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Africa Monitor

West Africa

West & Central Africa Ports: Ambitious Greenfield Projects Face Challenges

Key View

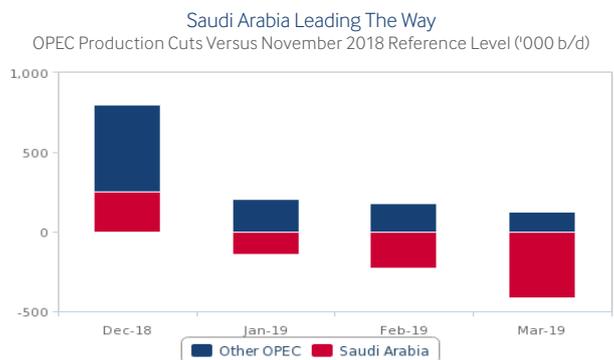
- West and Central Africa will offer considerable investment potential in the port sector, backed by the largest port project pipeline, by value and number, of all the SSA sub-regions.
- Port development plans are largely targeted at greenfield projects and the expansion of existing facilities needed to cope with expected increases in demand from the construction of new onward infrastructure to inland areas and landlocked markets.

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Nigeria: Central Bank Shifts Focus To Growth, Cuts Rates **5**

The Central Bank of Nigeria on March 26 cut its benchmark interest rate from 14.00% to 13.50%. This is the first rate cut since November 2015 which suggests that policymakers are focusing on monetary stimulus ahead of efforts to contain inflation.

Oil Outlook



Source: OPEC, Fitch Solutions

Oil closed above USD70.0 per barrel (/bbl) in April for the first time since early December 2018, bringing its year-to-date gains to nearly 34%. Renewed concerns over supply disruption emerged in Libya as the Libya National Army moved to occupy Tripoli. Better numbers from China's leading indicators and no further escalation in trade tensions with the US have provided additional upside. However, the IMF's downward revision of the global outlook has tempered gains. Overcompliance at 135% of OPEC+ production cut targets in March and continued impact on supply from sanctions in Iran and Venezuela have supported price appreciation. We at Fitch Solutions expect the overall demand growth to remain positive within emerging markets, excluding China. The US will boost overall demand as China and the eurozone will continue to drag on consumption. The supply-side constraint has tightened markets while outweighing concerns about the health of the global economy. We hold to our current forecast for Brent at an annual average of USD73.0/ bbl for 2019 (see 'Brent: Strong Fundamentals To Drive H2 Gains', April 2).

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WEST AFRICA RISK INDEX

Our Country Risk Index scores countries on a 0-100 scale, evaluating short-term and long-term political stability, short-term economic outlook, long-term economic potential and operational barriers to doing business. For a detailed methodology, visit fitchsolutions.com or contact us using the details on page 1.

RISK INDEX TABLE	Short Term		Long Term		Operational	Country
	Political	Economic	Political	Economic	Risk	Risk
Ghana	71.7	53.5	73.5	52.6	45.5	57.2
Gabon	59.2	46.5	63.1	49.9	33.2	47.1
Côte d'Ivoire	48.1	59.2	45.7	56.9	38.7	47.5
Nigeria	46.7	55.2	45.8	55.1	36.6	33.8
Cameroon	54.2	52.1	43.3	52.5	29.1	43.5
Regional Average	56.0	53.3	54.3	53.4	36.6	45.8
Global Average	63.1	52.8	62.0	54.2	49.8	55.1

Note: Scores out of 100; higher scores indicate lower risk. Source: Fitch Solutions

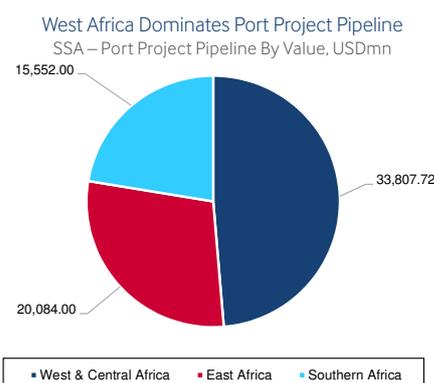
AFRICA – INDUSTRY OUTLOOK

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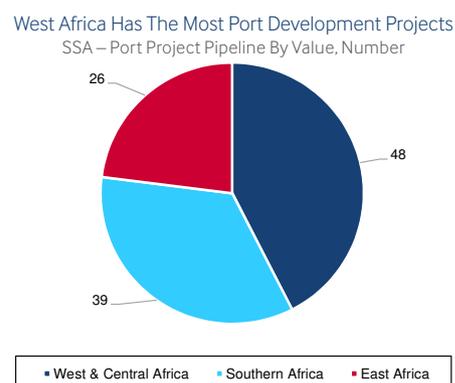
- Nigeria is the major focus of project activity, with the government planning a number of new large-scale ports, although Côte d'Ivoire, Ghana and Cameroon also have substantial port project pipelines, ensuring that investment opportunities are spread throughout the region.
- We highlight that the ambitious nature of many of the port developments, combined with the risks inherent in construction operations in these markets, means that this large pipeline is unlikely to be fully realised.

We expect that West and Central Africa will be the primary focus of investor interest in ports across Sub-Saharan Africa (SSA) over the coming years, backed by a robust project pipeline in the sub-region. According to our Infrastructure Key Projects Database (KPD), West and Central Africa offers the largest pipeline of port projects of all the SSA sub-regions, with 49 projects currently planned or under construction, with a total value of USD33.8bn, accounting for nearly half of the total value of port projects currently planned or under construction across all of SSA. While West Africa is home to some of the most advanced ports in the region, particularly in Côte d'Ivoire and Senegal, port facilities remain underdeveloped in a number of other countries, notably Nigeria. The need to improve the quality of ports in the those regions is therefore a major driver of investment plans, in addition to the need to meet rising demand from rapidly growing populations across the region and improve transport infrastructure to facilitate trade with underserved landlocked areas. We have previously highlighted that rail development plans are targeted at boosting access to landlocked markets, and this will also require investment in port facilities to meet increased demand and transshipment traffic (see 'West Africa: Infrastructure To Access Landlocked Countries Prioritised', July 19 2018).

