July 2018

East African Macroeconomic View

"Growing Among Thorns"

From reading like a similar book in our previous editions, we see sublime shifts in the economies of East Africa, albeit with some similarities. These include higher anticipated economic growths despite challenges of potential currency weakening and elevated debt levels. The region has seen its NPLs accelerate over the years with the banks contracting lending to the private sector to arrest the asset deterioration (except for Rwanda). East Africa has in the past benefited from low oil prices which have since risen, pointing to increased import bills and pressure on their respective currencies. The equities bourses have come under pressure on the back of foreign exits as well as lower performances of (cross-listed) Kenyan equities.

Kenya intends to lower development expenditure in 2018/19 whilst other East African countries budget to raise their development expenditures. In addition, the country has been rocked by a number of corruption scandals, some involving listed entities. Kenya's credit crunch is exacerbated by the rate cap despite plans to scrap it. Tanzania continues to face authoritarian governance with arbitrary regulation that may not be investor-friendly. The Ugandan shilling has recently come under pressure which may inflate the import bill. Rwanda has seen sluggish growth in private sector investments on grounds of low population and high energy & transportation costs.

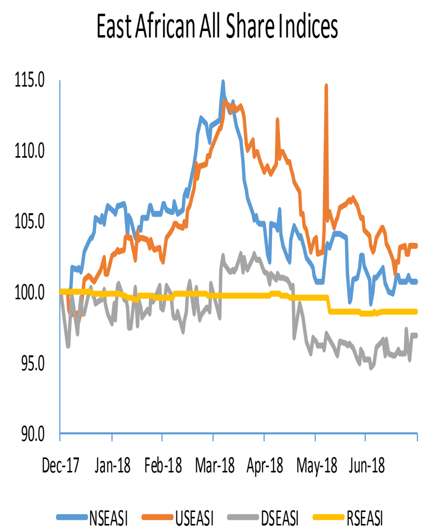
Going forward, the economies are looking to leverage on synergies across the region as well as the continent. Positive steps have been made to resolve trade conflicts between Kenya and Tanzania. The Continental Free Trade Area agreement is still in its early stages but promises to expand markets for companies across the continent.

In this report, we present our views on the macroeconomic aspects of **Kenya**, **Uganda**, **Tanzania**, and **Rwanda**.

Contents:

Country	Kenya	Uganda	Tanzania	Rwanda
Bloomberg Ticker	KNSMIDX	UGSINDX	DARSDEI	SEMDEX
GDP growth (%)	5.7	5.8	7.2	7.2
Population (M)	46.7	44.3	58.4	12.1
Nominal GDP per capita	1,678	711	998	820
Debt to GDP (%)	60.0	38.6	38.1	41.3
Fiscal deficit to GDP (%)	7.2	6.2	1.5	4.8
Inflation (%)	4.3	2.8	3.4	2.8
Market cap (USD B)	25.5	7.9	9.7	3.4

Source: CBK, BOT, BOU, NBR, IMF, Bloomberg & ApexAfrica Research



Source: Bloomberg, ApexAfrica Research

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Kenya

"Not so Robinhood"

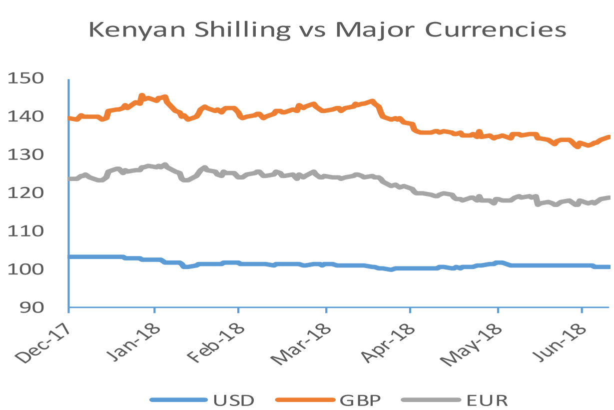
Politics: Tranquility prevails in truce deal

The President and leader of opposition decided to burry the hatchet to foster peace. *The Handshake* has seen the country enjoy a tranquil political environment in 2Q18. It has not been all rosy given the number of scandals rocking the country. Though the government is talking tough on fighting corruption, history paints this as lip-service. The onslaught on the vice by the DPP is a positive step, though intricate loop holes in our legal system may water down his efforts.

