

Special Report

Sub-Saharan Africa: A Brighter Outlook?

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Related Research**Applicable Criteria**

- *Sovereign Rating Methodology (October 2009)*

Other Research

- *Sovereign Review and Outlook (June 2010)*
- *Global Economic Outlook (July 2010)*

Sub-Saharan Africa (SSA) growth slowed to 2.1% in 2009, its weakest growth rate since 1994. However, alongside emerging Asia and the Middle East, it did not experience a recession. Weaker global integration shielded the region from the worst effects of the collapse in global trade and credit. Ongoing economic liberalisation and public investment, as well as domestic trends such as growing urbanisation, kept the region's growth in positive territory.

The region's economic performance was helped by the fact that the severe drop in commodity prices was short-lived. The IMF and international financial institutions (IFIs) quickly moved to step up lending, which made up for the fall in private capital flows. Due to windfall savings in the boom years by producers of oil and other commodities and recipients of South African Customs Union (SACU) revenues and debt relief, many governments were able to implement counter-cyclical fiscal policy and not cut vital capital expenditure. Nonetheless, weaker growth has a much bigger impact on a poor region like SSA, leading to increasing poverty and delaying the achievement of millennium development goals (MDGs). Most other indicators of creditworthiness, with the exception of inflation, worsened with deficits widening, public debt increasing and per capita GDP falling.

Four Fitch-rated countries fell into recession, due to their exposure to commodities and/or global markets for South Africa, Namibia and Gabon. For the Seychelles it was due to the need to take severe adjustment measures in the wake of a debt default. Only Nigeria suffered a banking crisis, due to domestic reasons – margin lending in an environment of over-lending, and weak regulation and governance.

As a result of the continued structural reforms and strong public investment in the region, even during the downturn, SSA is better placed to take advantage of trade and investment opportunities as the global recovery gains momentum. The IMF is projecting a recovery of growth to 4.7% in 2010, rising to 5.8% in 2011.

Credit Developments

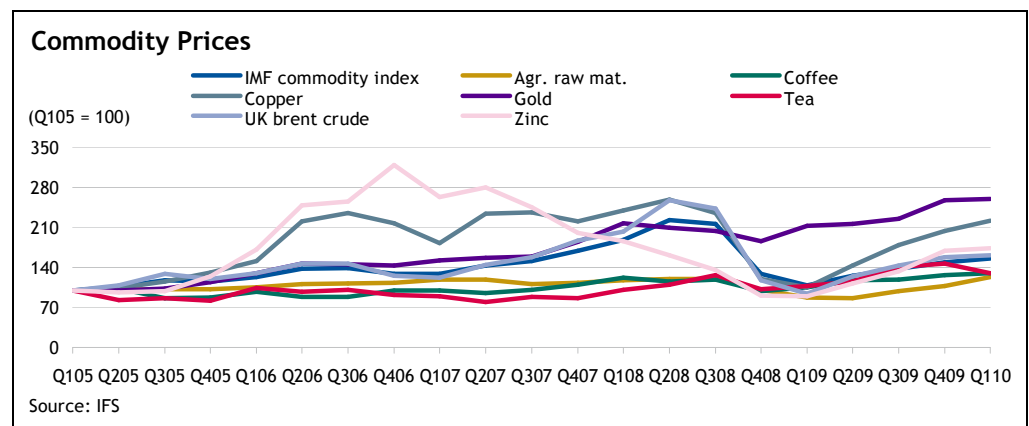
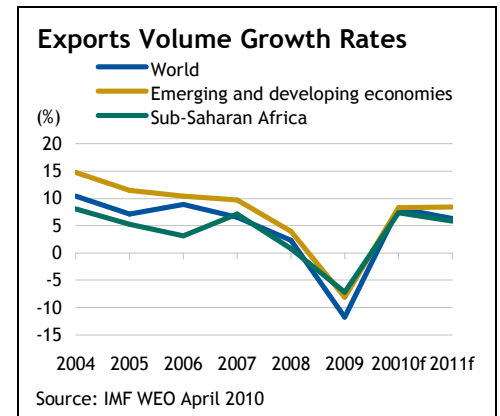
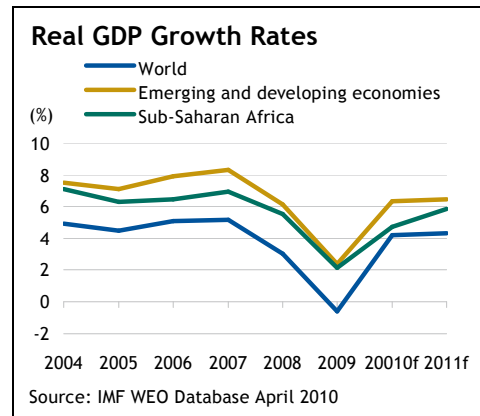
SSA ratings were mostly stable throughout the global financial crisis and recession. Only three Negative Outlooks have been assigned on South Africa's and Ghana's Long-Term (LT) IDRs and on Lesotho's Local-Currency LT IDR, although the Outlook on its Foreign-Currency IDR remains Stable. Positive Outlooks were assigned to Uganda's LT IDRs. New ratings were assigned to the Seychelles and Angola.

Focus on Infrastructure

Investment in infrastructure has accelerated since the middle of the decade and on the whole capital spending was not scaled back during the global recession. In recognition of the need to source more private capital for infrastructure investment, the IMF has started to raise non-concessional external borrowing ceilings for selected SSA countries within its debt sustainability framework. This will broaden SSA funding sources to the syndicated loan market, non-concessional bilateral credit lines and the Eurobond market. Thus far Senegal (NR) has used the increased borrowing ceiling to issue a Eurobond in December 2009. More countries are likely to follow, with Tanzania (NR), Zambia (NR), Angola and Nigeria planning Eurobond issues over the coming year, mainly for the purpose of infrastructure investment. Despite progress on structural and institutional reforms, both the pace and extent of reforms lag other regions. Structural reforms to improve the business environment will need to continue to be implemented rigorously to improve the effectiveness of the new public investment by crowding in private investment.

Economic Performance and Outlook

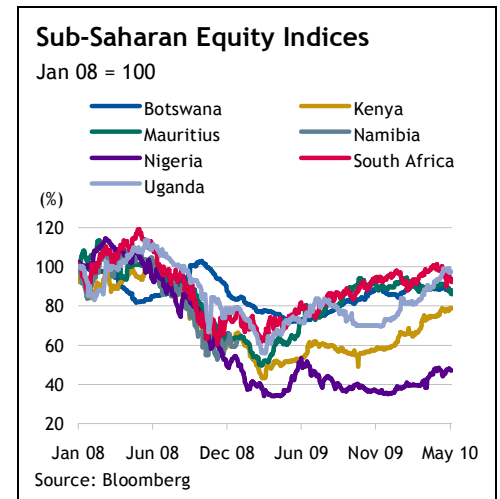
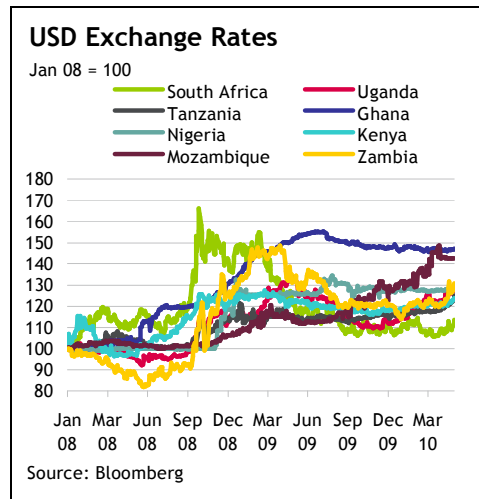
Economic growth in SSA weakened in 2009 to its lowest pace since 1994¹, as the impact of the global financial crisis and abrupt decline in global economic activity and trade in Q408 resulted in a recession in developed countries. Commodity prices fell in the second half of 2008 and only started to recover in the second half of 2009. Global output contracted by 2.5% according to Fitch from a slowdown to 0.9% in 2008. However, SSA did not experience a recession. Although this partly reflects weaker global integration of both financial and trade systems, it also speaks to the region's improved resilience following almost a decade of economic reforms.