As a result of these factors, the port project pipeline in the region largely comprises greenfield developments, commodity-specific terminals and expansions of existing facilities to cater for projected increases in throughput volumes. According to our KPD, 77% of port project value in the sub-region is concentrated in new port developments, demonstrating the dominance of these greenfield projects in the pipeline. Nigeria is a particular focus of port development, backed by the government's ambitious plans to expand the country's port capacity in order to



Source: Fitch Solutions Key Projects Database



Source: Fitch Solutions Key Projects Database

cater for its rapidly growing population and reduce logistics bottlenecks at existing facilities. Highlighting this, 62% of new port project value in West and Central Africa is concentrated in Nigeria, with the pipeline including the USD12bn Olokola Deep Sea Port, USD2.6bn Badagry Deep Sea Port and the USD1.5bn Lekki Deep Sea Port Phase 1. Over the longer term, further new port developments are planned at Warri, Ibom, Bakassi, and Bonny. We have previously highlighted the potential opportunities for intrepid investors from this ambitious port development programme, although we note that scale of the plans and the questionable business case for some projects will prevent the pipeline from being fully realised (see *'Nigeria's Port Development Plans Offer Growth Upside', November 26 2018*).

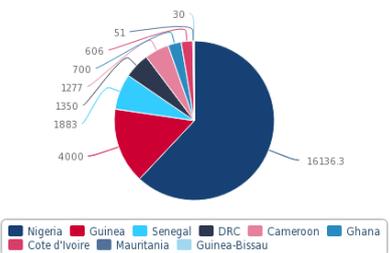
Outside of Nigeria, the port project pipeline is also vibrant, presenting opportunities. In particular, we highlight a number of major developments planned or underway in order to take advantage of the increased throughput expected following the construction of new inland and supporting infrastructure. Countries located along the West African seaboard, including Benin, Ghana, Côte d'Ivoire, Guinea and Senegal, all have port projects in the pipeline related to improving access to inland areas and landlocked countries. In particular, we highlight Ghana's ongoing USD1.5bn Tema port expansion as well as the planned Port du Futur in Senegal and the USD590mn Abidjan Second Container Terminal in Côte d'Ivoire as projects most likely to progress. We are more optimistic towards these port developments given the expected completion of connecting railway upgrades, including the Côte d'Ivoire-Burkina Faso rail link upgrade and the Mali-Senegal railway renovation, ensuring demand and a viable business case for the ports.

Opportunities for investment in commodity-specific terminals will also proliferate, reflecting increasing demand for port facilities capable of handling resources exported from countries such as Guinea, Burkina Faso and Mali. All of these countries have considerable natural resources, notably iron ore and gold, which require new export terminals as access to these resources improves and production increases. Mining firms **Aluminium Corporation of China** (Chinalco) and **Rio Tinto** are sponsoring the construction of a new iron ore export terminal in Guinea, for example. Meanwhile, Côte d'Ivoire in particular has a number of new commodity terminals planned over coming years, including projects focusing on oil, metal ores, grain and minerals in Abidjan, as well as refined fuel in San Pedro. These projects, if fully realised, would transform Côte d'Ivoire into a major trade hub for West Africa, lifting the country's already elevated score for port quality in the World Economic Forum's Global Competitiveness Index.

We expect Chinese and French construction companies, which are already well established in West Africa's port sector, to benefit from these investment opportunities. Our KPD shows that **China Harbour Engineering Company** (CHEC) is currently involved in building eight West African port projects, highlighting the strong presence of Chinese firms in this sector. This is followed by French firms, notably **Bolloré**, which is involved in four projects, but also **Bouygues** and **Eiffage**. Given their prominent position in these markets, strong track record on project delivery and established relationships with local governments and partners, we expect these firms to win further port construction and operation contracts over coming years. UAE-based port operator **DP World** is seeking to expand its presence in frontier markets in SSA, as shown by the company's plans to build ports in the DRC and Senegal, in addition to its existing operations at the port of Dakar in the latter.

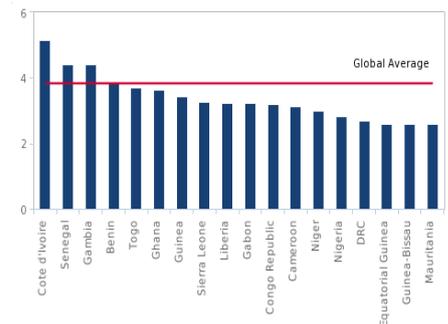
We are sceptical that the large port project pipeline in West and Central Africa will be realised in full, due to the considerable risks facing construction firms in West African markets. We

Nigeria The Main Focus Of Activity
West & Central Africa – New Port Project Value
By Country, USDmn



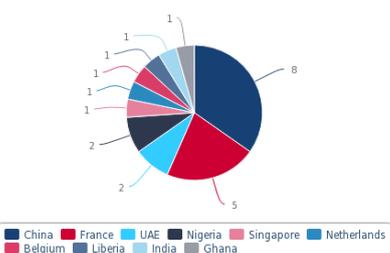
Source: Fitch Solutions Key Projects Database

Port Facilities In Need Of Upgrade
West & Central Africa – Port Quality



Note: 0 = lowest score; 7 = highest score. Source: World Economic Forum's Global Competitiveness Index

Chinese & French Firms Winning Contracts
West & Central Africa – Port Projects By
Company Nationality



Source: Fitch Solutions Key Projects Database

have previously highlighted that DP World's frontier market expansion strategy is fraught with security, political and legal risks due to the weak operating environments of the markets within which it is seeking to invest (see 'Risks Threaten DP World's SSA Expansion Strategy', February 19). Any company considering port opportunities in the region will need a large risk appetite, and we consequently expect state-owned firms such as DP World or China's CHEC to be better placed than private companies to absorb the high cost and risks involved with investing in the region. While markets such as Senegal and Côte d'Ivoire offer relatively lower risk operating environments compared to their SSA peers, risks such as legal disputes arising from weak property rights, policy uncertainty, cost overruns and viability concerns can affect projects throughout the region. Nigeria, the focus of port project activity, also poses specific risks including security issues in the Niger Delta region, poor logistics networks and sclerotic bureaucracy, which will hinder the country's port expansion plans.

NIGERIA – INDUSTRY OUTLOOK

Automotive Policy To Reignite The Industry

Key View

- We believe that the much anticipated signing of the National Automotive Industry Development Plan bill into law will considerably boost Nigeria's underused domestic vehicle production capacity.
- Our 2019 vehicle production growth forecast for Nigeria remains one of the highest not only in the region but also globally at 21% compared to the global average of 1.5%.
- Vehicle manufacturers are already making a move back into Nigeria as the automotive policy is in its last stages to get signed into law and the significant rewards offered by the Nigerian market remain a strong attraction for automakers.

