundamental pillars. These are mostly focussed on urgently addressing debilitating constraints to growth and competitiveness; pursuing structural transformation; and creating an environment that enables growth and development. Nigeria has no other multilateral programmes in place, though the market is still awaiting President Buhari's economic blueprint.

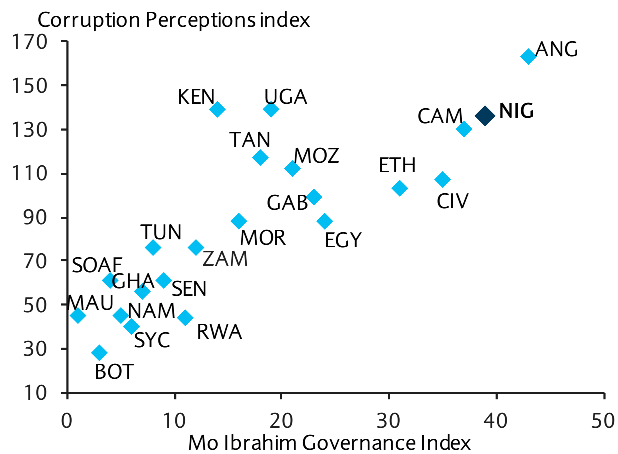
Country snapshot

Indicator	Latest
Government	
Government type	Federal Republic
Head of state	President Muhammadu Buhari (since 29 May 2015)
Ruling political party	APC
Main opposition parties	PDP
Elections	The President is elected by popular vote for a four-year term. Presidential and National Assembly elections took place on 28 March 2015 (next to be held in February 2019)
Demographics	
Population	182.2mn (2015E), 2.8% growth rate (UN)
Life expectancy	53.7 years
Main ethnic groups	Hausa and Fulani (29%), Yoruba (21%), Ibo (18%), Ijaw (10%), others
Main languages	English (official), Hausa, Yoruba, Ibo, Fulani and more than 500 other indigenous languages
Adult literacy	51.1%
Urban population	47%
Economic structure	
GDP	USD505bn (2015E); USD546bn (2014); 6.8% average real growth rate for 2006-15
GDP per capita	USD 2,784 (2015E); USD 3,300 (2014)
GDP by sector	Agriculture (20%), Trade (17.4%), oil and gas (11%), ICT (10.5%), Real estate (8.3%)
Main industries	Oil, textiles, cement, food, metal products, lumber
Business development indicators	
2015 Corruption Perceptions Index ranking	136 (out of 168)
2015-16 Global Competitiveness Index ranking	124 (out of 144)
2015 Ease of doing Business ranking	169 (out of 189)
2014 Human Development Index ranking	152 (out of 188)
2015 Mo Ibrahim Index of African Governance	39 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Barclays Research

FIGURE 3

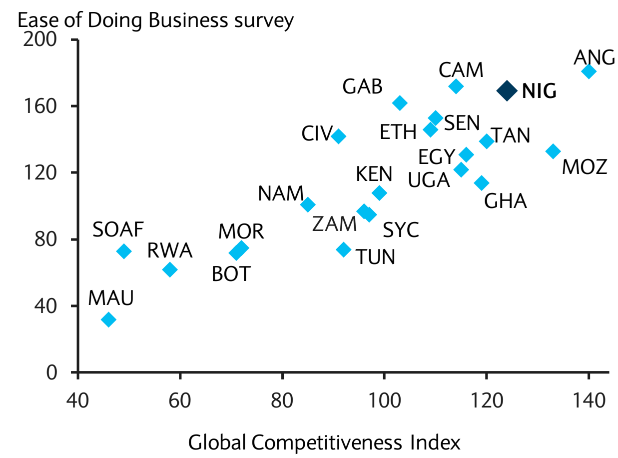
Nigeria: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Nigeria: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **Sustained low oil prices continue to stifle economic growth in Nigeria, which we estimated to have been 2.9% in 2015. Monetary policy easing is unlikely to have the desired effect as we believe a key constraint remains restrictive FX policies.**
- **With oil prices likely to be significantly lower on average this year compared with 2015, we expect fiscal and external balances to weaken further in 2016.**

Key indicators to watch

Indicators	Data availability	Rationale
Oil prices and production	Production data available from the NNPC, CBN, NBS (quarterly) and OPEC.	Nigeria is a major oil producer, with the sector accounting for the vast majority of export and fiscal revenues.
FX reserves	A 30-day moving average of FX reserves is published daily by the CBN on its website	Important signals on CBN FX interventions and indication of the level of FX demand.
Monetary policy statement	Issued bi-monthly following the CBN MPC meetings	Indicates the CBN's policy stance. FX, monetary, credit and other data are published in the MPC statement.
Annual budget	Once a year in the fourth quarter	The budget details the proposed fiscal plans for the next year.
Inflation	Monthly in the third week of the month – dates available on the data release calendar on the NBS website	The CBN focuses on price stability and is aiming to reduce inflation to single digits over the medium term. The CBN's indicative target is 6-9%.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	4.9	4.3	5.4	6.3	2.9	3.5	5.3
Nominal GDP (USD bn)	414.0	457.1	508.8	546.0	505.1	475.0	493.1
CPI (pavg, % y/y)	10.8	12.2	8.5	8.1	9.0	10.1	9.1
Federal government fiscal balance (% GDP)*	-1.8	-1.3	-1.4	-1.1	-2.4	-3.2	-2.3
FGN retained revenue (% GDP)*	5.6	5.0	5.0	4.0	2.1	2.1	2.6
Expenditure (% GDP)*	7.4	6.3	6.4	5.1	4.5	5.3	4.9
Government domestic debt (% GDP)	8.6	9.2	9.0	8.6	10.1	11.6	11.2
Government external debt (% GDP)	1.4	1.4	1.7	1.8	2.5	2.8	2.7
Current account balance (% GDP)	3.1	4.1	4.0	0.2	-3.0	-4.1	-1.4
Trade balance (% GDP)	8.5	9.0	8.6	3.8	-0.8	-0.7	1.5
Brent crude (USD/bbl)	111	112	109	100	54	37	60
USD/NGN (ave)	153.9	158.8	159.2	165.1	197.9	228.7	245.9
Monetary policy rate (%)	12.00	12.00	12.00	13.00	11.00	11.00	10.50
Official reserves (USD bn)	32.6	43.8	42.8	34.2	29.0	26.0	27.0
Months of imports	4.5	6.8	7.0	4.8	5.1	4.8	4.5

Note*: Federal government. Source: CBN, IMF (IFS), NBS, FMF, Barclays Research

Foreign trade flows*

- **Oil and gas accounts for c.95% of total exports. Given lower oil prices, we expect export revenues to fall further in 2016.**
- **Restrictive FX policies are likely to continue to contain the growth in imports.**

Main Exports

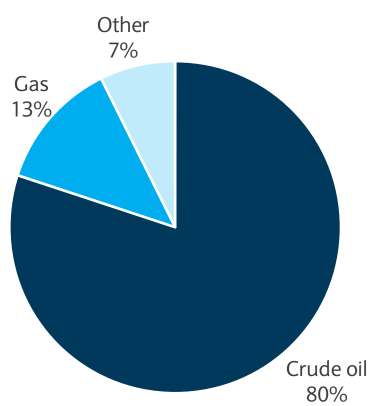
Top product groups	USD bn	% y/y
Crude oil	66.1	-18.5
Gas	10.4	10.1
Non-oil	6.1	33.6

Main Imports

Top product groups	USD bn	% y/y
Machinery and transport equipment	15.5	56.1
Manufactured goods	6.6	46.9
Chemicals and related products	5.5	29.6
Food and live animals	6.8	59.6

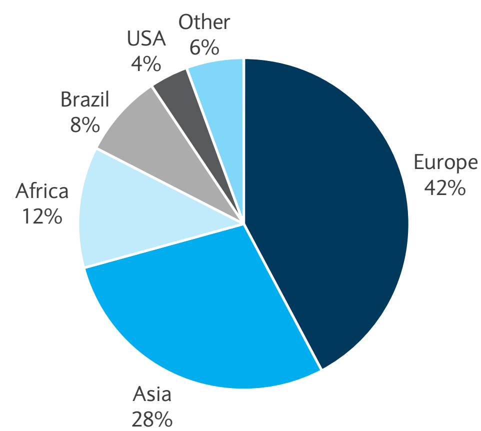
Note: *Based on 2014 data. Source: CBN, NBS, Barclays Research

FIGURE 5
Main export groups



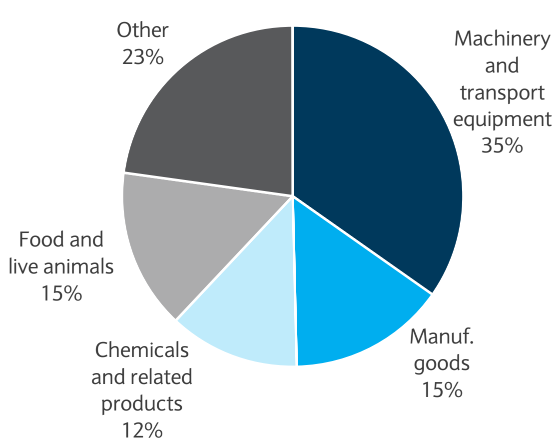
Source: CBN, NBS, Barclays Research

FIGURE 6
Main export destinations



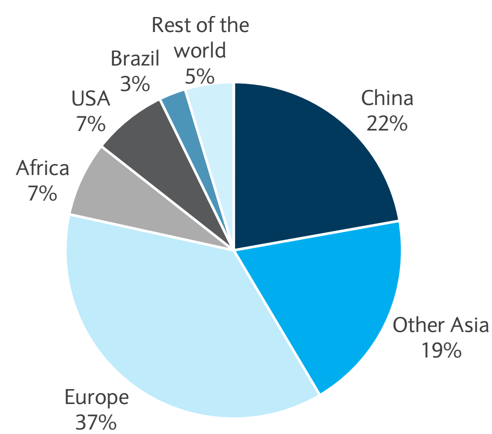
Source: CBN, NBS, Barclays Research

FIGURE 7
Main import groups



Source: CBN, NBS, Barclays Research

FIGURE 8
Main origins of imports



Source: CBN, NBS, Barclays Research

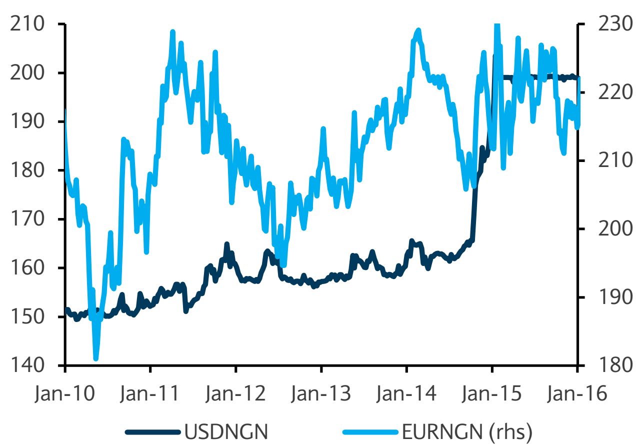
FX markets

Overview	The CBN devalued the naira in November 2014 to 168/USD from 155/USD previously and followed that up with another devaluation to 199/USD in February 2015. It also cancelled its RDAS/WDAS FX auctions effective from 18 February 2015 and introduced a series of FX regulations (including the banning of 41 import items from the official market) thereafter to discourage imports and protect FX reserves. Since then, the market moved to an "order-based two-way quote" system, where bid/offer spreads and volumes are not standardised and are based solely on customer demand (FMDQ). The Bank is the main supplier of FX but has stopped selling to BdCs from 12 January 2016.
Market access/convertibility	The foreign exchange market is monitored by the CBN. The repatriation of capital, profit on disposal of assets and dividends are allowed. A certificate of capital importation must be issued upon inflow of funds into the country in order to be able to repatriate. The central bank increased authorised dealers' net foreign exchange trading positions to 0.5% of shareholders funds on 21 January 2015, after it had reduced it to 0% in December 2014. Further FX regulation changes are likely in 2016, in our view.
Tax regime	Foreign investors may repatriate dividends and profit arising from their investment in Nigeria. Dividends are subject to a 10% withholding tax.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation/Settlement	Reuters page	Additional information
Spot	Liquid (order-based)	-	T+2	NGN1=	Main cross is USD/NGN
Forwards	Not really liquid	30 to 180 days (Tenor can be extended up to five years)	Either T+2+Tenor or T+Tenor	NIFEX01 ABAF=	Main benchmark is USD/NGN.
Options	Not yet developed				

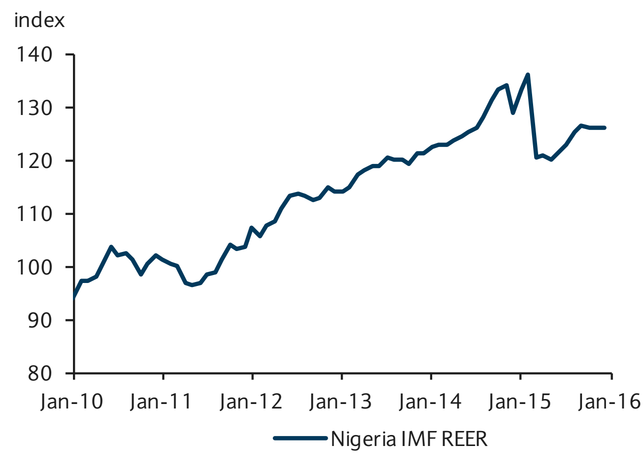
Source: CBN, FMDQ, Barclays Research

FIGURE 9
Nigeria: Naira cross-rates



Source: Reuters, Barclays Research

FIGURE 10
Nigeria: Naira real effective exchange rate



Source: IMF, Bloomberg, Barclays Research

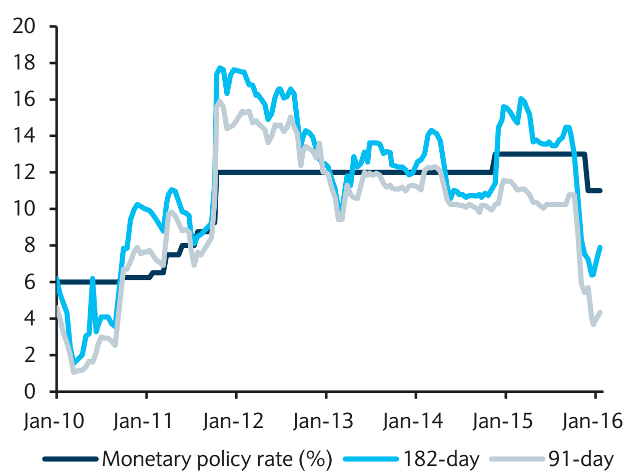
Rates products

Overview	The bond market is generally liquid. However, the lack of FX liquidity has resulted in Nigerian bond indices being removed from JPMorgan and Barclays' bond indices.
Market access/convertibility	No exchange controls cover the rates markets. There is a primary dealer system in bonds and Treasury bills.
Tax regime	There is a 10% withholding tax for interest income. However, Treasury bills and FGN bonds are exempt from withholding tax – this applies for both resident and non-resident investors. Exempt interest also includes interest earned on deposit accounts of non-resident companies provided that the deposit is in foreign currency and that it enters the country through government-approved channels.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation/ settlement	Reuters page	Additional information
Cash deposits	OTC	From 1m to 1y		NA	
Treasury bills	Liquid, std trading size of NGN250mn	3, 6 and 12m. These are benchmarks. There is trading in intermediate tenors.	Two-way quote	NA	T-bill issue must have NGN 50bn in circulation for two-way trading. Trading on a unilateral basis can occur, however, for issues with less volume in circulation.
Treasury bonds	Liquid, std trading size of NGN50mn for bonds with issuance of NGN30-75bn, and NGN100mn for larger issues	2y-20y	Two-way quote	0#NGTSYS=	There are banks and discount houses appointed by the DMO (Debt Management Office) to act as authorised dealers in FGN bonds. These primary dealers and market makers are required to take up, market and distribute primary issues of FGN bonds and provide for secondary market liquidity in FGN bonds by making two-way quotes in all market conditions. To be eligible for trading in the two-way market, the bond must have >NGN 30bn in circulation. Trading can occur for smaller issues.
Municipal bonds	Not popular				
Corporate bonds	Not popular				

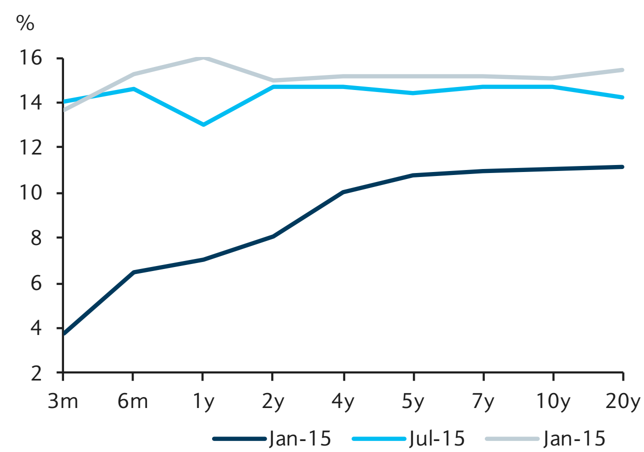
Source: CBN, DMO, Barclays Research

FIGURE 11
Nigeria: Short-term interest rates



Source: CBN, Barclays Research

FIGURE 12
Nigeria: Yield curve



Source: CBN, Reuters, Barclays Research

Equity market snapshot

Market size	The equity market capitalisation was USD41bn as of January 2016.
Main indicator	The All Share Index (NSE ASI). The NSE-30 index tracks the top 30 companies in terms of market capitalisation and liquidity. There are several other sector indices including the NSE Banking Index and the NSE Oil & Gas Index.
Listed companies	There are 186 listed companies – in addition to Dangote Cement, banks and food & beverage companies dominate the top 10 listed stocks.
Top listed companies	Dangote Cement; Nigerian Breweries; Nestle Nigeria; Zenith Bank; Guaranty Trust Bank
Taxation	10% withholding tax on dividends
Foreign ownership limits	None (investor must announce when buying more than 5% of entity).

Source: Nigerian Stock Exchange, Barclays Research

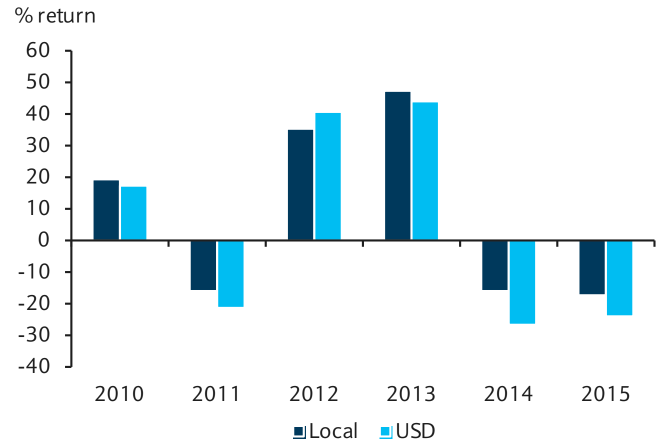
FIGURE 13

NSE All Share Index

Source: Reuters, Barclays Research

FIGURE 14

All Share Index historical performance



Source: Reuters, Barclays Research

External credit snapshot

Overview	Nigeria currently has three trading eurobonds, the USD500mn 2018 and USD500mn 2023, both issued in 2013, and the USD500mn 2021, issued in 2011.
Credit rating	Nigeria is currently rated BB-/Ba3 by Fitch (negative outlook since March 2015) and Moody's (stable outlook) respectively. S&P's rating is a notch lower at B+ (stable outlook), following a downgrade on 20 March 2015 largely on account of rising external vulnerabilities. The rating agencies generally highlight Nigeria's energy reserves, strong medium-term growth prospects and low levels of public debt as credit strengths. The government's heavy reliance on oil-derived revenues, poor levels of infrastructure, weak governance and high levels of alleged corruption and the domestic security environment, are highlighted as credit weaknesses.
Coverage centre	Research in London and South Africa.

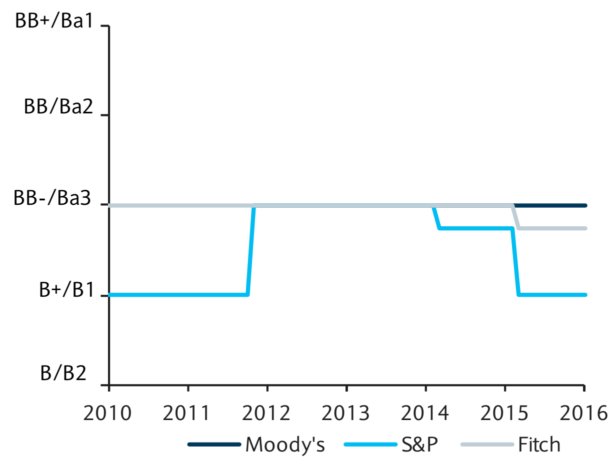
Issuer	Maturity	Announced	Amount	Coupon	Bid/offer spread	Series	Additional information
Republic of Nigeria	12 July 2018	2 July 2013	$500mn	5.125% S/A	0.5pt in $2mn	REGS/144A	
Republic of Nigeria	28 Jan 2021	21 Jan 2011	$500mn	6.75% S/A	0.5pt in $2mn	REGS/144A	
Republic of Nigeria	12 July 2023	2 July 2013	$500mn	6.375% S/A	0.5pt in $2mn	REGS/144A	

Source: Bloomberg, Barclays Research

FIGURE 15
Nigeria: Eurobond performance

Source: Bloomberg, Barclays Research

FIGURE 16
Nigeria: Credit rating history



Source: Bloomberg, Moody's, S&P, Fitch, Barclays Research

Useful links

Barclays Research:	https://live.barcap.com
Central Bank of Nigeria:	www.cenbank.org
Federal Ministry of Finance:	www.fmf.gov.ng
Debt Management Office:	www.dmo.gov.ng
National Bureau of Statistics:	www.nigerianstat.gov.ng
Nigerian Stock Exchange:	www.nse.com.ng
International Monetary Fund:	http://www.imf.org/external/country/NGA/index.htm

RWANDA

Credit rating	
Long-term foreign currency rating	B+ (Fitch) B+ (S&P)

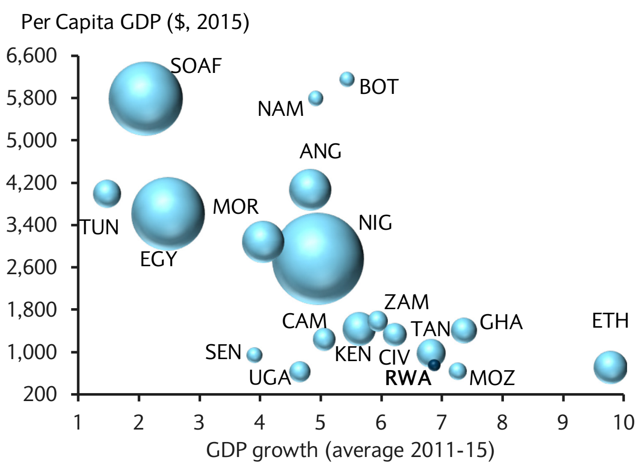
Source: Bloomberg

Policy environment

- **We expect Rwanda's economy to expand at a solid pace despite global challenges that have resulted in weaker exports.**
- **Reliance on donor aid remains an important threat to economic stability. Donor aid could once again come under pressure as donors react to recent political events.**

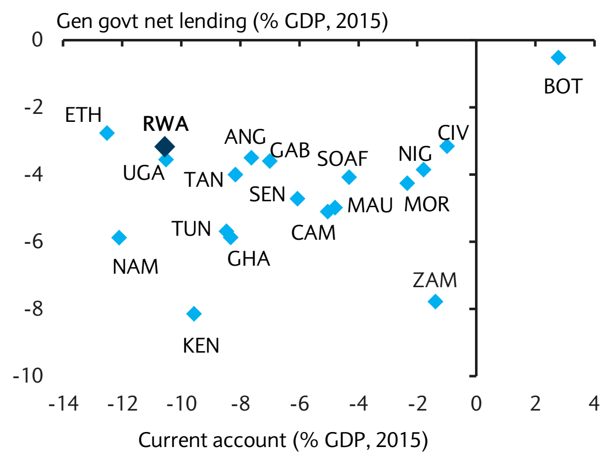
Monetary policy: The ultimate objectives of the National Bank of Rwanda's (BNR) monetary policy are price stability and low inflation. The BNR's two other missions are maintaining a stable and competitive financial system and supporting the government's general economic policies, without prejudice to the former two objectives (Law No. 55/2007). To achieve price stability, the BNR currently operates a flexible monetary targeting framework with the monetary base as the operating target, broad money as the intermediate target and inflation as the ultimate goal. The BNR adjusts the repo rate, which is set by the Monetary Policy Committee (MPC) on a quarterly basis, to guide its policy stance. Although base/reserve money remains the anchor of monetary policy, the BNR plans to move progressively towards using interest rates as the operational target. Modernising the monetary policy framework through improving the transmission mechanism is a priority under the three-year Policy Support Instrument (PSI) programme with the IMF. Under the PSI programme, the BNR aims to achieve annual average inflation of 5% in the medium term. The MPC cut the policy rate 50bp to 6.5% in mid-2014 to encourage banks to lend to the private sector and support economic activity and has left it unchanged since. Although headline inflation averaged 2.5% y/y in 2015, well within the target, inflation rose sharply in the later months to end the year at 6.8% from 0.4% in January 2015. In its latest Monetary Policy Report, the MPC noted inflationary pressures emanating from higher government spending, potential increases in local fuel prices should global oil prices recover, higher utility prices and likely FX pressures, which all pose upside risks to the inflation outlook. The higher inflation trajectory during Q4 15 is likely to be a concern for the MPC and suggests a cautious policy stance ahead, although its bias has shifted to policy tightening.

FIGURE 1
Rwanda: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2
Rwanda: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

Exchange rate policy: The local currency is the Rwandan franc (RWF), and the de facto exchange rate regime is currently classified by the IMF as "crawl-like". To improve operation of the foreign exchange market, the BNR introduced an exchange rate corridor in 2010. The BNR is the main participant in the domestic foreign exchange market, while interbank bank trading is thin (IMF). The franc depreciated by only 6% against the USD in 2015, though this is higher than the previous year's 3.5%. Expectations for a wider current account deficit in 2016 do not bode well for the currency, which is likely to depreciate further against the USD. Despite limited FX reserves, we anticipate continued central bank intervention to prevent a large currency adjustment.

Fiscal policy: The budget is tabled annually in June and incorporates a medium-term expenditure framework. The fiscal year is July-June. The budget is drawn up within the context of the Budget Framework Paper (BFP) which reflects the commitments as defined in the government's Economic Development and Poverty Reduction Strategy 2 (EDPRS2) and Vision 2020. Grants remain an important source of revenue for the budget, contributing around one-third of total revenues although the government is aiming to reduce this dependence. The fiscal deficit is estimated to have been 5.3% of GDP in FY 14/15 while the authorities submitted a revised budget at the end of January 2016 that targets a similar fiscal deficit in FY 15/16. This would be above the PSI programme fiscal deficit target of 4.6% of GDP but is necessitated by additional planned spending on a hydro-electricity project and other spending priorities. The fiscal deficit is expected to narrow to 4.4% of GDP and 4.2% in FY2016/17 and 2017/18, respectively. In line with the objective to reduce dependence on grants, the authorities are planning to broaden the tax base, while measures to improve compliance are also being implemented. The Fund considers Rwanda's debt profile as having a low risk of external debt distress, with public debt estimated at 35.1% of GDP at the end of 2015 versus 29.9% at the end of 2014.