The impact of the global downturn was felt initially by the commodity exporters and those countries with more developed capital markets – South Africa and the so-called frontier markets² that had seen increasing foreign investor interest in their equity and debt markets since 2006. Investor risk aversion led to the withdrawal of portfolio capital from the region's capital markets in Q408. The abrupt withdrawal of capital from shallow markets in frontier countries and the fall in export commodity prices and global trade put the balance of payments and currencies of many countries under pressure. With the exception of Nigeria ('BB-') Zambia (NR) and Ghana ('B+'), most currencies had stabilised at a lower level by the end of the year, although many remained vulnerable. According to the IMF, regional growth slowed to 5.6% in 2008 from 7% in 2007 (and an average of 6.7% in 2004-2007).

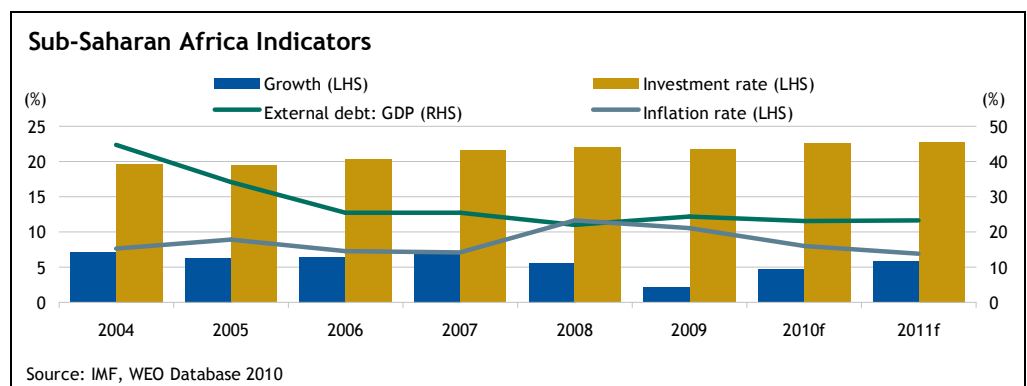
¹ IMF WEO Database April 2010. Average SSA growth in the 1980s (1980-1989) was 2.6%, in the 1990s 2.2% and in the 2000s 5.5%

² Nigeria, Ghana, Uganda, Zambia, Kenya, Botswana, Namibia, Tanzania, Mozambique, Cape Verde, Mauritius.



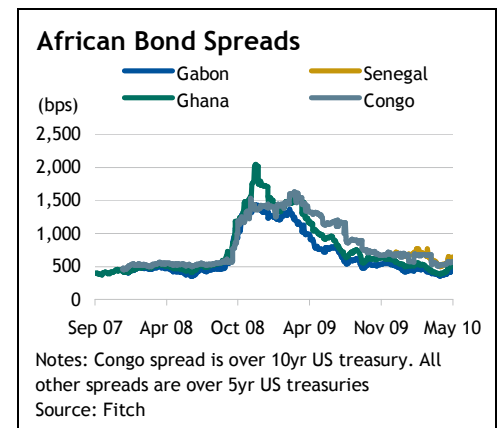
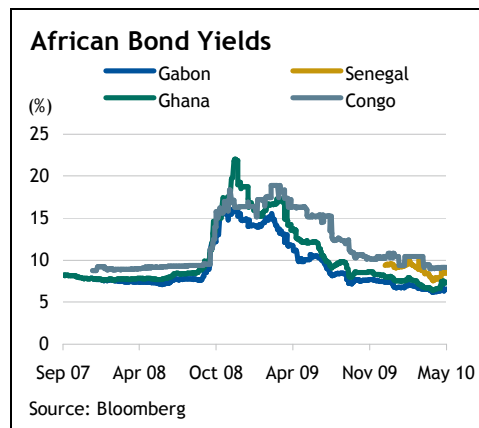
Regional growth continued to slow to 2.1% in 2009 as the impact of the global recession and fall in commodities prices took hold. This growth rate is, however, skewed by the impact on those globally integrated economies and commodity producers which include South Africa and Angola, the largest and third-largest economies in the region respectively. Only four of the 15 Fitch-rated countries in SSA experienced a recession. These are globally integrated and commodities-based South Africa and Namibia, oil-producing Gabon and the Seychelles due to the need for sharp adjustment measures following a debt default at the end of 2008.

The impact of the global recession broadened out to remittances (although not to the extent initially feared) and a decline in tourism revenue. There was a slowdown or fall in exports growth in almost all countries. However, the region (with the exception of Nigeria) was spared a banking crisis as banks finance their lending largely from their domestic deposit base and have little exposure to global financial markets. Nonetheless, in preceding years, South Africa and many of the frontier markets' banking systems had presided over fast credit growth to the private sector. The economic slowdown caused a deterioration in asset quality and credit growth has slowed due to increased risk aversion by banks. Although weak and underdeveloped, SSA banking systems are well-capitalised and profitable due to weak competition.



In mitigation, lower inflation, which had declined in almost all countries since the second half of 2008 due to lower food and oil prices and global demand, enabled looser monetary policy. Further, windfall savings in the boom years by producers of oil and other commodities and recipients of SACU revenues, as well as debt relief for many countries, allowed countries to implement counter-cyclical fiscal policy to preserve much needed public investment and jobs as well as health and education spending. Domestic bond markets provided some flexibility to increase borrowing for those mainly frontier countries that have been developing their domestic capital markets in recent years.

Externally, the IMF and IFIs made available unprecedented sums of money for balance of payments and budgetary support which is helping stabilise currencies, support macroeconomic stability and tide countries over until the global recovery gains momentum. The IMF committed over USD3.6bn of concessional financing and USD1.4bn in non-concessional stand-by and extended fund facility arrangements³. This is up from around USD1.1bn for both in 2008. SSA accounted for around USD12bn of Special Drawing Rights provided by the IMF in August and September 2009. The rebound in commodity prices since H209 has helped the economic recovery. As such, currencies and stock markets have strengthened, although they have still not made up all ground lost. Bond spreads on SSA's Eurobonds have fallen back from their peak in Q408-Q109.



