Every year, EXX Africa selects five countries as its favourite destinations for investment based on commercial interest among our clients and perceptible improvement in the country risk ratings. This selection is based on our local source intelligence, proprietary forecasting methodology, and quantitative risk scoring calculations. The selection showcases some of our key risk forecasts for the year ahead and flags potential new investment and trade opportunities.

Our forecasts take into account drivers of political, security, and economic risk, as well as other key trends that are likely to determine a country’s one-year risk trajectory. We do not base our forecasts on short-term impact incidents such as a failed coup in Gabon, riots in Zimbabwe, or a terrorist attack in Kenya. Rather, we assess the longer term socio-economic and political trends that drive such incidents in the first place.

We also identify those countries where we expect a significant deterioration in the business climate based on political, security, and economic risk drivers. Some countries picked in this year’s report match our selection last year, although there will be some
inevitable surprises in the new line-up for EXX Africa winners and losers in 2019.

We wish you a prosperous New Year and trust you may continue to value our Africa risk intelligence.

2019 TOP FIVE INVESTMENT COUNTRIES

It may or may not be surprising that Africa’s largest economies, Nigeria, South Africa, and Egypt, do not feature in our Top Five selection this year. These African economic giants were featured in previous years and all three countries have indeed made significant headway since the recessions of 2016. But hotly contested elections in South Africa and Nigeria have put policy-making on hold. Meanwhile Egypt is already reaping the benefits of relative political stability and steady economic recovery, despite re-emerging security threats. Cote d’Ivoire has also dropped out of our selection, as its economy faces new fiscal pressures and shifting political dynamics. Yet, Angola and Ghana remain firmly in our favourites’ list for this year, while we also take two bets on perhaps more ‘risky’ locations.

1) ETHIOPIA

Last year, Ethiopia was in our bottom five selection while the country was in the midst of violent ethnic unrest, hard currency shortages, and dwindling economic momentum. This year, the East African nation has shot up the rankings to become our favourite investment destination for 2019. The new administration of Prime Minister Abiy Ahmed has made a symbolic break from perceived past repression, graft, and public mismanagement. The ongoing political transition marks a shift in influence dynamics within powerful state-controlled holding companies and industrial-military conglomerates that have dominated the Ethiopian economy for over 30 years.

However, the success of the Ethiopian political transition will depend on the new government’s ability to seek compromise between established business and security interests and mounting calls for broad political and economic reform. Ongoing hard currency shortages, high inflation, and below target exports will remain key concerns at a time of continued fiscal expansion and dwindling economic momentum. The government seeks private sector participation and foreign investment to stimulate the economy, opening up significant new opportunities. World Bank growth forecasts indicate stabilisation in the next two years just below the 10 percent mark, which keeps Ethiopia among the globe’s top performers. While the business environment remains challenging, the reform-orientated policy agenda suggests potential improvements are likely. The country is also likely to use its expanding goodwill to acquire condition-free multilateral funding to replace expiring Chinese credit lines.

See Ethiopia Country Outlook

2) ANGOLA

As our favourite investment country of 2018, Angola remains in the Top Five selection this year. Angola’s economy will recover in 2019 on the prospect of rising oil production levels and IMF credit support. The IMF’s recent loan approval will add further legitimacy to the economic reformist trajectory that has been ongoing since President João Lourenço took office.
in September 2017. With greater observation of macroeconomic fundamentals and policy anchorage, market optimism on an already promising Angolan economy is likely to firm up. An Angolan real economy that is at the early stages of recovery will also benefit from the IMF’s presence via pro-market policies that help facilitate an environment conducive to investment and general expansion. There are immediate opportunities for the Angolan oil and gas sector such as the 2019 bid rounds for onshore and offshore blocks, as concrete steps to reverse the production downward trend.

Yet massive debts at state oil firm Sonangol and the banking sector’s political exposure remain key risks in the medium term. The country’s banks urgently require a round of consolidation to improve asset-quality and foreign-exchange risks. As public debt approaches 70% of gross domestic product, domestic credit is now crucial for state financing.

While the new government’s highly popular anti-corruption and economic liberalisation platform is aimed at further diluting the former elite’s political and economic dominance, infrastructure projects will be at heightened risk of cancellation or review.

**See Angola Country Outlook**

3) Ghana

Ghana will be one of the fastest growing economies in Africa in 2019. The country seeks to replace its dwindling foreign aid receipts as it consolidates its status as a lower-middle income economy. The government will seek to replace these sources of financing by improving revenue collection and raising new debt. With the termination of the IMF programme, Ghana will be able to access debt markets more freely to fill this void. Most of the recent growth is driven by increased output from Ghana’s oil fields, rather than from a more diversified base. The objective is seeking economic diversification through broad-based industrialisation, specifically agro-processing and light manufacturing.