We believe that the much anticipated signing of the National Automotive Industry Development Plan (NAIDP) bill into law will considerably boost Nigeria's underused domestic vehicle production capacity. The NAIDP, Nigeria's national automotive policy envisioned under former president Goodluck Jonathan's administration in 2014, plans to reinvigorate a once promising Nigerian automotive assembly industry. In 2013, Nigeria's automotive production capacity was around 100,000 vehicles but production peaked at 7,000 vehicles in 2015. Vehicle production capacity was never fully utilised as economic conditions, particularly foreign exchange shortages, limited the ability of manufacturers to import vehicle assembly kits. Our 2018 estimate for the country's vehicle production volume is only 3,000 vehicles, which highlights a significantly underutilised automotive production capacity. Thus, vehicle assemblers can ramp up production without significant amounts of capital outlay for new capacity. The policy has been partially implemented and is currently at bill phase awaiting approval by current President Muhammadu Buhari. The policy aims to provide certainty and policy continuity for original equipment manufacturers (OEMs), which we believe will be crucial for the country to re-establish its automotive production industry.

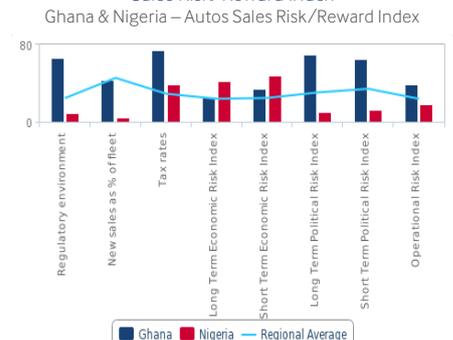
Signs of OEMs returning to Nigeria are evident as **PSA Automotive Nigeria** announced that it would resume production at its assembly plant in Kaduna, which has an annual capacity of 10,000 units, by the end of Q119. **Volkswagen** has also shown interest in the country as it has signed a memorandum of understanding with the government about its plans to restart production at its Nigerian operations. Our vehicle production forecast for Nigeria over our 2019-2028 period sees an average growth rate of 15.6%, indicating a production boom as the government provides certainty for manufacturers through the NAIDP. The policy addresses six key areas of the industry.

Nigerian Vehicle Production To Surge As Manufacturers Return
Nigeria – Vehicle Production, % y-o-y, Units



e/f = Fitch Solutions estimate/forecast. Sources: OICA, Fitch Solutions

Ghana Outperforms Nigeria In Our Autos Sales Risk/Reward Index
Ghana & Nigeria – Autos Sales Risk/Reward Index



Note: Scores out of 100; higher scores indicate a more attractive market. Source: Fitch Solutions

- Standards: Improve the standards of vehicles assembled and automotive parts manufactured in Nigeria.
- Industrial Infrastructure: Establish supplier parks and clusters to enable shared resources among manufacturers and assemblers within the autos sector.
- Skills Development: The government plans to work with OEMs and local manufacturers towards upskilling the labour force.
- Local Content Development: A plan to develop competent suppliers that will increase local content for the autos industry.
- Investment Promotion: Provision of incentives for manufacturers, in the form of curbing the smuggling of vehicles and the implementation of tariffs for imports of fully built-up vehicles.
- Market Development: The vehicle credit purchase scheme aims to reduce borrowing costs for consumers and businesses, further developing vehicle sales.

Getting the policy into law quickly is becoming increasingly important as the West African automotive production industry is still in its infancy and we see the countries in the region fighting it out to establish themselves as a regional vehicle production hub. We believe that Ghana offers a very appealing alternative to Nigeria, as it offers an attractive, stable operating environment for OEMs investing in the SSA region.

Ghana and Nigeria are part of the Economic Community of West African States (ECOWAS) free trade area which means both countries have, in principle, duty-free access to each other's markets. Ghana outperforms Nigeria in many indicators that form part of our Autos Sales Risk/Reward Index (RRI), with a notable outperformance in the '% of new vehicle sales to existing fleet' indicator, reflecting the ease at which Ghanaian consumers and businesses can purchase a new vehicle. Thus, from a vehicle sales perspective, Ghana offers more for automakers that choose to opt for the Ghanaian market, making vehicle assembly in the country relatively attractive to supply local demand. We also believe that Ghana's political stability is the linchpin for the future of its domestic automotive production industry. In our Autos Sales RRI, under the Short-Term Political Risk Index and Long-Term Political Risk Index categories, Ghana scores by far the best among the West African countries that we cover and comes in at second place in the wider SSA region. This highlights how stable the country's political outlook will be for the next two years.

In addition, Ghana is working on its own automotive policy and is looking to finalise it by the end of March 2019. An automotive policy is crucial in creating an enabling environment for investment in the automotive industry. Thus, we believe that the quicker Ghana can finalise its automotive policy, the higher the chance of Nigeria signing the NAIDP bill into law to counter Ghana's growing investment attractiveness in the automotive sector.

NIGERIA – ECONOMIC OUTLOOK

Quick View: Central Bank Shifts Focus To Growth, Cuts Rates

The Latest: The Central Bank of Nigeria (CBN) on March 26 cut its benchmark interest rate from 14.00% to 13.50%. This is the first rate cut since November 2015 – and the first move since July 2016 – which suggests that policymakers are focusing on monetary stimulus ahead of efforts to contain inflation.

Implications: The decision to cut rates by 50 basis points (bps) – voted for by six of the 11 members of the monetary policy committee (MPC) – was unexpected. While consumer price inflation stood at 11.3% y-o-y in February – down from 11.4% the previous month – it has averaged 11.6% over the past 12 months, well outside the CBN's target range of 6.0-9.0%. Moreover, inflationary pressures are likely to increase with the planned implementation of the increased national minimum wage, due to rise from NGN18,000 (USD49.7) to NGN27,000 in the private sector and NGN30,000 in the public sector once the measure receives presidential assent. However, the CBN governor, Godwin Emefiele, stressed the need for monetary policy to help boost economic growth and job creation. Annual real GDP growth averaged just 0.4% between 2016 and 2018 – as against 6.8%

Stabilising Inflation Offers Some Room For Easing
Nigeria – Inflation & CBN Policy Rate, %



Source: Central Bank of Nigeria, Fitch Solutions

annually between 2016 and 2015 – and boosting economic expansion was one of the key campaign pledges of Muhammadu Buhari, who was re-elected as president in February 2019.