SSA countries continued to implement structural reforms to improve the business environment despite facing a difficult macro-economic environment. According to the World Bank's (WB) "Doing Business 2010" report, more than half of the countries in SSA implemented reforms in the year between June 2008 and May 2009. Rwanda ('B-') was the world's top reformer and its global ranking moved to 67th place out of 183 countries (up from 143rd in the 2009 report) putting this measure more in line with countries rated 'BB' or even 'BBB'. Liberia (NR) was the 10th-best reformer in the world. For the first time, an SSA country, Mauritius (NR), was ranked in the top 20 countries globally at number 17. Six Fitch-rated SSA countries are in the top 10 in the regional ranking and 11 in the top 20. These structural reforms have contributed to the stronger growth performance over the past decade but reforms need to be implemented more rigorously to close the gap with other regions.

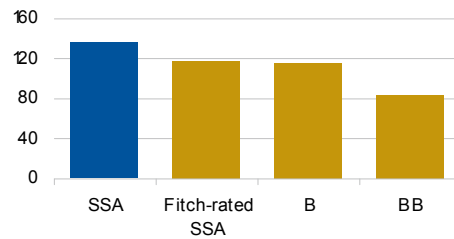
In 2009, reform progress relative to other regions – most notably eastern Europe, central Asia, the Middle East and North Africa – was slower and coupled with the low starting point, SSA remains the worst region for ease of doing business. Similarly on WB governance measures, which look at political and institutional governance indicators, SSA countries perform weaker than the 'B' category rating median on corruption, regulatory environment, government effectiveness and press freedoms. The medians of Fitch-rated SSA countries are, however, more or less in line with the 'B' rating category.

³ Of the Fitch-rated SSA countries, it provided the three-year Extended Credit Facility to Ghana (USD603m in July 2009), Benin (USD109m in June 2010), Lesotho (USD61.4m in June 2010), and the one-year Exogenous Shock Facility to Cameroon (USD144m in July 2009), Kenya (USD210m in June 2009) and Mozambique (USD176m in June 2009).

Ease of Doing Business 2010 Rank

Out of 183

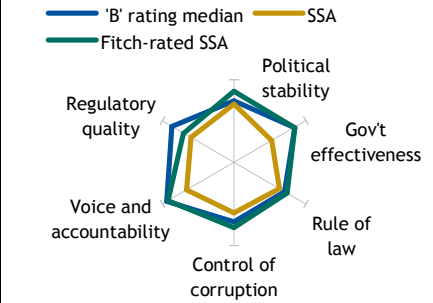
(Rank)



Note: Average rank by rating category
Source: World Bank, Fitch

Governance Indicators

2008



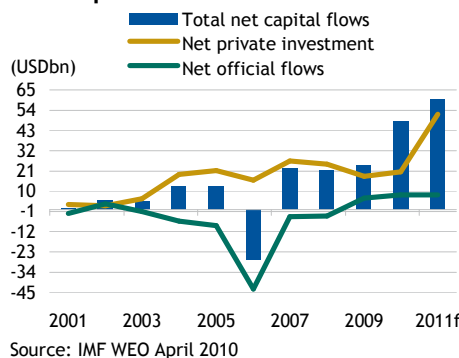
Source: World Bank, Fitch

Due to weaker growth and exchange rates, progress on growing already very weak per capita incomes was reversed in 2009. This has a much bigger impact on a poor region like SSA, leading to increased poverty and unemployment and a deterioration in other social indicators and slowing momentum on achieving MDGs. All other indicators of creditworthiness with the exception of inflation worsened, with deficits widening and public and external gross and net debt rising.

2010 Outlook

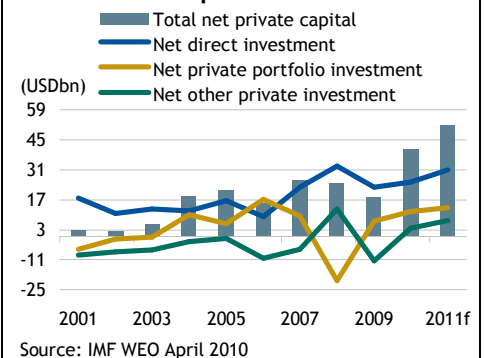
In 2010, growth is being driven by the sustained recovery of commodity prices since mid-2009, the recovery in global growth and the easing of risk aversion, which is reviving private capital flows. The IMF projects growth of 4.7%. Although fiscal and monetary policies are yet to tighten, inflation will fall further due to lower food prices and more stable currencies. Continued structural reforms and strong public investment even during the downturn means that SSA is better placed to take advantage of trade and investment opportunities as the global economy recovers, with the IMF projecting GDP growth to increase to 5.8% in 2011.

Net Capital Flows to SSA



Source: IMF WEO April 2010

Net Private Capital Flows to SSA



Source: IMF WEO April 2010

Last year demonstrated that SSA's external vulnerabilities are still fairly traditional ones; direct trade links to the developed world and indirect links via the impact of global growth on commodity prices. SSA's prospects are therefore closely linked to the pace of the global recovery. In this regard, it is worth noting that the region's merchandise exports to the EU, comprising one-third of the total, are the largest of any EM region except emerging Europe (see Fitch's "Sovereign Review and Outlook" report, dated 30 June 2010 and available at www.fitchratings.com). SSA is therefore relatively vulnerable to slower-than-expected growth in the EU.

However, other EM regions have gradually been increasing their share of African exports, especially China, although for most countries in SSA, exports to China are still quite small. Chinese demand for commodities has also been an important factor driving the revival in prices over the last year.

Fitch-Rated SSA Share of Exports to EU and China 2009

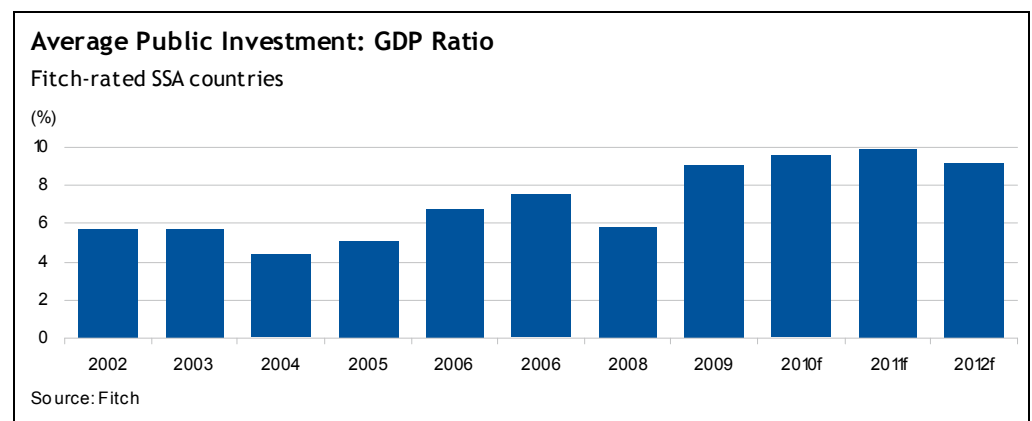
| | Exports to EU (%) | Exports to China (%) |
|--------------|-------------------|----------------------|
| Angola | 18.3 | 35.6 |
| Benin | 9.9 | 13.2 |
| Cameroon | 56.4 | 9.1 |
| Cape Verde | 83.9 | 0.0 |
| Gabon | 13.7 | 15.9 |
| Ghana | 40.6 | 1.6 |
| Kenya | 29.8 | 0.5 |
| Lesotho | 29.3 | 0.4 |
| Mozambique | 58.0 | 3.7 |
| Namibia | 37.0 | 25.0 |
| Nigeria | 26.0 | 0.5 |
| Rwanda | 14.6 | 5.5 |
| Seychelles | 62.6 | 0.9 |
| South Africa | 26.8 | 10.3 |
| Uganda | 29.5 | 0.9 |