Political environment: Rwanda has become a stable democracy since the end of the civil war in 1994. The ruling Rwandan Patriotic Front (RPF) remains dominant in the political landscape. The party won about 76% of the votes in the September 2013 parliamentary elections. Meanwhile, President Kagame (RPF) was elected for a second seven-year term in the 2010 presidential elections. With his second term coming to an end, Kagame has confirmed that he is seeking a third term, against the constitutional two-term presidential limit. Rwanda's Green Party, the country's main opposition party, challenged this decision in the country's Supreme Court in mid-2015, though the Court dismissed the lawsuit in October 2015. The President held a referendum in December 2015 on the issue, with voters voting overwhelmingly in favour (98.3% of voters) of lifting the constitutional restrictions to allow Kagame to run for a third term. The US has opposed Kagame's plans to run for a third term, noting that it is "deeply disappointed" with this decision (Reuters, 3 January 2016). Though no other major countries have expressed their views on the matters, the biggest risk remains that international donors may reduce their support, which would not bode well for the fiscal outlook.

Development framework: The long-term development framework is underpinned by Vision 2020 (July 2000), whose main aspiration is to transform Rwanda's economy into a middle income country by 2020. Vision 2020 is comprised of a series of medium-term national poverty reduction and economic development strategies. In 2013, the government launched the five-year Economic Development and Poverty Reduction Strategy (EDPRS2), which will be implemented until 2018 and follows on from EDPRS I (2008-12). The overarching goal of EDPRS2 is accelerating progress to middle income status and better quality of life for all Rwandans. The PSI programme with the IMF is aligned with the EDPRS2 initiatives. Regional integration, specifically in the context of the East African Community (EAC), is also a key element in the country's development path.

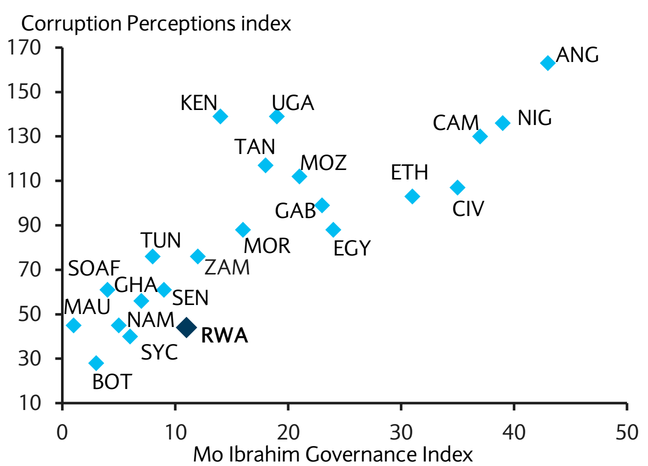
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Paul Kagame (April 2000)
Ruling political party	Rwandan Patriotic Front (RPF/FPR in French)
Main opposition	Social Democratic Party (PSD), Liberal Party (PL)
Elections	The president is elected by popular vote for a seven-year term. Paul Kagame (RPF) was elected for a second term in the 2010 elections, receiving 93% of the total votes. The next presidential elections are scheduled to take place in 2017. Legislative elections will take place in 2018.
Demographics	
Population	11.6mn (2015E); 2.7% growth rate (UN)
Life expectancy	66 years
Main ethnic groups	Hutu (84%), Tutsi (15%)
Main languages	Kinyarwanda (official), French (official), English (official), Kiswahili
Adult literacy	65.9%
Urban population	28%
Economic structure	
GDP	USD8.3bn (2015E); USD7.9bn (2014); 7.5% average real growth rate for 2006-2015
GDP per capita (USD)	USD743 (2015E); USD712 (2014)
GDP by sector	Services (47%), Agriculture (33%), Industry (14%)
Main industries	Agricultural products, small-scale beverage, cement, furniture, textiles
Business development indicators	
2015 Corruption Perceptions Index ranking	44 (out of 168)
2015-16 Global Competitiveness Index ranking	58 (out of 144)
2015 Ease of Doing Business ranking	62 (out of 189)
2014 Human Development Index ranking	163 (out of 188)
2015 Mo Ibrahim Index of African Governance	11 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Barclays Research

FIGURE 3

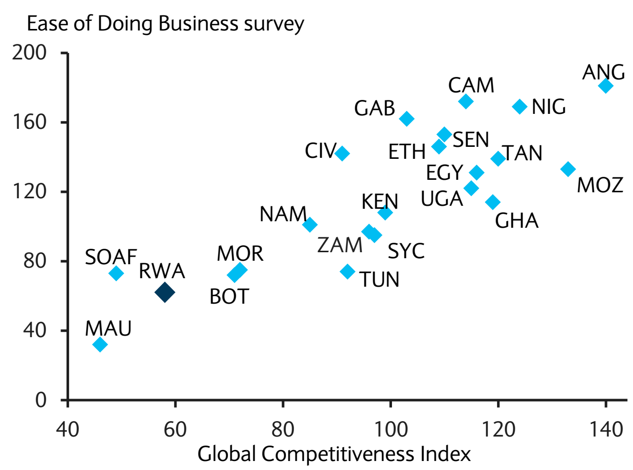
Rwanda: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index.



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Rwanda: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2014-15, Barclays Research

Overview of key indicators

- **Despite recent strong economic growth, downside risk remains considerable amid lower commodity prices.**
- **Government is targeting an unchanged fiscal deficit ratio (5.3% of GDP) in FY 15/16 amid higher investment spending.**

Key indicators to watch

Indicator	Data availability	Rationale
IMF programmes/aid flows	IMF/World Bank/Ministry of Finance/BNR	Important signposts for policy formation, implementation and relations with international donors.
Annual government budget	Delivered in June each year.	Sets out the course of fiscal policy.
BNR Quarterly Bulletin	Published quarterly by the BNR	Provides an assessment of overall economic developments and key data updates.
GDP	Published quarterly by the NISR, with a lag of about three months.	

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	7.5	8.8	4.7	6.9	7.0	6.3	6.7
Nominal GDP (USD bn)	6.4	7.2	7.5	7.9	8.3	9.2	10.1
CPI (pavg, % y/y)	5.7	6.3	4.2	1.8	2.5	4.5	5.0
Total investment (% GDP)	23.5	25.1	25.5	25.3	24.2	24.7	25.1
Fiscal balance (% GDP)*	-3.4	-1.2	-5.0	-3.9	-5.3	-5.3	-4.1
Revenue and grants (% GDP)*	24.5	25.4	23.7	26.1	25.0	23.6	22.9
o/w grants (% GDP)*	10.8	11.1	7.8	9.3	7.3	6.0	4.7
Expenditure (% GDP)*	27.9	26.6	28.7	30.0	30.3	28.9	27.0
Public debt (% GDP)	20.1	17.0	27.1	29.9	35.1	41.9	43.6
o/w external debt (% GDP)	15.4	16.8	22.1	23.7	28.6	36.0	37.6
Current account balance (% GDP)	-7.2	-11.3	-7.4	-11.5	-14.5	-15.4	-14.0
Trade balance (% GDP)	-14.8	-15.7	-24.3	-18.4	-19.2	-24.3	-21.6
USD/RWF (pavg)	600	614	647	682	712	770	810
Policy rate (%, eop)	7.00	7.50	7.00	6.50	6.50	6.50	7.00
Official reserves (USD bn)	1.1	0.8	1.1	1.0	0.9	0.8	0.8
Months of imports	5.1	4.1	5.1	4.2	3.4	3.1	3.0

Note: Fiscal year-ending June. Source: IMF, BNR, NISR, Barclays Research

Foreign trade flows

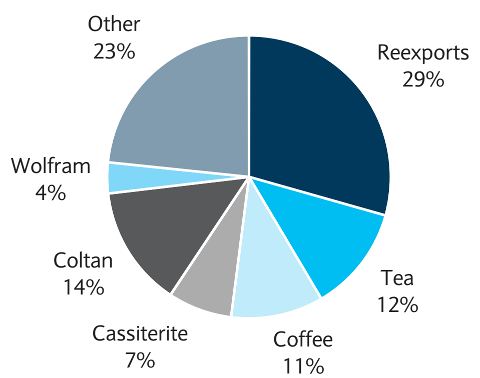
- **Tea, coffee and minerals are key export-revenue earners although weaker global commodity prices pose downside risk to exports.**
- **Imports are likely to remain firm as a result of ongoing strong infrastructure investment.**

Exports		
Top product groups	USD mn	% y/y
Coltan	59	-38.2
Cassiterite	32	-53.4
Re-exports	161	6.1
Coffee	56	0.4
Tea	66	40.1

Imports		
Top product groups	USD mn	% y/y
Intermediary goods	619	4.5
Consumer goods	631	4.6
Capital goods	628	-5.3
Energy and lubricants	364	-22.4

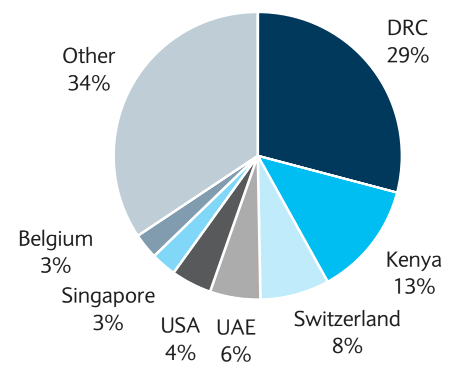
Note: Jan to Nov 2015. Source: BNR, Barclays Research

FIGURE 5
Main export groups



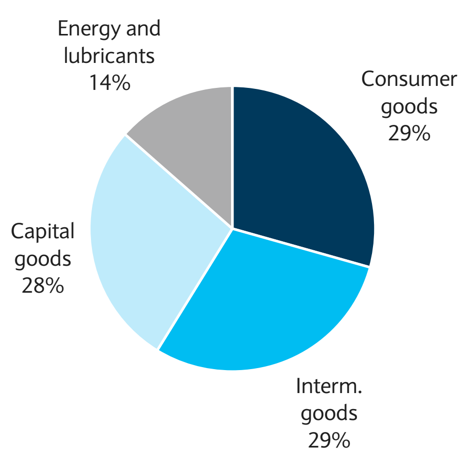
Note: 12 months to Sep 2015. Source: NISR, Barclays Research

FIGURE 6
Main export destinations



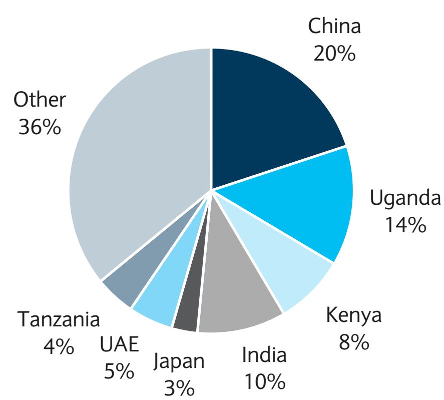
Note: 12 months to Sep 2015. Source: NISR, Barclays Research

FIGURE 7
Main import groups



Note: 12 months to Sep 2015. Source: NISR, Barclays Research

FIGURE 8
Main origins of imports



Note: 12 months to Sep 2015. Source: NISR, Barclays Research

External credit snapshot

Overview	Rwanda entered the eurobond market with the USD400mn 2023s in May 2013. The bond's size excludes it from the EM debt indices.
Credit rating	Rwanda is currently rated B+ by Standard & Poor's and Fitch Ratings. After placing the sovereign on a positive outlook in August 2013, Fitch upgraded Rwanda in July 2014. The agency currently has a stable outlook on the ratings (affirmed on 15 January 2016). S&P upgraded Rwanda to 'B+' from 'B' in March 2015 (outlook changed to stable from positive) as it viewed that risks to external financing are declining due to stable donor flows and the government's ability to access the capital markets.
Research	Research in South Africa and London.

Issuer	Maturity	Announced	Amount	Coupon	Series	Additional information
Republic of Rwanda	2 May 2023	16 Apr 2013	$400mn	6.625% S/A	REGS/144A	

Source: Bloomberg, Barclays Research

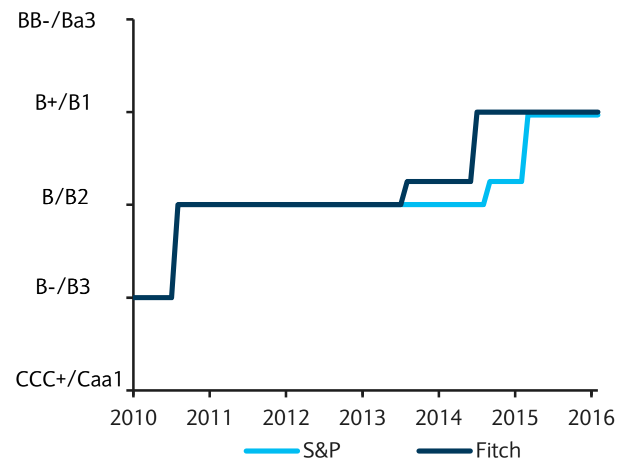
FIGURE 9

Rwanda: Eurobond performance

Source: Bloomberg, Barclays Research

FIGURE 10

Rwanda: Credit rating history



Source: Bloomberg, S&P, Fitch, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
National Institute of Statistics of Rwanda:	http://statistics.gov.rw/
Government of Rwanda:	www.gov.rw
Ministry of Finance:	www.minecofin.gov.rw
National Bank of Rwanda:	www.bnr.rw
International Monetary Fund:	http://www.imf.org/external/country/RWA/index.htm

SENEGAL

Credit rating	
Long-term foreign currency rating	B+ (S&P) B1 (Moody's)

Source: Bloomberg

Policy environment

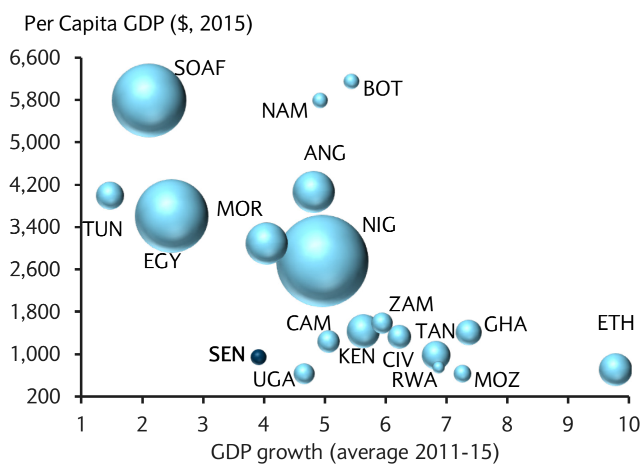
- **Senegal's economic reforms continue to support growth, which remained resilient despite prevailing global challenges.**
- **Fiscal reforms continue, with the government expected to report a fiscal deficit of 4.8% of GDP in 2015. Authorities are aiming to reduce the deficit further to 4.2% of GDP in 2016.**

Monetary policy: Senegal is one of eight countries (the others are Benin, Burkina Faso, Guinea-Bisseau, Mail, Niger, Senegal and Togo) that comprise the West African Economic and Monetary Union (WAEMU). Monetary policy is conducted by the regional central bank, the Banque Central des Etats d'Afrique de l'Quest (BCEAO). The BCEAO's primary monetary policy objective is to ensure price stability in order to support sustainable economic growth. The BCEAO uses a range of policy instruments to achieve its objectives, though it uses the repurchase rate to indicate its policy direction. Monetary policy is strongly influenced by that of the European Central Bank (ECB) given the peg of the CFA franc (XOF) to the euro. This explains the relatively modest inflation rates across the WAEMU region. The BCEAO cut its base and marginal lending rates by 25bp (to 2.50% and 3.50%, respectively) in September 2013 and has since left the policy unchanged. After falling by 0.1% y/y in 2014, overall WAEMU inflation subsequently picked up in 2015. We estimate inflation to have averaged 1.2% for the full year, having risen from 0.4% y/y in January to 1.7% in October. For Senegal, the annual average inflation rate was -1.1% y/y in 2014, followed by an increase to 0.1% in 2015 as a result of the weaker currency. The BCEAO's MPC, at its 2 December 2015 meeting, noted that WAEMU inflation may rise to an average 2.0% over a 24 month period, though this remains in line with its medium-term objectives. With inflationary pressures building, the BCEAO is likely to remain cautious and a tighter policy stance should not be excluded, particularly if average regional inflation breaches the 3% ceiling.

Exchange rate policy: The XOF is pegged to the euro (1 EUR = 655.957 XOF) and used by eight countries in West Africa. As such, the FX rate against the USD moves in line with the EURUSD FX rate. The XOF weakened from 542/USD at the end of 2014 to 609/USD at the end of 2015, which translates into annual depreciation of 11% against the USD (-12% in 2014). The outlook remains bearish for the XOF, particularly as we expect further EUR weakness against the USD in coming months.

FIGURE 1

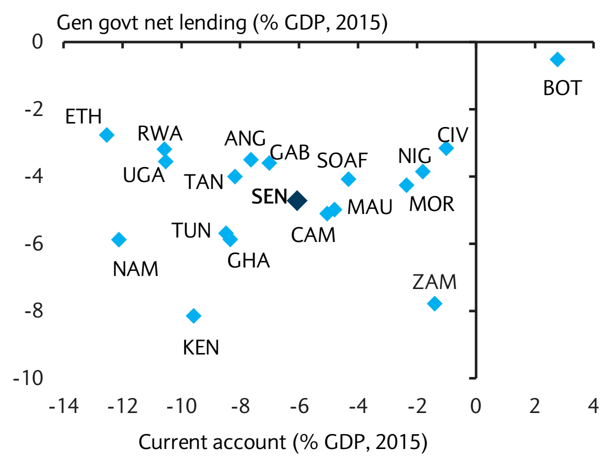
Senegal: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2

Senegal: Fiscal and current accounts in regional context



Source: IMF WEO (October 2014), Barclays Research

Fiscal policy: Senegal's fiscal strategy is guided by its National Strategy for Economic and Social Development plan for 2013-17. Fiscal authorities continue with reforms aimed at reducing current spending and freeing up fiscal resources for infrastructure investment. Key to this has been efforts to limit growth in the public sector wage bill. The fiscal deficit is expected to have narrowed to 4.8% of GDP, marginally missing its 4.7% target as a result of revenue disappointments that reflects the somewhat weaker growth momentum. Government has set the 2016 target at 4.2% of GDP with key focus remaining on controlling the wage bill, which is expected to be unchanged from 2015 at 6.3% of GDP. The IMF revealed that the implementation of the Treasury Single Account (TSA) will be accelerated in 2016, with plans to extend the TSA in Q1 16 to the bank accounts of the Treasury. Consolidation of accounts by public institutions is expected to be finalised by end 2017. Debt metrics have shown little deterioration (compared with previous years), increasing only marginally from 53.2% of GDP in 2014 to an estimated 54.4% at the end of 2015. The Fund sees Senegal as having low risk of debt distress with fiscal consolidation expected to result in declining debt ratios over the medium term.

Political environment: Senegal is one of the most stable countries in Africa and is known for its peaceful transition of power. In 2012, President Macky Sall won the elections, with 65.8% of the vote, during the second round of voting against former President Abdoulaye Wade. Constrained by limited fiscal resources, the government is ill-equipped to fully address widespread unemployment and high poverty levels. Ongoing fiscal reforms are an attempt by the government to build the necessary financial strength for further investment into infrastructure and to tackle these issues. Conflict in the Casamance region is ongoing while corruption charges against former President Wade's son, Karim (also a former minister in the previous government) saw him being sentenced to six years in jail and fined USD230mn. The case initially raised political tensions but did not escalate further. The government banned marches in support of Wade in early 2015 as it believed that it posed a security threat. Meanwhile, President Sall reduced the presidential term from seven to five years at the beginning of 2016, which means that the next presidential election is due to be held in 2017.

Development framework: Economic development is guided by the Plan Sénégal Emergent (PSE) which aims to drive economic development over the period 2014-2035. The PSE replaces the National Strategy for Economic and Social Development (2013-2017), which was approved in November 2012. The PSE is centred around three pillars: higher sustainable growth through structural transformation; human development and social protection; and improved governance, peace, and security. The PSE further envisages structural reforms to attract foreign direct investment and increase private investment while constraining public consumption and increasing public savings. The plan appears somewhat ambitious to us, with targeted growth of 6.7% in 2015 and 8% by 2018. Senegal's competitiveness has been declining in recent years, weak governance systems and frequent natural disasters have previously hampered economic growth. However, the IMF (in its January 2015 Article IV Report) noted that the PSE growth targets should be achievable in the long term if appropriate policies are put in place. A PSI is also in place which should further help the country in reaching its growth objectives. At its first review of the PSI in December 2015, the Fund noted that programme performance was broadly satisfactory with all the end-June 2015 assessment criteria met.

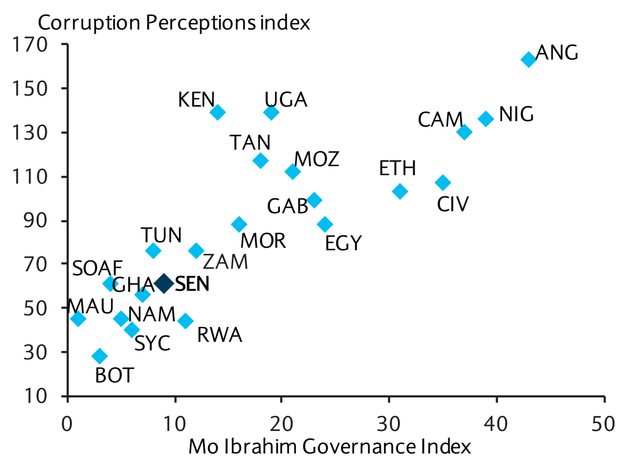
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Macky Sall (since April 2012)
Ruling political coalition	Benno Bokk Yakaar coalition
Main opposition party	Senegalese Democratic Party (PDS)
Elections	Macky Sall won the presidential election with 65.8% of the vote in 2012. The next presidential election is due in 2019 while legislative elections are scheduled for 2017.
Demographics	
Population	15.1mn (2015E); 2.9% growth rate
Life expectancy	67.8 years
Main ethnic groups	Wolof 43.3%, Pular 23.8%, Serer 14.7%, Jola 3.7%, Mandinka 3%, Soninke 1.1%
Main languages	French (official), Wolof, Pulaar, Jola, Mandinka
Adult literacy	52.1%
Urban population	43%
Economic structure	
GDP	USD14.0bn (2015E); USD15.7bn (2014); 3.7% average real growth rate for 2006-2015.
GDP per capita (USD)	USD935 (2015E); USD1,079 (2014)
GDP by sector	Primary (15%), Secondary (20%), Tertiary (65%)
Main industries	Agriculture, phosphate mining, petroleum refining, shipping, gold mining
Business development indicators	
2014 Corruption Perceptions Index ranking	61 (out of 168)
2015-16 Global Competitiveness Index ranking	110 (out of 144)
2015 Ease of Doing Business ranking	153 (out of 189)
2014 Human Development Index ranking	170 (out of 188)
2015 Mo Ibrahim Index of African Governance	9 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Transparency International, Barclays Research

FIGURE 3

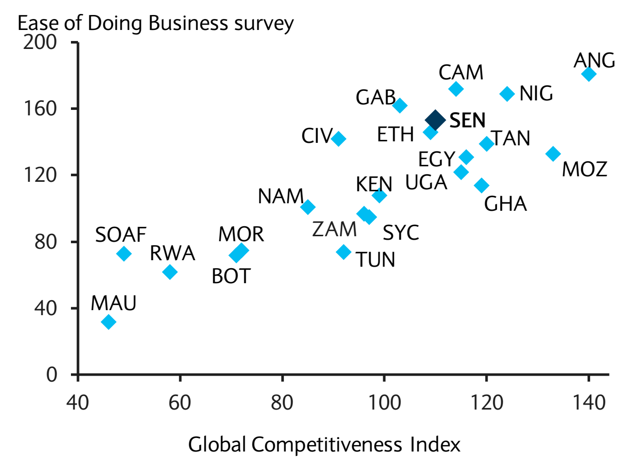
Senegal: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Senegal: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **The Plan Sénégal Emergent goals remain somewhat ambitious in our view considering the current global environment. The IMF estimated economic growth in 2015 at 5.1%, well below the PSE target of 6.7%.**
- **Authorities are still some distance away from reaching its objective of keeping the debt ratio below 52%.**

Key indicators to watch

Indicator	Data availability	Rationale
IMF programmes	IMF website	Important signposts for policy formation, implementation and relations with international donors.