Shilling to stabilize amidst downside pressure

The shilling has strengthened against the dollar, rising 2.7% YTD to 100.46 levels. In the first 4 months of 2018, the country's growth in exports (+8.6% y/y to KES 211.7B) outpaced imports(+1.6% y/y to KES 589.8B). In addition, financial net inflows surged 51.8% y/y to a surplus of KES 323.8B in 1Q18, supporting the strengthening shilling.

The resurgence in coffee and horticultural exports coupled with projected uptick in tourist arrivals is expected to support the shilling. However, anticipated increase in oil prices may pile pressure on the shilling. The USD 1.5B standby facility from the IMF coupled with adequate foreign reserves (c. 6.0 months of import cover) should soften the blows resulting in a stable currency.



Source: Bloomberg

Resurgence in economic growth

Flaring political temperatures and drought experienced in 2017 saw the country's GDP decelerate to 4.9%. Adequate rainfall, tranquil political environment and a stable currency are expected to support the 5.7% growth estimates in 2018. However, the 2.4% y/y decline in budgeted development expenditure to KES 625.1B in 2018/19 may dent the government's contribution to GDP growth. The continued decline of development expenditure as a proportion of total expenditure from 36.3% in 2010 to 24.5% currently is worrisome. The introduction of 0.05% tax on bank transactions above KES 0.5M, 200bps increase in tax charged on mobile money transfers and the proposed 35.0% tax rate for companies earning above KES 500M in pre-tax profits may stifle investment.

We take cognizance of the Treasury's intent to scrap the rate cap. However, the move has faced opposition from the legislature, though, eventually, we anticipate the legislature to bend to the will of the executive. The lawmakers are partisan and are likely to sing to the tune of their principals. In the meantime, the dillydallying of the legislature in the repeal continues to hamper private sector credit growth.

The "Robin-hood" Budget

The Government aims to deliver "The Big Four Agenda" that encompasses manufacturing, food security, healthcare and housing. Tax incentives, creation of Special Economic Zones (SEZ) and provision of cheaper power are anticipated to bolster manufacturing to contribute c.15.0% of the GDP by 2022 from 8.4% in 2017. To address the 0.2M annual shortage in housing units, the government plans to reduce corporate taxes to housing developers (more than 100 house units p.a) to 15.0%. The creation of the Kenya Mortgage Refinance Company is anticipated to ease financing of the low cost houses.

The Government plans to collect KES 1.9T (20.0% of GDP) to finance the KES 2.6T budget. Acknowledging the rising debt levels (c.60.0% of GDP), the Government plans to shrink the fiscal deficit to 5.7% of GDP (7.2% in 2017/18). In 2017/18, the Government missed its revenue collection targets by 2.6% to hit KES 1.7T. The 2018/19 revenue projections have been set at KES 1.9T, being an increase of 17.5% y/y. The ambitious collection target may not materialize, resulting in above budgeted debt or a scale down in the implementation of some projects.

Current account deficit contraction short-lived

The current account deficit narrowed 16.8% y/y in 1Q18 to KES 107.9B on the back of rapidly rising exports (+7.2% y/y to KES 161.7B) vis a vis the sluggishly growing imports (+2.4% y/y to KES 438.5B). The rally in exports was driven by an uptick in coffee (+39.8% y/y to KES 5.1B) and horticultural (+39.1% y/y to KES 44.0B) exports which offset the 7.3% y/y decline in tea export receipts to KES 40.1B. In addition, the 5.8% y/y increase in arrivals in the country to 236k people may have elevated the tourism receipts. The sluggish increase in the import bill for 1Q18 could be attributed to a slowdown in the importation of capital goods. We anticipate exports to sustain the growth momentum given the weather projected for the year though estimated (World Bank) decreases in coffee (-2.1% y/y) and tea (-1.6% y/y) prices may curtail the rising exports. The PWC hotel industry survey projects the number of tourist arrivals to rise by 8.8% y/y in 2018 to c1.6M ; buoying the tourism receipts.

On the flip side, we see a more pronounced uptick in the import bill on the back of a resurgence in the importation of capital goods given the economic recovery projected and continued government investment in capital projects. Oil prices are anticipated to remain elevated, higher than last year's prices, piling continued pressure on the import bill. As such, we forecast the current account deficit to widen, though sustained export growth will contain the increase.

Inflation to edge up marginally

Kenya's inflation averaged 4.2% in 1H18 driven largely by depressed food inflation as a result of adequate rainfall. We envision the inflation to edge up marginally on account of higher fuel prices given the projected rise in oil prices. Though the budget was quiet on the implementation of imposing VAT on petrol, this was a prerequisite condition for the IMF standby facility. VAT and higher global prices will raise the fuel prices in the country; culminating in higher inflation figures. Nonetheless, subdued food inflation on account of adequate rainfall will contain the inflation within the CBK's inflation target range of c.5.0%.