Source: IMF DOTS

SSA countries emerged from the global crisis with their fiscal buffers and official reserves reduced. The region would not be able to manage another global shock as well as it did in 2009. Higher tax revenues due to the economic growth recovery and higher commodity prices should help contain deficits and allow oil and other-commodity producing countries to rebuild fiscal buffers. The main risks to the economic outlook are a fall in commodity prices due to a fall in China's growth and a weaker-than-expected global recovery due to muted EU growth.

Focus on Infrastructure

With the worst of the global economic crisis over, SSA countries are refocusing on infrastructure. Investment in infrastructure has accelerated since the middle of the decade. Data from the IMF and for Fitch-rated countries shows that on the whole capital spending was not scaled back during the global recession. For Fitch-rated countries, capital spending averaged 6%-7% of GDP between 2002 and 2008. It rose to 9% of GDP in 2009 and is projected at 9%-10% of GDP in 2010-2012, with some countries such as Lesotho, Mozambique and Cape Verde spending as much as 18% of GDP in 2010 and 2011.



The WB⁴ estimates that SSA needs to spend USD93bn per year (15% of the region's GDP) on its infrastructure to close the infrastructure gap and meet growing demand. Notwithstanding institutional, capacity and funding bottlenecks, spending has risen to around USD45bn per year using mainly concessional borrowing, grants, domestic tax revenues and increasingly credit lines from the Chinese and other BRICs

⁴ "Africa's Infrastructure: A Time for Transformation, edited by Vivien Foster and Cecilia Brinceno, Garmendia, December 2009. World Bank.

countries, which may or may not be on concessional terms, and domestic bond issuance. This, according to the WB, still leaves a funding gap of around USD31bn assuming operational inefficiencies are reduced, while official assistance (which increased sharply in 2006-2008) is likely to slow or stabilise given the domestic financial difficulties faced by EU countries and other donors.

In recognition of the need to source more private capital for infrastructure investment, and given low debt ratios following debt relief and low debt service on concessional borrowing, the IMF has started to raise non-concessional external borrowing ceilings for selected SSA countries that meet agreed debt sustainability criteria and have adequate debt management capacity, with the money targeted to productive infrastructure. This will allow SSA countries to expand their sources of financing to the syndicated loan market, development bank project loans, non-concessional bilateral credit lines and the Eurobond market.

For instance, Mozambique's non-concessional borrowing ceiling has recently been raised to USD900m over three years, Tanzania's to USD1.5bn over three years, Uganda's to USD500m over three years, Angola's to USD6bn for 2010 and Ghana's to USD650m for 2010 (of which USD450m is tied to specific projects). Rwanda's and Senegal's ceilings are tied to specific projects. Senegal's ceiling of CFA90bn in 2009, linked to a road project, enabled the country to issue its first Eurobond (five-year, USD200m) in December 2009. More countries are likely to follow, with Tanzania (NR), Zambia (NR), Angola and Nigeria planning Eurobond issues over the coming year, mainly for the purpose of infrastructure investment. Structural reforms will need to continue in tandem to improve the effectiveness of the public investment.

Credit Developments

In contrast to other emerging and developing regions, in particular emerging Europe, SSA ratings remained mostly stable throughout the global financial crisis and recession. SSA ratings are mostly in the single 'B' and low 'BB' rating range and economic volatility is not unusual. In addition, weaker global integration shielded the region from the worst effects of the collapse in trade and credit. But the region's resilience also benefited from improved macro policies and structural reforms in recent years. Only three Negative Outlooks have been assigned – to South Africa's and Ghana's LT IDRs and to Lesotho's Local-Currency LT IDR (although the Outlook on its Foreign-Currency LT IDR remains Stable). Positive Outlooks were assigned to Uganda's LT IDRs. New ratings were assigned to the Seychelles and Angola, both with Positive Outlooks. Fitch currently rates 15 countries in SSA.⁵

Ratings in SSA

| | Foreign-Currency | Foreign-Currency Outlook | Local-Currency | Country Ceiling |
|--------------|------------------|--------------------------|----------------|-----------------|
| South Africa | BBB+ | Negative | A | A |
| Namibia | BBB- | Stable | BBB | A |
| Nigeria | BB- | Stable | BB- | BB- |
| Gabon | BB- | Stable | BB- | BBB- |
| Lesotho | BB- | Stable | BB | A |
| Cape Verde | B+ | Stable | BB- | B+ |
| Angola | B+ | Positive | B+ | B+ |
| Ghana | B+ | Negative | B+ | B+ |
| Kenya | B+ | Stable | BB- | B+ |
| Mozambique | B | Stable | B+ | B |
| Uganda | B | Positive | B | B |
| Benin | B | Stable | B | BBB- |
| Cameroon | B | Stable | B- | BBB- |
| Seychelles | B- | Positive | B- | B- |
| Rwanda | B- | Positive | B- | B- |

Source: Fitch

⁵ Fitch withdrew Mali's rating in December 2009 and Malawi's rating in August 2009.

Oil exporters struggle with lower oil prices

The addition of Angola to the portfolio of Fitch-rated SSA sovereigns in May means that oil exporters now account for 40% of the aggregate GDP of the 15 SSA countries covered in this report. Nigeria and Angola dominate, being the second- and third-largest in terms of GDP, after South Africa. Ghana will join the ranks of oil exporters later this year, while for Uganda, oil exporter status is still a couple of years away.

The past two years have emphasised the vulnerabilities of high oil dependence. Although oil prices recovered strongly during 2009 and will this year average their highest in any year except 2008, all Fitch-rated oil exporters in the region suffered varying degrees of stress, although in most cases the worst seems to be over and there has been progress in 2010 with the fall-out. Angola entered the crisis with an overly ambitious budget which, although eventually cut back, still resulted in substantial domestic contractor arrears, despite initial high international reserves and domestic deposits. Defence of an unrealistic exchange rate also brought substantial reserve loss, eventually forcing the authorities to turn to the IMF in November 2009, the only country in the region with a Stand-By Agreement (SBA).

Nigeria entered the crisis with larger buffers, thanks to savings in its excess crude account (ECA), but by the end of 2009 these were almost exhausted as the authorities grappled with below-budget oil revenues and continued high spending demands, while reserves were lost defending the exchange rate. Nigeria's non-oil growth remained surprisingly buoyant during the crisis, averaging over 7% last year – the highest of any oil producer. Angola was not far behind, despite suffering the biggest slowdown. In both countries, however, the authorities are struggling to bring inflation down to single digits. Non-oil GDP only contracted in Gabon, where its other commodity exports suffered from the global recession.