However, a major challenge for Ghana remains its high level of indebtedness. With the debt ratio at around 70% of GDP, the government’s prudence with debt management remains key to the country’s economic prospects. The energy sector, in particular, is heavily burdened by debt, yet long-term energy sustainability is needed to meet growing demand and to facilitate economic growth. Nonetheless, given the apparent
recovery and ongoing political stability, investor sentiments are unlikely to change. The absence of key electoral cycles for at least another two years also suggests that fiscal prudence is unlikely during this period. That said, failure to narrow the deficit and public wage bill discipline, in addition to possible debt accumulation by an expansion-oriented Ghana, could stoke investor anxiety.

See Ghana Country Outlook

4) MAURITANIA

Our little surprise for this year’s Top Five – Mauritania is set to emerge as a new economic player in the West African region. Mauritania’s economy is making a strong performance on the back of investments in the mining sector. Iron ore exports and fishing dominate export revenue and the economy is set to grow over the next few years on the back of investments in the mining sector and important gas discoveries. The development of natural gas projects also augurs longer-term sustained growth. Rising export revenues and tax collections are improving the fiscal outlook, despite lingering concerns over debt servicing in the longer term. The current account is strengthening and foreign exchange levels are comfortable as iron ore prices rise. Initial concerns over foreign exchange speculation and inflation have mostly subsided. The IMF predicts a real GDP growth at 8.0%, 8.4% and 7.2%, respectively for 2018 to 2020, along with sizable policy adjustment and favourable commodity price developments.

The looming economic bonanza may still be spoiled by political instability. The upcoming 2019 elections are unlikely to be free and fair, while a heavy-handed security deployment is expected against opposition and activist demonstrations. While the political momentum is shifting in favour of the Islamists and Haratin ethnic group, the military is expected to act to preserve the status quo. As such, underlying political risks may emerge to frustrate contracts signed in the booming extractive sectors.

See Mauritania Country Outlook

5) MOZAMBIQUE

Perhaps we are calling it too early, but Mozambique has made significant headway since its economic and financial collapse in 2016. President Filipe Nyusi will have to meet three key objectives before elections due at the end of the year in order to turn around the country’s fortunes. Firstly, he will need to implement a peace deal with the armed opposition RENAMO to avoid another outbreak of violence following the vote. Secondly, his government will need to improve its intelligence capability and security response to an intensifying Islamist insurgency in the gas-rich North. Even though militants are targeting rural and remote civilian and security targets in Cabo Delgado province, the prospect of disruption to the nascent natural gas sector is undermining development plans.

Eventual gas revenues will be crucial for the government’s third objective, i.e. ensuring a lasting resolution of the undisclosed debts scandal. Momentum on natural gas development is increasingly motivating debt restructuring and donor reengagement. Mozambique is seeking to extend maturities and share future revenue from offshore gas projects to provide some relief for the budget. A
The proposed deal with creditors is being motivated by a stronger desire by the Mozambican government to reengage with the IMF, because the state needs billions of dollars in loans to fund its own participation in the gas concessions. Meanwhile, the IMF is considering giving Mozambique a shadow programme, which would be a step towards securing financing from the Fund after the freeze in 2016.

See Mozambique Country Outlook

AFRICA’S BIGGEST POTENTIAL LOSERS IN 2019

While we were arguably wrong to include Ethiopia in our Bottom Five country investment selection last year, the investment climate in DRC, Tanzania, and Zambia did significantly deteriorate as we predicted. Indeed, both Tanzania and Zambia retain their least favourable investment rating for 2019, with further deterioration in their political risk climate likely over the next year. Elsewhere, we are particularly concerned that ongoing economic and political crises in Sudan, Zimbabwe, and Gabon may be unsustainable, thus driving heightened risk of political instability, insecurity, and economic collapse. Other countries on our risk indicator watch list for this year include cash-strapped Central African economies and various southern African states that are less likely to benefit from a broader economic recovery elsewhere on the continent.

1) SUDAN

Since mid-December, violent protests have erupted in Sudanese cities in scenes of unrest that resemble the 2011 ‘Arab Spring’ regional uprisings. What started as an agitation against dire socio-economic conditions, which is attributed to maladministration on the part of President Omar al-Bashir and the governing National Congress Party (NCP), activists have since called for the resignation of the government and the election of a transitional authority. However, President al-Bashir remains steadfast in his pursuance of a fifth term in office at elections 2020 despite mounting resistance both from within the NCP and the opposition.

The lead-up to these elections comes at a time of economic and financial crisis. Depreciated oil prices, in addition to a downturn in production at major refineries, have seen government revenues garnered from its mainstay economic activity plummet. Equally, a decrease in oil production and revenues have left the state with a lack of foreign currency to import fuel and basic commodities, leaving few avenues of respite for a government that is facing an increasingly desperate and agitated population. However, Bashir continues to enjoy the endorsement of the powerful National Intelligence and Security Service which is the guarantor of executive power in Sudan. NISS support may provide a lifeline for al-Bashir through 2019, unless the military or NCP drastically shift their support away from the incumbent. In the meantime, investors will face heightened risks of political instability, widespread insecurity, and non-payment on contracts.