Source: IMF, Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	1.8	4.4	3.6	4.7	5.1	5.9	6.4
Nominal GDP (USD bn)	14.4	14.2	15.0	15.7	14.0	15.2	16.7
CPI (pavg, % y/y)	3.4	1.4	0.7	-1.1	0.1	1.3	1.3
Fiscal balance (% GDP)	-6.1	-5.2	-5.5	-4.9	-4.8	-4.2	-3.6
Revenue and grants (% GDP)	22.7	23.3	22.5	24.2	24.4	24.3	24.3
Expenditure (% GDP)	28.8	28.5	27.9	29.2	29.2	28.6	27.9
Public debt (% GDP)	40.7	42.8	46.6	53.2	54.4	55.1	55.4
o/w domestic debt (% GDP)	11.3	12.4	14.3	13.8	15.0	15.8	16.5
external debt (% GDP)	29.4	30.2	32.4	39.5	39.3	39.3	38.9
Total investment (% GDP)	25.6	29.1	27.9	27.9	26.9	27.1	27.3
Current account balance (% GDP)	-8.2	-10.9	-10.4	-8.8	-8.2	-8.7	-8.3
Trade balance (% GDP)	-17.5	-20.2	-19.9	-18.0	-17.3	-17.4	-16.9
Gross imputed reserves (USD bn)	2.0	2.1	2.2	2.1	2.1	2.2	2.3

Source: IMF, ANSD, BCEAO, Barclays Research

Foreign trade flows*

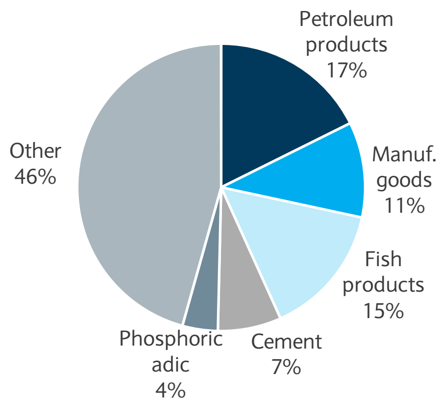
Exports		
Top product groups	USD mn	% y/y
Petroleum products	595	-8.1
Manufactured goods	497	3.0
Fish products	465	12.3
Cement	394	-7.0
Phosphoric acid	283	0.1

Note*: 2014. Source: ANSD, Barclays Research

Imports		
Top product groups	USD mn	% y/y
Petroleum products	460	4.6
Food products	280	-10.9
Intermediate goods	388	23.5
Capital goods	186	12.0
Other	104	-37.3

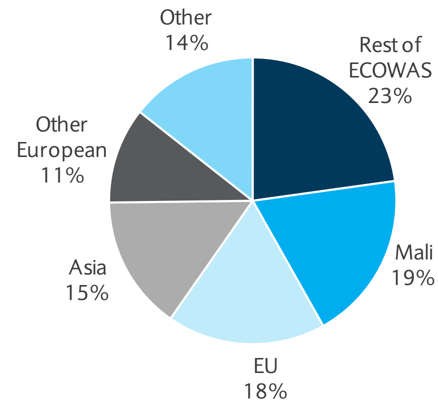
Source: ANSD, Barclays Research

FIGURE 5
Main export groups



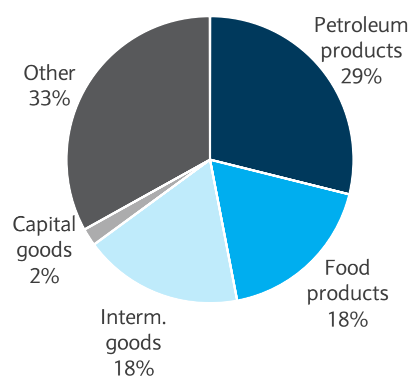
Source: ANSD, Barclays Research

FIGURE 6
Main export destinations



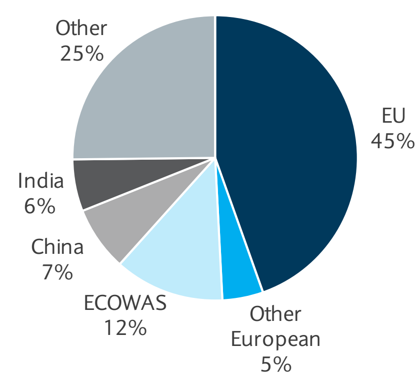
Source: ANSD, Barclays Research

FIGURE 7
Main import groups



Source: BCEAO, ANSD, Barclays Research

FIGURE 8
Main origins of imports



Source: BCEAO, ANSD, Barclays Research

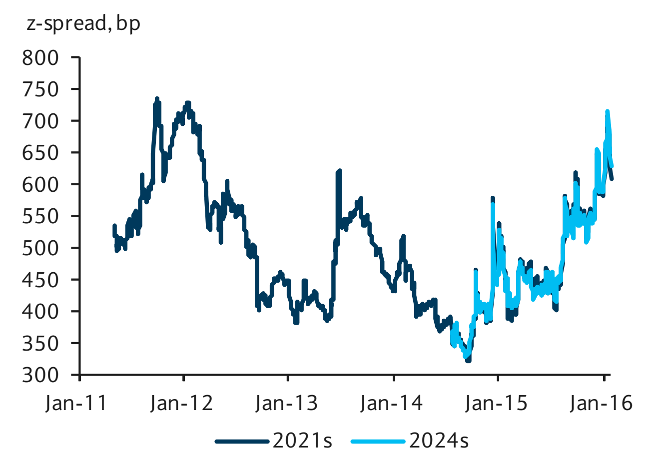
External credit snapshot

Overview	Senegal currently has two traded eurobonds, the 2021s and the 2024s. Both have an original tenor of 10 years and amounts outstanding equaling USD500mn.
Credit rating	Senegal is currently rated B+/B1 by both Standard & Poor's and Moody's on its long-term foreign currency debt. S&P currently has a stable outlook on the ratings while Moody's revised its outlook to positive in November 2014. On its positive outlook, Moody's notes improved medium-term growth prospects, the government's commitment to fiscal consolidation and continued implementation of structural reforms. Key rating constraints include low income per capita, heavy reliance on foreign assistance, infrastructural deficiencies and limited monetary flexibility. Rating agencies generally assume Senegal's continued membership of the West African Economic and Monetary Union and that the CFA franc will remain pegged at 655.96 to the euro over the medium term.
Coverage centre	Research in London and South Africa.

Issuer	Maturity	Announced	Amount	Coupon	Bid/offer spread	Series	Additional information
Republic of Senegal	13 May 2021	6 May 2011	USD500mn	8.75% S/A	1pt in $2mn	REGS/144A	
Republic of Senegal	30 July 2024	23 July 2014	USD500mn	6.25 S/A	1pt in $2mn	REGS/144A	

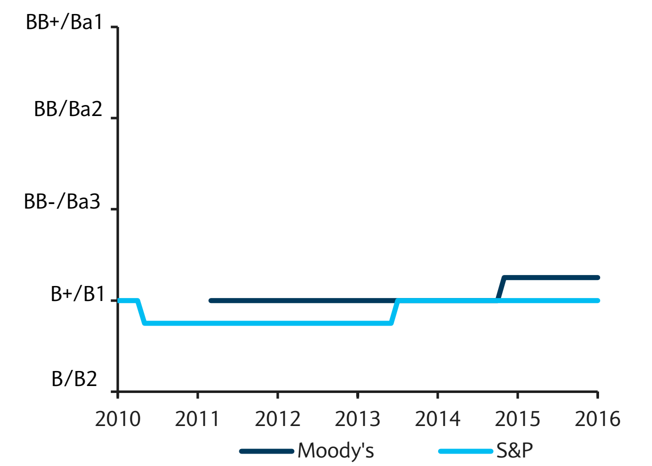
Source: Bloomberg, Moody's, Standard & Poor's, Barclays Research

FIGURE 9
Senegal: Eurobond performance



Source: Bloomberg, Barclays Research

FIGURE 10
Senegal: Long-term foreign currency credit rating history



Source: Bloomberg, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
Agence nationale de la statistique et de la démographie:	www.ansd.sn/
Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO):	http://www.bceao.int/
Government of Senegal:	www.gouv.sn/
Ministry of Finance:	www.finances.gouv.sn
Regional stock exchange:	http://www.brvm.org
International Monetary Fund:	http://www.imf.org/external/country/SEN/index.htm

SEYCHELLES

Credit rating	
Long-term foreign currency rating	BB- (Fitch)

Source: Bloomberg

Policy environment

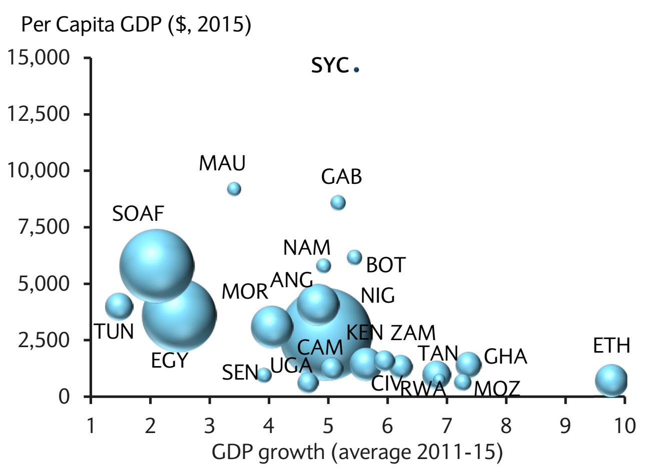
- **Seychelles' small economy is vastly dependent on imports. Tourism is an important pillar of growth and FX revenues.**
- **Despite benefits from lower oil global prices, the economy remains vulnerable to exogenous shocks.**

Monetary policy: The primary objectives of the Central Bank of Seychelles (CBS) are to promote price stability and maintain a sound financial system. Following a comprehensive economic reform programme initiated in 2008, the policy framework has been based on monetary targeting, shifting from an exchange rate targeting regime. In this framework, reserve money is the intermediate operating target of monetary policy. The CBS sets quarterly monetary targets and relies primarily on open market operations to achieve them. The CBS Board is responsible for the formulation and implementation of monetary policy. As a long-term objective, the CBS aims to strengthen the influence of interest rates on economic developments. To absorb structural excess liquidity in the system, in 2013 the CBS agreed in principle with the Ministry of Finance on the division of responsibility for draining liquidity, including issuing longer-dated maturity instruments. Interventions for managing liquidity are guided by the Liquidity Monitoring Framework which is maintained by the bank. With inflationary pressures easing in the latter half of 2015, the CBS board approved a cautious easing of monetary policy in Q4, reflected in an increase in the average reserve money target. After rising to 5.8% y/y in March 2015 on technical factors (after a new CPI was introduced in January) and higher administered prices, headline inflation eased to 3.2% in December. We look for a continued moderation in inflation in H1 2016, supported by lagged effects of FX appreciation, subdued global oil prices, base factors and moderate pressure on food prices. Our projections indicate inflation is likely to average lower at about 1.5% for the year as a whole compared with 4.0% in 2015, which suggest that the recent cautious easing of the policy stance may be prolonged.

Exchange rate policy: The local currency is the rupee (SCR) and the exchange regime is defined by the IMF as "floating". The CBS intervenes in the market intermittently, and the market's typically thin liquidity affects valuations. The SCR outperfomed in 2015 being the

FIGURE 1

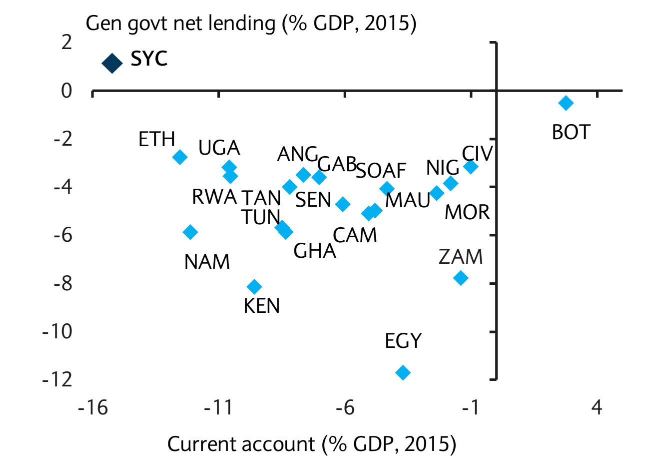
Seychelles: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2

Seychelles: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

only currency to strengthen against the USD in our coverage area (10.1% y/y). With external balances continuing to gain from low global oil prices and FX reserves significantly stronger (end-2015: USD536mn, or 4.6 months of imports), we expect the local unit to remain range-bound in the foreseeable future. However, given the still-large current account deficit, expected further USD strength (versus global majors) in upcoming months, export weakness and monetary policy easing, we believe there is a weakening bias on the currency.

Fiscal policy: The budget is tabled annually in late November-December and is based on a calendar year. The government undertook a comprehensive economic reform programme in 2008, with the help of the IMF, to restore macroeconomic stability and long-term sustainability. Under the IMF-backed reform, the fiscal performance improved, and the country has been running fiscal surpluses in recent years. Fiscal policy is geared towards reducing the debt-to-GDP ratio to 50% in 2018 (about 65% of GDP in 2015). To achieve this, the government continues to run primary surpluses, estimated at 3.8% of GDP in 2015 (SCR735mn above the initial target of SCR720mn). For 2016, the government is also committed to achieving a primary surplus of about 4.0% of GDP, in line with targets under the current three-year EFF programme with the IMF. In its most recent (third) review of the country's performance under the EFF arrangement, the IMF affirmed that programme implementation remains on track, with all set performance criteria met in the latest assessment. The Fund highlighted that achieving the debt target by 2018 will require continued fiscal discipline. Reaching the target has nonetheless become more challenging, absent an unwinding of the debt stock issued to sterilise the rapid accumulation of FX reserves by the Central Bank of Seychelles. Reform momentum, improved fiscal dynamics and external buffers have seen successive upgrades of the country's credit ratings in recent years (currently at BB- by Fitch).

Regulatory and tax environment: There is a 15% withholding tax on dividends paid to non-residents and a 15% tax on royalties paid to non-residents on certain types of royalty (copyrights, patent, design and trademark royalties are exempt). Double taxation agreements apply.

Political environment: The political situation is stable. The ruling Parti Lepep (PP) has won all the elections since the return of a multi-party political system in 1993. Presidential elections were called earlier than scheduled for December 2015. After a second round of voting (with no candidate obtaining more than 50% in the first round), President Michel won the election by a small margin (50.1%), giving him a third and final term in office. Michel's challenger, the Seychelles National party's Wavel Ramkalawan, obtained 49.9% of the votes. National assembly elections are due to take place in the second half of 2016 and were last held in 2011.

Development framework: Several development frameworks have been tabled in recent history, including Strategy 2017 and Seychelles Sustainable Development Strategies (replacing previous Environmental Management Plans). A new Medium-Term National Development Strategy (MTNDS) was approved by the cabinet in 2014. The MTNDS, which replaced the "Seychelles Strategy 2017", covers 2015-19 and provides a framework for developments and anchors other sectoral plans and strategies. The MTNDS will help the government achieve its long-term goals of maintaining macroeconomic stability, while diversifying the economy by further developing the fisheries and underwater resources as well as the financial services sector. An efficient public sector is also sought while providing a stimulating environment for private sector development. The MTNDS will be integrated with the Seychelles Strategic Plan, which will also include alternative growth scenarios given certain policy assumptions and risks. The Seychelles Strategic Plan is expected to serve as a reference document to which all sectors, institutions and partners should be familiar with, according to the Finance Ministry.

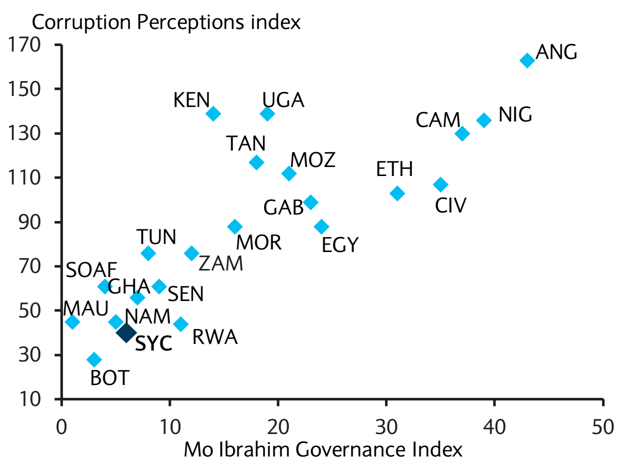
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President James Michel (since April 2004)
Ruling political party	Parti Lepep (formerly Seychelles People's Progressive Front)
Main opposition parties	Seychelles National Party, New Democratic Party
Elections	President Michel won the December 2015 run-off presidential election by a small margin with 50.1% of the votes.
Demographics	
Population	96,000 (2015E), 0.6%growth rate (UN)
Life expectancy	73.7 years
Main ethnic groups	Creole (African, Asian, European, Indian, Arab and mixed French)
Main language	Seychellois Creole (official) 89.1%, English (official) 5.1%, French (official) 0.7%, other 3.8%
Adult literacy	91.8%
Urban population	54%
Economic structure	
GDP	USD1,4bn (2015E); USD1.3bn (2014); 5.0% average real growth rate for 2006-2015
GDP per capita (USD)	USD 14,466 (2015E), USD 15,141 (2014)
GDP by sector	Services (70%), Industry (12.1%), Agriculture (2.4%)
Main industries	Tourism, re-exports, maritime services
Business development indicators	
2015 Corruption Perceptions Index ranking	40 (out of 168)
2015-16 Global Competitiveness Index ranking	97 (out of 144)
2015 Ease of doing Business ranking	95 (out of 189)
2014 Human Development Index ranking	64 (out of 188)
2015 Mo Ibrahim Index of African Governance	6 (out of 54)

Source: National Sources, IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Barclays Research

FIGURE 3

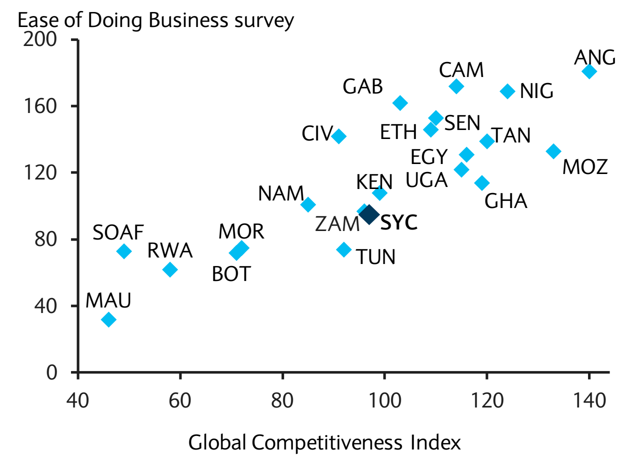
Seychelles: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Seychelles: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **The tourism sector registered solid growth in 2015, with arrivals rising 18.7% y/y to a record high. The sector remains all important in terms of economic growth prospects.**
- **External buffers continue to strengthen – gross reserves rose to USD536mn in 2015 (4.7 months of imports), up from USD464mn in 2014. The debt-to-GDP ratio is declining and is targeted to reach 50% in 2018.**

Key indicators to watch

Indicator	Data availability	Rationale
Inflation	Published monthly by the NBS. Typically within the first week of the next month.	The CBS focuses on price stability. Headline inflation averaged 4.0% in 2015, up from 1.4% in 2014.
Foreign exchange reserves	Published daily by the CBS.	As most goods are imported, the level of foreign exchange reserves is crucial to the Seychelles economy. Official reserves amounted to USD536mn as of December 2015.
Exchange rate	CBS/Reuters/Bloomberg	Substantial import dependency means the level of the exchange rate is essential to influencing inflation.
Tourist arrivals	Published by the NBS on a monthly basis.	The tourism sector is an important revenue earner for Seychelles and is a key driver of economic growth. Tourist arrivals rose by 18.7% y/y to a record 276,223 persons in 2015.
Balance of payments	The CBS publishes quarterly statistics.	Seychelles faced a balance of payments (BoP) crisis in 2008 with a near depletion of foreign exchange reserves, resulting in the country defaulting on debt obligations to commercial creditors. However, following implementation of structural reforms from November 2008 and international assistance, the external position has improved substantially.
Debt-to-GDP	CBS, the finance Ministry and IMF program reviews (a three-year EFF arrangement with the IMF is currently in place).	Anchor for fiscal policy. Authorities are targeting a ratio of 50% in 2018.
GDP	Published quarterly, with a lag of about three months.	

Source: IMF, Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	5.4	3.7	5.0	6.2	6.6	3.5	3.9
Nominal GDP (USD mn)	1,018	1,060	1,316	1,349	1,430	1,473	1,424
CPI (pavg, % y/y)	2.6	7.1	4.3	1.4	4.0	1.5	4.1
Fiscal balance (% GDP)	2.8	2.9	0.1	2.5	1.8	1.3	1.0
Revenue (% GDP)	40.1	41.5	38.5	37.3	33.7	35.5	33.8
Expenditure (% GDP)	37.3	38.6	38.4	34.8	31.9	34.3	32.8
Government domestic debt (% GDP)	29.2	34.3	29.2	31.7	34.1	32.2	30.4
Government external debt (% GDP)	48.1	48.3	39.5	37.9	31.5	30.1	27.4
Current account balance (% GDP)	-22.6	-25.8	-10.2	-21.9	-16.9	-14.5	-17.8
Trade balance (% GDP)	-43.0	-44.3	-33.9	-40.2	-33.5	-33.9	-40.0
Tourism earnings (% GDP)	35.8	36.7	32.7	29.5	30.0	29.9	31.6
Tourist arrivals ('000)	194	208	230	233	276	285	…
USD/SCR (pavg)	12.38	13.70	12.06	12.75	13.31	13.75	15.37
Official reserves (USD mn, eop)	279	307	425	464	536	575	…
Months of imports	2.8	2.6	3.3	3.5	4.6	4.7	…

Source: IMF, CBS, NBS, Barclays Research

Foreign trade flows*

- **Seychelles is heavily dependent on imports for both consumption and capital goods, leading to persistently large current account deficits.**
- **Current low global oil prices are favourable, with fuel accounting for about a quarter of the import bill. The export basket is dominated by fish and fish products.**

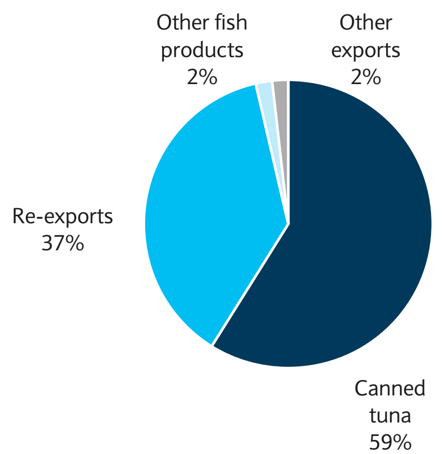
Main Exports		
Top product groups	USD mn	% y/y
Canned tuna	318	-9.4
Re-exports	202	-1.1
Other fish products	10	-17.3
Other exports	10	-11.7

Note: * 2014. Source: CBS, NBS, Barclays Research

Main Imports		
Top product groups	USD mn	% y/y
Mineral fuels	287	4.5
Food and live animals	254	-5.2
Manufactured goods	206	-2.5
Machinery and transport equipment	251	25.2
Other	144	12.5

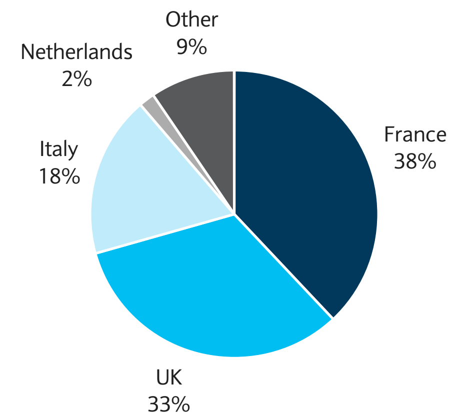
Source: CBS, NBS, Barclays Research

FIGURE 5
Main export groups



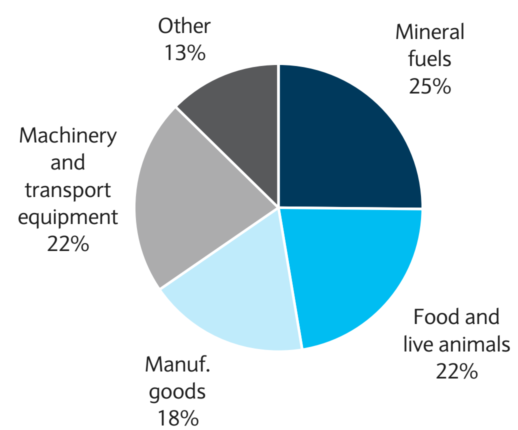
Source: CBS, NBS, Barclays Research

FIGURE 6
Main export destinations



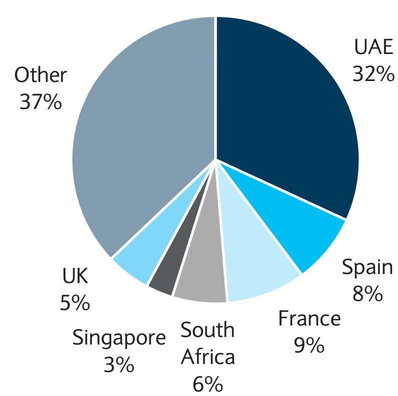
Source: CBS, NBS, Barclays Research

FIGURE 7
Main import groups



Source: CBS, NBS, Barclays Research

FIGURE 8
Main origins of imports



Source: CBS, NBS, Barclays Research

FX markets

Overview	Seychelles fully liberalised its foreign exchange market in November 2008. An interbank FX market was launched in 2009.
Market access/convertibility	The rupee is fully convertible. The Central Bank is active in the FX market.
Tax regime	There is a 15% withholding tax on dividends paid to non-residents. Double taxations agreements apply.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor	Quotation	Reuters page	Additional information
Spot	Liquid		T+2		Market is nascent and flow driven, which leads to wide swings.
Forwards	Infrequently used	Up to 1y		N/A	

Rates products

Overview	Treasury bill auctions occur weekly (91-, 182- and 365-day tenors). The current offer size is SCR120mn.
Market access/convertibility	The market has had no secondary activity, and all investors – wholesale or retail – bid directly at the Central Bank.
Tax regime	There is a 5% withholding tax on interest. Double taxations agreements apply.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation/ settlement	Reuters page	Additional information
Treasury bills	No secondary mkt	91, 182 & 365 days	Bilateral		Market remains buy-and-hold
Treasury bonds	Illiquid	3y, 5y & 7y	Bilateral		Market remains buy-and hold
Govt stock	Illiquid	10y			Market remains buy-and-hold

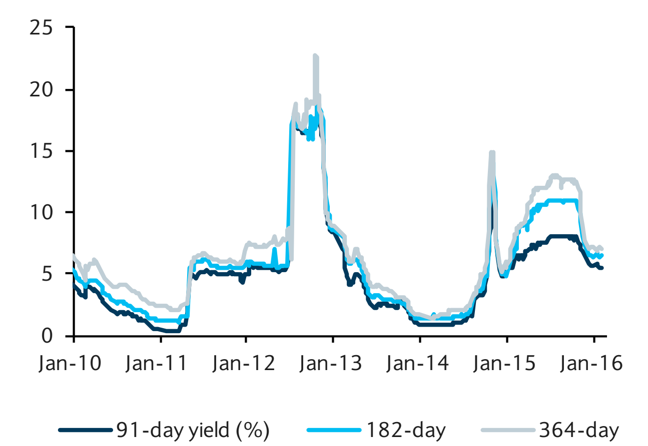
FIGURE 9

Seychelles: Rupee cross-rates

Source: Barclays, Barclays Research

FIGURE 10

Seychelles: Short-term interest rates



Source: Bloomberg, Barclays Research

External credit snapshot

Overview	Seychelles currently has one outstanding Eurobond, the USD168.9mn 2026s. The bond was issued as part of an exchange offer for notes due in 2011. After a sovereign default in 2008, Seychelles has received debt forgiveness and undergone debt restructuring.
Credit rating	Fitch currently rates Seychelles long-term foreign currency credit rating at BB-, after having upgraded the country in August 2014 and July 2015. The outlook is now stable. The country continues to recover from the substantial external debt restructuring that commenced in 2008. Marked improvement in external liquidity through rising FX reserves, continued reduction in public debt and sustained GDP growth are factors that have been driving the positive trend in the ratings in recent years. Negative rating action could stem from balance of payment pressures, fiscal slippages and any reversal of fiscal reform.
Coverage centre	Research in South Africa.