Elsewhere, Growth Held Up Well; Debt Ratios Were Contained

Only South Africa, Namibia and the Seychelles suffered outright recessions last year. South Africa was hit by the global recession but also needed to adjust domestically after a rapid credit boom. However, South Africa's banks have not required official assistance of any sort. Newly rated Seychelles stands out with the biggest drop in GDP last year of -7.5%, but special factors were at work, notably a radical adjustment programme prompted by its 2008 default. Private creditors agreed a restructuring, including a 50% write-down on its defaulted Eurobond, in February. Elsewhere in non-oil SSA, growth averaged a respectable 4.4% last year, with Uganda, Rwanda and Mozambique the best performers, each with 6%-7% growth.

By end 2010, debt ratios are expected to have risen most in Cape Verde and South Africa, in each case up by over 10% of GDP compared with end-2008. The worsening in public debt dynamics in South Africa is one of the reasons why its rating was placed on Negative Outlook at the end of 2008. In Cape Verde, the debt increase is linked to infrastructure spending – a common theme in the region – but is a concern in a country that already has one of the highest debt ratios among 'B'-rated sovereigns, at almost 60% of GDP. However, as the borrowing is mainly concessional, debt service indicators are forecast to remain well in line with 'B' medians. Ghana's debt ratio – at just over 60% of GDP, is also relatively high. But Seychelles is the highest at over 100% of GDP.

Growth Expected to Pick Up in 2010 with Inflation Falling

Median SSA growth is forecast to pick up to nearly 5% in 2010 in the Fitch-rated SSA countries. The pick up will be sharpest in the oil producers – Angola and Gabon – and in the Seychelles. Namibia and South Africa will also return to positive growth after last year's recession. Median inflation is forecast to fall back, especially in Ghana, Rwanda and Seychelles. However, average inflation will remain in double digits in Angola and Nigeria.

South Africa

A Negative Outlook on South Africa's 'BBB+' rating was assigned in November 2008 as part of a portfolio review of all the major emerging markets in the wake of the global financial crisis. This anticipated the subsequent recession in 2009, the significant deterioration of public finances and rising unemployment. However, the recession has helped address some imbalances in the economy with credit growth slowing sharply, inflation falling and the current account deficit narrowing.

Portfolio inflows have returned strongly since Q209 and the economy started to recover in Q309, albeit very gradually. The budget deficit should start to decline this year, but debt ratios will continue rising for some time. Prospects for growth and debt dynamics will be key to resolving the rating outlook later this year. Fitch currently forecasts general government debt to rise until at least 2012, when it will exceed 45% of GDP.

Namibia/Lesotho

The collapse in South Africa's trade and growth is leading to a substantial fall in SACU revenues to the SACU/Common Monetary Area (CMA) Fitch-rated countries, Namibia and Lesotho. As the impact is felt with a lag, the fall in SACU revenues will hit public finances in the next two fiscal years when SACU revenues are projected to fall by 40%-50% compared with the 2009/2010 (April-March) fiscal year before they start to recover in 2011/2012. Both countries' public finances started off from a very strong position having paid off more expensive debt and built deposits with the SACU windfalls in 2004-2008. The Negative Outlook on Lesotho's Local-Currency LT IDR nevertheless reflects diminished fiscal flexibility following the drawdown of government deposits to finance much wider budget deficits.

Namibia's relatively developed domestic debt market gives it additional financing flexibility. It is also much less reliant on SACU revenues than Lesotho. These countries also experienced a commodity price shock – diamonds, uranium, copper and zinc for Namibia, and diamonds for Lesotho. Namibia was one of the few SSA countries to go into recession in 2009 while Lesotho's growth only slowed. The countries' growth is expected to recover in 2010 in line with stronger commodity prices and global growth. Their Foreign-Currency IDRs at 'BBB-' (Namibia) and 'BB-' (Lesotho) remain on Stable Outlook.

Oil-Producing countries

The Fitch-rated oil-producing countries – Gabon, Nigeria, Angola and Cameroon – are very vulnerable to oil price shocks as, with the exception of Cameroon, they are undiversified in terms of export and government revenues which also feed indirectly into non-oil growth through public spending. The countries' ability to respond to oil price shocks in terms of an orderly adjustment is also constrained by relatively weak fiscal frameworks and underdeveloped monetary and exchange rate regimes (in the case of Nigeria and Angola – Gabon and Cameroon are part of a monetary union). The countries have been helped by the fact that last year's severe drop in oil prices was short-lived.

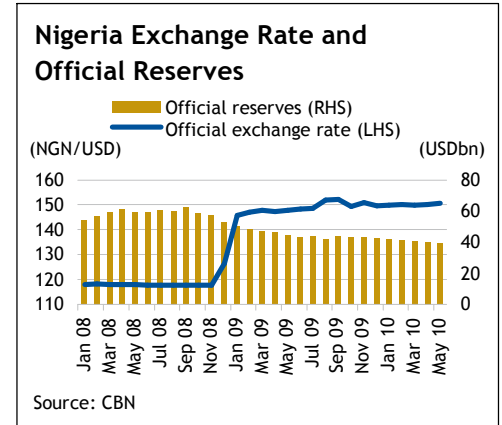
Nigeria

For Nigeria, the sharp drop in oil prices and a fall in oil production due to increased militancy in the Niger Delta put pressure on the federal and state budgets, triggered a currency crisis and was the catalyst for a banking crisis. Nigeria is the only SSA country to experience a banking crisis due to a classic episode of over-lending into a stock market boom, which ended in March 2008. Problems were exacerbated by weak banking sector governance and regulation. The government's policy response was initially confused and uncertain and resulted in a major loss of FX reserves.

The SACU revenue shock is being cushioned by earlier savings of windfall revenues

Oil economies benefited from the quick rebound of prices, but fiscal and external buffers are depleted

By the end of 2009, however, the rebound in oil prices and a series of central bank policy initiatives (from June 2009), most notably guaranteeing all interbank lending (now extended to June 2011) and re-liberalisation of the FX market, had helped ease liquidity conditions and stabilise the country's currency and reserves. Enforcement of stricter loan loss rules and an overhaul of provisioning exposed severe capital shortages in the system which the central bank made good in the first instance. Legislation for an asset management company to clean up banks' balance sheets, which is expected to facilitate the eventual resumption of bank lending, was passed by the Nigerian National Assembly in June 2010. The stock market started to recover at the beginning of 2010.



The political situation has also been marked by confusion and uncertainty, though the situation is now improving. On the positive side, an amnesty to Niger Delta militants has eased violence sufficiently to bring some increase in oil production. The death of President Umara Yar Adua in May 2010 after a long illness (which had resulted in a political vacuum) has not increased short-term political risk unduly. The eventual transition to the former vice president and then acting president, Goodluck Jonathan, although confused, was ultimately smooth. Nonetheless President Jonathan has a small window to implement key initiatives such as electoral reform and the consolidation of peace in the Niger Delta before elections in April 2010. Non-core policy initiatives and structural reforms are likely to progress slowly, if at all.

