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Press Release

Euler Hermes: Despite its woes, Africa's potential remains significant

JOHANNESBURG – 10 July 2017 -- Euler Hermes, the global leader in trade credit insurance recently presented its latest analysis on Africa's economic performance at a 'Risk Frontiers 2017' conference in London. Highlights of the speech by Stéphane Colliac, chief economist for France and Africa with Euler Hermes, follow.

While Africa's external debt has increased slightly, at 32% of GDP it remains far below its past peak (55% in 2002). While there is no general solvency issue, liquidity requirements are pushing some countries to request IMF support. The increasing public debt on the continent is also a concern, driven by countries with fiscal vulnerability, particularly some oil exporting economies such as Algeria, Angola, Libya and Nigeria. After a three-year commodity shock, the moment of truth is approaching: many countries will have to accept IMF money and adjust their fiscal balance accordingly.

"Despite its challenges and recent severe financial pressure's on commodity exporters, the African continent has significant economic potential," said Stéphane Colliac. "Further corporate expansion and development is possible – we predict Africa's growth to be +2.6% in 2017. However, liquidity is under pressure as many countries have recently experienced currency depreciation pressures."

Main continental risks

- #1 Political risk and uncertainty
- #2 Commodity price/exchange rate issue
- #3 A growing debt pile due to vulnerable fiscal policies

Africa: The problem is not growth but how to finance it

Political uncertainty, be it in major economies in the world or within the region, is the biggest concern. It compounds weak economic performance in commodity exporting countries such as Gabon, Ghana, Nigeria and South Africa. It also affects Foreign Direct Investment (FDI) as foreign investors are skeptical about putting money into a country / region experiencing political upheaval and extremism.

Exchange rate policy is another major challenge, as floating exchange rates have in past acted as shock absorbers for Egypt and South Africa. However, for countries with fixed rates such as Nigeria and Angola, the fear of floating worsened the liquidity shock. Furthermore, increasing public debt and vulnerable fiscal policy affects government spending on critical matters, as fiscal spending is key for social cohesion and further development. Unfortunately, public debt has increased in many sub-Saharan economies, and countries such as Ghana and Tunisia are facing liquidity issues, while Mozambique and Angola faced solvency risks.

"Although Africa is lagging behind the rest of the world, this is paradoxically an advantage for the region as it approaches development differently. It has already taken concrete steps to address the backlog, especially in some of its key economies," adds Colliac.

Nigeria: Recession should end soon

Nigeria is a dominant economy in West Africa in terms of population and GDP, and is now the continent's largest economy. Its hydrocarbon resource base includes 2.2% of global oil reserves (11th in global rankings with 43 years of additional extraction at current rates) and 2.7% of natural gas reserves (9th and over 100 years).

The hard currency peg was not credible and the gap with the black market exchange rate widened significantly. Capital controls implemented to maintain the peg hit growth hard (-2% in 2016). With stagflation, the consumer suffered from major purchasing power losses and low Day Sales Outstanding (DSOs) hit corporates. Finally, the unwinding of capital controls in March 2017 reduced the exchange rate issue and helped to stabilize economic activity. GDP growth of +1% is expected in 2017.

The World Bank's *Doing Business 2016* survey ranks Nigeria 169th out of 189 countries assessed, above Cameroon and Bangladesh but below Algeria and Guinea. Nigeria ranks 143rd in terms of both the enforcement of contracts and the ease of resolving insolvencies.

South Africa: Recession to be short-lived

The country experienced a technical recession with two consecutive quarters of negative growth, at -0.2% in 2017 Q1, following -0.1% in 2016 Q4. The 2016 laggard -- commodities -- performed well during the first quarter (agriculture +5.1% and mining +3% q/q), when the resilient domestic economy of 2016 no longer held on. Retail sales weakened markedly in January and February 2017. This was just after inflation peaked as a result of increasing oil and food prices -- fuel prices increased by +16% y/y at the beginning of the year. The recession should prove short-lived, since inflation decreased markedly at +5.3% y/y in April.

Unfortunately, the negative carry-over effect is driving growth expectations lower (from +1% to +0.6% in 2017 and from +1.5% to +1.2% in 2018). South Africa will probably remain at near stagnation for some time. But all is not doom and gloom as there is good news in the form of inflation. Euler Hermes now expects a decrease in inflation to +5% in both 2017 and 2018, comfortably within the Central Bank's target band (3%-6%)], providing a bit of breathing room.

Recent political evolutions have not shown any sign of resolution that would break this stagnant growth; instead public debt is growing, to 53% of GDP in 2017.

Egypt: The balancing act

The business environment switched suddenly from heavy rigidities (fixed exchange rate, high subsidies) and low liquidity to more market-based ones, but with heavy short-term costs. These reforms were necessary to rebalance the growth model. They should also help the country make the most of its business regulation, which is among the most favorable in the region.

Reforms (exchange rate regime liberalization and cuts in public subsidies) were key, in order to rebalance the economy and qualify for IMF loans. There is no longer a liquidity risk: import cover returned to past-crisis levels and the black market exchange rate vanished. Inflation skyrocketed but monetary policy tightening is a done deal.

Morocco: Oh so quiet?

Growth is back in Morocco. Public and private consumption was the resilient factor in 2016 and growth should be broader-based in 2017. In Q1 2017, GDP growth accelerated to +4.3% y/y, after +0.9% in Q4 2016. After poor crops in 2016, 2017 is closer to normal. The rebound of agricultural output explains the low growth in 2016 (+1.1%), and should drive the bulk of growth recovery in 2017, to +4.5%.

The long-awaited flexibilization of the dirham exchange rate, a political issue, should finally occur. Overall, Morocco's external vulnerability is quite low, as foreign exchange reserves cover about 7 months of imports and the current account deficit (-2.7% of GDP in 2017) is manageable.

Background: A reinsurance agreement is in place between Allianz Global Corporate & Specialty (AGCS) South Africa Limited and Euler Hermes to develop the business of credit insurance in South Africa. Both companies are part of the Allianz group. All trade credit insurance in South Africa will be provided by AGCS South Africa (FSP No 16722). AGCS South Africa, with Euler Hermes' world market knowledge and risk services expertise supplied via Euler Hermes Services South Africa Pty Limited, will collaborate to provide clients with world-class credit insurance solutions.

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Allianz Global Corporate & Specialty (AGCS) is the Allianz Group's dedicated carrier for corporate and specialty insurance business. AGCS provides insurance and risk consultancy across the whole spectrum of specialty, alternative risk transfer and corporate business: Marine, Aviation (incl. Space), Energy, Engineering, Entertainment, Financial Lines (incl. D&O), Liability, Mid-Corporate and Property insurance (incl. International Insurance Programs).

Worldwide, AGCS operates in 30 countries with own units and in over 210 countries and territories through the Allianz Group network and partners. In 2016, it employed around 5,000 people and provided insurance solutions to more than three quarters of the 'Fortune Global 500' companies, writing a total of €7.6 billion gross premium worldwide.

AGCS SE is rated AA by Standard & Poor's and A+ by A.M. Best.. For more information please visit www.agcs.allianz.com or follow us on Twitter @AGCS_Insurance and LinkedIn.