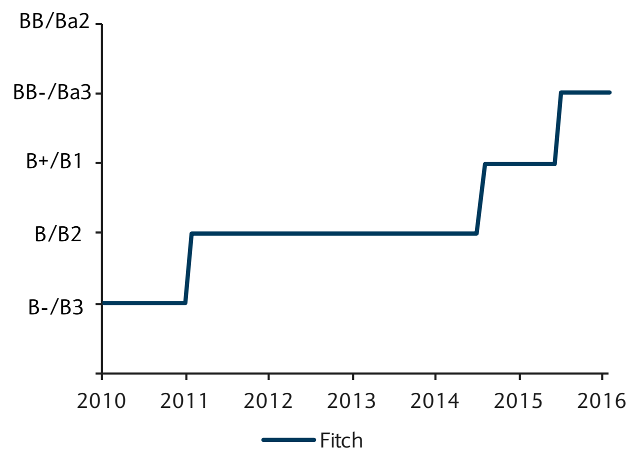
Issuer	Maturity	Announced	Amount	Coupon	Series	Additional information
Republic of Seychelles	1 Jan 2026	14 Jan 2010	$169mn	7% S/A		Step-up bond

Source: Bloomberg, Barclays Research

FIGURE 11
Seychelles: Eurobond performance

Source: Bloomberg, Barclays Research

FIGURE 12
Seychelles: Sovereign credit rating history



Source: Bloomberg, Fitch, Barclays Research

Useful links

Barclays Research: https://live.barclays.com

Central Bank of Seychelles www.cbs.sc
National Statistics Bureau: www.nsb.gov.sc
International Monetary Fund: http://www.imf.org/external/country/SYC/index.htm

SOUTH AFRICA

Policy environment

Credit rating	
Long-term foreign currency rating	BBB- (S&P) BBB- (Fitch) Baa2 (Moody's)

Source: Bloomberg

- **South Africa's economic growth outlook is weak, hindered in part by electricity and other infrastructure constraints, as well as the effects of a severe drought.**
- **The continued ZAR depreciation and rising food prices are likely to push headline inflation higher, resulting in further monetary policy tightening in 2016.**

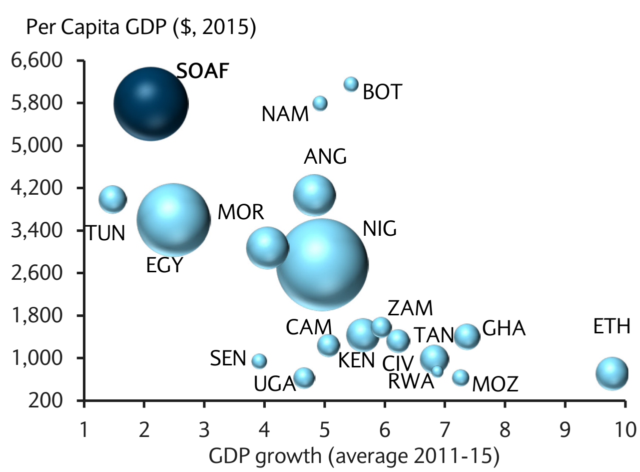
Monetary policy: The South African Reserve Bank (SARB) is required to achieve and maintain price stability in the interests of balanced and sustainable economic growth. The SARB formally adopted an inflation-targeting framework in 2000, with a 3-6% target set by the National Treasury (unchanged since). The MPC meets every second month, when the SARB's primary monetary policy tool, the repo rate, is set. As a result of strong upside inflation risks due in part to rand weakness, the SARB hiked the repo rate by a cumulative 50bp during 2015. The inflation outlook for 2016 has deteriorated due to sharp depreciation of the exchange rate and rising food prices following the worst drought in over a century. The SARB has responded with a 50bp hike at its January 2016 meeting. We look for 75bp of further tightening during 2016, but we see risks as tilted in the direction of fewer hikes.

Exchange rate policy: The SARB allows the market to find the ZAR's natural level: over the past decade, it has accumulated modest amounts of reserves in periods of currency strength with little evidence of selling reserves during periods of weakness. The rand can undergo large swings in valuation, the most recent being a protracted depreciation that started in mid-2011 and took the currency from below 7/USD to weaker than 16/USD in early 2016. Through 2015, the ZAR depreciated by 25.5% against the USD (and by 19.7% in trade-weighted terms), in part due to expectations of US Fed monetary policy normalisation, weak domestic fundamentals (including weak growth and a still-wide CA deficit), as well as deteriorating fiscal metrics.

Fiscal policy: South Africa announces detailed budget plans each February (National Budget) and tables a multi-year fiscal framework each October (Medium-Term Budget Policy Statement). In the 2015 MTBPS, the Treasury raised its consolidated budget deficit to 3.2% of GDP by 2017/18 from 2.5%. The deficit is projected to narrow slightly in the

FIGURE 1

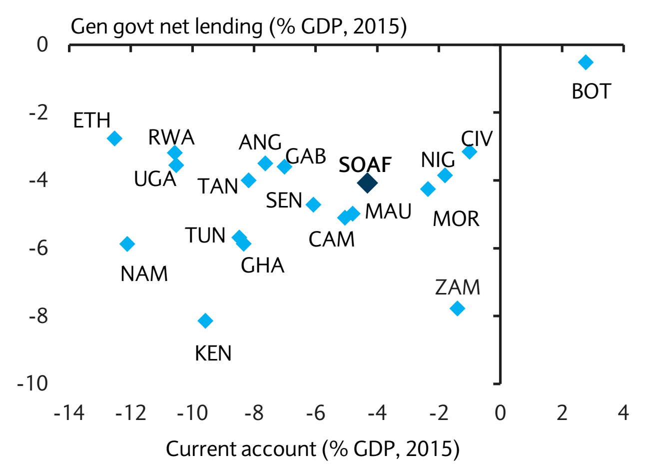
South Africa: GDP in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2

South Africa: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

2018/19 fiscal year to 3.0%. Against this backdrop, a convincing stabilisation in the debt-to-GDP ratio was deferred again. The Treasury now expects gross debt to GDP to rise to 48.6% in the 2016/17 fiscal year, and to reach 49.4% during 2018/19.

Regulatory and tax environment: Exchange controls on domestic registered investors have been replaced/softened with prudential limits for institutional investors, easier rules for corporates, and larger allowances for individuals. There are no exchange restrictions for non-residents, and, in general, there is no tax applicable to non-residents unless they have a permanent establishment in South Africa. Effective 1 July 2013, a 15% withholding tax on interest has been in place, which may be reduced depending on whether the foreign entity is also covered by a double-taxation agreement with South Africa. Importantly, interest paid by South African banks or interest relating to government or listed debt instruments are excluded. A 15% withholding tax on dividends paid to non-residents has been in place since 1 April 2012, which is also dependent on double-taxation agreements.

Political environment: Following the country's first fully democratic elections in 1994, the country has been ruled by the African National Congress (ANC). In the most recent parliamentary elections in May 2014, the ANC won 62% of the vote with 13 other parties also having a presence in parliament. Parliament selects the president, who is currently ANC leader, Jacob Zuma. The ANC's own internal elective process follows a five-year cycle; with current leader, Jacob Zuma, serving his second term, a new successor will need to be elected in 2017, as per the constitution of the ANC. The ANC rules in alliance with the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP). At its last policy conference in 2015, the ANC reaffirmed its commitment to the National Planning Commission's National Development Plan as the over-arching policy framework for years to come. Although the formal political process is very stable in South Africa, there are fractures showing both outside and inside the ruling party's hegemony ranks. South Africa is due to hold local government elections in 2016.

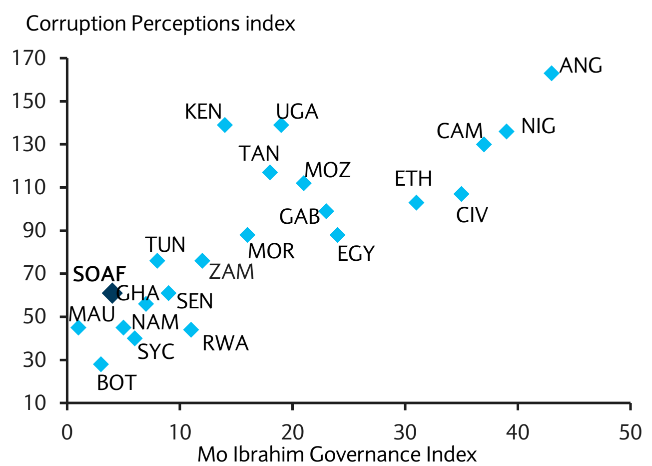
Development framework: South Africa's development framework is based on the National Development Plan, which outlines a vision of eliminating poverty and reducing inequality by 2030. The plan, which was approved by government in 2012 and widely endorsed by private business organisations and institutions such as the IMF, is focused on building a capable state and creating greater competition through faster and sustainable economic growth that creates jobs. Some of the critical actions identified in the NDP include structural reforms to boost private investment in labour-intensive sectors, as well as growing public infrastructure investment in areas that will support export sectors such as energy, transport and water. While there has been some progress implementing the NDP, a much wider implementation of the structural reforms indicated in the NDP is still to happen. As global conditions have become less supportive in recent years (ie, commodity prices falling sharply), the need for structural reforms has become more urgent. South Africa faces a number of other constraints that have weighed on growth and confidence, and the NDP as well as the IMF recommend several interventions. On labour, these include enhancing competition, forging a social contract to restrain wage growth and promoting cooperative labour relations. Weak skills development is also cited as a major challenge, and raising education outcomes and improving focus on vocational trading to address the skills shortage are major policy imperatives. Other areas that also require reform include the non-competitive product markets, insufficient trade promotion into neighbouring Africa, as well as broadband development.

Country snapshot

Indicator	Latest
Government	
Government type	Parliamentary democracy
Head of state	President Jacob Zuma (since 9 May 2009)
Ruling political party	African National Congress (ANC), currently has 249 seats (62% of total) in parliament
Main opposition party	Democratic Alliance (DA), currently has 89 seats (22% of total)
Elections	The president is elected by the National Assembly for a five-year term. National Assembly elections occur every five years
Demographics	
Population	54.96mn (2015E); 1.6% growth rate (Statistics South Africa)
Life expectancy	60.6 years (Stats SA)
Main ethnic groups	Black African (80.2%), coloured (8.8%), white (8.4%) and Indian / Asian (2.5%)
Main languages	Eleven official languages including isiZulu (22.7%), isiXhosa (16.0%), Afrikaans (13.5%), English (9.6%), Sepedi (9.1%) and Setswana (8.0%) Sesotho (7.6%), Xitsonga (4.5%), siSwati (2.5%), Tshivenda (2.4%), isiNdebele (2.1%), sign language (0.5%), other (1.6%)
Adult literacy	93.7%
Urban population	64%
Economic structure	
GDP	USD317bn (2015E); USD350bn (2014); 2.6% average real growth rate for 2006-2015
GDP per capita (USD)	USD5,784 (2015E); USD6,483 (2014)
GDP by sector	Finance, real estate and business services (19.6%), general government services (15.5%), wholesale and retail trade (13.7%), manufacturing (12.6%),
Main industries	Minerals, mining, motor vehicles and parts, machinery, textiles, chemicals, information technology, other manufacturing and agro-processing
Business development indicators	
2015 Corruption Perceptions Index ranking	61 (out of 168)
2015-16 Global Competitiveness Index ranking	49 (out of 144)
2015 Ease of Doing Business ranking	73 (out of 189)
2014 Human Development Index ranking	116 (out of 188)
2015 Mo Ibrahim Index of African Governance	4 (out of 54)

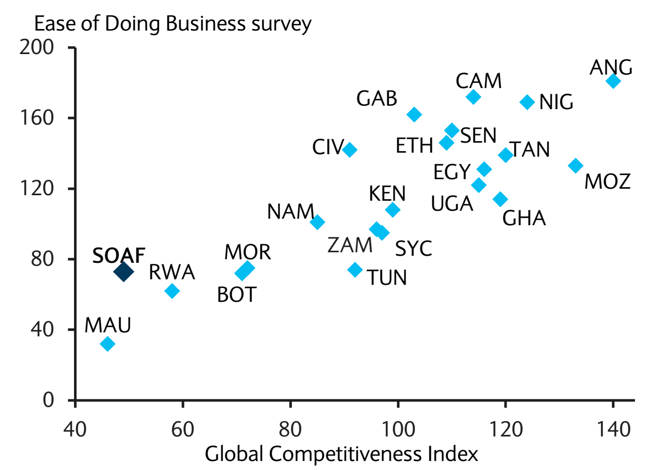
Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Statistics South Africa, Mo Ibrahim Foundation, Barclays Research

FIGURE 3
South Africa: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4
South Africa's relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **South Africa's current account (CA) deficit narrowed to an estimated -4.4% of GDP during 2015 (2014: -5.4%) on lower oil prices and stronger car exports. However, infrastructure needs and drought-related imports limit the scope for further narrowing in 2016.**
- **The debt/GDP ratio has risen notably in recent years as disappointing growth has made fiscal consolidation more challenging. The National Treasury adjusted the ratio to reach 49.4% by the 2018/19 FY in the MTBPS.**

Key indicators to watch

Indicator	Frequency/Availability	Rationale
Consumer price inflation (CPI)	Published by Stats SA on a monthly basis, usually on Wednesday of the third week.	Local bond market participants are sensitive to inflation and inflation expectations. Headline CPI is the target for monetary policy and also the reference for inflation-linked bonds. Inflation is expected to trend higher as a result of rising food prices due to the drought and the delayed effect of FX weakness.
MPC Statement	MPC meetings take place every second month	Contains important signals with respect to the SARB's comfort on inflation, growth, as well as the external balance and the ZAR.
Official reserves	Published on a monthly basis by the SARB	Reserves are watched as an indicator of the SARB's comfort level with the rand and as part of South Africa's external credit story.
Private sector credit extension	Published on a monthly basis by the SARB	This is the main indicator of borrowing activity by the private sector. Trends in credit extension are also important for monetary policy considerations.
Trade balance	Published on a monthly basis by the South African Revenue Service	A useful indicator for understanding how the current account may evolve. The monthly data can be volatile, so the market tends to focus on longer-term trends.
Balance of payments	Published quarterly by the SARB	Viewed as an indication of the rand's vulnerability or strength. Of particular interest is the composition of the financial account, where direct and portfolio investment flows can be measured.
Annual National Budget and Medium-Term Budget Policy Statement	National Budget tabled in February and Medium-Term Budget Policy Statement table in October	The fiscal year runs from April and the annual budget details spending plans for the upcoming fiscal year, and the MTBPS outlines multi-year spending plans and revenue projections.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	3.2	2.2	2.2	1.5	1.3	0.9	2.0
Nominal GDP (USD bn)	416	397	366	350	313	258	265
CPI (period average, % y/y)	5.0	5.7	5.8	6.1	4.6	6.3	6.4
Fiscal balance (% GDP, incl. grants)[1]	-3.7	-4.3	-3.8	-3.6	-4.0	-3.5	-3.2
Primary budget balance (% of GDP)[1]	-1.0	-1.3	-0.7	-0.4	-0.6	0.1	0.2
Revenue (% GDP)[1]	27.3	27.3	27.9	26.1	28.4	29.3	29.2
Expenditure (% GDP)[1]	30.9	31.4	31.7	29.6	32.2	31.9	31.7
Total public debt (% GDP)	38.6	41.0	43.9	46.8	49.0	48.8	49.0
Current account balance (% GDP)	-2.3	-5.2	-5.8	-5.4	-4.4	-4.6	-4.3
Trade balance (% GDP)	1.7	-1.0	-1.9	-1.8	-0.9	-0.6	-1.0
USD/ZAR (period average)	7.26	8.21	9.66	10.85	12.78	16.46	17.25
Policy rate (%, eop)	5.50	5.50	5.00	5.75	6.25	7.50	7.50
Official reserves (USD bn)	48.86	50.74	49.59	49.1	56.4	…	…
Total external debt (% GDP)	34.8	37.3	39.9	42.0	43.3	43.8	43.8
REER (2010 = 100, period average)	97.9	92.6	82.8	77.6	…	…	…

Note: [1] Main budget estimates for fiscal year-ending March. Source: SARB, Bloomberg, HIS-Global Insight, National Treasury

Foreign trade flows*

Exports

Top product groups	USD bn	% y/y
Mineral products	16.7	-25.1
Precious metals, stones, jewellery	14.6	-1.8
Base metals	9.8	-20.2
Vehicles, aircraft, ships	10.2	3.1
Machinery and equipment	7.9	-16.1

Note: * 2015. Source: SARS, Barclays Research

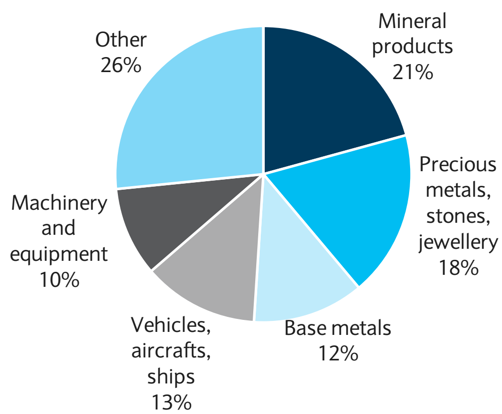
Imports

Top product groups	USD bn	% y/y
Mineral products	13.7	-43.7
Machinery and equipment	21.3	-9.6
Vehicles, aircraft, ships	8.9	-8.8
Chemical products	8.8	-8.7
OEM motor vehicle parts	6.2	-6.2

Source: SARS, Barclays Research

FIGURE 5

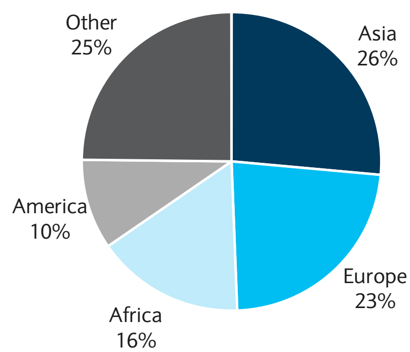
Main export groups



Source: SARS, Barclays Research

FIGURE 6

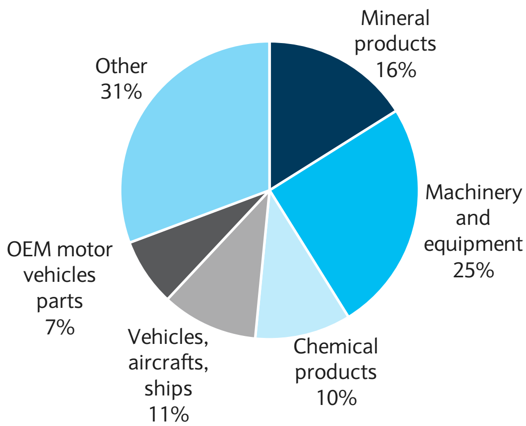
Main export destinations



Source: SARS, Barclays Research

FIGURE 7

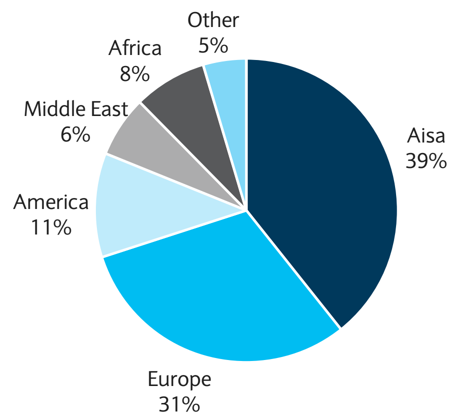
Main import groups



Source: SARS, Barclays Research

FIGURE 8

Main origins of imports



Source: SARS, Barclays Research

FX markets

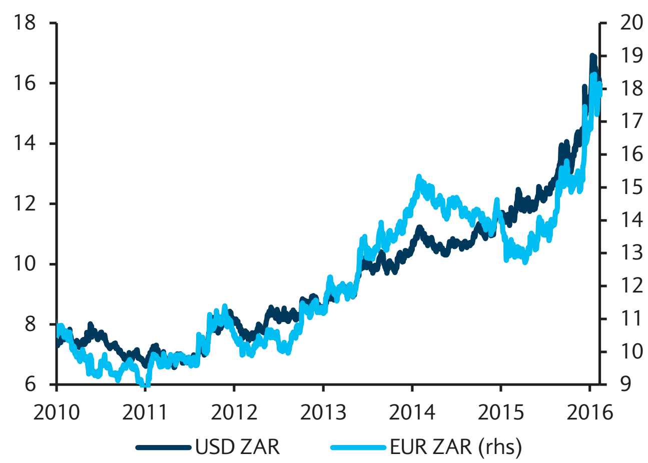
Overview	The rand has been a free-floating unitary exchange rate since 1995. It is viewed as a high-beta currency. Liquidity is high.
Market access/convertibility	Only fully licensed, authorised dealers are permitted to deal in foreign exchange in South Africa. Exchange controls are governed by the Currency and Exchange Act (No. 9 of 1933) as well as the Exchange control regulations as promulgated in 1961. In his 2008-09 National Budget speech, the minister of finance announced prudential regulations of registered domestic institutional investors, which governs the maximum holdings of offshore holdings as a percentage of overall assets under management. There are no exchange controls on non-residents.
Tax regime	Generally, there is no tax on non-residents unless they have a permanent establishment in South Africa. For residents, foreign exchange gains and losses on exchange items, whether unrealised or realised, are typically included in taxable income over the life of the instrument by applying the spot rate at transaction, year-end and realisation dates.
Coverage centre	Research in South Africa.

Security	Liquidity	Bid/offer spread	Tenor/ maturity	Quotation	Reuters page	Additional information
Spot	Liquid	25 pips in $15mn		T+2	ABFS=	Main cross is USD/ZAR but also quoted in EUR/ZAR and GBP/ZAR and, increasingly, other majors.
Forwards	Liquid to 12 months	1-3m 10 pips in $50mn, 6-12m 50-100 pips in $50mn	O/N to 10 years	Points T+2 (Excl O/N)		Marked-to-market at year-end; any unrealised gains and losses whether capital or revenue in nature are included in taxable income. Forward swaps can be entered into between residents and non-residents when the non-resident has an underlying commitment.
Options	Reasonable liquidity	.70 vol in $30mn and 1.2% vol in EUR20mn	O/N to 2y	Volatility in %		The main market is in USD/ZAR but a market is also available in EUR/ZAR. Marked-to-market at year-end; any unrealised gains and losses, whether capital or revenue in nature, are included in taxable income. Premiums earned and incurred on foreign currency options contracts are recognised in taxable income on a cash basis. First-generation exotics available.

Source: Barclays Research

FIGURE 9

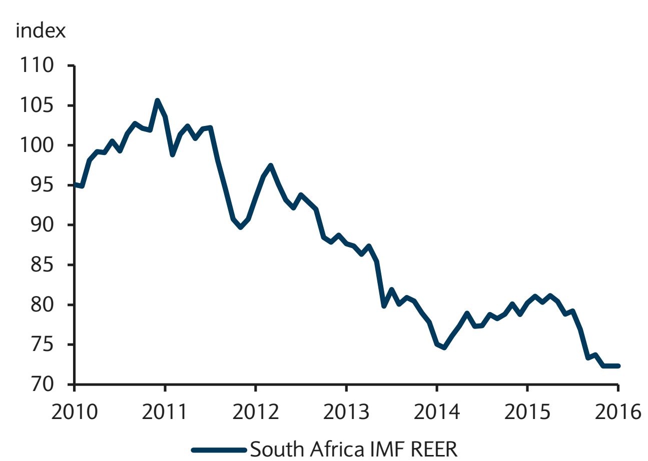
South Africa: Rand cross-rates



Source: Bloomberg, Barclays Research

FIGURE 10

South Africa: Real effective exchange rate



Source: Bloomberg, Barclays Research

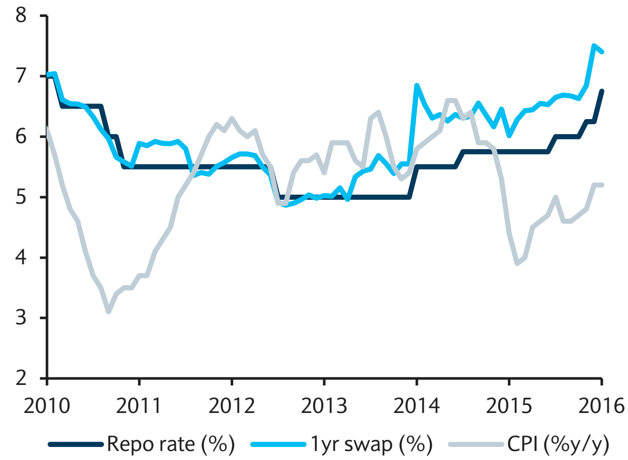
Rates products

Overview	The interest rate market is generally very liquid for government bonds and for swaps. Liquidity in the non-government market is more modest, but improving (particularly for the largest SOE issuers).
Market access/convertibility	There are no exchange controls on non-residents and all fixed-income instruments are available to non-residents.
Tax regime	Generally, there is no tax on non-residents unless they have a permanent establishment in South Africa. Effective from 1 July 2013, there is also a 15% withholding tax in place for interest payable to non-residents. This excludes interest paid by banks or interest relating to any listed or government debt instrument. The rate may be lowered in cases where a Double Taxation Agreement with South Africa is in place. Domestic entities entering into interest-bearing arrangements are taxed on a yield-to-maturity basis under section 24J of the Income Tax Act, 1962. Interest-bearing arrangements may be taxed on a mark-to-market basis, where prior approval is obtained from the South African Revenue Service. Interest rate agreements, such as interest rate swaps and FRAs, are taxed on a day-to-day basis unless covered by the mark-to-market election.
Coverage centre	Research in South Africa.