Nigeria has emerged from the crisis with its fiscal buffers depleted and is implementing an expansionary budget in 2010 based on an optimistic assumption on oil production – 2.35 million barrels per day (mb/d) versus 2mb/d currently. A new budget proposal was sent to parliament in May, lowering the oil price assumption but remained expansionary. In an election year, further draw downs on the ECA are likely, and Fitch expects very little (if any) replenishment of the ECA.

As such, although Nigeria's 'BB-' rating is supported by very low public debt, a strong external balance sheet (despite using up around USD20bn in defence of the exchange rate in Q408-Q109), higher oil prices and production and robust growth, Fitch sees more downside risk and limited upside. Nigeria is acutely vulnerable to another period of lower oil prices, and there is further potential downside if the Niger Delta ceasefire fails to hold and from increasing political risk in the lead-up to the elections.

Angola

Angola was assigned a 'B+' /Positive Outlook rating in May 2010. Angola's rating strengths – its good growth record of 13.4% in 2003-2009 on average (the second-strongest of Fitch-rated countries after Azerbaijan, 'BBB-' /Stable Outlook) reflecting strong investment in infrastructure and the oil sector, rising oil production and improved macroeconomic stability and its moderate public and external debt ratios – are counterbalanced by considerable ongoing challenges. These include the need to address the major infrastructure gap and strengthen institutions to mitigate the impact of future oil price shocks, and improve financial management and the effectiveness of government in services delivery and efforts to foster economic diversification and development.

Angola's Positive Outlook reflects Fitch's view that implementation of IMF-supported reforms will embed macro stabilisation, improve financial management and transparency, mitigate the impact of oil price volatility, and strengthen public and external balance sheets. The first IMF review was successfully completed in May 2010.

Gabon

The Gabonese economy contracted by 1.4% in 2009. This mainly reflected the decline in the price of oil, which accounts for 39% of its GDP (2009) and, to a lesser extent, lower demand for timber and manganese. It was also due to a fall in investment by 9% – a number of investment decisions were postponed pending the appointment of a new government following the death of President Omar Bongo in June 2009. Unlike for the other Fitch-rated SSA oil-producers, Gabon's budget did not move into deficit but the budget surplus declined to 6.5% of GDP from 12.1% in 2008. The new government has presented a very ambitious budget for 2010, with a large increase in public investment, though the surplus is projected to fall by just 1% to 5.6% of GDP.

Over the long term, Gabon's debt will progressively increase as the investment programme is implemented. The government is planning to issue debt on the local market to replace advances from BEAC (La Banque des Etats de l'Afrique Centrale). The decline in oil production due to the exhaustion of existing fields is a risk for the Gabonese economy. Production stabilised in 2009 thanks to the rise in prices, which makes the drilling of mature oil fields with expensive techniques profitable.

Cameroon

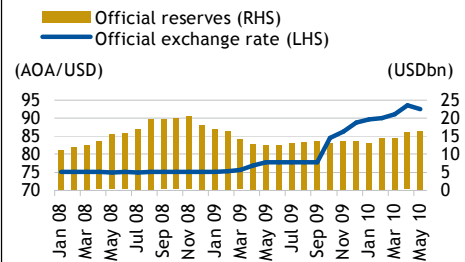
As a result of the decline in price of oil (which accounted for 10% of GDP and 27.6% of revenues in 2009), Cameroon's economic growth slowed to 2.1%, the budget balance moved into deficit for the first time since 1998 as oil revenues dropped by 37.4%, and the current account deficit increased to 5.3% of GDP in 2009 – its worst performance since 1997. The deficits would have been larger if its investment programme had not been under-executed. The government had to draw on the Exogenous Shock Facility made available by the IMF. Nevertheless, Cameroon's indebtedness remains low, with public debt standing at 14.0% of GDP at end-2009 partly due to earlier debt relief.

Due to the projected decline in oil revenues as a result of lower oil production, Fitch expects a further deterioration in Cameroon's budget deficit, to 2.6% of GDP in 2010. Hence, Fitch foresees a progressive increase in public indebtedness over the medium to long term, more pronounced for domestic debt. In 2010, the current account balance will still show a moderate deficit (3.4% of GDP), which will not be offset by foreign direct investment, as weak public governance deters foreign investors and delays the implementation of infrastructure projects. As the government will draw on its deposits, Fitch also expects a slight decrease in international assets (for the first time since 1997).

Cape Verde

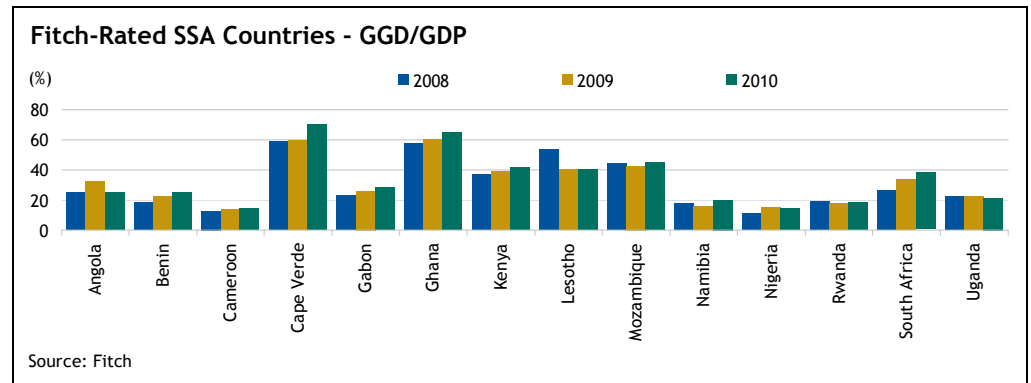
The sharpest increase in government debt among rated countries in SSA is likely to take place in Cape Verde, where the government is embarking on an ambitious programme of infrastructure investment over two years. Gross government debt could rise from 60% of GDP at end-2009 to up to 78% by end-2011, depending on the rate of project execution.

Angola Exchange Rate and Official Reserves



Source: BNA, IMF IFS

Adding to the debt burden – Cape Verde already has one of the highest debt burdens among ‘B’-rated sovereigns – carries risks, but two mitigating factors led Fitch to affirm Cape Verde’s ‘B+’ rating with a Stable Outlook in May 2010. The new borrowing will be on concessional terms from multilateral and bilateral lenders, and debt servicing will stay well in line with ‘B’ medians. Fitch believes that the new investment will bring a pay-off of higher long-term growth. Having boomed in recent years on the strength of rapid growth in tourism and construction, the economy slowed in 2009 but is expected to grow by 5% in 2010, spurred by public investment.



Kenya

Kenya had a second year of weak growth of around 2.6% in 2009 due to the global recession affecting the key horticulture sector and transport, a persistent drought and still relatively weak domestic confidence following the post-election crisis in early 2008. The government is implementing a counter-cyclical fiscal policy to mitigate the effects of the global recession and has been able to finance its wider deficit in FY10 (July-June) with increased domestic issuance.

Sharply lower inflation (due to the change in formula for calculating inflation) is allowing monetary easing. Public debt is expected to have risen in FY09/FY10 (July-June) to around 42% of GDP. The global recovery, faster regional growth and improved agriculture due to better weather are expected to improve Kenya’s growth performance to around 4% in 2010.