The brawl of the bulls and bears

The YTD performance of the NASI index shows a slight expansion of 0.7%. The 1Q18 closed off in the green edging up 3.6% q/q. This was driven by the earnings season which saw firms announce dividends and bonuses. In addition, optimism around the economic recovery as well as political tranquillity fuelled investors. The stellar performance was short lived with the NASI losing 8.8% q/q in 2Q18. This was driven by massive exits from foreign investors booking gains made, whilst at the same time eyeing projected rallies in developed countries.

We currently view this as a buyers market. Though the rate cap repeal may delay, we expect it to come to pass raising the NIMs for the banks and at the same time burgeoning their loan books. On this front, we encourage exposure in KCB, Equity, Diamond Trust Bank, Cooperative Bank, Barclays and Stanbic Bank. Price dips in Safaricom, Kenol and EABL points to an alluring entry point for value investors.

Kenya in Figures	2016	2017	2018	2019	2020	2021	2022
GDP growth (%)	5.9	4.9	5.7	6.0	6.2	6.5	6.5
Population (M)	45.5	46.7	48.0	49.4	50.7	52.1	53.5
Nominal GDP per capita (USD)	1,551	1,678	1,790	1,897	1,995	2,110	2,243
Current account deficit to GDP (%)	-6.8	-6.2	-7.0	-6.9	-6.9	-7.2	-7.3
Inflation (%)	5.8	8.0	5.0	5.0	5.0	5.0	5.0

Source: IMF, KNBS, CBK & World Bank

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TANZANIA

"Kujikwaa si Kuanguka"

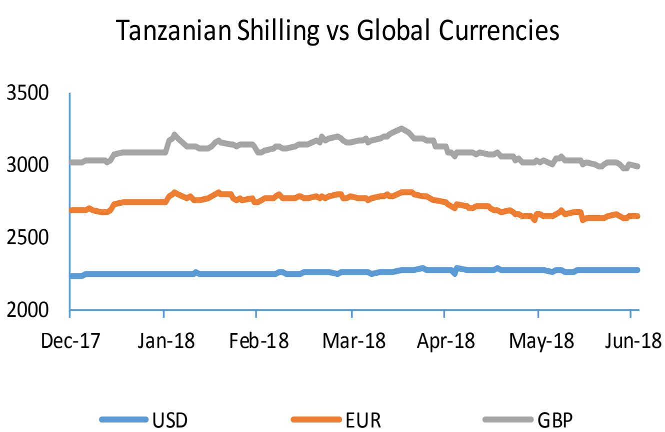
Political Outlook: The Strongman

According to some circles, the President continues exerting authoritarianism. The tough stance was initially directed towards corruption but has found its way to muffling the media; which is seen as inhibiting democracy. The apparent assassination (and attempts) of persons who have come out to speak against the head of state exacerbates the situation. The strong stance on Tanzanian protectionism as well as arbitrary passing of legislation keeps political risk aloft. This may stifle private sector investment; curtailing the achievement of the 7.2% targeted economic growth for 2018.

Tanzanian Shilling; Still Some Downside

The shilling has weakened 2.1% YTD against the US Dollar to 2,281 levels. This has been driven by a 25.2% y/y contraction in the current account surplus to USD 23.2M in the year to May 2018. The economic growth in the country is pegged heavily on government investment in public infrastructure. This may raise the import bill which may be driven further by the high and rising crude oil prices.

The ban of gold concentrates saw gold production dwindle 14.3% y/y in 1Q18 to 9.3tonnes. The country plans to issue 7,000 new mining licenses which may ease logistical challenges; though, they may take a long-time to effect, curtailing growth in exports for the country. The anticipated outpacing of the import bill vis a vis export receipts is anticipated to pile pressure on the shilling resulting in a minute downside.



Source: Bloomberg

GDP; Sustained Growth

Tanzania's 2017 GDP grew 7.1% with construction activities contributing 22.7% of the economic growth. The country's economy is anticipated to average above 7.0% going forward, largely dependent on Government expenditure on capital projects. Key among the projects include construction of the Stiegler's Gorge hydro-power station (2,100MW capacity), SGR, the Tanga-Hoima pipeline and natural gas exploration. The Government has come up with a number of tax incentives to enhance industrialization in the country. For instance, it plans to lower corporate tax from 30.0% to 20.0% for firms planning on investing in the pharmaceutical and leather industries for five years.