See Sudan Country Outlook

2) TANZANIA

As a result of President John Magufuli’s self-styled ‘economic war’, investor confidence has collapsed driven by the government’s disputes with some of its largest investors. Some aggrieved investors have gone to arbitration to protect their interests under existing contracts. As a result, foreign investment has dropped by more than 30% since 2015 when President Magufuli was elected. Subdued government revenue collection...
and delays in securing financing for projects have held back development spending and hurt economic growth. Moreover, a sharp fall in lending to the private sector, prompted by high non-performing loans, point to a continued slowdown in growth. Infrastructure projects are likely to be delayed due to subdued government revenue collection and delays in securing financing.

Meanwhile, the president's allies in the intelligence services are suppressing any form of political opposition to his government's nationalist policies. President Magufuli has also stacked the key institutions governing the economy with ideologically-aligned loyalists, thus allowing him to stake out his own political turf, separate to the governing party's interests. All risk indicators are set to deteriorate even further in 2019, as the impact of the new interventionist policies begins to bite. Already a lack of public spending and private sector concerns over policy uncertainty are curtailing growth. The economy will slow in 2019, although Tanzania will still remain one of the fastest growing economies in Africa over the next few years driven by long-term infrastructure commitments.

See Tanzania Country Outlook

3) ZAMBIA

As President Edgar Lungu focusses on his power extension ambitions, investors are assured long-term policy continuity. However, his government’s authoritarian slide is being replicated in populist economic policy that is rooted in rigid economic nationalism and protectionism. Political in-fighting and legal battles have distracted the government from making the necessary decisions to stimulate the economy and take steps to resolve the critical debt crisis. The role of the IMF lies at the heart of a political power struggle within the PF party-led government. Many Treasury officials have recognised the urgent need for a lending deal with the IMF, yet their plans have been thwarted by presidential advisers who reject the austerity and unpopular subsidy cuts involved in an IMF deal.

Meanwhile, the concerns over Zambia’s debt remain prominent and are frustrating negotiations with the IMF, as well as other creditors including China. The government has maintained a debt-financed infrastructure expansion programme that seeks to run projects in politically important regions of the country. Many recent road, healthcare, and power projects have been politically motivated to ensure local support for Lungu's power extension ambitions. Such overspending on infrastructure expansion and other politically motivated budgetary items have also triggered allegations of embezzlement and corruption. In the crucial mining sector, a new tax regime is causing smelters to close and motivating mining companies to lay off workers and scrap investment plans. Worse is to come as a harmful new sales tax is due to take effect, while massive VAT rebate arrears are arbitrarily written off.

See Zambia Country Outlook

4) GABON

A failed military coup at the start of the year is indicative of broad socio-economic and political frustration with Gabon's leadership, which has been weakened by the suspected incapacitation of its strongman president. Even though the military intervention on 7 January failed for all its intent and purposes, there remains a heightened risk of military and civil unrest as long as there is no clarity on the
condition of President Bongo and the government does not initiate constitutional provisions for the presidential succession. Opposition leaders in particular may seek to capitalise on the government’s perceived weakness by mobilising their supporters back to the streets. Given the unresolved coup motivations, the prospect of military unrest including mutinies and further coup attempts remains likely. However, the probability of a successful coup remains moderate.

Another factor that has put pressure on Gabon’s political stability is the country’s ongoing economic and financial crisis. Gabon’s economy slowed to 2.1% in 2016, from 3.9% in 2015, while public debt soared and the current account deficit swelled to more than 10% of GDP from a surplus just two years earlier. Growth has since rebounded to a forecasted 2 percent-plus in 2018, from near-zero growth as a result of suppressed oil prices in recent years. However, a sustainable economic recovery seems unlikely, despite assistance from the IMF. The lack of clarity over Bongo’s condition and the succession process have cast doubt over the commitment to reform criteria as set out by the IMF bailout programme.

See Gabon Country Outlook

5) ZIMBABWE

After an initial period of optimism over Zimbabwe’s political transition over the past year, investors will again face a notable deterioration in risk indicators in 2019. The aftermath of disputed and tainted elections, Zimbabwe’s massive debt burden, and its severe foreign exchange and monetary crisis remain the major obstacles to unlocking substantive flows of private and foreign government finance. Deadly urban protests in January have unearthed the widening political divisions and systemic economic malaise, which the current administration lacks the political clout to resolve. Another military intervention to remove embattled President Emmerson Mnangagwa is increasingly likely this year.

Despite the confidence-inspiring appointment last year of new Finance Minister Mthuli Ncube, he seems out of his depth in the current cash shortage crisis and he lacks the political clout to implement real structural change to the distressed economy. In response to cash shortages, Ncube has pledged to introduce a new currency within 12 months. Such a move will offer little support for businesses struggling to import raw materials and equipment. While the previously forecast 2.4 percent growth rate by the IMF is not out of reach, it will be difficult to attain amid prevailing low-demand, low-investment and high-debt conditions. Debt is particularly concerning given its escalation to over 70 percent of GDP in 2018 and the difficulty associated with clawing back on the figure.

See Zimbabwe Country Outlook

For further comment on these risk forecasts please contact Insight@exxafrica.com