Ghana

Ghana’s ‘B+’ rating was put on Negative Outlook in March 2009 reflecting severe fiscal slippage in the lead-up to the elections in December 2008. Combined with external shocks, macroeconomic instability re-emerged. Capital expenditure cuts by the incoming government and lower oil prices (and hence subsidy) have aided fiscal consolidation in 2009, bringing the deficit down to 9.6% from 14% in 2008. Falling inflation has allowed monetary easing. The terms of trade improvement from higher gold and cocoa prices and lower oil prices, IMF money as well as IFI and bilateral donor budget support, helped support the balance of payments and stabilise the currency from Q409. Real GDP growth is estimated at 4% in 2009.

The macro-economic outlook for 2010 is much improved and oil production is due to start in Q410. Inflation has moderated to a still relatively high 10.7% in May. But public debt has yet to stabilise and Ghana still has to complete a number of reforms – most notably civil service reform, full cost recovery in the major public utilities and public expenditure management reforms – in order to reduce a significant structural deficit of around 5% of GDP and ensure that the oil revenue from 2011 onwards is not frittered away on recurrent expenditure.

Uganda

The Outlook on Uganda's 'B' rating was revised to Positive from Stable in August 2009, predicated on the improved long-term prospects for Uganda's growth, public finances and balance of payments owing to the discovery of sizeable oil reserves. Commercial oil production could start as early as Q411 but the development of the oil reserves has been mired in negotiations between the government and Tullow Oil (Tullow), the largest oil exploration company (by reserve assets) operating in Uganda.

The government has been reluctant to sanction Tullow's acquisition of Canada's Heritage oil blocks as it would give Tullow a monopoly over the bulk of Uganda's oil assets. The deal is currently mired in a row over capital gains taxes (CGT). Uganda wants Heritage to pay USD360m in CGT before it can transfer its oil assets to Tullow but Heritage disputes whether the transaction is eligible for such a tax. Meanwhile, another strong agricultural harvest, the continued buoyancy of exports to neighbouring southern Sudan and the Democratic Republic of Congo, and a resurgence in inward portfolio flows and remittances shored up output at 6.4% in 2009. These factors also resulted in an increase in the balance of payments surplus from USD386m in 2008 to USD477m in 2009. As a result, foreign exchange reserves rose to a comfortable 5.5 months of imports.

Stepped-up infrastructure spending increases public debt levels which nevertheless are still relatively low in terms of debt level and/or service

Mozambique

Mozambique's creditworthiness continues to be supported by its strong growth performance – growth has averaged 7.5% over the last decade – which remained little dented by the global financial crisis over 2008-2009 when output slowed to 6.5%. Large ongoing foreign investments in the natural resources sector, especially coal, suggest that growth will stay high over the medium term. About 50% of Mozambique's budget is financed by donor support, which has proved enduring owing to Mozambique's sound economic policies and reforms and relatively good governance.

However, concerns over corruption and the incumbent's moves to quash the prospects of a new party in the 2009 general elections led donors to freeze budget disbursements in Q110. Budget support was resumed after discussions with the government resulted in the latter agreeing to a set of electoral reforms and remains vital to the rating. Given the enormity of its investment needs, the IMF has also agreed to let Mozambique undertake non-concessional borrowing to the tune of USD900m (9% of GDP) over 2010-2012, albeit under close surveillance by the IMF. Mozambique's indebtedness, which declined from 145% of GDP in 2001 to about 43% of GDP in 2009, is currently above the 34% of GDP 'B' range median.

Benin

The Benin economy, which relies mainly on agriculture and trade with Nigeria, is insufficiently diversified. It has grown rather slowly in recent years, owing to difficulties in the cotton sector. Benin's current account balance deteriorated rapidly since 2007, reflecting the combined effect of increasing energy prices and declining cotton prices. The decline in oil prices in 2009 only brought modest relief, as it was offset by a drop in external revenues due to lower agricultural products exports and emigrants' remittances. The economy will continue to grow at a modest pace in the coming years, as economic development is constrained by infrastructure bottlenecks, in particular in the area of energy.

External indebtedness, which had been substantially cut thanks to earlier debt relief has resumed its growth in 2009, while international reserves decreased for the first time since 1996. Public debt should be close to 25% of GDP in 2011, compared with 12.6% in 2006. Indeed, Fitch expects the budget deficit to increase in the coming years, due to weak economic growth (growth is projected at 2.8% for 2010), which will lower tax receipts, and a planned increase in capital expenditure. Despite increased aid from international donors, recourse to new debt issuance in the domestic market will be necessary.

Rwanda

In July 2009, Fitch affirmed Rwanda's 'B-'/Positive Outlook rating, which remains driven by its continued commitment to reform and a stellar growth performance. Growth slowed to about 6% in 2009 from the rapid 11.2% clip it registered in 2008.

The government's concerted efforts to enhance the business environment by addressing Rwanda's infrastructure deficit and its resolute plans to develop the rural sector should keep growth in the 6%-7% range for the foreseeable future. This will be financed partly by additional funds from the donor community, which has taken increasing comfort from the government's strict fiscal discipline in the post-debt relief years. Indeed, budgetary grants increased by 25% (or 1% of GDP) in 2009, relative to 2008, helping to sustain public capital spending at 10% of GDP. Rwanda's improving economic prospects, the additional aid it has secured and the high likelihood that these resources will be prudently spent give reasons to be optimistic about Rwanda's creditworthiness.

Rwanda is holding presidential elections in August 2010. Fitch expects the current president, Paul Kagame, to contest a second term and most likely be returned to power. Nonetheless, political risk has risen in the run-up to the polls with fatal grenade attacks in the capital Kigali and an attempt on the life of a former colonel in the Rwandan army who is currently living in exile in South Africa. Growing discontent with the Kagame regime has also led several other military figures to defect ahead of the elections.

The Seychelles

The Seychelles was assigned a Foreign-Currency LT IDR of 'B-'/Positive Outlook rating in February 2010. The rating signals the Seychelles' emergence from a default event after the successful conclusion of a debt exchange with the holders of its USD230m Eurobond and EUR55m promissory note on which Seychelles defaulted in 2008.

Negotiations with creditors resulted in the issue of a new USD169m discount bond that saw investors take a haircut of 50% on the face value of their claims. Following the debt exchange and earlier write-offs from the Paris Club and other bilateral creditors, the sovereign's immediate financing needs have been significantly reduced to less than USD30m per annum (3% of GDP) over 2010-2011, which can be met out of the disbursements from multilateral agencies and the primary surpluses the Seychelles is required to run under the IMF programme.

The external debt burden has also been materially lowered to a projected 53% of GDP in 2010 from 144% in 2008. The three-year IMF programme will anchor sounder economic management and structural reforms. In 2009, the Seychelles' fiscal performance was impressive, outperforming IMF targets despite a sharp drop in GDP. A resumption of output growth which IMF expects to reach 4% is expected in 2010. Inflation has moderated from the highs seen following the flotation of the rupee. As a result, Fitch expects the Seychelles' credit profile to gradually improve, consistent with the Positive Outlook on the rating.