What's Next: There is potential scope for a further rate cut during 2019. A 50bps point cut is unlikely to provide substantial stimulus for economic growth, while Buhari's re-election points to maintenance of the existing, largely managed exchange rate regime. Liberalisation of the regime, as promised by the main opposition challenger, Atiku Abubakar, would have likely led to increased inflationary pressures. Maintenance of the current exchange rate regime, combined with the announcement by the US Federal Reserve (Fed) that it does not expect any rate rises this year, could allow the CBN to remain fairly dovish without triggering risk-off capital flows.

However, clear risks to this view remain. A return to risk-off sentiment, a sharp rise in inflation, or sustained pressure on the NGN/USD rate or foreign exchange reserves could see the CBN forced to reverse policy direction. In addition, there is a risk that investors will regard the rate cut as politically motivated – Emeifele's first term is due to end in June 2019, and the confluence of this and Buhari's re-election may undermine the CBN's credibility from an investor perspective.

NIGERIA – DATA & FORECASTS

	2015	2016	2017	2018e	2019f	2020f	2021f
Population, mn	181.18	185.99	190.89	195.88	200.96	206.15	211.45
Nominal GDP, USDbn	481.2	398.5	364.3	416.9	483.3	502.0	512.5
GDP per capita, USD	2,656	2,142	1,908	2,128	2,405	2,435	2,423
Real GDP growth, % y-o-y	2.6	-1.6	0.8	1.9	2.0	3.3	4.1
Consumer price inflation, % y-o-y, ave	9.0	15.6	16.5	12.2	13.4	14.2	10.5
Consumer price inflation, % y-o-y, eop	9.6	18.6	15.4	11.4	15.4	13.0	8.0
Central bank policy rate, % eop	11.00	14.00	14.00	14.00	14.00	14.00	11.00
Exchange rate NGN/USD, ave	197.78	257.40	305.03	305.03	307.50	340.00	377.50
Exchange rate NGN/USD, eop	199.30	305.00	305.05	305.00	310.00	370.00	385.00
Budget balance, NGNbn	-1,557.8	-2,347.9	-3,138.5	-4,187.5	-4,825.0	-5,530.9	-5,903.7
Budget balance, % of GDP	-1.6	-2.3	-2.8	-3.3	-3.2	-3.2	-3.1
Goods and services exports, USDbn	49.0	38.4	50.8	62.7	68.8	75.2	77.1
Goods and services imports, USDbn	71.9	47.0	50.9	61.7	70.9	77.1	84.0
Current account balance, USDbn	-15.4	2.3	10.4	15.5	12.6	13.1	9.2
Current account balance, % of GDP	-3.2	0.6	2.9	3.7	2.6	2.6	1.8
Foreign reserves ex gold, USDbn	29.1	25.7	39.6	43.1	43.5	43.9	44.4
Import cover, months	4.8	6.6	9.3	8.4	7.4	6.8	6.3
Total external debt stock, USDbn	28.9	31.2	40.2	52.6	57.9	58.5	60.6
Total external debt stock, % of GDP	6.0	7.8	11.0	12.6	12.0	11.7	11.8
Crude, NGPL & other liquids prod, 000b/d	2,216.0	1,914.4	1,971.1	1,992.0	2,088.5	2,116.9	2,099.9
Total net oil exports (crude & products), 000b/d	2,008.6	1,694.8	1,696.4	1,362.3	1,522.1	1,550.6	1,507.9
Dry natural gas production, bcm	44.4	41.0	47.0	47.4	52.3	56.1	56.6
Dry natural gas consumption, bcm	17.3	12.5	15.0	15.8	16.0	16.1	16.6

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

CAMEROON – POLITICAL OUTLOOK

Unrest Will Remain Elevated But Be More Contained

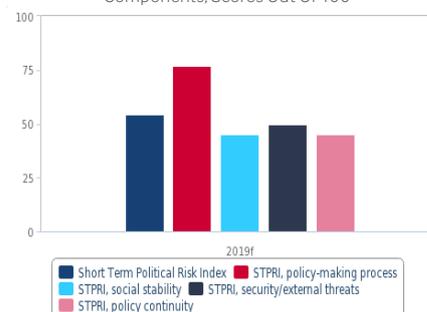
Key View

- At Fitch Solutions, we believe that instability in Cameroon as a result of the anglophone crisis will remain high but be less widespread.
- With the presidential election having taken place in October 2018, we believe there will be less general social unrest but instability will be more localised to the English-speaking north-west and south-west regions.
- As a result of increasing activity by separatist forces in the country, the risk of a civil war cannot be ruled out, but the likelihood of secession by the anglophone region is still low.
- In the medium term, a possible catalyst for greater risk could be that of President Paul Biya exiting office without a clear succession plan, increasing the risk of a power vacuum.
- We retain Cameroon's Short-Term Political Risk Index score at 54.2 out of 100 this quarter, but note that risks remain weighted to the downside.

Political risks in Cameroon are likely to remain more contained over the coming quarters. The country saw widespread demonstrations in the weeks leading up to the October presidential election, in which the 86-year-old Biya, who has held the position since November 1982, won another seven-year term. There were also instances of instability after the results were announced – protests were planned by the Cameroon Renaissance Party that staged the candidate who won the second-highest number of votes in late January, but these were cancelled in response to a government ban on demonstrations. Members of the party also took part in protests in October and November 2018, but many were arrested. In the coming months, these are unlikely to occur again given a heavy crackdown on opposition activity by the security services. That said, the continuing presence of separatist groups in the north-west and south-west regions, which are rebelling against the political and linguistic dominance of francophones, will sustain instability in that area.

Given the longevity and widespread nature of the separatist insurgency in the anglophone regions of Cameroon, we cannot rule out the risk of a civil war. In November 2016, protests by English-speaking Cameroonians took place, largely led by teachers and lawyers against the lack of employment opportunities for English speaking graduates and the dominant use of the French language in legal documentation, despite the fact that both French and English are official languages of the country. Government security services responded to this in a heavy-handed fashion, arresting a large number of participants. The government has also been slow to respond to reforms, further stoking tensions with the anglophone community. As a result, separatist groups demanding secession from the rest of Cameroon to establish a state called 'Ambazonia' have ramped up activity in the region. Such groups have fought with security services and enforced a boycott on the presidential election in October 2018 by blocking roads. There have been reports of violence expanding into other regions such as Littoral, but it is likely to remain contained within the north-west and south-west regions. We cannot, however, rule out the risk of a civil war and hold our view that risks of a full-blown conflict have risen in recent years, given the government's reaction to the anglophone rights movement (see *'End Of Election No Panacea For Cameroon's Instability'*, December 28 2018).