Security	Liquidity	Bid/offer spread	Tenor/maturity	Quotation/ settlement	Reuters page	Additional information
Cash deposits	Liquid	15bp	NCDs up to 5y	Yield T+0	ABMM01	Offshore accounts may only deposit money locally. Screen bid in NCDs only good for 100m and price maker's own paper. Sizes up to 1bn can be accommodated.
Treasury Bills	Liquid	10bp, current liquidity dependant	3, 6, 9 and 12m	T+3	SARB10	Weekly auctions where 91-, 182-, 273- and 364-day bills are issued. Typically buy and hold.
FRA	Liquid out to 21x24	3-5bp to 24 mths	21m	T+0	ABAI	Typically reset against 3-month Jibar
Spot bonds	Very liquid	3bp in ZAR100mn	Liquid tenors from 2017 to 2048	Trades in yield, T+3	ABSA01	Primary dealers system in government bonds. Exchange traded. Curve out to 2048.
Swaps	Very liquid to 10y	3-5bp in ZAR100m to 10y; 5-7bp beyond	Up to 30y	T+0	ABAI	Typically reset against 3-month Jibar, but can be reset against 1-, 6- or 12-month Jibar.
Cross-currency swaps	Liquid to 10y	10-20bp in $100mn	Up to 30y	T+0	ABAJ	
Caps, floors, swaptions	Limited liquidity up to 10y	2 to 4 vols	Swaptions up to 5y expiry and 10y underlying Up to 10y on Caps and floors expiry and underlying tenor	Premium T+2		Caplets/floorlets: cash settle at reset (in advance) Caps/floors: cash settle at each reset (in arrears) Swaptions: physical settle at expiry
Bond Futures	Liquid single instrument future		Up to 2048	Yield T+3		Expiry first Thursday of Feb, May, Aug, and Nov.
Government Linkers	Liquidity across the curve	5-10bp	Up to 2050	Real yield	ABSI	Exchange traded. Weekly primary auctions.
Parastatals	Limited liquidity across the curve	8-10bp in ZAR50mn	> 25y	Benchmarket spread T+3	BICT	Mix of government guaranteed and non-guaranteed on offer, with Eskom and Transnet being the more liquid issuers.
Corporates	Very limited liquidity	10-15bp in ZAR25mn	Typically up to 7y for Corporates and 10y for Financials	Benchmark spread T+3	BICT	No repo market

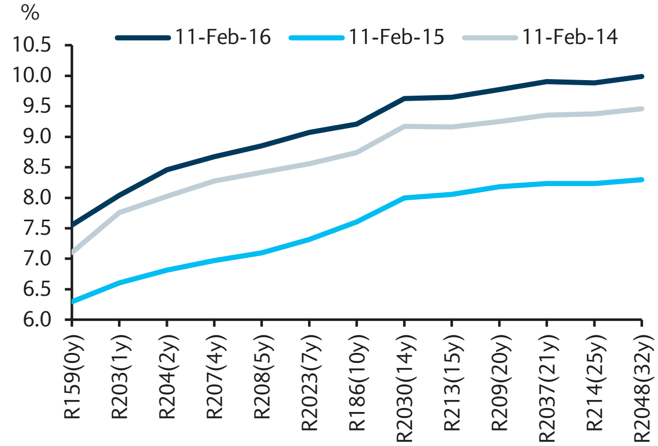
Source: Barclays Research

FIGURE 11
South Africa: Short-term interest rates



Source: Bloomberg, Barclays Research

FIGURE 12
South Africa: Yield curve



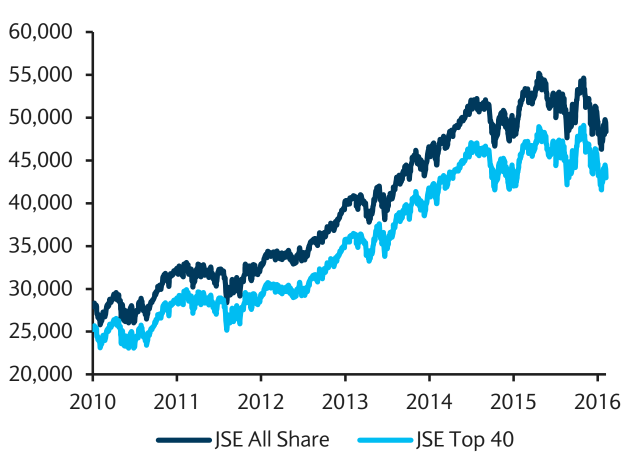
Source: Bloomberg, Barclays Research

Equity market snapshot

Market size	The Johannesburg Securities Exchange (JSE) is the largest stock exchange in Africa with a total market capitalisation of ZAR10.3trn (USD644bn) at 9 February 2016.
Main indicators	The All Share Index (Alsi) is the proxy for the performance of all listed companies. The Top 40 Index (tradable index) tracks the performance of the top 40 stocks using market cap weights, while the SWIX40 tracks the same stocks but uses local shareholder weights. Both use FTSE free float weights for their calculation. There are eight other tradable indices, including those for financials, resources, industrials and gold mining. The JSE has a number of dual-listed companies, which means that market cap and foreign ownership calculations need to be made with caution.
Listed companies	164
Key listed companies	Naspers; BHP Billiton; Richemont; and MTN.
Foreign ownership	Estimated at 30-40%.

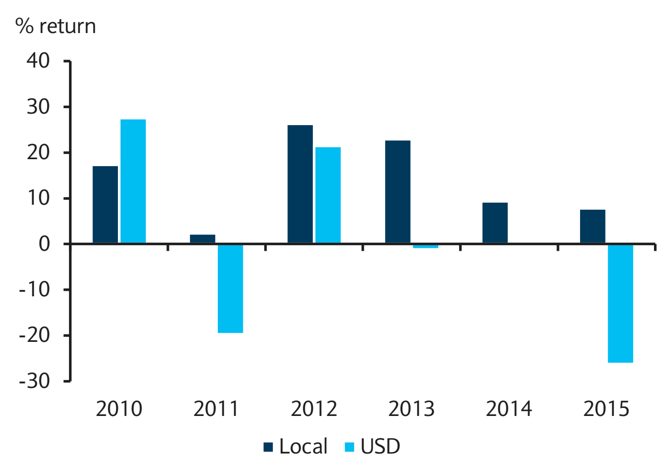
Source: Bloomberg, Barclays Research

FIGURE 13
South Africa: Equity market



Source: Bloomberg, Barclays Research

FIGURE 14
South Africa: Total return of the JSE Top 40



Source: Bloomberg, Barclays Research

External credit snapshot

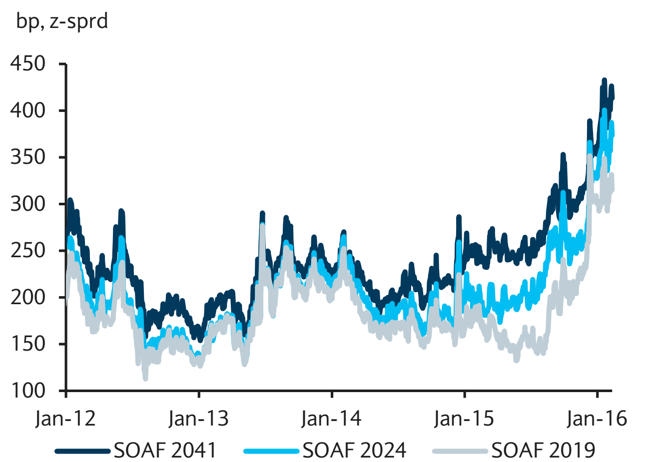
Overview	South Africa currently has 12 trading Eurobonds, with benchmarks in the 30y sector (USD ‘44s), 10y sector (USD ‘24s, ‘25s) and shorter-dated sectors (USD ‘22s, ‘20s, ‘19s). Most outstanding issuance is in USD, though 2014 saw a new EUR500mn 2026 issue to join the EUR750mn 2016, and the lightly traded JPY30bn 2021 and 2020s remain in issue.
Credit rating	South Africa currently has a split credit rating, following a series of downgrades that started in 2012. In December 2015, Fitch downgraded its foreign currency rating by a notch to BBB- (negative outlook), while S&P assigned a negative outlook ot its BBB- rating and Moody assigned a negative outlook to its Baa2 rating. The rating agencies generally highlight the government’s commitment to fiscal spending restraint, the adoption of the National Development Plan, the strength of the country’s institutions and the term and currency structure of public debt as credit strengths. Rising public debt levels, significant contingent liabilities from the state-owned sector, weak economic growth, labour tensions, and still-sizeable fiscal and current account imbalances, are highlighted as credit weaknesses.
Coverage centre	Research in London and South Africa.

Issuer	Maturity	Announced	Amount	Coupon	Series	Additional information
Republic of South Africa	24 Jul 2044	17 Jul 2014	$1.0bn	5.375% S/A	REGS/144A	
Republic of South Africa	8 Mar 2041	1 Mar 2011	$750mn	6.25% S/A	REGS/144A	
Republic of South Africa	24 Jul 2026	17 Jul 2014	EUR500mn	3.75% A	REGS/144A	
Republic of South Africa	16 Sep 2025	9 Sep 2013	$2.0bn	5.875% S/A	REGS/144A	
Republic of South Africa	17 Jan 2024	9 Jan 2012	$1.5bn	4.665% S/A	REGS/144A	
Republic of South Africa	30 May 2022	16 May 2007	$1.0bn	5.875% S/A	REGS/144A	
Republic of South Africa	9 Mar 2020	2 Mar 2010	$2.0bn	5. 5% S/A	REGS/144A	
Republic of South Africa	27 May 2019	19 May 2009	$2.0bn	5. 5% S/A	REGS/144A	
Republic of South Africa	23 Jun 2017	18 Jun 1997	$141mn	8. 5% S/A	REGS/144A	
Republic of South Africa	5 Apr 2016	30 Mar 2006	EUR750mn	4.5% A	REGS/144A	

Note: The USD500mn of the 2017 bond was originally issued. Source: Bloomberg, Barclays Research

FIGURE 15

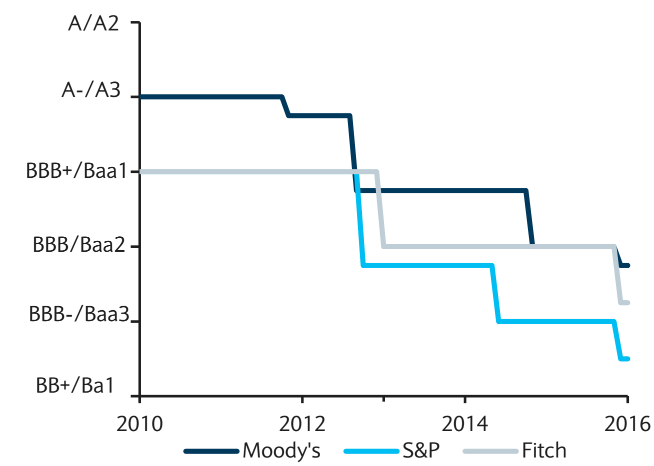
South Africa: Eurobond performance



Source: Bloomberg, Barclays Research

FIGURE 16

South Africa: Credit rating history



Source: Bloomberg, Moody’s, S&P, Fitch, Barclays Research

Useful links

Barclays Research:	https://live.barclays.com
South African Reserve Bank:	www.reservebank.co.za
Ministry of Finance:	www.treasury.gov.za
Johannesburg Stock Exchange:	www.jse.co.za
International Monetary Fund:	http://www.imf.org/external/country/ZAF/index.htm

TANZANIA

Policy environment

Credit rating

N/A

Source: Bloomberg

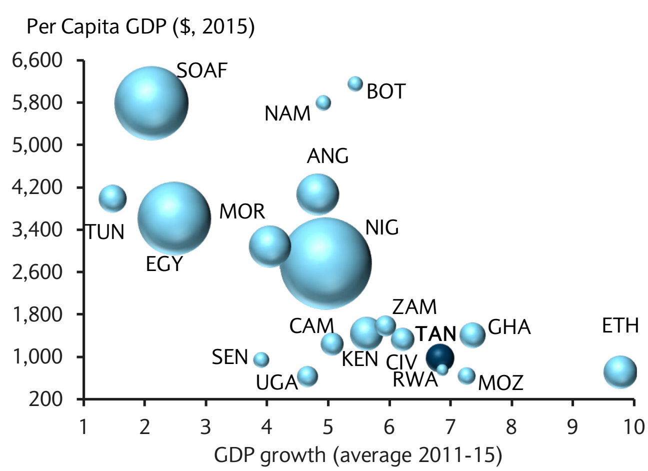
- **Tanzania is one of the fastest-growing economies in Sub-Saharan Africa. Real GDP growth has averaged above 6% over the past ten years.**
- **Vast natural gas reserves discovered in recent years have boosted the long-term outlook. Actions towards developing the LNG sector are critical to look out for.**

Monetary policy: The Bank of Tanzania's (BoT) primary objective is to maintain price stability, which is conducive to balanced and sustainable economic growth. The current framework is based on monetary targets, though the Bank intends to introduce a benchmark rate in the medium term, possibly in late 2016. The government's objective is to maintain a single-digit annual inflation rate, while the medium-term target is 5%. To support price stability, the BoT targets growth in money supply and domestic credit and a relatively stable exchange rate. For FY 2015-16, the BoT is targeting reserve money growth of no greater than 13.4%, M3 growth not exceeding 16% and private sector credit growth of about 19%. The Bank is also aiming to keep gross reserves of at least four months of imports (excluding FDI-related imports). Heightened pressures on the shilling and associated increased risk to the inflation outlook saw the BoT tighten monetary policy significantly in Q2 2015, including by increasing the statutory minimum reserves (SMR) from 8% to 10%. The tighter monetary policy environment helped stabilise the currency through the remainder of the year, alleviating inflation fears. However, due to lagged effects from the weaker exchange rate and food price pressures, headline inflation rose to 6.8% y/y at end-2015 from a ten-year low of 4.0% in January 2015. In our view, headline inflation may continue to track higher in 2016 averaging 7.0% (2015: 5.6%). Together with lingering FX risks, we believe the rise in inflation will see the BoT maintain a tight policy stance this year.

Exchange rate policy: The shilling (TZS) is a managed floating exchange rate with no predetermined path. The BoT intervenes to smooth excessive volatility. Seasonal factors (eg, tourism flows, agricultural exports and dividend payments) typically affect the currency's performance. The shilling weakened 19.8% against the USD in 2015, though tighter monetary policy in the second half of the year helped contain depreciation pressures. Despite supply from the BoT, FX reserves are limited (about USD4bn covering 3.7 months of imports, in our calculations), while a still-wide current account deficit and prospective USD

FIGURE 1

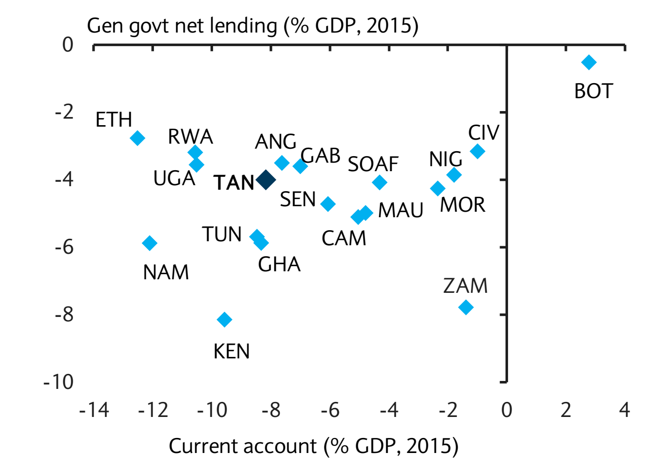
Tanzania: GDP measures in a regional context



Source: IMF WEO (October 2013), Barclays Research

FIGURE 2

Tanzania: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2013), Barclays Research

strength keep the shilling vulnerable. Planned external issuance may boost FX reserves this year, though this appears a possibility only in the 2016-17 fiscal year.

Fiscal policy: The government's fiscal plan is based on the Five-Year Development Plan and the second phase of the National Strategy for Growth and Reduction of Poverty (MKUKUTA II). The second phase of MKUKUTA was extended by a year to June 2016 to allow for preparation of MKUKUTA III and the next Five-Year Development Plan. Fiscal policy is also supported under a current Policy Support Instrument (PSI) programme with the IMF (approved in July 2014). The fiscal year runs from July to June, and the annual budget is delivered in early June. The budget is significantly dependent on external assistance (grants amount to about 2% of GDP), though this is expected to decline over the medium term. In the latest PSI review (January 2016), the IMF noted some challenges in budget implementation in the current fiscal year (including revenue shortfalls), though actions taken by the incoming authorities to adjust the budget and prevent further arrears accumulation were highlighted. We expect the budget deficit to reach 4-5% of GDP in FY 2015-16 (2014-15: -3.8%) and public debt to remain contained at about 40% of GDP.

Regulatory and tax environment: Offshore investors are not permitted to hold local bonds, though the authorities are aiming to relax this restriction. In 2012, the government introduced a 10% withholding tax from payments of interest earned on deposits held by non-residents. Interest paid by 'strategic investors' to foreign banks are exempt from the normal 10% withholding tax otherwise applicable. A capital gains tax on overseas share transactions applies. The tax relates to the sale of shares with respect to a Tanzanian company by its parent or offshore holding company. The exemption from withholding tax on dividends between resident corporations (assuming at least 25% ownership and control) has been abolished, and a 5% withholding tax now applies.

Political environment: The ruling Chama Cha Mapinduzi (CCM) has been the dominant party since the adoption of a multi-party democracy in 1992. The most recent elections were in October 2015, which were the most closely contested in recent history. Against a strengthened and united opposition (Ukawa), the CCM retained its parliamentary majority, while current President John Magufuli won the presidential elections with 58.5% of the votes. The political situation on the mainland and the island of Zanzibar is stable, though Zanzibar has a history of political volatility. Elections in the islands were declared "null and void" by its election commission (ZEC) on alleged violations, including vote rigging. Fresh elections are scheduled to be held on 20 March 2016. A referendum on a new constitution was postponed from April 2015, and a new date is still to be set. Amongst its main aspects, the proposed constitution retains the structure of two governments in the current union between the mainland and Zanzibar, though it reduces "Union Matters" to 14 from 22 under the current constitution, which was adopted in 1977.

Development framework: Tanzania's Five-Year Development Plan (2011/12-2015/16) aims to unlock the country's growth potential to become a middle-income country as envisaged by the "Development Vision 2025". The plan's growth targets include average real growth of 8% pa, accelerating to 10% pa over 2016-25. The plan key priorities are infrastructure, agriculture, industry, human capital, tourism, trade and financial services. The National Strategy for Growth and Reduction of Poverty is also in place and focuses on growth, reducing poverty and improving social wellbeing, governance and accountability. The next Five-Year Development Plan (FY 2016-17 to FY 2020-21) is expected to be finalised in H1 2016. Development of the LNG sector is a bright spot for the country's long-term prospects.

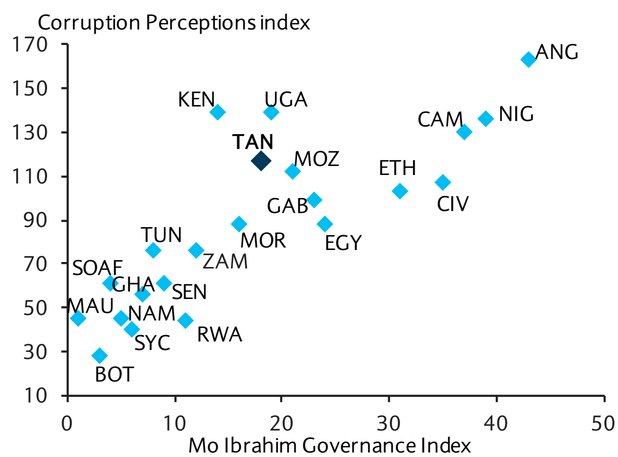
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President John Magufuli (since 5 November 2015)
Ruling political party	Chama Cha Mapinduzi (CCM)
Main opposition parties	(CUF, CHADEMA, NCCR-Mageuzi, and the National League for Democracy) united to form Umoja wa Katiba ya Wananchi (Coalition for the People's Constitution) or UKAWA.
Elections	President John Magufuli won the 2015 elections for a 5-year term. The next elections are expected in October 2020.
Demographics	
Population	53.4mn (2015E); 3.0% growth rate (UN)
Life expectancy	66.4 years
Main ethnic groups	Sukuma, Nyamwezi, Chagga and others (more than 120)
Main language	Kiswahili and English (both official). Kiswahili is the national language.
Adult literacy	67.8%
Urban population	31%
Economic structure	
GDP	USD44bn (2015E); USD48bn (2014); 6.4% average real growth rate for 2006-2015
GDP per capita	USD969 (2015E); USD1,029 (2014)
GDP by sector	Agriculture (29%), Construction (12.5%), Trade (10.5%), Manufacturing (5.6%)
Main industries	Agro-processing, textiles, construction, steel, cement, food, mining
Business development indicators	
2015 Corruption Perceptions Index ranking	117 (out of 168)
2015-16 Global Competitiveness Index ranking	120 (out of 144)
2015 Ease of doing Business ranking	139 (out of 189)
2014 Human Development Index ranking	151 (out of 188)
2015 Mo Ibrahim Index of African Governance	18 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Barclays Research

FIGURE 3

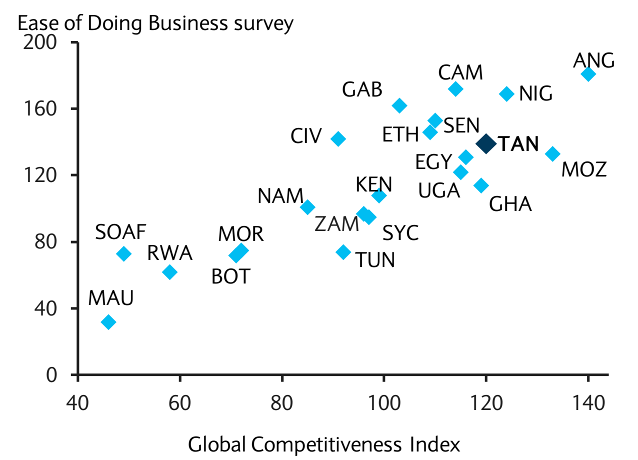
Tanzania: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Tanzania: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2014-15, Barclays Research

Overview of key indicators

- **Gold's share in the total value of exports continues to decline.**
- **Tanzania remains vulnerable to global shocks as fiscal buffers remain low while being over-reliant on donor aid.**

Key indicators to watch

Indicator	Data availability	Rationale
Gold price	Production data available from the Bank of Tanzania	Gold accounts for about a quarter of total exports and is the single-largest export commodity.
IMF Programme Reviews	IMF website	Important signposts for policy formation, implementation and relations with international donors.
Bank of Tanzania Monthly Economic Review	Report has a one-month lag	The country's major statistical releases, including inflation, the external sector, FX reserves, fiscal policy, debt indicators and monetary aggregates, are published monthly. Commentary on the FX and fixed income market is also included.
Inflation	Typically published on the 8th day of the month.	Inflation remains the primary focus of the BoT and should help to drive local interest rates over the medium term.
BoT bi-annual Monetary Policy Statement	Bank of Tanzania	The BoT governor's report on the outlook for monetary policy over the coming 12 months is presented to the parliament twice a year.
Official reserves	Available in Monthly Economic Review	Changes in FX reserves indicate how significantly the BoT is intervening in the currency market, while the absolute level of reserves aids Tanzania's resilience to external shocks.
Annual national budget	Once a year in early June, in sync with other east African markets	The budget speech contains details of the past year's budget performance (revenue growth and access to bilateral aid are key elements), along with projections for the coming fiscal year. This affects local market financing needs and shapes investor sentiment.
Bilateral donor negotiations		Tanzania received substantial debt relief under the HIPC and MDRI programmes, and from multilateral and bilateral creditors.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
Real GDP (% y/y)	7.9	5.1	7.3	7.0	6.6	6.5	7.3
GDP (USD bn)	33.6	38.8	44.3	48.0	43.7	43.2	44.8
CPI (pavg, % y/y)	12.7	16.0	7.9	6.1	5.6	7.0	7.7
Fiscal balance (% GDP, incl grants)[1]	-3.6	-4.1	-3.9	-3.2	-3.8	-3.9	-3.6
Revenue and grants (% GDP)[1]	15.6	15.7	15.5	14.9	15.3	16.0	15.9
Expenditure (% GDP)[1]	19.1	19.8	19.4	18.0	19.1	19.9	19.5
Public debt (% GDP)[1]	28.3	29.5	32.6	31.8	34.2	42.6	45.0
Current account balance (% GDP)	-13.1	-9.7	-11.3	-10.5	-9.3	-8.1	-10.8
Trade balance (% GDP)	-14.1	-11.4	-13.0	-11.7	-11.1	-9.6	-12.5
Discount rate (%, eop)	12.00	12.00	16.00	16.00	16.00	16.00	15.00
USD/TZS (pavg)	1,572	1,583	1,600	1,654	2,038	2,357	2,612
Gold (USD/oz)	1,571	1,668	1,412	1,266	1,160	1,054	…
Gross official reserves (USD mn, eop)	3.7	4.1	4.7	4.4	3.9	4.5	…
Months of imports	3.7	3.9	4.2	3.6	3.6	4.4	…

Note: 1) Fiscal year-ending June. Fiscal ratios based on the old GDP. Source: NBS, BoT, IMF, MoF, IHS-Global Insight, Barclays Research

Foreign trade flows*

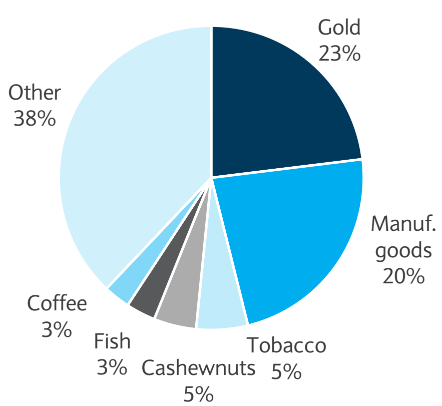
- **Gold's share in the value of total exports has declined steadily in recent years, from 44% in 2011 to an estimated 23% in 2015. This was due to lower prices and production as well as strong growth in other export groups.**
- **Lower global oil prices contain the rise in the import bill despite firm capital imports.**

Foreign trade flows

Exports			Imports		
Top product groups	USD bn	% y/y	Top product groups	USD bn	% y/y
Minerals	1.4	-8.3	Oil imports	2.9	-23.0
o.w. Gold	1.3	-6.8	Consumer goods	2.5	-5.4
Manufactured goods	1.3	8.0	Machinery	1.9	56.2
Traditional Exports	0.8	9.0	Transport equipment	1.2	-5.5
Fish and fish products	0.2	-5.7	Building material	0.9	-8.0

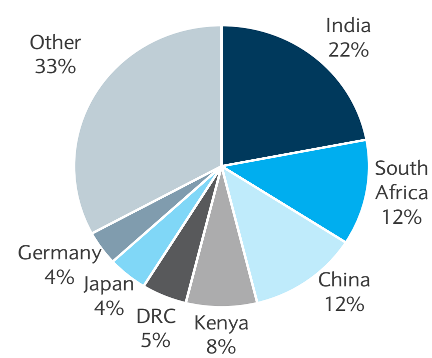
Note: * Traditional exports include cotton, coffee, tobacco and other agricultural commodities. 12 months to October 2015. Source: BoT, Barclays Research

FIGURE 5
Main export groups



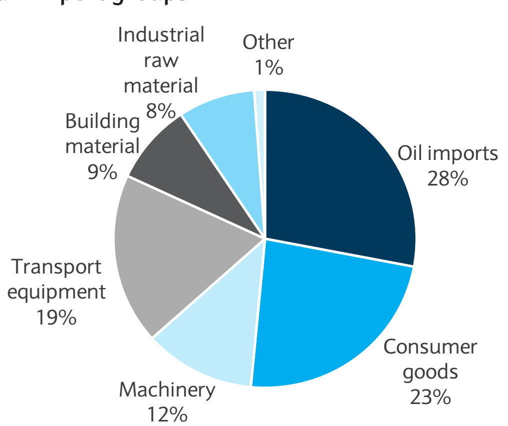
Source: BoT, NBS, Barclays Research

FIGURE 6
Main export destinations



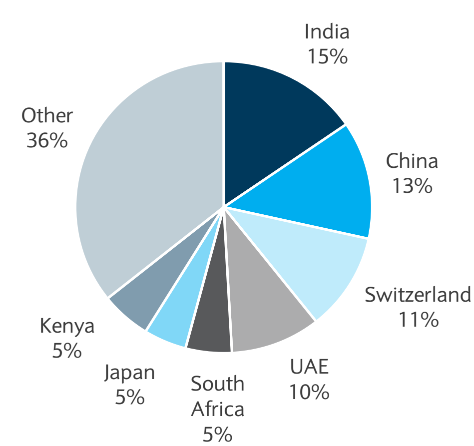
Note: 2014. Source: BoT, NBS, Barclays Research

FIGURE 7
Main import groups



Source: BoT, NBS, Barclays Research

FIGURE 8
Main origins of imports



Note: 2014. Source: BoT, NBS, Barclays Research

FX markets

Overview	While the shilling has been allowed to float freely consequent to the relaxation of exchange controls, documentary support is required for certain transactions involving offshore counterparts. This is mainly for substantial amounts of foreign currency remitted out of the country. The capital account remains subject to exchange controls.
Market access/convertibility	Subject to appropriate documentation being furnished for commercial transactions, the FX market is readily accessible. Under the relaxed exchange control environment, commercial banks are expected to ensure required documentation is obtained in support of a foreign exchange transaction. Convertibility on the capital account remains restricted.
Tax regime	Foreign exchange gains and losses, whether unrealised or realised, are included in taxable income and taxed at the applicable corporate tax rate.
Coverage centre	Research in South Africa

Security	Liquidity	Bid/offer spread	Tenor/maturity	Quotation	Reuters page	Additional information
Spot	Liquid		T+2	T+2	TZS1=	
Synthetic forwards	Illiquid	Subject to interest rates	Typically 12 months or less	Per terms of the trade		Synthetic foreign exchange swaps are also available.