The BOT plans to introduce an interest based policy in 2018/19 fiscal year which is anticipated to ease the cost and access of credit to the private sector. The annual private sector credit growth hit 2.6% in the year to May 2018; lower than the ideal 5.0%, but recovering to levels observed in 2017. The BOT remains optimistic that easing monetary policy coupled with the interest based policy will enhance private sector credit growth. Improved lending to the private sector is essential to the sector's contribution to GDP growth noting that the stunted lending could dent the achievement of the GDP growth target.

Fiscal deficit to widen further

The 2018/19 budget is aimed at enabling industrialization. About 37.0% of the government's expenditure is projected to be directed towards capital expenditure which will sustain Government's contribution towards economic growth. The TZS 32.5T budget is to be financed partly from domestic sources (64.3%) with the remainder being financed through debt. Promising a raft of changes, the Minister of Finance intends to widen the tax bracket and seal revenue loopholes to enhance revenue collection whilst at the same time offer tax incentives to spur industrialization.

The ambitious Government expenditure is anticipated to raise fiscal deficit from estimated 2.1% in 2017/18 to 3.2% in 2018/19. The fiscal deficit may widen further given the country's inability to meet revenue collection targets in the previous years. In addition, though the government plans to lower reliance on donor funding, the government intends to finance 8.0% of the current budget through donor funding. The 2017/18 fiscal year saw donors fail to meet their financial commitments This could be inferred to a knee-jerk reaction to the contraction of democratic space in the country.

With domestic revenues likely to go below the targeted levels and donor funding waning, we opine that the Government may be forced to borrow more than the intended TZS 8.9T or slow down the budget implementation to match revenue and expenditure streams. With vision 2025 fast approaching, the former may hold the day which could raise the forecasted debt to GDP from 40.9% levels in 2018/19; against a 56.0% threshold.

Current account surplus to dwindle further

In the year to May 2018, the country's current account surplus declined to USD 23.2M (-25.2% y/y) due to a 47.7% y/y surge in imports, However, a 40.0% y/y spurt in exports for the country to USD 240.0M curtailed the contraction. We anticipate the current account surplus to dwindle in the short-run. This is informed by rising crude oil prices and anticipated uptick in fuel consumption given the sustained economic growth. The capital intensive projects are anticipated to raise capital imports.

The country has faced challenges in the export of gold and other minerals as exemplified by the 17.7% y/y contraction in proceeds from gold and diamond exports to USD 324.0M in 1Q18. This could have contracted the country's exports though a resurgence in service receipts (11.0% y/y to USD 180.3M) and exports of cloves & seaweeds (229.0% y/y to USD 61.2M) saw the country save face. We expect exports to maintain the momentum, though, at a slower rate when compared to the import bill resulting in a contraction of the current account surplus.

Inflation to remain within 5.0% target

The country's inflation averaged 3.8% in 1H18, significantly lower than the 5.0% target set out by the BOT. The huge decline came from lower food inflation as a result of adequate harvests experienced during the period.

Inflation figures for 2018 are anticipated to remain subdued as a result of lower food inflation. Rising global crude prices may raise non-food inflation, but given that food inflation makes up the largest contribution to headline inflation, the overall inflation is anticipated to remain subdued.

The bears have it

Deviating from our projections, the DSEASI closed 1H18 down 4.8% to 2,281 points. The dismal performance was driven by a terrible cocktail of poor performances from its local companies as well as Kenya's counters cross listed at the DSE. Acacia mining has lost 34.7% YTD on account of tax rows with the government whilst Tanga Cement has lost 16.7% YTD on lower profitability and lower dividends. Nation Media Group (-22.4% YTD), EABL (-4.6% YTD) and Uchumi (-58.7% YTD) cross listed at the bourse have recorded lower prices denting the DSEASI.

Our optimism in the DSEASI was pegged on price appreciation on listed counters in Tanzania and those cross-listed from Kenya. Anticipated entry of telco firms as well as mining firms with regards to compulsory listing regulations also fueled our optimism. However, compliance to the said laws has been sluggish with firms willing to list failing to meet pre-listing requirements. The economic recovery in Kenya as well as continued growth in Tanzania is anticipated to bolster profitability of the listed counters denting the bearish run. However, we project the DSEASI to close the year in the red.