Anglophone Marginalisation Could Be Potential Catalyst For Greater Unrest
Cameroon – Short-Term Political Risk Index & Components, Scores Out Of 100



Note: Higher score indicates lower risk; f= forecast.
Source: Fitch Solutions

CAMEROON – DATA & FORECASTS

	2015	2016	2017	2018e	2019f	2020f	2021f
Population, mn	22.83	23.44	24.05	24.68	25.31	25.96	26.61
Nominal GDP, USDbn	30.8	32.1	34.2	39.2	42.4	46.9	51.8
GDP per capita, USD	1,349	1,368	1,422	1,587	1,674	1,805	1,946
Real GDP growth, % y-o-y	6.4	4.2	3.5	3.8	4.6	5.2	4.9
Consumer price inflation, % y-o-y, ave	2.7	2.5	0.6	1.9	3.1	2.8	2.8
Consumer price inflation, % y-o-y, eop	1.5	1.2	0.8	2.9	3.2	3.6	3.3
Central bank policy rate, % eop	2.45	2.45	2.95	2.95	2.95	2.95	2.50
Exchange rate XAF/USD, ave	591.45	592.88	580.50	546.52	548.92	539.88	531.14
Exchange rate XAF/USD, eop	602.51	623.71	546.40	546.63	551.22	529.00	533.30
Budget balance, XAFbn	-809.0	-1,180.0	-677.5	-727.7	-745.2	-655.4	-672.0
Budget balance, % of GDP	-4.4	-6.2	-3.4	-3.4	-3.2	-2.6	-2.4
Current account balance, USDbn	-1.2	-1.0	-0.9	-1.2	-1.5	-1.7	-2.1
Current account balance, % of GDP	-3.8	-3.2	-2.8	-3.1	-3.5	-3.7	-4.0
Foreign reserves ex gold, USDbn	3.5	3.3	3.1	2.7	2.5	2.6	2.6
Import cover, months	7.6	8.3	7.6	6.3	5.3	4.9	4.5
Total external debt stock, USDbn	7.3	8.2	10.4	11.6	13.4	15.5	18.5
Total external debt stock, % of GDP	23.5	25.5	30.4	29.6	31.6	33.1	35.7
Crude, NGPL & other liquids prod, 000b/d	98.0	92.3	80.0	73.6	69.9	67.1	65.1
Total net oil exports (crude & products), 000b/d	56.5	48.3	33.3	24.6	18.4	13.0	8.3
Dry natural gas production, bcm	0.4	0.4	0.4	1.8	2.1	2.2	2.1
Dry natural gas consumption, bcm	0.4	0.4	0.4	0.5	0.6	0.6	0.6

e/f = Fitch Solutions estimate/forecast; Source: National sources, Fitch Solutions

In the longer term, the lack of a suitable succession plan for Biya poses greater risks to the outlook. Biya, aged 86, has not yet named, groomed or appointed any presidential successors from his own party in recent years. Should he leave office suddenly, the ensuing power vacuum would trigger significant domestic political instability. The constitution of Cameroon states that if a president were to leave office suddenly, another presidential election would have to take place between 20 and 40 days afterwards. We deem it likely that opposition groups would attempt to gain greater influence, with demonstrations and rallies as well as some violence likely to occur. Given the uncertainty that such a situation would create, we believe it could be a potential catalyst for civil war, which we have named as a risk in the coming years. As such, while instability will remain more contained in the short term, risks will rise further along the timeline.

CÔTE D'IVOIRE – ECONOMIC OUTLOOK

Persistent Current Account Deficits Due To High Import Demand

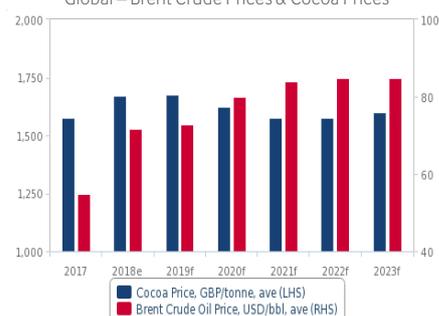
Key View

- We at Fitch Solutions expect that Côte d'Ivoire's current account deficit will narrow slightly in 2019 on higher proceeds from cocoa exports, though in 2020 and 2021 rising oil prices and weaker cocoa export growth will see the deficit widen again.
- Current account deficits will persist throughout our forecast period to 2028 due to elevated demand for capital goods imports and large primary income outflows to service external debt.
- In line with these forecasts, we expect that the current account deficit will narrow from 3.0% of GDP in 2018 to 2.5% in 2019 before widening again to 2.8% in 2020, before averaging 2.4% for the remainder of our forecast period to 2028.

We expect that financial account inflows will be sufficient to finance the current account deficit in Côte d'Ivoire, ensuring broad external account stability. Fluctuations in cocoa exports will see a moderate narrowing of the current account deficit in 2019, before it widens again in the following two years. Following excellent growing weather, our Agribusiness team now forecasts Ivorian cocoa production to rise by 6.0% in 2018 rather than fall by 4.0% as previously expected (see 'Cocoa: Prices Revised Lower As Supply In Key Grower Improves', March 26). We now expect that the value of cocoa exports will rise by 6.1% in 2019, which will boost overall exports given that cocoa is the country's most valuable export earner (39.3% of total export revenue as of 2017). In 2020 and 2021, however, these dynamics will reverse as cocoa prices will decline while demand for key imports rises, driving a widening of the current account deficit.