Source: Barclays Research

Rates products

Overview	Limited number of products and not available to non-resident participation.
Market access/convertibility	Offshore investors are not allowed to participate in government securities, though authorities are looking to relax this restriction.
Tax regime	Interest earned on term deposits is subject to a 10% withholding tax. Investments in treasury bills and government bonds with tenors exceeding five years are exempt from the withholding tax.

Security	Liquidity	Tenor/maturity	Quotation/ settlement	Reuters page	Additional information
Cash deposits	Liquid	12 months	T+0		
Treasury bills	Relatively liquid	1,3, 6 & 12 months	T+1		Sold in the primary market at fortnightly auctions, which typically have all the tenors. Not open to offshore investors.
Government bonds	Illiquid	2, 5, 7,10 &15 years	T+1		Sold at fortnightly auctions and listed on the Dar es Salaam Stock Exchange. Not open to offshore investors.

Source: Barclays Research

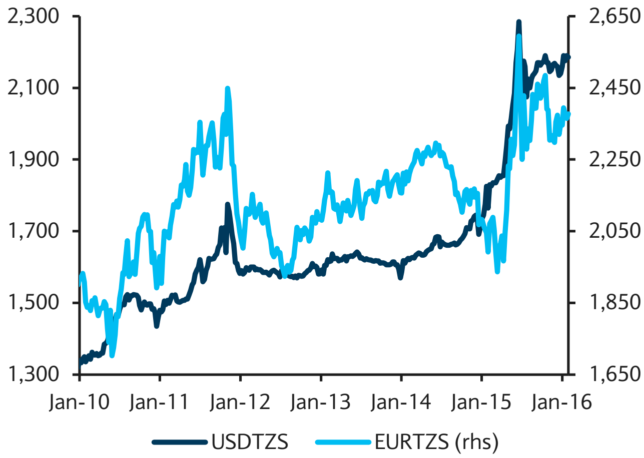
Equity market snapshot

Market size	The market capitalisation of the Dar es Salaam Stock Exchange (DSE) was USD9.2bn (including dual-listed stocks) as at end-January 2016.
Main indicator	The DSE All Share Index (DSEI) is the key indicator, while the Tanzania Share Index (TSI) tracks the performance of local companies.
Listed companies	22 companies are listed on the DSE.
Top listed companies	Tanzania Breweries; National Microfinance Bank; Tanzania Cigarette Company; and CRDB Bank (excluding cross-listed companies which include East African Breweries and Kenya Commercial Bank).
Taxation	5% withholding tax on dividends.

Source: Dar es Salaam Stock Exchange, Barclays Research

FIGURE 9

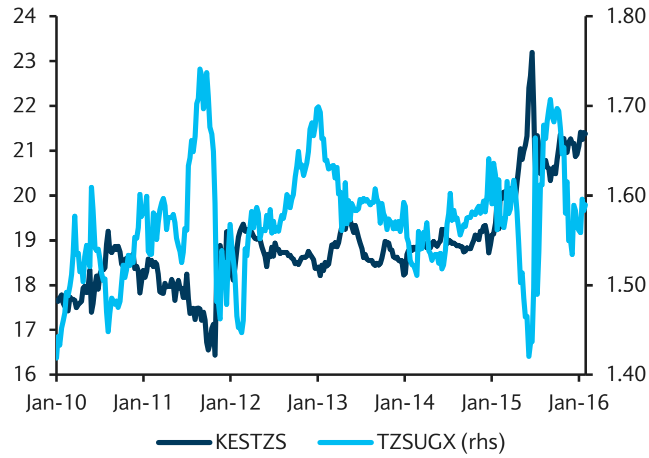
Tanzania: Shilling global cross-rates



Source: Reuters, Barclays Research

FIGURE 10

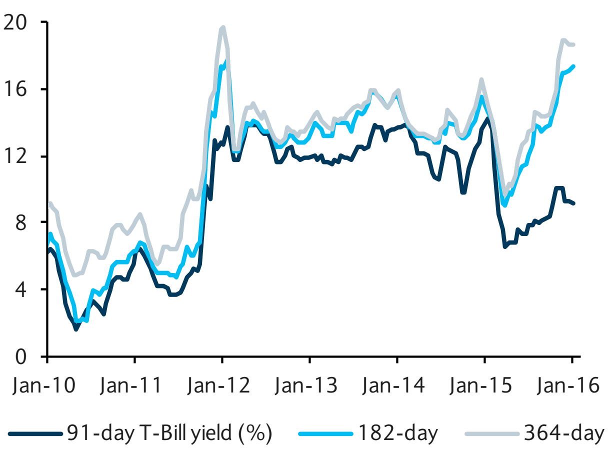
Tanzania: Shilling regional cross-rates



Source: Reuters, Barclays Research

FIGURE 11

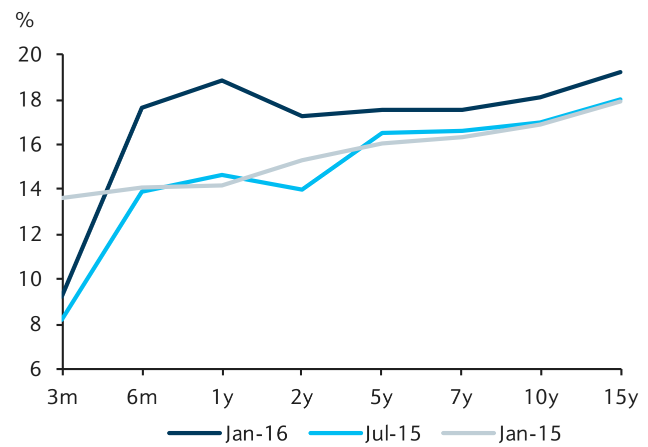
Tanzania: Short-term interest rates



Source: BoT, Barclays Research

FIGURE 12

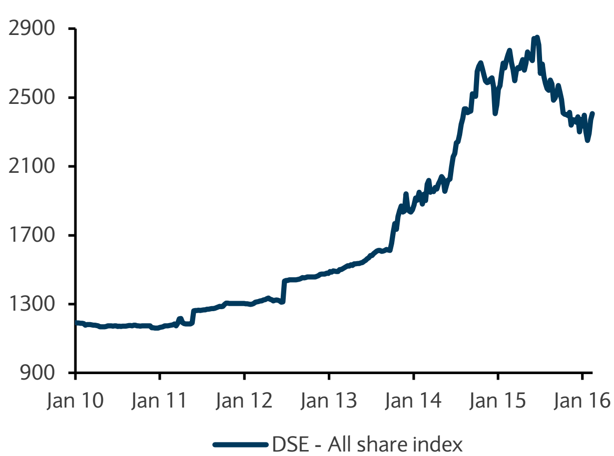
Tanzania: Yield curve



Source: BoT, Barclays Research

FIGURE 13

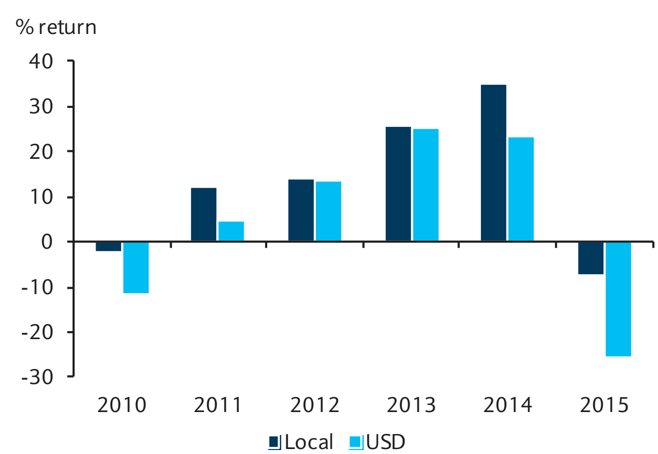
DSEI performance



Source: Reuters, Barclays Research

FIGURE 14

DSEI return



Source: Reuters, Barclays Research

External credit snapshot

Overview	Tanzania currently has one trading international bond: the USD600mn 2020 that was issued in 2013 as a private placement.
Credit rating	Tanzania is not currently rated by any of the major sovereign rating agencies.
Coverage centre	Research in South Africa and London.

Issuer	Maturity	Announced	Amount	Coupon	Series	Additional information
United Republic of Tanzania	9 Mar 2020	27 Feb 2013	USD600mn	US /Libor +600bp S/A	REGS/144A	

Source: Bloomberg, Barclays Research

FIGURE 15
Tanzania: Eurobond performance

Source: Bloomberg, Barclays Research

Useful links

Barclays Research:	https://live.barcap.com
Bank of Tanzania:	www.bot-tz.org
Ministry of Finance:	www.mof.go.tz
Dar es Salaam Stock Exchange:	www.dse.co.tz
International Monetary Fund:	http://www.imf.org/external/country/TZA/index.htm

UGANDA

Credit rating	
Long-term foreign currency rating	B+ (Fitch) B (S&P) B1 (Moody's)

Source: Bloomberg

Policy environment

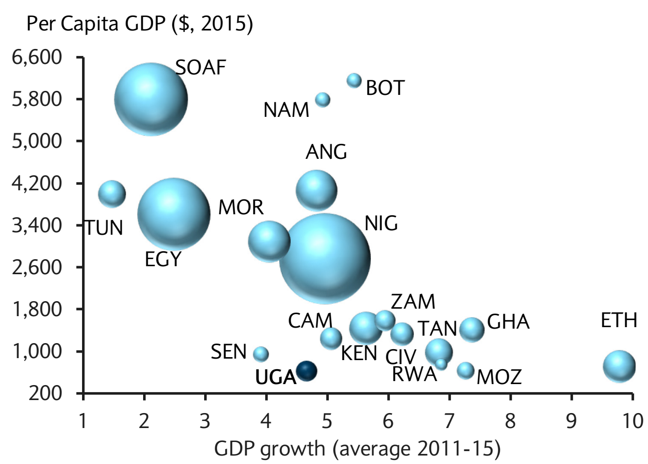
- **The economic outlook faces risks from a weak external environment and tighter monetary policy. On our estimates, real GDP growth may ease to below 5% in 2016.**
- **The political landscape appears increasingly competitive, but the ruling NRM is widely expected to retain power after the February elections.**

Monetary policy: The Bank of Uganda's (BoU) primary policy objective is to hold annual core inflation to its medium term target of 5%. The Bank has a secondary policy objective of ensuring that real output is "as close as possible" to the economy's potential level (BoU). The Bank's current inflation targeting lite (ITL) regime was introduced in July 2011 when it moved from a monetary targeting framework. Under the ITL framework, the Bank's Monetary Policy Committee sets the central bank rate (CBR, the policy rate) at a level which is consistent with achieving its policy objectives. The committee typically meets every two months but it retains the right to adjust the policy rate outside the pre-determined schedule if circumstances warrant. A statement is issued after each rate-setting meeting and a press briefing is held. In addition to setting to CBR, the BoU uses open market operations to ensure that the 7-day interbank rate is close to the CBR. Against the backdrop of rising inflation and increased risks to the outlook, the BoU increased the CBR by a cumulative 600bp in 2015. Following significant tightening, the BoU kept the policy rate unchanged at 17.00% at its final meeting in 2015, as the inflation outlook improved and FX pressures eased. After core inflation rose through 2015 to 7.4% y/y in December (end-2014: 2.7%), the Bank noted at is most recent sitting (February 2016) that it could peak at about 6-8% in Q2 2016, before easing to the medium-term target in 2017. The introduction of a new CPI in the January 2016 data carries some implications for the inflation outlook, though food remains dominant in the basket with a weight of 28.4%. In our view, the BoU is likely to maintain a tight stance through H1, notwithstanding increased uncertainties on the evolution of inflation after the introduction of a revised CPI.

Exchange rate policy: Uganda has a managed floating exchange rate regime and the BoU intervenes intermittently to smooth any exchange rate volatility it deems as excessive. The shilling weakened 17.8% y/y in 2015, although it closed the year stronger than its Q3 lows. Beyond the upcoming elections, we expect the shilling to remain on a weakening trend in

FIGURE 1

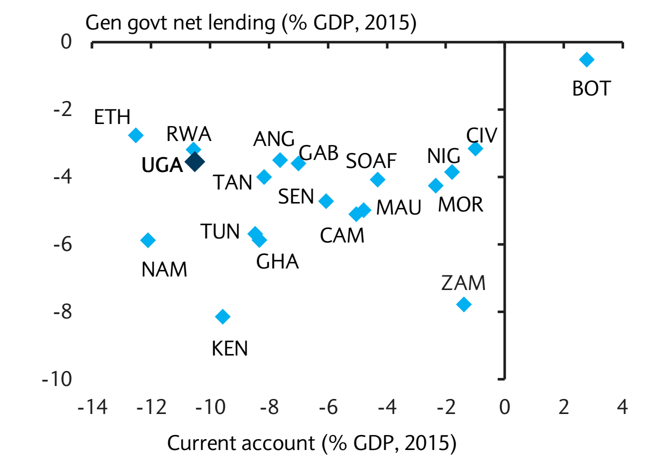
Uganda: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2

Uganda: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

2016 as the still wide current account deficit and anticipated renewed USD strength weigh. Support for the UGX should stem from a sustained tight monetary policy environment and intermittent intervention by the BoU. With limited intervention, the BoU's FX reserves stabilised at around USD2.8bn in H2 15, covering around four months of imports.

Fiscal policy: The budget strategy is guided by Vision 2040 targets and the current National Development Plan (NDPII). The budget is prepared under a medium-term framework and delivered in early June. Guiding principles for the FY 2016-17 (June 2016 – July 2017) fiscal strategy include economic growth of at least 7% per annum, single-digit annual inflation and ensuring sustainability of public debt (currently at about 35% of GDP). Authorities aim to boost tax revenue collection (which is weak by regional standards) while the budget is significantly dependent on grants (at about 1.2% of GDP in FY 2014-15). Fiscal policy is further anchored under a three-year Policy Support Instrument (PSI) program with the IMF. Against an initial target of 7.0% of GDP, the government has reduced the budget deficit target for the current fiscal year to 6.5% of GDP, through expenditure cuts. Though the FY 2016-17 budget is under preparation, the current framework tables fiscal consolidation over the medium term.

Regulatory and tax environment: There is a withholding tax of 20% levied on proceeds from investments in fixed deposits and government securities, falling to 15% for dividends received from equities. Repatriation of foreign currency by offshore counterparties does not attract any tax charges.

Political environment: Presidential and parliamentary elections are due to take place on 18 February 2016. With its long-standing dominance of domestic politics, the ruling NRM party is widely expected to remain in power. Benefiting from powers of incumbency, Museveni won the 2011 elections with close to 70% of the votes, while the NRM retained an overwhelming majority in parliament. The forthcoming elections appear likely to be more competitive than those observed in the recent past, though the opposition remains divided. Plans for an opposition coalition (the TDA) disintegrated last year as participant parties failed to agree on a presidential flag-bearer. Key contenders to Museveni will be the FDC's Besigye, who lost to Museveni in the last three elections, and former Prime Minister (2011-2014) Mbabazi, who will be running as an independent candidate. Both main opposition contenders were close allies of Museveni. In the event that no contender obtains more than 50% of the votes, the constitution requires that a run-off poll be held between the top two candidates within 30 days of results being declared. While the ruling NRM party is largely expected to retain its parliamentary majority, developments in the pre and post-election environment are likely to be critical. Incidents of sporadic violence and allegations of vote buying were reported in prior polls which remain a risk in the upcoming polls. To strengthen the integrity of the electoral process, the Electoral Commission will use a biometric system to verify voters in the elections though there may be logistical challenges.

Development framework: Uganda's strategic development plan, Vision 2040, aims to make the country prosperous within the next 25 years. Towards achieving the Vision 2040 goals, the country produces five-year National Development Plans (NDPs). The second NDP was launched in June 2015, covering the fiscal years 2015-16 to 2019-20. The goal of NDPII is to "*propel the country towards middle income status by 2020 through strengthening its competitiveness for sustainable wealth creation, employment and inclusive growth*". The plan prioritises investment in agriculture, tourism, minerals, oil and gas, infrastructure and human capital development. The effective implementation of this plan is expected to lead to an average growth rate of 6.3% and per capita income of USD 1,039 by 2020 (NPA). Uganda's significant oil reserves (estimated at 6.5 billion barrels currently) boost economic prospects though commercialisation of the sector is only expected in the long term.

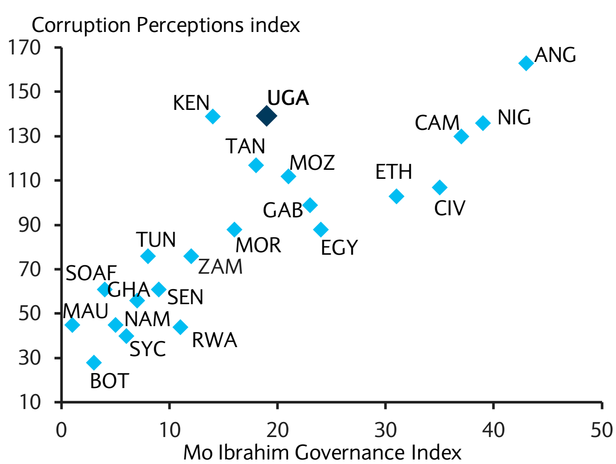
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Yoweri Museveni (since January 1986)
Ruling political party	National Resistance Movement (NRM)
Main opposition party	Forum for Democratic Change (FDC). Ahead of the 2011 elections, four parties formed a coalition, the Inter-Party Cooperation, with FDC president Kizza Besigye as its leader.
Elections	President Museveni of the NRM won 68.3% of the votes in the 2011 elections. Elections take place every five years. The next elections are due on 18 February 2016 (parliamentary and presidential).
Demographics	
Population	39.0mn (2015E), 3.3% growth rate (UN)
Life expectancy	61 years
Main ethnic groups	Baganda (16.9%), Banyankole (9.5%), Basoga (8.4%), Bakiga (6.9%)
Main language	English (Official), Luganda, Swahili
Adult literacy	73.2%
Urban population	16%
Economic structure	
GDP	USD24.3bn (2015E), USD27.3bn (2014); 6.5% average real growth rate for 2006-2015
GDP per capita (USD)	USD625 (2015E); USD713 (2014)
GDP by sector	Agriculture (23%), Industry (22%), Services (47%).
Main industries	Processing (agricultural products), textiles, cement production, steel production
Business development indicators	
2015 Corruption Perceptions Index ranking	139 (out of 168)
2015-16 Global Competitiveness Index ranking	115 (out of 144)
2015 Ease of Doing Business ranking	122 (out of 189)
2014 Human Development Index ranking	163 (out of 188)
2015 Mo Ibrahim Index of African Governance	19 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, Official offices, Barclays Research

FIGURE 3

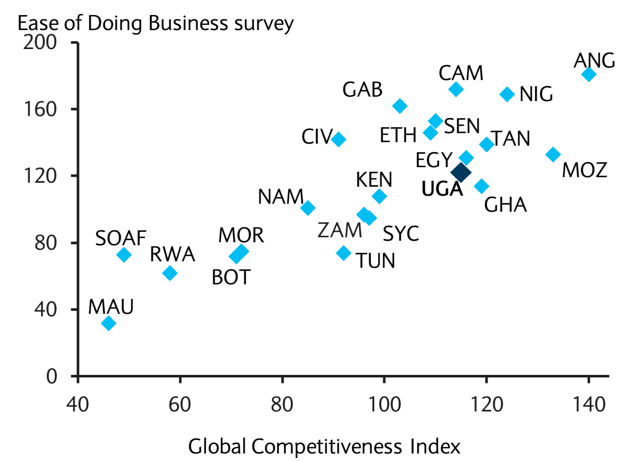
Uganda: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015, Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Uganda: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **Development of the nascent oil sector remains a long-term prospect.**
- **Above-target inflation suggests that monetary policy is likely to remain tight through H1 2016.**

Key indicators to watch

Indicator	Data availability	Rationale
IMF programme/aid flows	IMF, World Bank, Ministry of Finance	IMF programme triggers donor support. Evolution of aid flows affects the exchange rate and the level of international reserves.
Reserves	Published monthly by the BoU	Closely associated with aid flows and also reflects the pressures on the exchange rate.
Headline and core inflation	Published by the bureau of statistics, typically at the last working day of the month.	The BoU targets medium-term core inflation of 5%. A new CPI was introduced in February 2016, showing core inflation of 7.1% y/y for January.
Monetary Policy Statements	Issued bi-monthly by the BoU.	Contains signals of the BoU's expected future path of inflation and hence the prospective monetary policy stance.
Coffee harvests/prices	Uganda Coffee Development Authority, Bloomberg, Reuters	Coffee is the largest single export product (with an approximate 15% share of total exports). Thus, the level of coffee harvests and prices have significant implications for the country's current account and the level of economic activity.

Source: Barclays Research

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	8.3	3.0	3.8	4.9	5.9	4.7	6.2
Nominal GDP (USD bn)	21.8	24.6	25.5	27.3	24.3	23.9	24.7
CPI (avg, % y/y) [1]	18.7	14.0	5.5	4.3	5.2	7.2	7.5
Fiscal balance (% GDP)*	-3.6	-2.5	-3.5	-3.9	-4.5	-7.0	-6.9
Revenue and grants (% GDP)*	15.5	13.1	13.0	13.0	14.1	15.1	15.1
Expenditure (% GDP)*	19.1	15.6	16.5	16.9	18.6	22.1	22.0
Public debt (% GDP)*	21.5	23.9	26.1	28.4	29.7	38.2	42.5
Current account balance (% GDP)	-9.6	-6.8	-7.1	-9.6	-8.6	-8.5	-10.2
Trade balance (% GDP)	-11.3	-9.9	-8.4	-8.6	-9.0	-9.5	-10.6
USD/UGX (pavg)	2,523	2,505	2,587	2,600	3,241	3,693	4,072
Central bank rate (%, eop)	23.00	12.00	11.50	11.00	17.00	18.00	15.00
Bank rate (%, eop)	29.00	17.00	15.50	15.00	22.00	23.00	20.00
Official reserves (USD bn)	2.4	3.0	3.1	3.2	2.9	2.8	…
Months of imports	3.9	4.6	4.9	5.0	4.4	4.1	…

Note*: Fiscal year-ending 30 June.[1]: New CPI from 2016 onwards. Source: BoU, IMF, UBoS, MoFPED, Barclays Research

Foreign trade flows*

- **Lower global oil prices are putting a lid on the growth of the import bill. Fuel accounts for about a quarter of imports.**
- **Intra-regional trade is strong with more than half of domestic exports going to neighbouring countries.**

Exports

Top product groups	USD mn	% y/y
Coffee	407	-4.2
Non-coffee formal exports	1,903	-4.0
Informal exports	415	-1.6

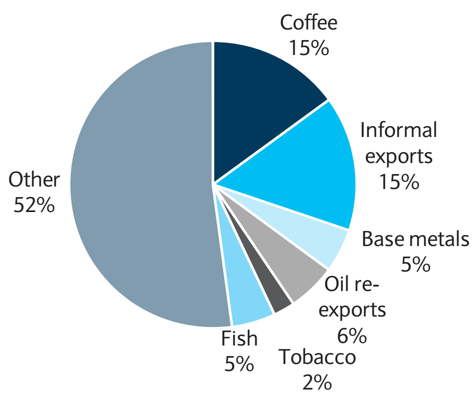
Note: 2014*. Source: BoU, Barclays Research

Imports

Top product groups	USD mn	% y/y
Machinery, vehicles & accessories	1,183	4
Petroleum products	1,105	9
Veg products, animal, beverages, fats & oil	453	20
Chemical & related products	477	-6

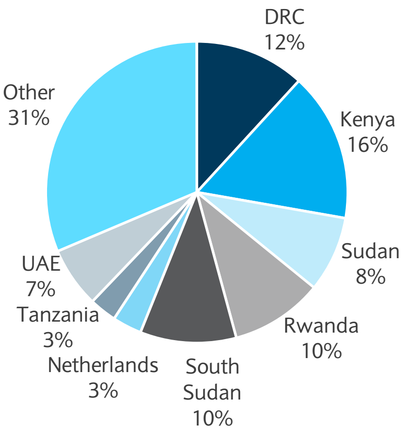
Source: BoU, Barclays Research

FIGURE 5
Main export groups



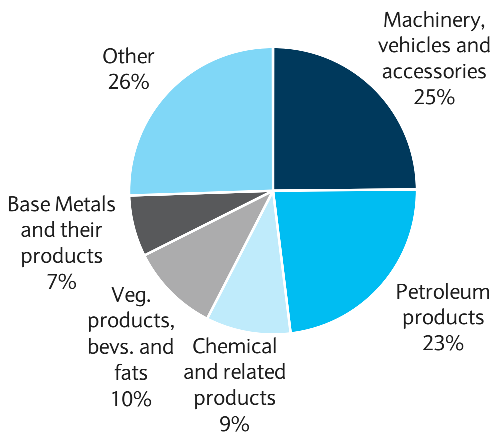
Source: BoU, Barclays Research

FIGURE 6
Main export destinations



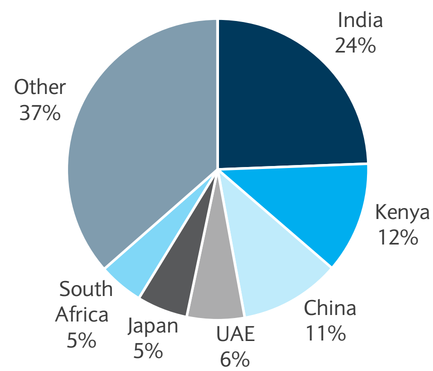
Source: BoU, Barclays Research

FIGURE 7
Main import groups



Source: BoU, Barclays Research

FIGURE 8
Main origins of imports



Source: BoU, Barclays Research

FX markets

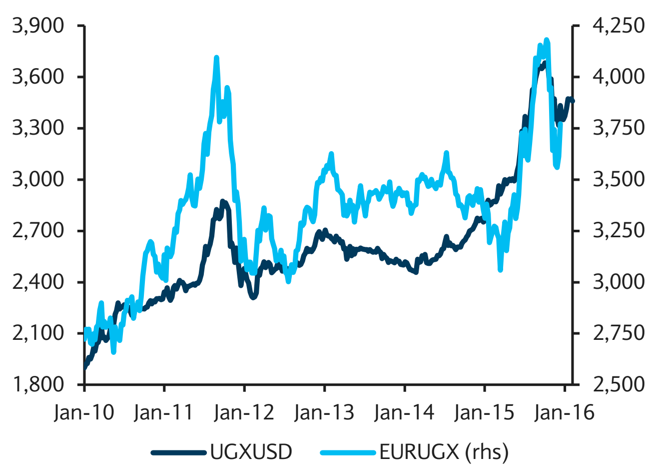
Overview	The major currency pair traded is the dollar/shilling. The rates are driven by supply and demand in the market. The central bank intervenes in the currency market if there are big swings, on either the buying or selling side.
Market access/convertibility	Foreigners can freely transact in the USD/UGX
Tax regime	Returns on foreign exchange are not subjected to any tax
Coverage centre	Research in South Africa