Tanzania in Figures	2015	2016	2017	2018	2019	2020
Real GDP growth (%)	7.0	7.2	7.1	7.2	7.2	7.2
GDP per capita (USD)	957	960	1,018	1,088	1,161	1,236
Exports (USD M)	5,384	5,781	6,169	6,793	7,388	8,045
Gold (USD M)	1,237	1,243	1,240	1,386	1,408	1,420
Imports (USD M)	10,659	8,842	11,149	11,309	12,364	13,400
Oil (USD M)	3,063	2,803	2,616	2,872	3,407	3,720
Gross foreign reserves (import cover)	4.5	3.5	3.6	3.9	4.1	4.2
Public debt (% of GDP)	36.5	38.3	39.7	40.9	41.9	42.6

Source: IMF, World Bank

Uganda

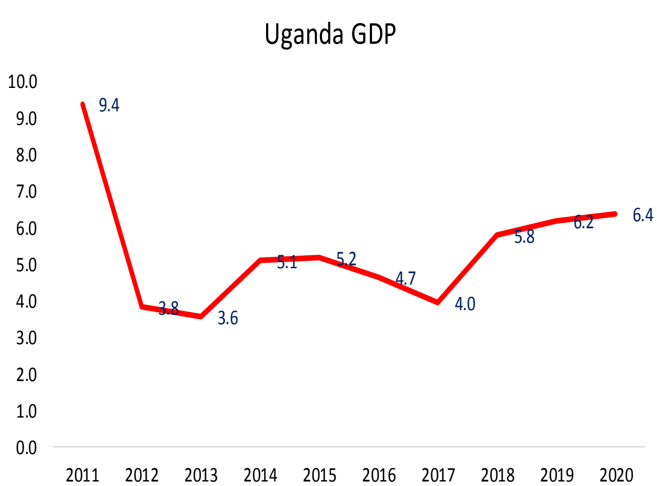
"Launching..."

Political Outlook– Calm to foster growth

With President Yoweri Museveni and his NRM firmly rooted in power, we expect to see little bureaucratic leniency in the short to medium-term, which may result in strong anti government sentiment from opposing political camps. However, political calm is expected to prevail with the end of elections while the President's liberal trade approach with regard to foreigners is anticipated to strengthen investor relations with Uganda and further attract more foreign direct investments necessary for sustainable economic growth.

GDP—steady recovery

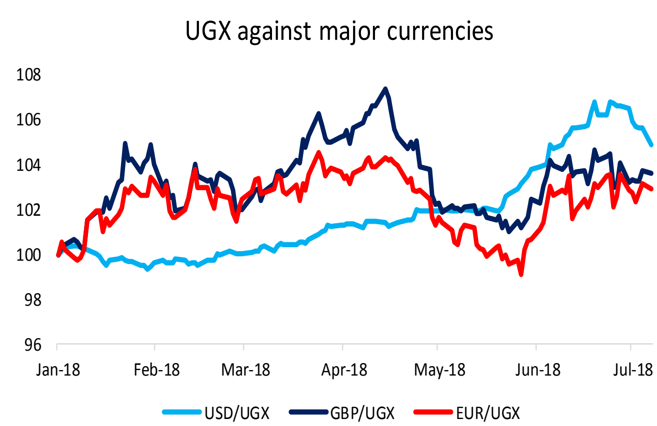
Economic activity in Uganda continues to strengthen highlighted by the 6.4% y/y growth registered in 3Q17/18 compared with the 4.5% y/y growth in 3Q16/17. Agricultural production is estimated to have grown by 0.9% y/y in 3Q17/18 on the back of a more robust growth in both food and cash crops while industrial and service sectors are estimated to have grown by 9.2% y/y and 8.2% y/y respectively in the same period. GDP is estimated to hit 6.0% y/y in FY2018/19. In the medium term, economic growth will be anchored on public infrastructure investments, manufacturing and construction, agriculture, private consumption and increasing credit access to the private sector. The government increased its budgetary allocation for infrastructure projects to 21.4% in 2018/2019 from 20.8% in 2016/17 for construction of roads and the Uganda-Tanzania oil pipeline. The Bank of Uganda maintained the benchmark rate at 9.0% to drive private sector credit growth, although risk aversion by commercial banks still remains a major constraint. However, treasury is positive that the 4.9% y/y decline in non-performing loans in 2017 should support credit growth.