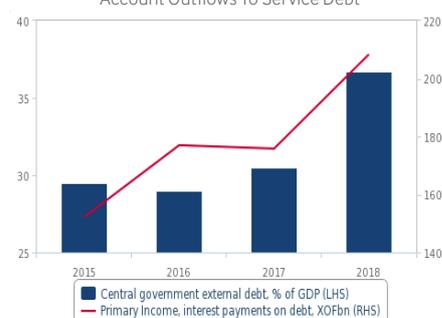
The current account deficit will widen in 2020 and 2021 due to more rapid oil price increases. Côte d'Ivoire is a net oil importer, with fuels making up the country's largest goods import (16.6% of total goods imports in 2017) meaning that higher oil prices will increase import costs. Our Oil & Gas team expects that the average Brent crude oil price will only rise by a modest 1.8% in 2019 – which will combine with rising cocoa exports to improve the trade balance in that year. However, after 2019 we expect a more rapid rate of oil price growth, with Brent crude prices rising by 9.6% in 2020 and 5.0% in 2021, increasing import costs and driving a widening of the current account deficit.

Rising Oil Prices And Falling Cocoa Prices To Weigh On External Accounts After 2019
Global – Brent Crude Prices & Cocoa Prices



e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Rising External Debt To Keep Primary Income Outflows Elevated
Côte d'Ivoire – Government External Debt & Primary Account Outflows To Service Debt



Source: BCEAO, Fitch Solutions

The current account will remain in deficit throughout our forecast period to 2028, due in part to high demand for capital goods imports. Numerous infrastructure projects that will be ongoing in the next several years will keep demand for capital goods elevated. A major port expansion, expanding road and rail projects, rural electrification and the construction of water treatment infrastructure will sustain demand for expensive capital goods imports keeping the current account in deficit.

Primary income outflows will also rise further, adding more pressure on the current account over our forecast period. Government eurobond issuances – including euro-denominated eurobonds – have increased government debt levels from 47.3% of GDP in 2014 to 52.6% in 2018, with the share of central government external debt rising from around 29.0% of GDP in 2016 to 36.7% in 2018 according to the IMF. The issuance of external debt has seen primary income outflows to service debt rising by 36.9% in nominal terms between 2015 and 2018, and given that large external debt repayments will be due by the mid-2020s, we expect that these outflows will increase. The government itself expects that its external debt servicing costs will rise by 20.8% in nominal terms in 2019, and given likely additional commercial debt issuances, these outflows are likely to help keep the current account in deficit.

Over the longer term, we believe that financial account inflows will be sufficient to cover persistent current account deficits, ensuring broad external account stability. The large number of planned and ongoing infrastructure projects will ensure that direct investment inflows remain high. Direct investment inflows almost doubled from XOF173.6bn in 2017 to XOF330.7bn in 2018 according to the Banque Centrale des Etats de l'Afrique de l'Ouest.

Portfolio investment inflows – the largest source of financial account inflows – are also likely to remain fairly robust given reforms to the business environment and a relatively robust growth outlook. However, the reliance on portfolio investment represents a weakness, as the country is vulnerable to hot money flows. Though we expect a spike in instability around 2020 presidential elections (*see 'Instability To Rise In Côte D'Ivoire As Election Looms', March 22*), we believe that the unrest will pass fairly quickly, making the sudden and large-scale outflow of portfolio investment unlikely in the short term.

However, though not our core view, Côte d'Ivoire's external account position could weaken significantly if unrest around 2020 elections escalate to the level of renewed conflict. Given Côte d'Ivoire's high portfolio investment, it would make the country vulnerable to rapid and large-scale disinvestment if conflict returned. This could create a major threat to external account stability.

CÔTE D'IVOIRE – DATA & FORECASTS

	2015	2016	2017	2018e	2019f	2020f	2021f
Population, mn	23.11	23.70	24.29	24.91	25.53	26.17	26.83
Nominal GDP, USDbn	33.1	35.3	38.2	42.7	46.3	53.4	58.3
GDP per capita, USD	1,433	1,489	1,570	1,715	1,814	2,040	2,173
Real GDP growth, % y-o-y	8.8	8.0	7.7	6.9	7.1	6.0	6.7
Consumer price inflation, % y-o-y, ave	1.2	0.7	0.8	0.3	1.5	2.1	2.0
Consumer price inflation, % y-o-y, eop	1.3	-0.2	1.1	1.0	2.6	2.6	2.1
Central bank policy rate, % eop	3.50	4.50	4.50	4.50	5.00	6.00	6.00
Exchange rate XOF/USD, ave	591.45	592.88	580.50	555.90	553.55	531.14	522.67
Exchange rate XOF/USD, eop	602.51	623.71	546.40	570.40	537.67	524.77	520.60
Budget balance, XOFbn	-553.0	-837.9	-1,052.0	-942.3	-890.5	-958.4	-1,014.6
Budget balance, % of GDP	-2.8	-4.0	-4.7	-4.0	-3.5	-3.4	-3.3
Goods and services exports, USDbn	14.1	13.6	14.7	15.4	16.2	17.0	17.7
Goods and services imports, USDbn	12.9	12.4	13.3	14.1	15.1	16.0	16.8
Current account balance, USDbn	-0.2	-0.4	-1.0	-1.3	-1.2	-1.5	-1.7
Current account balance, % of GDP	-0.6	-1.2	-2.7	-3.0	-2.5	-2.8	-2.9
Foreign reserves ex gold, USDbn	4.9	5.2	5.4	5.7	6.0	6.3	6.6
Import cover, months	5.2	5.8	5.4	4.8	4.7	4.7	4.7
Total external debt stock, USDbn	11.4	11.5	13.4	14.9	16.4	18.2	20.4
Total external debt stock, % of GDP	34.3	32.7	35.2	35.0	35.5	34.1	34.9
Crude, NGPL & other liquids prod, 000b/d	29.0	42.1	34.3	33.6	32.6	31.6	30.6
Total net oil exports (crude & products), 000b/d	3.1	13.0	1.8	-0.6	-3.3	-6.1	-9.0
Dry natural gas production, bcm	2.2	2.5	2.2	2.3	2.3	2.3	2.3
Dry natural gas consumption, bcm	2.0	2.3	2.1	2.2	2.2	2.2	2.8

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

SENEGAL – ECONOMIC OUTLOOK

Growth Set To Slow But Remain Robust In 2019

Key View

- At Fitch Solutions, we expect Senegal's real GDP growth to remain robust in 2019. The agricultural sector will continue to expand on the back of targeted government investment, while a healthy infrastructure project pipeline will contribute to strong activity in the construction sector.
- However, we expect growth to slow slightly from the 6.8% registered in 2018, largely because of the negative base effects of strong expansion in that year.
- Overall, we forecast real GDP growth of 6.3% in 2019 and 6.0% in 2020, with a solid uptick in growth in the latter part of our forecast period (from 2022), because of the scheduled start-up of hydrocarbons production.