By Country

| | GDP (USDm) | Population (m) | Population growth (% , 5-year average) | GDP per capita USD | GNI PPP per capita (USD) | Gross domestic savings (% of GDP) | Gross domestic investment (% of GDP) | Commodity dependence | Ease of Doing Business (percentile) | Bank credit to private sector (% of GDP) | Bank system CAR | Real GDP growth (%) | | Consumer prices (annual average % change) | | General government balance (% of GDP) | |
|--------------|------------|----------------|--|--------------------|--------------------------|-----------------------------------|--------------------------------------|----------------------|-------------------------------------|--|-----------------|---------------------|------|---|------|---------------------------------------|-------|
| | 2009 | 2009 | 2009 | 2009 | 2009 | 2009 | 2009 | 2009 | 2009 | 2009 | 2009 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| Angola | 71,790 | 18.6 | 2.9 | 3,865 | 5,020 | n.a. | 33.5 | 98.0 | 8 | 22.2 | 15.9 | 2.7 | 8.3 | 13.8 | 13.0 | -9.1 | 5.8 |
| Benin | 6,787 | 8.9 | 3.2 | 760 | 1,460 | 4.2 | 22.5 | 52.9 | 6 | 21.8 | 8 (2008) | 2.7 | 3.0 | 2.2 | 2.5 | -3.6 | -3.0 |
| Cameroon | 22,320 | 19.5 | 2.3 | 1,143 | 2,180 | 11.9 | 16.9 | 66.0 | 7 | 11.2 | 10.4 | 2.1 | 3.4 | 3.0 | 2.0 | -0.1 | -2.6 |
| Cape Verde | 1,780 | 0.5 | 1.5 | 3,517 | 3,450 | 5.0 | 41.2 | 8.7 | 20 | 55.7 | 10.3 | 4.0 | 4.7 | 1.0 | 2.2 | -5.2 | -12.1 |
| Gabon | 10,852 | 1.5 | 1.9 | 7,362 | 12,270 | 58.6 | 22.1 | 89.1 | 14 | 10.1 | 19.6 (2008) | -1.4 | 5.2 | 2.1 | 5.0 | 6.5 | 5.7 |
| Ghana | 15,334 | 23.9 | 2.2 | 643 | 1,430 | 9.0 | 27.9 | 34.6 | 50 | 26.5 | 18.2 | 4.5 | 5.0 | 19.3 | 10.8 | -9.5 | -8.0 |
| Kenya | 31,035 | 39.8 | 2.7 | 780 | 1,580 | 11.9 | 26.0 | 37.7 | 48 | 31.7 | 19.5 | 2.6 | 4.1 | 9.2 | 6.0 | -7.0 | -6.8 |
| Lesotho | 1,681 | 2.1 | 0.9 | 814 | 2,000 | -32.4 | 27.1 | 2.4 | 31 | 13.1 | 15 | 1.9 | 2.5 | 7.2 | 6.5 | -4.4 | -9.6 |
| Mozambique | 10,559 | 21.3 | 2.2 | 495 | 770 | 16.3 | 34.8 | 64.6 | 26 | 18.5 | 11.5 | 6.3 | 6.5 | 3.2 | 7.0 | -4.3 | -8.1 |
| Namibia | 8,999 | 2.0 | 1.3 | 4,434 | 6,270 | 24.0 | 26 | 32.2 | 64 | 48.0 | 15 | -1.0 | 4.1 | 9.1 | 5.0 | -1.6 | -7.1 |
| Nigeria | 157,738 | 165.4 | 3.2 | 954 | 1,940 | 9.7 | 11.9 | 82.1 | 32 | 42.6 | 22.52 | 6.9 | 7.1 | 12.4 | 12.0 | -5.3 | -4.4 |
| Rwanda | 5,265 | 9.5 | 2.3 | 554 | 1,010 | 4.2 | 21.6 | 14.4 | 64 | 11.6 | 19.4 | 6.0 | 6.6 | 10.4 | 4.9 | -1.5 | -2.2 |
| Seychelles | 783 | 0.1 | 0.8 | 8,881 | 8,670 | 14.9 | 31 | 42.8 | 40 | 21.7 | 19.2 | -7.5 | 4.0 | 31.8 | -2.4 | 5.1 | 0.7 |
| South Africa | 285,983 | 48.8 | 1.0 | 5,859 | 9,780 | 18.4 | 18.8 | 37.9 | 82 | 81.3 | 14.1 | -1.8 | 3.0 | 7.3 | 5.9 | -7.5 | -6.4 |
| Uganda | 14,762 | 32.7 | 3.3 | 452 | 1,140 | 5.0 | 14.9 | 26.9 | 39 | 13.3 | 18.7 | 7.1 | 5.6 | 13.1 | 9.5 | -0.9 | -1.7 |

Source: Fitch

By Country (Cont.)

| | General government debt (% of GDP) | General government interest payments (% of revenue) | General govt LC debt (% of total) | Current account balance (% of GDP) | | Net external debt (% of GDP) | Official international reserves (in months of CXP cover) | External debt service (% of CXR) |
|--------------|---------------------------------------|--|-----------------------------------|---------------------------------------|-------|---------------------------------|---|-------------------------------------|
| | 2009 | 2009 | 2009 | 2009 | 2010 | 2009 | 2009 | 2009 |
| Angola | 32.7 | 7.0 | 10.2 | -10.5 | 4.6 | -12.7 | 3.3 | 13.4 |
| Benin | 22.4 | 2.0 | 20.6 | -9.1 | -9.1 | 1.8 | 7.1 | 2.5 |
| Cameroon | 14.0 | 1.9 | 33.8 | -5.3 | -3.0 | -7.5 | 6.1 | 5.4 |
| Cape Verde | 59.7 | 5.0 | 32.2 | -9.0 | -15.1 | 45.9 | 2.5 | 5.5 |
| Gabon | 26.1 | 4.9 | 30.9 | 12.2 | 6.9 | 6.0 | 4.6 | 7.6 |
| Ghana | 60.2 | 15.2 | 50.9 | -8.0 | -16.4 | 24.5 | 3.4 | 7.8 |
| Kenya | 42.3 | 10.5 | 55.1 | -5.5 | -4.7 | 9.3 | 4.0 | 7.4 |
| Lesotho | 40.5 | 1.3 | 10.3 | 4.2 | -4.4 | -45.1 | 8.8 | -0.3 |
| Mozambique | 42.7 | 1.9 | 6.4 | -11.1 | -13.3 | 29.8 | 4.8 | 36.7 |
| Namibia | 15.1 | 5.4 | 72.2 | -1.6 | -4.1 | -4.9 | 5.1 | 10.2 |
| Nigeria | 16.0 | 6.0 | 84.3 | 2.8 | 11.4 | -15.4 | 8.0 | 3.2 |
| Rwanda | 18.3 | 1.5 | 18.6 | -6.9 | -6.8 | -2.4 | 6.5 | 1.9 |
| Seychelles | 118.1 | 25.1 | 32.3 | -35.4 | -41.1 | 229.0 | 0.4 | 9.8 |
| South Africa | 33.1 | 7.4 | 88.2 | -3.9 | -4.1 | -0.4 | 5.0 | 6.4 |
| Uganda | 22.4 | 7.5 | 37.4 | -5.9 | -7.0 | 4.1 | 6.0 | 6.1 |

Source: Fitch

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