Source: UBOS

Ugandan shilling– loosing stability

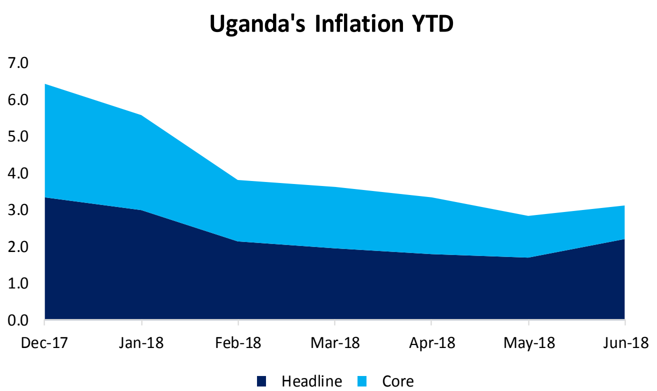
Sustained deterioration in the balance of payments and the strengthening of the US dollar has led to a significant depreciation of 6.7% YTD of the Ugandan shilling against the US dollar. We had projected the exchange rate to stabilize in the range of UGX 3,590 to UGX 3,620 to the dollar in 1H18 but increased pressure from rising imports and multinationals repatriating profits has seen the shilling trade against at UGX 3,879.5 against the dollar. While we anticipate that Uganda's coffee exports may increase in coming months, if left unchecked, the hefty import bill coupled with the strengthening of the dollar could worsen the shilling's position on the international market going forward.



Source: Bloomberg

Inflation to come under external pressure

Uganda's headline and core inflation has eased off gradually from 3.0% and 2.6% in January to 1.7% and 1.1% in June respectively. The constant drop in inflation was occasioned by lower food prices coupled with a decline in utilities inflation. Inflation is expected to gravitate towards the medium-term target of 5.0% over the course of FY 2018/2019. It is however projected that the downward trend experienced in FY 2017/2018 may deviate from previous projections going forward in light of anticipated increases in import prices reflecting a combination of higher fuel prices and weakening of the shilling.



Source: UBOS

Current Account Deficit– an uncontrolled cancer

Uganda's current account deficit ballooned 58.6% between January and May 2018 to stand at USD 131.0M, 5.1% of GDP. The deficit hit a seven-month-high of USD 215.8M in April 2018 on the back of increased government imports (+328.0% to USD 50.8M) and subdued exports of coffee and non-coffee formal exports (-12.4% m/m and -16.0% m/m respectively).

Looking ahead, an uptick in the government's infrastructure projects is expected to rack up the country's imports and could further widen the deficit, which may exert pressure on the shilling. IMF forecasts the country's current account deficit to further widen to 7.2% of GDP in 2018 on the back of increased imports to 13.2% of GDP in 2018 from 4.4% of GDP in 2017.

Capital expenditure– ambitious but sustainable

According to the FY 2018/2019 budget, government expenditure (excluding Appropriation in Aid (AIA) and debt repayments) is budgeted to rise 24.5% y/y to UGX 25,474B. Treasury estimates, this will account for 22.7% of GDP. Development spending is also set to sky-rocket 56.4% to UGX 11,960B which translates to 10.7% of GDP. The bulk of the increase in spending will largely be driven by external development expenditure as Government continues to invest in infrastructure projects as well as an increase in wages and salaries. Given that the large projects are being financed through debt financing, public debt may rise to a peak of 42.7% of GDP in 2019/20, from 38.6% in 2016/17. Uganda's debt level is sustainable in the medium-term, however, high GDP growth will be key for debt servicing going forward.

Outlook– stable growth

We expect economic growth to rise in the medium-term owing to a recovery in agricultural production and increased coffee exports combined with heavy government spending on infrastructure projects. Fiscal balance will remain in deficit on the back of high infrastructure spending which may raise capital imports. When combined with high and rising fuel prices, the shilling may come under pressure hampering economic growth whilst at the same time raising inflation.

Uganda in Figures	2016	2017	2018	2019	2020	2021	2022
GDP growth (%)	4.7	5.0	5.8	5.7	6.2	6.5	7.3
Population (M)	36.6	37.7	44.3	40.0	41.2	42.5	43.7
Nominal GDP per Capita (USD)	692.2	700.5	711.3	769.0	833.4	847.9	917.7
Current a/c deficit to GDP (%)	-4.3	-5.6	-5.1	-8.0	-8.4	-7.3	-3.6
Inflation (%)	5.5	5.6	5.0	5.1	5.0	5.0	5.0
Gross national savings to GDP (%)	20.1	19.8	20.7	21.1	20.5	21.3	24.9
Total investment to GDP (%)	24.4	25.4	27.9	29.1	28.9	28.6	28.5
Vol imports of goods & services (% chg)	4.4	4.4	13.2	13.2	10.1	3.2	-1.5
Vol exports of goods & services (% chg)	11.6	7.7	9.2	14.1	12.7	14.9	19.5
Govt gross debt to GDP (%)	37.3	38.6	39.9	41.3	41.6	41.2	40.0