At Fitch Solutions, we expect Senegal's real GDP growth to remain robust in 2019. Senegal's agricultural sector will continue benefiting from the government's Plan Sénégal Émergent (PSE) that was first adopted in 2014. Among other objectives, the PSE aims to improve the competitiveness and productivity of the agricultural sector through public provision of seeds and fertilisers, as well as subsidies for these inputs and machinery. This has likely contributed significantly to the 159.7% increase in domestic production of rice (the country's main crop) from 2013 to 2018. According to the latest data from Senegal's national statistics agency, Agence nationale de la statistique et de la démographie (ANSD), the agricultural sector grew by 10.1% y-o-y in 2018, reflecting both support from the PSE programme and favourable weather conditions. As the PSE enters its second phase (2019-2023), with 7.0% of the total budget of the programme allocated to agriculture, we expect this will ensure continued robust activity in the sector in 2019. As agriculture accounts for around 9.0% of total GDP, we expect strong sector dynamics to contribute to Senegal's continued growth in 2019.

Continued expansion of the construction sector will further underpin economic growth in 2019. The sector will continue to benefit from a healthy pipeline of infrastructure projects, including the USD914mn Dakar Regional Express Train, set to link the capital Dakar to the Blaise Diagne International Airport. As part of the PSE, the government has also been investing in the construction of a USD2bn city near Dakar, named Diamniadio, which when fully completed will provide housing for 350,000 residents and include an industrial park, international conference centre, government ministries and entertainment facilities. The park opened in December 2018, with at least seven manufacturing companies having set up operations.

As for energy projects, private firm **Lekela Power** launched the construction of the USD340mn Taïba N'Diaye wind farm, with an estimated 158MW of power and expected to expand Senegal's electricity generation capacity by 15.0% on project completion in 2020 (see '*Senegal Wind Farm Project Indicates SSA Renewable Power Potential*', August 1 2018). Crucially, we also expect that the government will continue to invest in road and other infrastructure in anticipation of a major oil project coming online in 2022, and believe that this will further support growth in 2019.

Nonetheless, we expect expansion in 2019 to slow slightly from 2018 levels, largely because of negative base effects. According to ANSD data, on a seasonally adjusted basis Senegalese GDP expanded by 6.8% q-o-q in Q418, the most rapid rate since Q417. Growth was particularly strong in the primary sector, with overall expansion of 8.7% y-o-y driven by agriculture, fishing and forestry. Meanwhile, the services sector grew by 6.3% y-o-y, and the secondary sector grew by 6.5%, thanks to a strong performance by construction and food production. Overall, this took Senegal's real GDP growth in 2018 to 6.8%.

Over our 10 year forecast period, growth will remain robust and comfortably above the regional average. Over the next decade, we see growth averaging 6.6%, well above the regional average of 4.3% over the same period and Senegal's 2009-2018 average of 4.7%. Our Oil & Gas team expects the deepwater SNE oil field – a 2014 discovery (the largest in the world in that year) made 100km south of Dakar – to come on line in 2022 (see '*Quick Update: Senegal's Deepwater SNE Field On Track For First Oil In 2022*', October 31 2018). The first of three phases of the field's development will target 240mn barrels of crude oil, with production likely to average 100,000b/d from 2022. While a final investment decision has not yet been made, we expect it in mid-2019, supporting continued gains in investment, increased exports and greater fiscal revenues. This will compound the effects of continued public investment in the extractive, construction and agricultural sectors under PSE II (2019-2023). The first phase of the PSE (2014-2018) led to a significant

improvement in GDP growth, which accelerated from 4.1% in 2014 to a 2015-2017 average of 6.6%, and in the country's business environment, as reflected by the climbing up of 37 positions in the World Bank's ease of doing business ranking from 178th in 2014 to 141st in 2019. We thus expect the PSE will keep facilitating business operations and attracting foreign investment, ensuring robust growth over the next decade

SENEGAL – DATA & FORECASTS

	2015	2016	2017	2018e	2019f	2020f	2021f
Nominal GDP, USDbn	17.8	19.0	20.7	22.7	24.8	28.3	31.6
Real GDP growth, % y-o-y	6.4	6.4	7.1	6.8	6.3	6.0	6.6
GDP per capita, USD	1,186	1,231	1,303	1,391	1,481	1,643	1,789
Population, mn	14.98	15.41	15.85	16.29	16.74	17.20	17.66
Consumer price inflation, % y-o-y, eop	0.4	2.1	-0.7	1.7	1.7	2.0	2.0
Consumer price inflation, % y-o-y, ave	0.4	0.8	1.3	0.5	1.7	1.9	2.0
Central bank policy rate, % eop	3.50	4.50	4.50	4.50	5.00	6.00	6.00
Exchange rate XOF/USD, ave	591.45	592.88	580.50	555.90	553.55	531.14	522.67
Exchange rate XOF/USD, eop	602.51	623.71	546.40	570.40	537.67	524.77	520.60
Budget balance, XOFbn	-385.2	-369.2	-512.4	-662.3	-792.1	-916.7	-1,055.4
Budget balance, % of GDP	-3.7	-3.3	-4.3	-5.3	-5.8	-6.1	-6.4
Current account balance, USDbn	-0.8	-0.8	-1.2	-1.7	-1.9	-2.1	-2.2
Current account balance, % of GDP	-4.8	-4.4	-5.9	-7.5	-7.7	-7.4	-7.1
Foreign reserves ex gold, USDbn	2.0	2.2	2.3	2.5	2.7	2.9	3.2
Import cover, months	4.9	4.9	4.7	4.7	4.6	4.6	4.6
Total external debt stock, USDbn	5.9	6.7	8.9	9.5	10.1	10.7	11.4
Total external debt stock, % of GDP	33.2	35.2	43.0	41.7	40.6	38.0	36.2

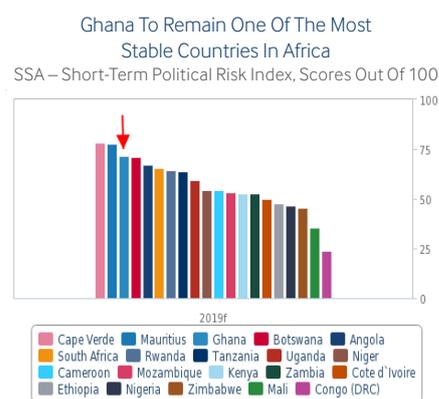
e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

GHANA – POLITICAL OUTLOOK

Upcoming Elections Present Minimal Risks To Social Stability And Policy Continuity

Key View

- We at Fitch Solutions believe that the campaign for general elections in 2020 will not lead to serious social instability or security risks due to Ghana's well-established political institutions and processes.
- We also expect that most of the fiscal reforms put in place under the IMF extended credit facility will remain in place regardless of who wins the elections, ensuring that Ghana's fiscal structures will remain much stronger than they were in 2015.
- Illegal mining will remain a threat to social stability in some areas, especially following the end of a ban on artisanal mining. Ghana's handling of the high number of Chinese illegal miners in Ghana may also create some tensions with Ghana's Chinese investors.
- Ghana will remain one of the most stable countries in Sub-Saharan Africa (SSA), with a Short-Term Political Risk Index score of 71.7 out of 100. This puts it as the fourth highest scoring out of 48 SSA countries.