Security	Liquidity	Tenor/Maturity	Quotation	Reuters page	Additional information
Spot	Liquid		T+2	UGX1=	Mainly quoted as USD/UGX.
Forwards	Fairly liquid	Up to 12 months	Points T+2	ABAF02	Forward market is fairly liquid, market players can quote prices for up to USD5mn.
Swaps	Fairly liquid	Up to 12 months	T+2	ABAF04	Mainly quoted for USD/UGX

Note: There are no markets for options or exotic derivatives. Source: Barclays Bank Uganda, Barclays Research

FIGURE 9

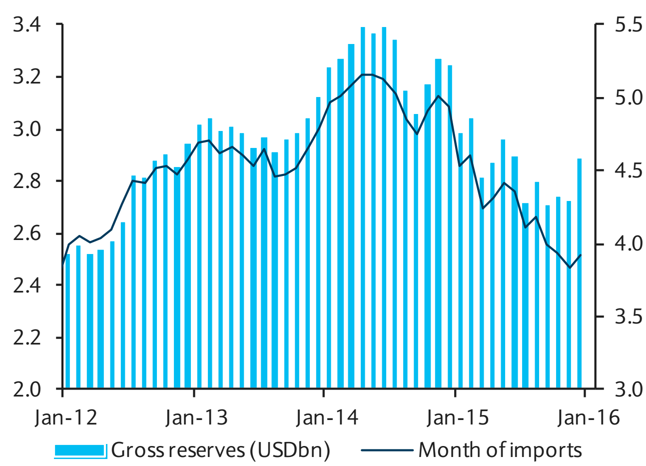
Uganda: Shilling cross-rates



Source: Reuters, Barclays Research

FIGURE 10

Uganda: Developments in FX reserves



Source: BoU, Barclays Research

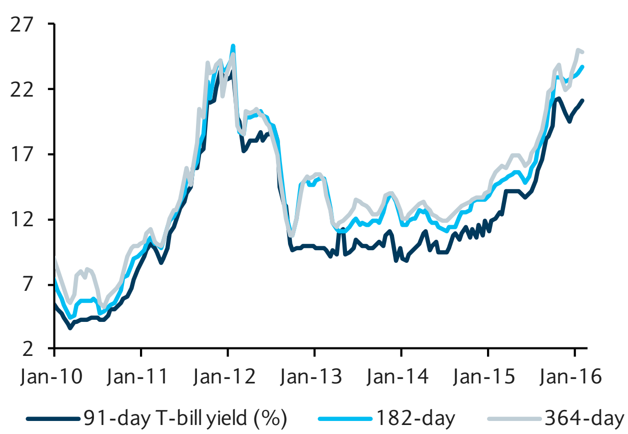
Rates products

Overview	The interest rate market comprises time deposits, government treasury bills and bonds, repos and corporate bonds. There are currently six banks that are primary dealers in the Ugandan market. All the non-primary dealer banks, institutions and individual customers have access to the auction through the primary dealers. Bank of Uganda, depending on its monetary targets, issues vertical repos and reverse repos with tenors ranging from overnight to two weeks; these would be priced off the central bank reference rate (CBR), which is advised in the central bank's Monetary Policy Statement. Primary dealers have exclusive access to the repo auctions. The Electronic CSD system for submitting and settling bids for government securities went live in 2013.
Market access/ convertibility	Treasury bonds are listed on the Uganda Securities Exchange (USE). The secondary market is not very active as most investors hold to maturity, but primary dealers are market makers and can trade on any of the bonds in the secondary market.
Tax regime	There is a withholding tax of 20% applied to dividends and interest received from proceeds of treasury bills and bonds. All deposits in both local and foreign currency attract a reserve requirement of 8%.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/Maturity	Quotation/ Settlement	Reuters Page	Additional information
Time deposits	Over the counter	O/N to 1 year			
Treasury bills (BoU)	Liquid	91 days 182 days 364 days	T+1	BOUG02	Treasury bill auctions are held by the central bank fortnightly
Treasury bonds	Limited liquidity but primary dealers obligated to make a market	2y 3y 5y 10y, 15y	Trades in yield T+1	BOUG08	Treasury bond auctions are held once every 28 days

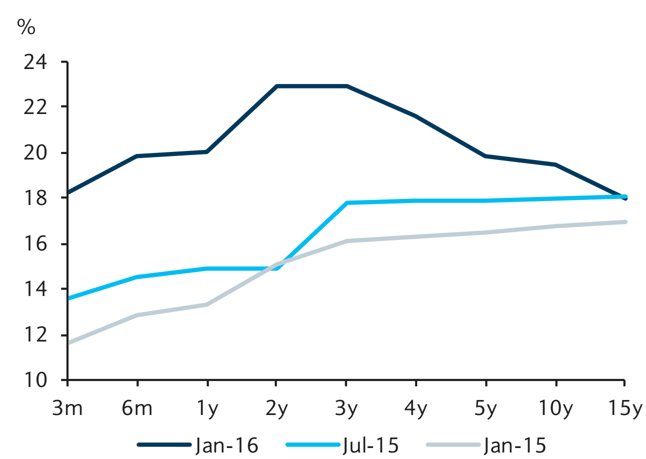
Source: Barclays Bank Uganda, Barclays Research

FIGURE 11
Uganda: Short-term interest rates



Source: BoU, Barclays Research

FIGURE 12
Uganda: Yield curve



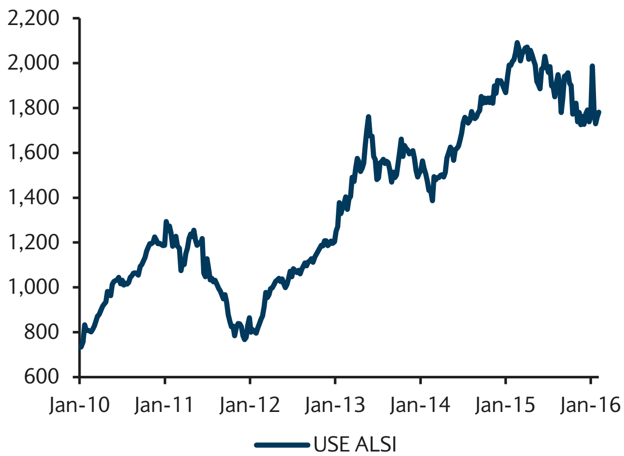
Source: BoU, Reuters, Barclays Research

Equity market snapshot

Market size	The market capitalisation of the Uganda Securities Exchange (USE) was USD6.9bn as of end-January 2016 (including cross-listings).
Main indicator	All Share Index (ALSI). The USE LCI tracks the performance of domestic companies.
Listed companies	There are 16 companies listed on the exchange.
Top 5 listed companies	East African Breweries; Equity Bank; KCB; Nation Media Group; Stanbic Bank Uganda. This list includes dual-listed entities.
Taxation	15% withholding tax on dividends.
Foreign ownership limits	None

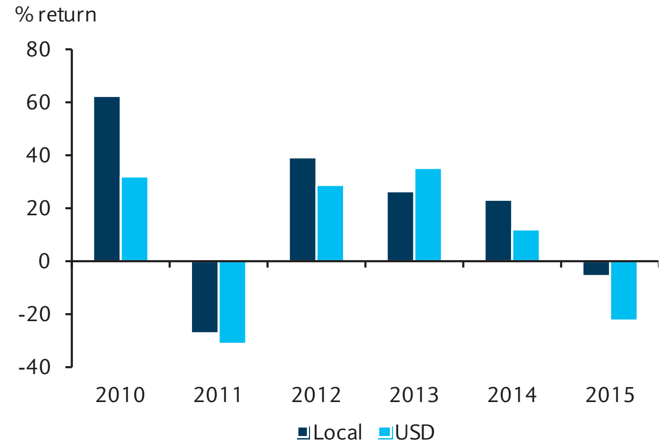
Source Uganda Securities Exchange, Barclays Research

FIGURE 13
USE ALSI



Source: Reuters

FIGURE 14
USE ALSI historical returns



Source: Reuters, Barclays Research

Useful links

Barclays Research:	https://live.barcap.com
Bank of Uganda:	www.bou.or.ug
Uganda Bureau of Statistics:	www.ubos.org
Ministry of Finance, Planning and Economic Development:	www.finance.go.ug
Uganda Securities Exchange:	www.use.or.ug
International Monetary Fund:	http://www.imf.org/external/country/UGA/index.htm

ZAMBIA

Credit rating	
Long-term foreign currency rating	B (Fitch) B (S&P) B2 (Moody's)

Source: Bloomberg

Policy environment

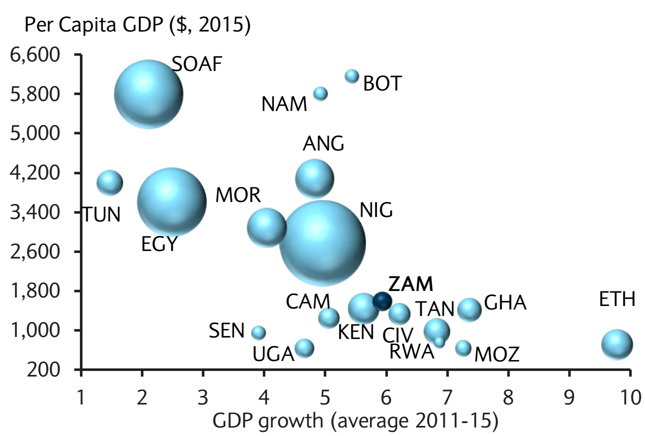
- **Zambia's economic challenges have intensified largely as a result of the negative impact of lower copper prices and electricity shortages.**
- **Several mines have closed, albeit temporarily, which suggest further pressure on the country's fiscal and external balances in 2016.**

Monetary policy: The Bank of Zambia's (BoZ) core objectives are to maintain single-digit inflation and financial stability. The BoZ adopted an inflation-targeting framework in April 2012 and alters its inflation target annually. The inflation target was raised marginally for end-2016 to a maximum of 7.7% y/y from 7% at the end of 2015. Following the sharp depreciation of the exchange rate in 2015 and the impact of the drought, headline inflation accelerated from 7.7% y/y in September 2015 to a year-end rate of 21.8%. While the increase was broad based, food prices, in particular, surged (food component contributes 53.5% to total basket) in Q4 15. Electricity prices were also raised sharply in December 2015, though President Lungu suspended the increases in January 2016. Nonetheless, prices are still set to rise as the President instructed the implementation of "cost-reflective tariffs systematically in due course". The risk of higher utility and food prices, the latter resulting from drought and a further weakening in the exchange rate, pose considerable upside threat to the inflation outlook. We expect headline inflation to rise to around 25% by mid-year before easing into the end of 2016. The worsening inflation conditions have resulted in a 300bp increase in the benchmark policy rate in 2015 while the statutory reserve ratio was also increased by 400bp in April. The MPC expressed concern about the inflation outlook at its November 2015 meeting when it hiked the policy rate 300pb and we anticipate further policy rate increases in 2016.

Exchange rate policy: The BoZ operates a floating exchange regime. Monetary authorities introduced a rebased currency on 1 January 2013 (ZMW) as three zeroes were removed from notes with a value of ZMK1000 and above. With economic conditions deteriorating sharply on the back of significantly weaker copper prices, the exchange rate came under severe pressure in 2015. Following a series of announcements of mining closures and Moody's decision to downgrade Zambia in late September, the kwacha depreciated sharply in response, falling by as much as 18% in one day at the end of September 2015. After reaching an all-time low of 14,25/USD in October 2015, direct central bank intervention and

FIGURE 1

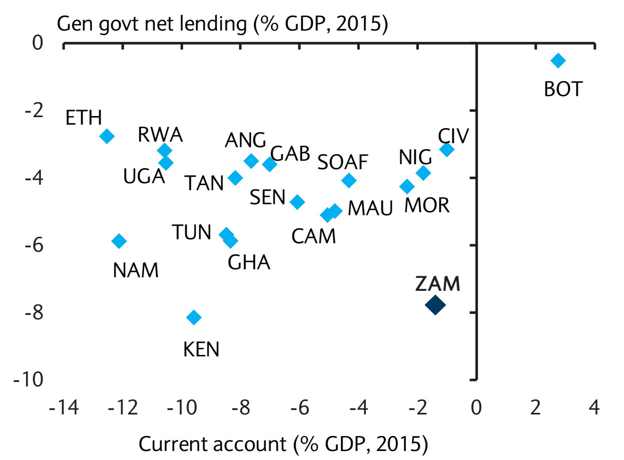
Zambia: GDP measures in a regional context



Source: IMF WEO (October 2015), Barclays Research

FIGURE 2

Zambia: Fiscal and current accounts in a regional context



Source: IMF WEO (October 2015), Barclays Research

efforts to reduce liquidity saw the kwacha recover into Q4 15. Nonetheless, the currency recorded an overall depreciation for the year of 42% against the USD. Continuing economic challenges, which include further likely closures of mines amid sustained low copper prices, a large fiscal deficit, severe electricity shortages and the impact of the drought, suggest that the bearish sentiment towards the kwacha is likely to hold throughout 2016, in our view.

Fiscal policy: Zambia's fiscal situation remains precarious following several years of slippages as a result of a sharp increase in public sector wages, higher interest costs and overruns in subsidy spending. Fiscal authorities expected a deficit of 6.9% of GDP in 2015, which was well above the budgeted 4.6%. For 2016, the government hopes to reduce the deficit to 3.8% of GDP and assumes economic growth of 5.0%. However, this appears ambitious to us in the current economic environment with growth likely to be well below the government projection. We expect economic growth of 2.7% for 2016 as a result of expected further closures of mines, a weaker agriculture sector and ongoing electricity shortages. This suggests downside risk to fiscal revenues even as President Lungu took steps in late 2015 to aggressively cut spending. While the government expressed its commitment to maintaining public debt within sustainable levels during the 2016 budget presentation, debt dynamics deteriorated markedly during 2015. Our calculations indicate that public debt may have reached 42.6% of GDP at the end of 2015, up from 34% at the end of 2014. Debt dynamics could worsen further in 2016 as a result of FX risk and additional borrowing and could move above 60% of GDP. Zambia issued a USD1.25bn Eurobond in July 2015, its third Eurobond since 2012.

Regulatory and tax environment: Most capital remittance by Zambian citizens, residents, and registered companies may be affected without restriction and without the approval of the BoZ. Foreign investors can repatriate all capital, profits and income freely. There is a withholding tax of 15% on the discount amount of treasury securities, while dividends on equity investments are subject to a 10% withholding tax. With regard to government bonds, there is a withholding tax on the coupon and a discount amount is payable at maturity of the bond. Advance clearance is required from the Zambian Revenue Authority to withhold tax at a reduced rate.

Political environment: Zambia has a stable democracy, having had several peaceful elections since becoming a multi-party democracy in 1991. After 20 years in power, the Movement for Multi-party Democracy (MMD) was ousted by the late President Sata and his party, the Patriotic Front (PF), during the September 2011 elections. Following the death of President Sata in October 2014, President Lungu narrowly won the presidential elections on 20 January 2015, beating the United Party for National Development's (UPND) candidate, Hakainde Hichilema. Lungu received 48.3% of the votes versus 46.7% for Hichilema. With the presidential and general elections scheduled for 11 August 2016, in line with constitutional requirements, Lungu looks set to once again contest the elections as the PF's candidate, with his main challenger being Hichilema (UPND). The elections come against the backdrop of an increasingly challenging economic environment amid rising cost of living, mine closures and large-scale unemployment and poverty.

Development framework: A clear, coherent policy framework is lacking and is weighing on the country's long-term outlook. The government has revised its Sixth National Development Plan (2011-15) though it was only released in October 2014. The document aims to lift the country to middle income status through an inclusive growth strategy, focusing on rural development and job creation. No IMF programme is in place despite economic challenges, though we expect discussions to be held after the August elections.

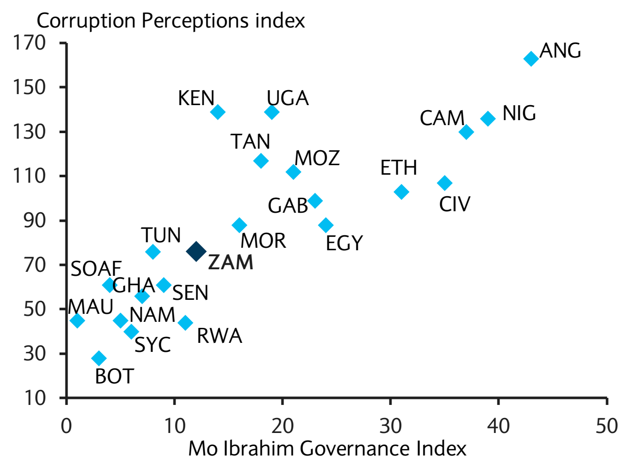
Country snapshot

Indicator	Latest
Government	
Government type	Republic
Head of state	President Edgar Lungu (since January 2015)
Ruling political party	Patriotic Front (PF)
Main opposition parties	United Party for National Development (UPND), Movement for Multi-party Democracy (MMD)
Elections	In the September 2011 national assembly elections, the ruling PF won 60 of the 150 elected seats. Following President Sata's death in October 2014, Edgar Lungu won the subsequent presidential elections held on 20 January 2015. With elections held every five years in accordance with the constitution, the next general elections are scheduled for 11 August 2016.
Demographics	
Population	16.2mn (2015E), 3.2% growth rate (UN)
Life expectancy	62.3 years
Main ethnic groups	More than 70 ethnic groups, including Bemba, Tonga, Chewa, Lozi
Main language	English (official) and more than 70 local languages including Bemba
Adult literacy	61.4%
Urban population	40%
Economic structure	
GDP	USD21bn (2015E); USD27bn (2014); 7.2% average real growth rate for 2006-2015
GDP per capita (USD)	USD1,576 (2015E); USD1,772 (2014)
GDP by sector	Primary (17%), Secondary (24%), Tertiary (56%)
Main industries	Mining, construction, transport, foodstuffs, chemicals and textiles
Business development indicators	
2015 Corruption Perceptions Index ranking	76 (out of 168)
2015-16 Global Competitiveness Index ranking	96 (out of 144)
2015 Ease of doing Business ranking	97 (out of 189)
2014 Human Development Index ranking	139 (out of 188)
2015 Mo Ibrahim Index of African Governance	12 (out of 54)

Source: IMF, World Bank, United Nations Statistics Division, CIA World Factbook, African Elections Database, Official offices, Barclays Research

FIGURE 3

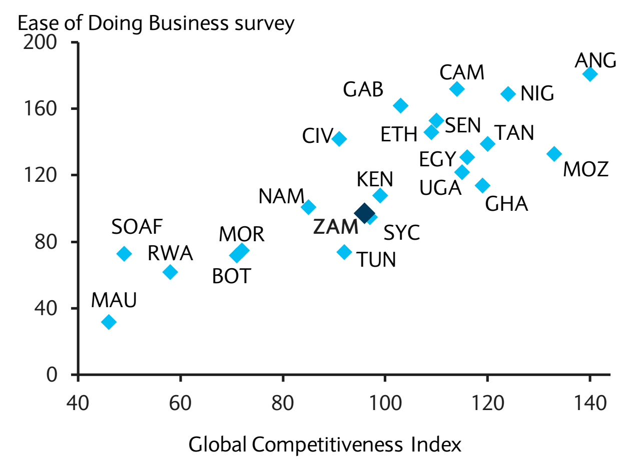
Zambia: Relative ranking in the Corruption Perceptions Index and Ibrahim Index of African Governance index.



Source: Mo Ibrahim Foundation Ibrahim Index of African Governance 2015 Transparency International Corruption Perceptions Index 2015, Barclays Research

FIGURE 4

Zambia: Relative ranking in Ease of Doing Business survey and the Global Competitiveness Report



Source: World Bank Ease of Doing Business 2015, World Economic Forum Global Competitiveness Report 2015-16, Barclays Research

Overview of key indicators

- **The sharp decline in copper prices is having a severe impact on the mining industry and external and fiscal balances. With several mines announcing temporary closures, copper production is likely to decline in 2016.**
- **The drought and weaker agriculture output means that food prices are under pressure while rising utility prices have also underpinned the acceleration in inflation.**

Key indicators to watch

Indicator	Data availability	Rationale
Copper prices/production	Company updates, Bank of Zambia	The country is vulnerable to changes in copper prices, with copper accounting for more than two thirds of exports. After the closure of several mines, copper production is likely to decline in 2016.
IMF Programme Reviews	IMF	Important signposts for policy formation, implementation and relations with international donors. The country currently does not have a programme with the IMF after the ending of the Extended Credit Facility programme in June 2011. Talks between authorities and the IMF regarding a new possible programme are ongoing.
Bank of Zambia Statistics Fortnightly	Published on the BoZ website	Source of data on FX, government securities as well as monetary and other indicators.
Trade balance	Available monthly from the Central Statistical Office	High dependence on copper products requires close focus on all copper-related indicators, as well as general trends in the trade balance. Import growth increasingly requires closer monitoring of links to agricultural sector performance and FDI into metals and mining.
Weather conditions		Strains on agricultural output from severe weather conditions have led to problems in controlling inflation and in higher-than-expected imports of food products.
Monetary Policy Statement	Bank of Zambia meets on a quarterly basis	Contains updates on macro data and gives indication on prospects for monetary policy.
Consumer Price Index	Monthly print released on the last Thursday of the month	Headline inflation reached 21.1% y/y at the end of 2015, well above the year-end target of 7.0%. The target for 2016 is a year-end rate of 7.7%.
National account data	Available annually with considerable lag	
Kariba dam level	Zambezi River Authority	Nearly half of all the country's hydro electricity capacity is generated at the Kariba dam. However, with the dam only 12% full at the end of January 2016, electricity generation has fallen to a quarter of normal output.

Source: Barclays Research, IMF

Key macro data

	2011	2012	2013	2014	2015F	2016F	2017F
GDP (real, % y/y)	6.3	6.7	6.7	4.9	3.4	2.8	5.8
Nominal GDP (USD bn)	23.7	24.9	26.8	27.0	21.1	15.7	20.2
Copper production (pavg, '000 tonnes)	668	698	755	708	712	…	…
Copper price (pavg, USD/ton)	8,813	7,948	7,326	6,865	5,512	4,350	…
CPI (pavg, % y/y)	8.7	6.6	7.0	7.8	10.1	21.4	11.0
Fiscal balance (% GDP)	-1.8	-2.9	-6.5	-6.1	-8.4	-6.3	-4.5
Revenue and grants (% GDP)	17.5	19.1	18.4	19.3	17.7	18.8	19.0
Expenditure (% GDP)	19.3	22.0	24.9	25.4	26.2	25.1	23.5
Public debt (% GDP)	20.6	25.5	28.7	34.0	42.6	61.8	54.1
Current account balance (% GDP)	3.0	4.7	-1.1	-1.6	-5.3	-8.8	-1.5
Trade balance (% GDP)	8.7	6.4	6.1	6.0	-0.7	-0.7	6.7
USD/ZMW (pavg)	4.86	5.15	5.40	6.15	8.64	12.73	11.28
BoZ rate (%, eop)	9.10	9.25	9.75	12.50	15.50	18.00	13.00
Official reserves (USD bn)	2.3	3.1	2.7	3.1	3.0	2.8	…
Months of imports	3.2	3.5	2.6	3.6	3.3	3.3	…

Source: BoZ, CSO, MoFNP, IMF, Barclays Research

Foreign trade flows*

- **After copper output was unchanged in 2015 from 2014; production is likely to decline in 2016 amid mine closures.**
- **Import growth is likely to be restricted by the lack of foreign exchange.**

Exports

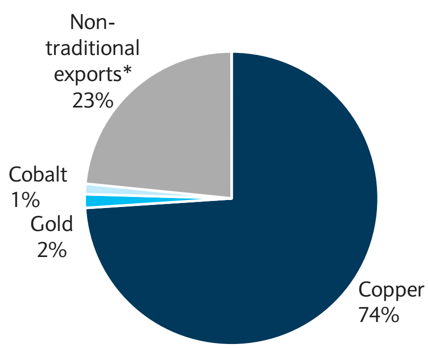
Top product groups	USD mn	% y/y
Copper	6,620	-8.7
Cobalt	100	-22.0
Non-traditional exports1	2,064	-28.7

Imports

Top product groups	USD mn	% y/y
Industrial boilers and equipment	1,407	-13.5
Petroleum products	1,334	5.4
Chemicals	831	-10.6
Vehicles	702	-8.3
Iron, steel & items thereof	656	-23.2

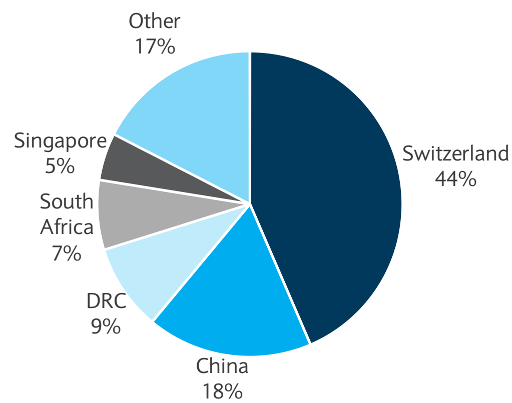
Note:*12 months to June 2015. [1]: Includes tobacco, sugar, gemstones, cement and other products. Source: BoZ, Barclays Research

FIGURE 5
Main export groups



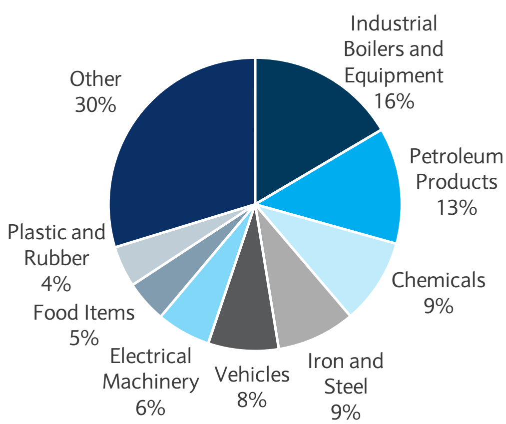
Note*: Includes tobacco, sugar, gemstones, cement and other products.
Source: BoZ, Barclays Research

FIGURE 6
Main export destinations



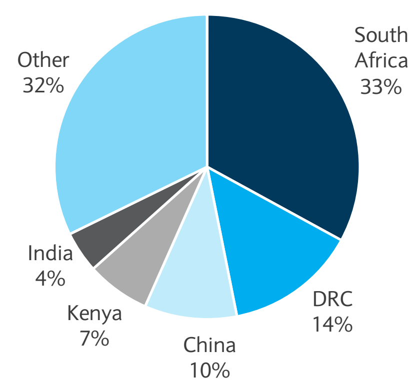
Source: BoZ, Barclays Research

FIGURE 7
Main import groups



Source: BoZ, Barclays Research

FIGURE 8
Main origins of imports



Source: BoZ, Barclays Research

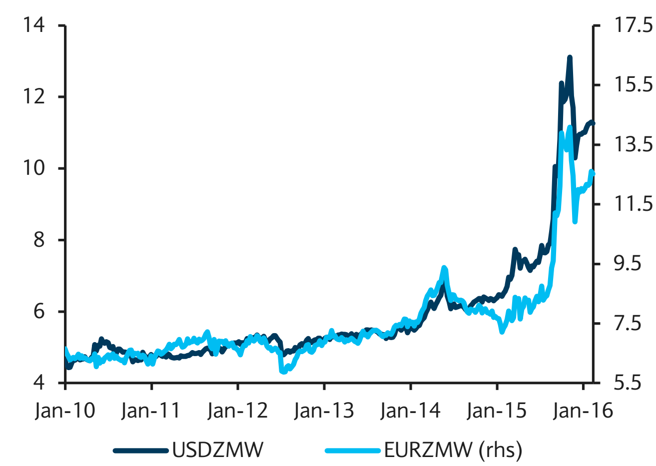
FX markets

Overview	The kwacha is an independently floating exchange rate, with the FX market evolving since the introduction of the broad-based Interbank Foreign Exchange system in July 2003. The country's economy is materially supported by copper exports and significant movements on copper prices will filter through to the price of the local currency. The kwacha was rebased on 1 January 2013 (new code ZMW), with three zeroes dropped from the old unit.
Market access/ convertibility	Only fully-licensed authorised dealers may deal in foreign exchange in Zambia. Although there are no legal restrictions on access to foreign exchange, this can be limited by low market depth for large-ticket transactions during episodes of high FX demand.
Tax regime	Generally, there is no tax on non-residents. Foreign exchange gains and losses are typically included in taxable income over the life of the instrument by applying the spot rate at transaction, year-end and realisation dates.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation	Reuters page	Additional information
Spot	liquid		T+2	ZMW=	
Forwards	Illiquid	Up to 12m/ 2y.	Varies	ZMWF=	

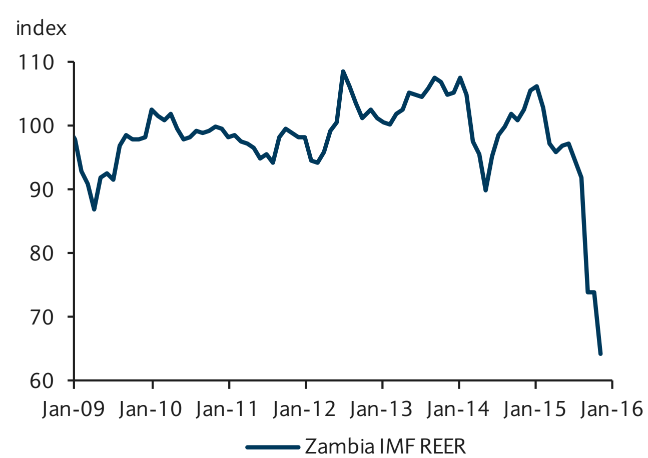
Source: Barclays

FIGURE 9
Zambia: Kwacha cross-rates



Source: Reuters, Barclays Research

FIGURE 10
Zambia: Kwacha real effective exchange rate



Source: IMF, Bloomberg, Barclays Research

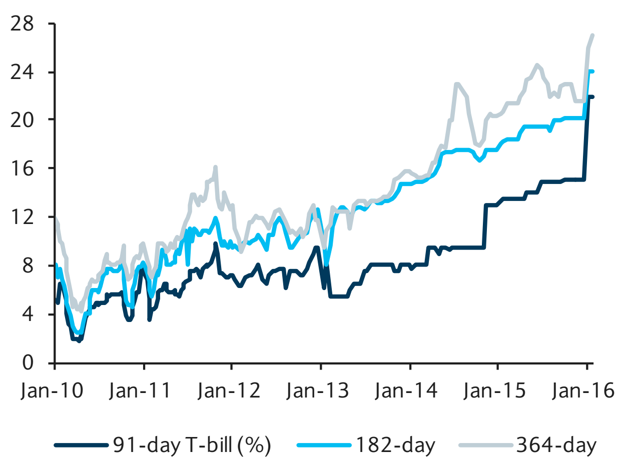
Rates products

Overview	The bond market is illiquid. The primary market at presently involves fortnightly T-bill issuance generally of ZMW450mn in size (offer size reduced from ZMW900mn from February 2016). Bonds of 2, 3, 5, 7, 10 and 15y are auctioned quarterly. The auction size for bonds is currently ZMW600bn (reduced from ZMW1bn in recent quarters).
Market access/convertibility	Fully accessible for foreigners.
Tax regime	Withholding tax on discount income for government bonds (on existing and new issues) was removed effective from 1 January 2016.
Coverage centre	Research in South Africa.

Security	Liquidity	Tenor/maturity	Quotation/ settlement	Reuters page	Additional information
Cash deposits	Liquid	Up to 12 months	Not standard		Generally benchmarked off Bank of Zambia MPC Rate.
Treasury Bills	Illiquid	Up to 12 months	T+2	BOZMM01 & BOZMM02	Secondary trading market has been introduced but activity levels still low.
Bonds	Illiquid	2-15y	T+1	BOZMM03 & BOZMM04	Secondary trading market has been introduced but activity levels still low.

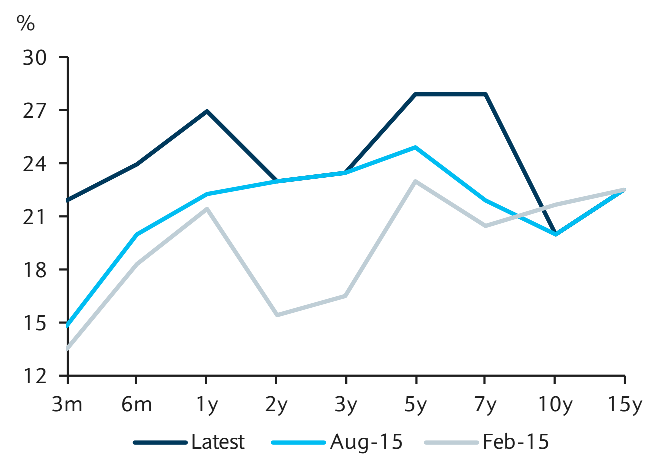
Source: Barclays

FIGURE 11
Zambia: Short-term interest rates



Source: BoZ, Barclays Research

FIGURE 12
Zambia: Government bond yield curve*



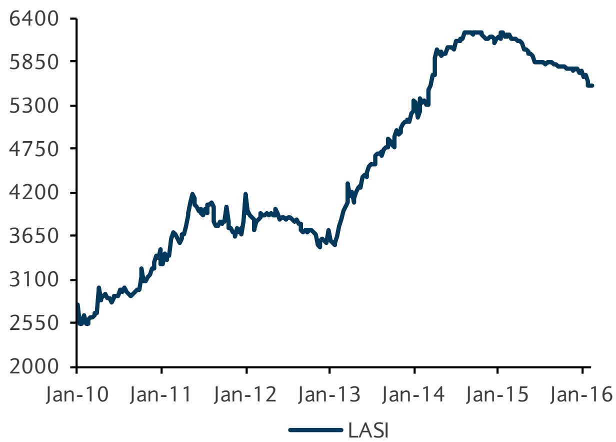
Note*: Latest auction yields. Source: BoZ, Barclays Research

Equity market snapshot

Market size	Market capitalisation of the Lusaka Stock Exchange (LuSE) was USD5.6bn the beginning of February 2016 (including dual-listed companies).
Main indicator	All share index (LASI).
Listed companies	There are 22 companies listed on the exchange.
Top listed companies	Shoprite; ZCCM-IH; Lafarge Cement; Zambia; Airtel Zambia; Zambian Breweries; and Investrust Bank
Taxation	10% withholding tax on dividends.
Foreign ownership limits	None

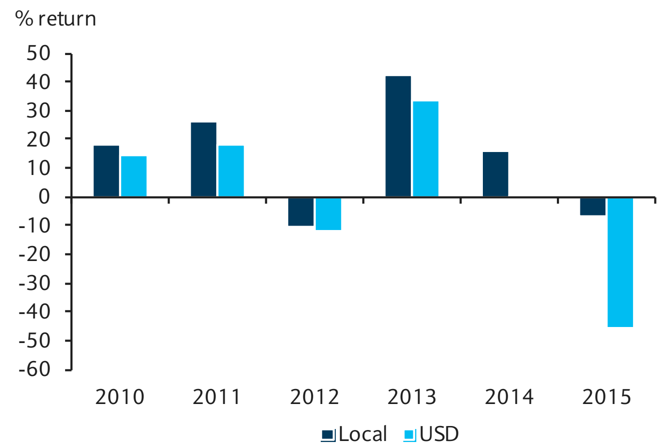
Source: Lusaka Stock Exchange, Barclays Research

FIGURE 13
Lusaka All Share Index



Source: Reuters, Barclays Research

FIGURE 14
Lusaka All Share Index total return performance



Source: Reuters, Barclays Research

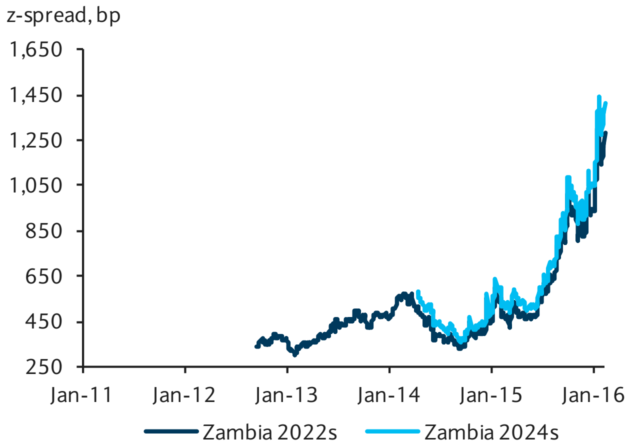
External credit snapshot

Overview	Zambia currently has three outstanding Eurobonds, the 10y USD750mn 2022s, the USD1bn 2024s and the USD1.25bn 2027s, issued in July 2015.
Credit rating	S&P cut Zambia sovereign credit rating from 'B+' to 'B', outlook stable, in July 2015 amid concerns about the weaker fiscal position. Similarly, Moody's cut the country's rating at the end of September 2015 to 'B2' from 'B1', outlook stable, on the back of sustained deterioration in fiscal and debt metrics. Fitch affirmed Zambia's rating at 'B' in August 2015 (outlook stable) though it has expressed its view that the 2016 budget revenue target appears optimistic.
Market participants	Zambian eurobonds attract interest from global institutional investors.
Coverage centre	Research in London and South Africa.

Issuer	Maturity	Announced	Amount	Coupon	Series	Additional information
Republic of Zambia	20 Sep 2022	13 Sep 2012	USD750mn	5.375% S/A	REGS/144A	
Republic of Zambia	14 Apr 2024	7 Apr 2014	USD1bn	8.50% S/A	REGS/144A	
Republic of Zambia	30 Jul 2027	14 Jul 2015	USD1.25bn	8.97% S/A	REGS/144A	

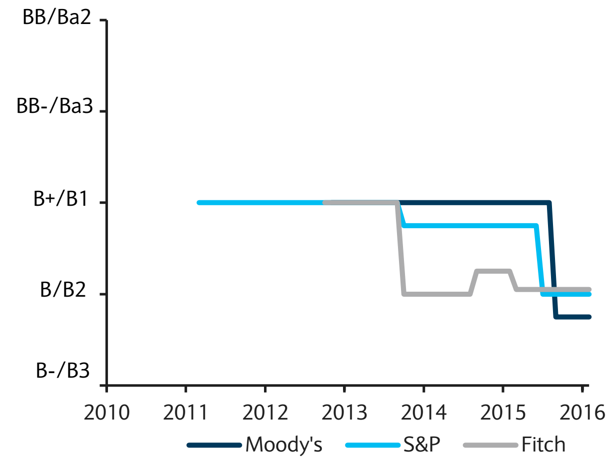
Source: Bloomberg, Barclays Research

FIGURE 15
Zambia: Eurobond performance



Source: Bloomberg, Barclays Research

FIGURE 16
Zambia: Credit rating history



Source: Bloomberg, Moody's, S&P, Fitch, Barclays Research

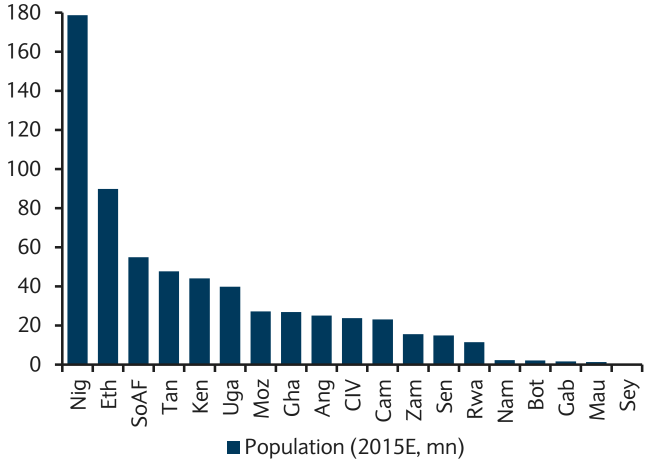
Useful links

Barclays Research:	https://live.barcap.com
Bank of Zambia:	www.boz.zm
Ministry of Finance:	www.mofnp.gov.zm
Central Statistics Office:	www.zamstats.gov.zm
International Monetary Fund:	http://www.imf.org/external/country/ZMB/index.htm

Comparative Charts & Tables

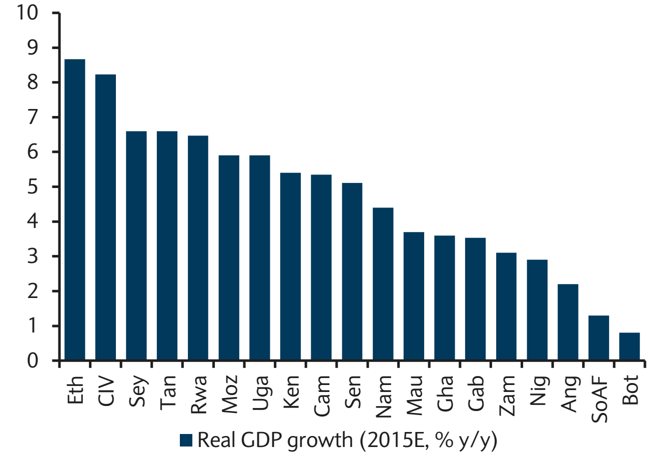
COMPARATIVE CHARTS

FIGURE 1
Population



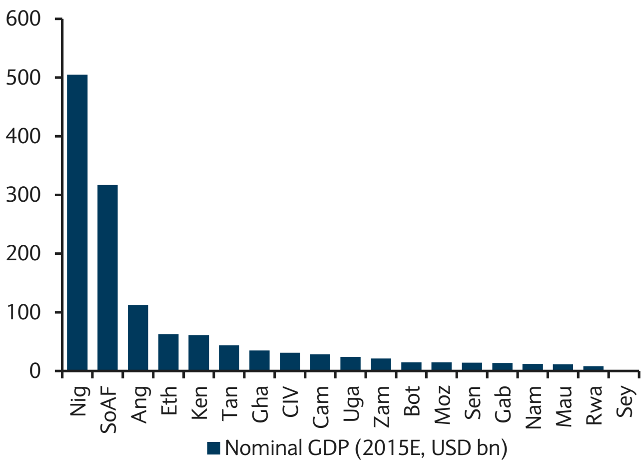
Source: Various central banks; Statistics offices; IMF; UN; Barclays Research

FIGURE 2
Real GDP growth



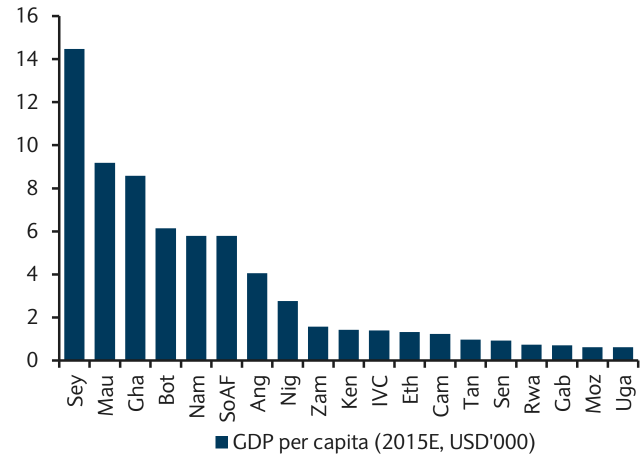
Source: Various central banks; Statistics offices; IMF; UN; Barclays Research

FIGURE 3
Nominal GDP



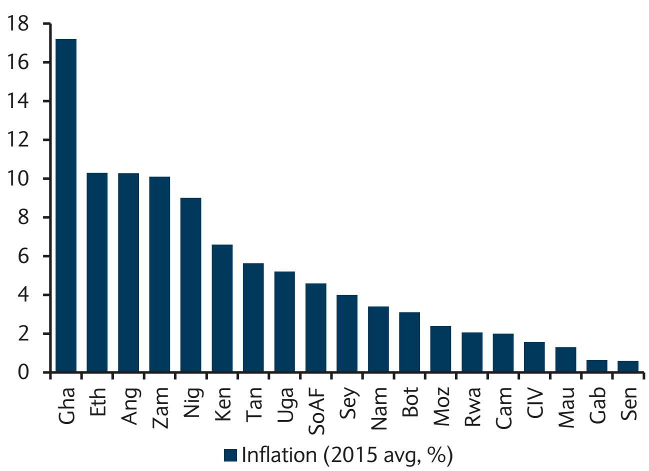
Source: Various central banks; Statistics offices; IMF; UN; Barclays Research

FIGURE 4
GDP per capita



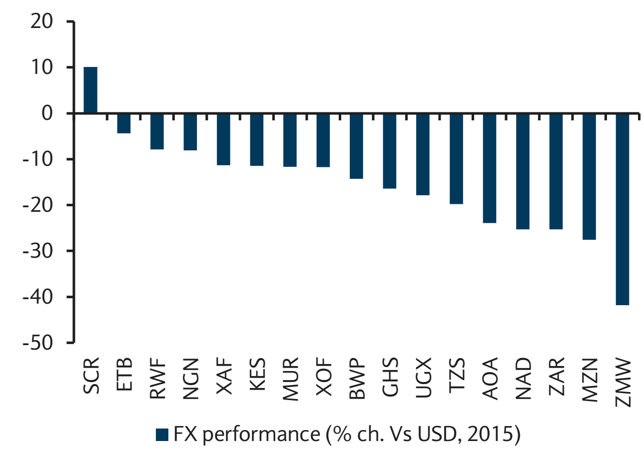
Source: Various central banks; Statistics offices; IMF; UN; Barclays Research

FIGURE 5
Inflation



Source: Various central banks; Statistics offices; IMF; UN; Barclays Research

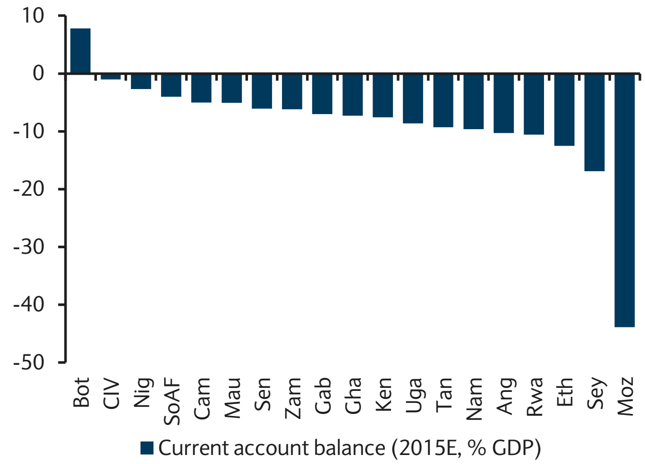
FIGURE 6
FX performance



Source: Reuters; Barclays Research

FIGURE 7

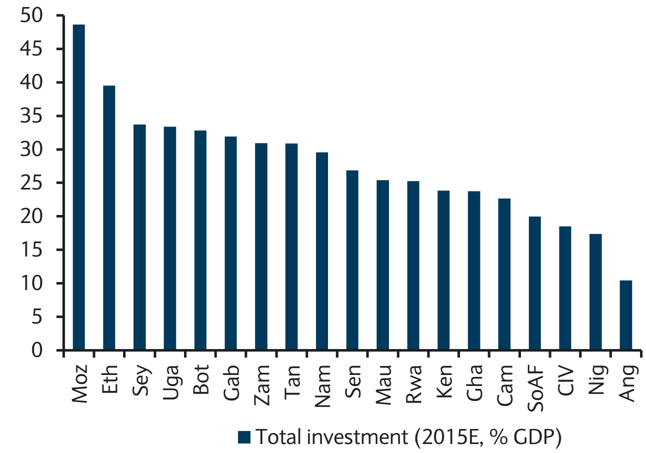
Current account



Source: Various central banks; Statistics offices; IMF; UN; Barclays Research

FIGURE 8

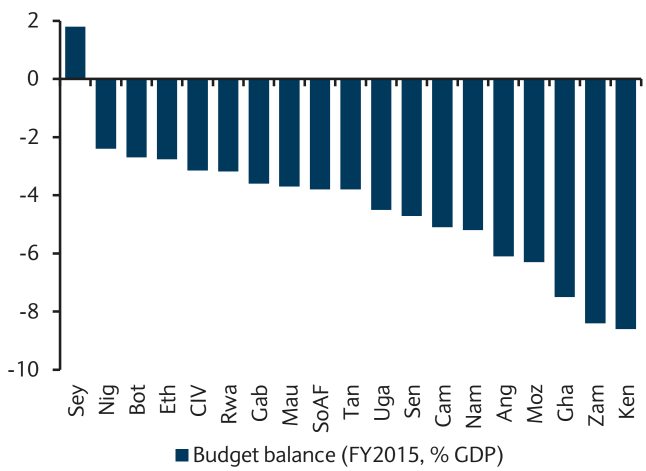
Total investment



Source: IMF; Barclays Research

FIGURE 9

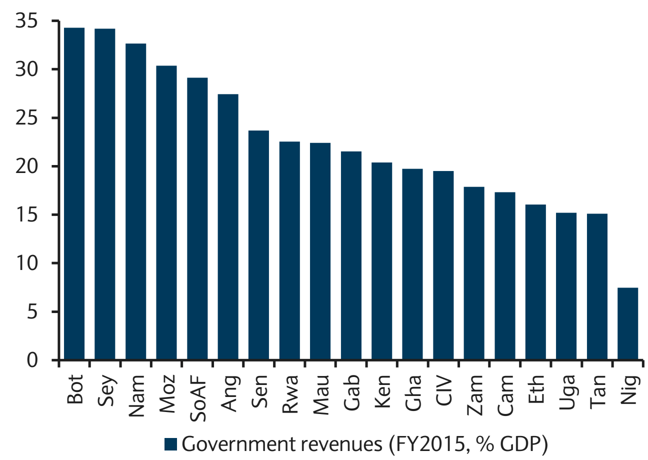
Budget balance



Source: Various central banks; Statistics offices; IMF; UN; Barclays Research

FIGURE 10

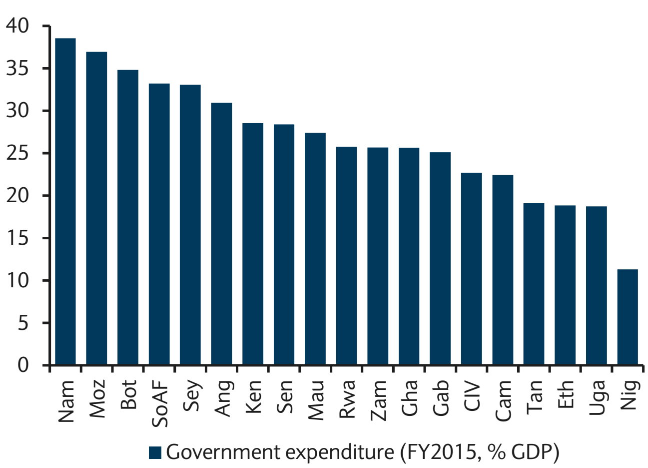
Government revenues



Source: Various central banks; Statistics offices; IMF; UN; Barclays Research

FIGURE 11

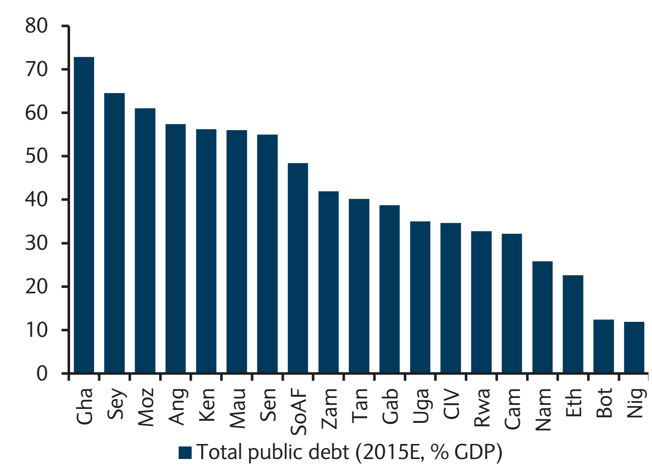
Government expenditure



Source: Various central banks; Statistics offices; IMF; UN; Barclays Research

FIGURE 12

Total public debt



Source: Various central banks; Statistics offices; IMF; UN; Barclays Research

SOVEREIGN RATINGS

FIGURE 1

Sovereign ratings

	Moody's		S&P		Fitch Ratings	
	Long-term	Outlook	Long-term	Outlook	Long-term	Outlook
Angola	Ba2	Negative	B	Stable	B+	Stable
Botswana	A2	Stable	A-	Stable	NR	NR
Cote d'Ivoire	Ba3	Stable	NR	NR	B+	Stable
Ethiopia	B1	Stable	B	Stable	B	Stable
Gabon	Ba3	Stable	B	Stable	B+	Stable
Ghana	B3	Negative	B-	Stable	B	Negative
Kenya	B1	Stable	B+	Negative	B+	Negative
Mauritius	Baa1	Stable	NR	NR	NR	NR
Mozambique	B2	Negative	B-	Negative	B	Stable
Namibia	Baa3	Stable	NR	NR	BBB-	Stable
Nigeria	Ba3	Stable	B+	Stable	BB-	Negative
Rwanda	NR	NR	B+	Stable	B+	Stable
Senegal	B1	Positive	B+	Stable	NR	NR
Seychelles	NR	NR	NR	NR	BB-	Stable
South Africa	Baa2	Negative	BBB-	Negative	BBB-	Stable
Tanzania*	NR	NR	NR	NR	NR	NR
Uganda	B1	Negative	B	Stable	B+	Stable
Zambia	B2	Stable	B	Stable	B	Stable

Note: *Awaiting first rating in 2016

Source: Moody's, S&P, Fitch Ratings, Bloomberg

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