Source: IMF

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RWANDA

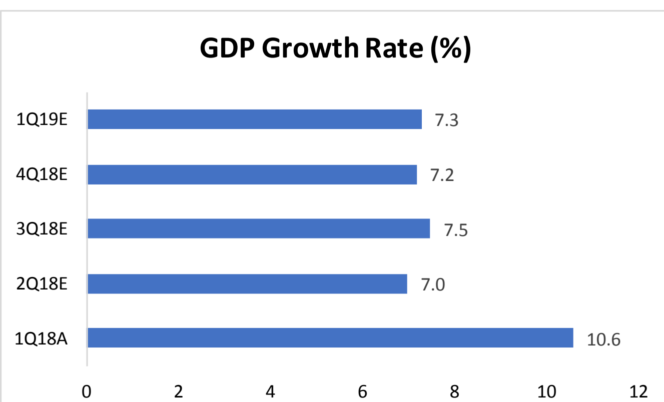
"Driving Onward"

Political outlook stable

The country has settled in well after the elections held last year in August 2017. The government is focusing on fulfilling its Vison 2020 Agenda of transforming the country into a knowledge-based middle-income country, thereby reducing poverty, health problems and making the nation united and democratic.

Strong economic performance

The country's economy continues to grow at a faster rate than the East African Community (EAC) whose growth rate is anticipated to average at 5.8% in 2018. Rwanda has experienced robust economic growth in 2018 with data from the Central Bank showing positive developments in the service (+12.0%), agricultural (+8.0%) and the industrial (+7.2%) sectors. The country's economy grew at 10.6% y/y in 1Q18 mirroring growth in the above sectors. With expected economic growth for 2018 projected at 7.2%, leading economic indicators show that this target may be surpassed.



Source: National Institute of Statistics of Rwanda/ Trading Economics

Inflation to remain subdued

Inflation rate rose 3.0% y/y in May 2018 a change from 0.9% in 1Q18 against the central bank's forecast of 5.0%. following an uptick in prices of food and beverages and transport costs. Looking ahead, aggregate demand is expected to be non-inflationary as it remains below potential. Supply shocks are expected to be brought about by shortage due to the recent heavy rains in the country that caused massive damage to agricultural produce. Modest oil prices and subdued exchange rate pressures are expected to have little impact on inflation.

Fiscal year 2018/2019 budget 16.0% up

The currently read out budget rose 16.0% y/y to FRW 2.4T (USD 2.8B) with 68.0 % of the budget expected to be funded by domestic revenue, 16.0% loans and 16.0% by grants. Recurrent expenditure is projected to constitute 50.2% of the budget (FRW1.2T) while development expenditure takes 38.3% (RWF 0.9T). Key pillars of the budget will focus on-:

- Economic transformation (57.0% of the budget)- aims at accelerating economic growth and development founded on the private sector, knowledge and Rwanda's natural resources.
- Social transformation (27.0% of the budget)- to help citizens grow into a capable and skilled people with quality standards of living and a stable and secure society.
- Transformational governance (16.0%)- to consolidate good governance and justice as building blocks for equitable and sustainable national development.

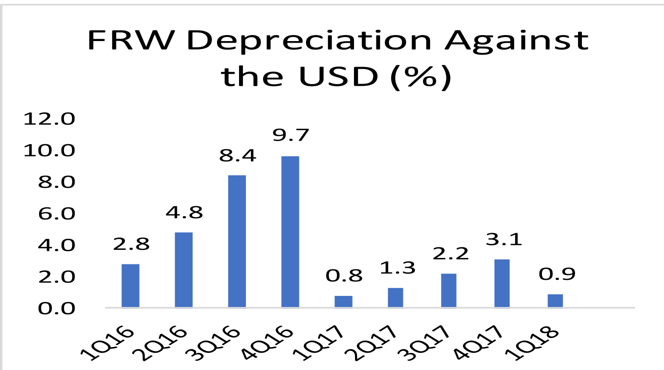
The set target for the Rwanda Revenue Authority is 55.0% of the budget.

"Made in Rwanda"

This is an initiative by the government of Rwanda aimed at encouraging the production and consumption of locally manufactured goods. The initiative is expected to create jobs and spur economic growth. German automaker Volkswagen has launched a car assembly plant in Kigali with plans to roll off up to 5,000 units annually to serve Rwanda and the regional market. This is expected to embolden Rwanda's journey of economic transformation through reduction of imports and expansion of export revenues.

Exchange rate pressures suppressed

Pressure on the FRW has remained modest with the FRW depreciating 1.5% against the USD as at May 2018 slightly above a 1.0% in 2017 and below a 4.0% depreciation in 2016 for the same period. Rising imports contributed most to the depreciation while export diversification and the recent depreciation of the USD against major currencies drove down exchange rate pressure on the RWF. Looking ahead, rising oil prices, increase in foreign inflation differentials and appreciation of the USD against major currencies may exert moderate pressures on the RWF but exchange levels are expected to remain steady.



Source: National Bank of Rwanda

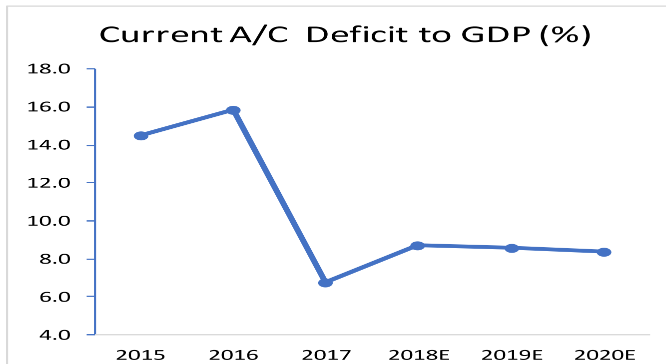
Trade deficit wider

Rwanda's trade deficit widened 2.6% y/y in 1Q18 due to increased formal imports composed of consumer and capital goods, energy and lubricants. Formal imports increased 13.0% y/y to USD 575.0M while formal exports increased 34.3% y/y to USD 22.7M. Promotion of consumption of locally manufactured goods under 'Made in Rwanda Campaign' is expected to drive down the trade deficit by reducing imports. The current account deficit to GDP is expected to remain in single digit levels, though may widen to 8.7% in 2018 driven by a rise in formal imports in tandem with expected rise in international prices due to inflationary and exchange rate pressures.

Monetary Policy

The Key Repo Rate stands at 5.5% with lending rates remaining stable, averaging 17.0% in 1Q18 and deposit rates at 7.4%. Broad money (M3) grew to FRW 1875.0B (15.4% y/y) driven by growth in net domestic assets resulting from increased government borrowing. A robust business environment drove money in circulation up 15.3% in 1Q18.

Private sector credit growth is expected to rise by 12.0% in 2018 as the economy recovers and economic activities increase given good climate conditions and end of the electioneering period. Energy and infrastructure sectors are expected to have the largest demand for credit. The Central Bank is expected to hold the current accommodative monetary policy stance as it seeks to uphold growth of the economy through financing by the banking sector.



Source: World Bank

Outlook

With adequate rainfall in 1H18, we expect the country's growth prospects to remain strong in tandem with increased industrialization efforts. We expect recovery in global commodity prices to increase export revenues but remain cautionary on global shocks that may cause vulnerability to commodity price fluctuations. We expect the 'Made in Rwanda' campaign to contribute significantly to value addition, while public infrastructure investment is expected to boost growth. We anticipate that the service sector especially tourism will grow further, on account of regional peace and security measures in the country. Foreign exchange reserves have been accumulating which are anticipated to keep the Franc stable.

	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP Growth (%)	6.0	6.1	7.2	7.8	8.0	7.5	7.5	7.5
Population (M)	11.6	11.8	12.1	12.4	12.7	13.1	13.4	13.7
GDP per Capita (USD)	733.6	771.7	819.7	847.1	908.3	967.2	1034.9	1107.4
Current a/c balance to GDP (%)	-14.3	-6.8	-8.4	-9.2	-8.4	-7.5	-6.9	-5.9
Inflation (%)	5.7	4.8	2.8	5.0	5.0	5.0	5.0	5.0
Govt revenue to GDP (%)	23.5	22.9	23.4	22.0	22.1	22.2	22.2	22.1
Govt Debt to GDP (%)	37.3	40.6	41.3	43.1	42.5	41.9	40.8	39.5

Source: IMF

Appendix

Investment ratings

- **Buy:** A total return is anticipated in excess of the market's long-term historic annual rate (approximately 10%). Total return expectations should be higher for stocks that possess greater risk.

- **Hold:** Hold the shares with neither a materially positive total return nor a materially negative total return anticipated.

- **Sell:** Stock should be sold as materially negative total return is anticipated.

Disclaimer

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