Note: Higher score = lower risk; f = forecast. Source: Fitch Solutions

The start of election campaigning will not seriously threaten security or social stability in Ghana, where broadly peaceful elections and transfers of power have been well-entrenched since 1992. The designation in February 2019 of former president of Ghana John Mahama as the presidential candidate for the opposition, centre-left National Democratic Congress, signals that the campaign for the 2020 elections is beginning. The election campaign will pit Mahama – who served as president between 2012 and 2017 – against incumbent President Nana Akufo-Addo of the centre-right New Patriotic Party, meaning that the two main candidates both have records in office. This will likely favour the incumbent, who has presided over fairly robust economic growth and a significant fall in inflation, whereas

Mahama left office after having to obtain an IMF bailout. We do not believe that the election process will see large scale violence or civil unrest – even if some protests or clashes could occur at times.

The election is not scheduled until late in 2020, meaning that much can change before the vote; however, we do not expect that the broad structural reforms undertaken at the behest of the IMF will be fundamentally changed regardless of the winner. These reforms have included making Ghana's tax base much larger by changing the methods of tax assessment and collection, as well as by improving the cooperation between government agencies collecting indirect taxes and customs revenues (see '*Fiscal Consolidation To Progress Gradually In Ghana*', February 25). This suggests that even if there are differences over spending or economic policies between rival parties, Ghana's general fiscal stability will be better entrenched than was the case before the IMF programme began.

The lifting of a ban on artisanal mining will likely make the incidences of illegal mining or 'Galamsey' more widespread in 2019, presenting some risks to social stability in rural areas. Galamsey is a major source of social tensions in Ghana. Frequently Galamsey operations are a focal point of criminal activity, and the poisoning of water supplies and agricultural land has caused clashes with local populations, leading to pressure on the state to act. A temporary ban on all small-scale mining was lifted in late 2018, making it much harder to identify wrongdoers – particularly as there are reports that companies with legal mining licences have sold plots of land to illegal miners, making the line between legal and illegal mining operations harder to identify for law enforcement. As it is, a 400-strong anti-Galamsey military taskforce is charged with pursuing around 200,000 illegal miners engaged in operations of varying degrees of scale and sophistication.

We also note that the government's fight against Galamsey brings with it some potential economic headwinds due to the effect the crackdown could have on relations with China. According to international media as many as one quarter of Galamseyers are Chinese and according to one report as many as 1,000 Chinese Galamseyers have been arrested – but only 12 have been prosecuted. The Chinese ambassador criticised the coverage of Chinese citizens in the Ghanaian press in 2017, and we believe that some tensions with China are possible if more Chinese miners are arrested, put on trial or are injured or killed during security force crackdowns. This could have some negative economic implications given that Ghana is receiving extensive investment from Chinese firms such as **Sinotruck** and **Sinohydro**, and brings with it the risk that such firms could potentially reduce, postpone or even halt investment.

GHANA – DATA & FORECASTS

	2015	2016	2017	2018e	2019f	2020f	2021f
Population, mn	27.58	28.21	28.83	29.46	30.10	30.73	31.37
Nominal GDP, USDbn	47.8	54.6	58.3	62.7	65.1	72.8	83.8
GDP per capita, USD	1,731	1,934	2,022	2,129	2,163	2,367	2,671
Real GDP growth, % y-o-y	2.2	3.4	8.1	5.7	6.8	7.3	6.7
Consumer price inflation, % y-o-y, ave	17.1	17.3	12.4	9.9	10.6	9.5	7.3
Consumer price inflation, % y-o-y, eop	17.7	15.4	11.8	9.4	11.7	7.3	7.2
Central bank policy rate, % eop	26.00	25.50	20.00	16.00	16.00	16.00	16.00
Exchange rate GHS/USD, ave	3.78	3.94	4.40	4.68	5.30	5.66	5.70
Exchange rate GHS/USD, eop	3.81	4.24	4.52	4.96	5.64	5.69	5.70
Budget balance, GHSbn	-9.4	-13.1	-12.2	-11.4	-12.2	-12.7	-12.7
Budget balance, % of GDP	-5.2	-6.1	-4.8	-3.9	-3.5	-3.1	-2.7
Goods and services exports, USDbn	16.5	17.5	20.4	21.0	22.9	26.2	29.1
Goods and services imports, USDbn	20.8	20.5	22.1	28.1	32.9	37.1	42.7
Current account balance, USDbn	-1.3	-2.8	-2.0	-2.0	-2.3	-2.4	-2.8
Current account balance, % of GDP	-2.8	-5.2	-3.4	-3.2	-3.6	-3.3	-3.3
Foreign reserves ex gold, USDbn	5.4	5.5	6.7	8.3	9.2	10.2	11.4
Import cover, months	3.1	3.2	3.6	4.5	4.6	4.5	4.3
Total external debt stock, USDbn	20.6	21.4	22.0	24.6	27.4	30.6	34.4
Total external debt stock, % of GDP	43.2	39.2	37.8	39.1	42.1	42.1	41.0
Crude, NGPL & other liquids prod, 000b/d	102.4	92.1	167.2	187.3	224.7	230.3	225.7
Total net oil exports (crude & products), 000b/d	23.5	18.4	83.1	101.5	138.1	146.4	144.4
Dry natural gas production, bcm	0.7	0.7	1.0	1.9	3.0	3.2	3.3
Dry natural gas consumption, bcm	1.3	0.8	1.3	2.3	3.4	3.9	4.5

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions